Annual Report
2020

illimity
BANCA OLTRE LA FORMA

Highlights

4.1
billion euros
of assets thanks to the growth of net loans to customers and investments

2.2
billion euros
including customer loans and investments

2.4
billion euros
direct funding from retail and corporate customers

640
illimiters
from 200 different companies, 17 business sectors and 20 countries

17.9%
CET1 ratio
confirming the bank's solidity to be invested in future growth

31.1
million euros
net profits in line with 2020 targets

All data as of 31.12.2020

Ready to look further?

We can change the old way of banking.
We have chosen a brand-new paradigm.
A new bank, which really does combine human intelligence with digital technologies.

We have a clear mission:
to recognise and value the often unexpressed potential
of people, families and businesses.

We are illimity. We are committed to go beyond.
Beyond form.
Beyond the habits of the past.

We believed in it, and so did investors from all over the world.
Nothing is more powerful than an idea whose time has come.

frame the image using the Aria App
to watch the "Looking further" video

2020 Financial Statements and report with multimedia insights available on Apple and Android systems using the ARIA App.

Index

Annual Report 2020

Message from the Chairman and Chief Executive Officer

Dear friends of illimity,

2020 was a tough year, but it was also a year of great satisfaction.

It would be rather futile to list the problems faced by everyone, including families, businesses and entire nations. At the start of the year, our certainties were thrown into disarray and our economy slipped into a critical period from which it is yet to emerge.

Yet, for us, it was also a year packed with satisfaction because our illimiters showed incredible determination to guarantee our customers uninterrupted service, while the creation of our new paradigm bank continued unabated with new, high potential projects being launched.

Our year ended with investment and loan volumes growing significantly, our profit forecasts right on the money for our post-COVID goals, profitability levels above those of nearly all traditional banks, very good capital and liquidity positions and a genuinely high-quality portfolio.

We did hit our promised profit levels, but perhaps our greatest gains were being able to sustain many businesses, during an incredibly trying time, to keep their projects on track to develop, restructure or relaunch their companies, to adopt a regenerative approach to loans for companies that were unable to stay afloat and to provide families and businesses with cutting-edge Open Banking services.

We continued to look forward with a shared attitude of going beyond and so we never stopped investing in innovation and strategic new initiatives in our focal areas: we entered the market of Unlikely to Pay (UTP) portfolios, taking home a major acquisition in the final part of the year; we created our own asset management company (SGR) and our first fund is nearly ready; we accelerated our Open Banking strategy through the HYPE Joint Venture for the largest fintech platform in Italy; and we took our first steps in the debt capital market, successfully placing our first bond issuance. These projects and others will add additional value to our Business Plan, which we will present in its updated version by the middle of the year.

The merit for all this must go to a cohesive management team and to the 640 illimiters who have brought with them the enthusiasm and the experience gained in the 200 companies, 17 industries and 20 countries they come from. Such diversity is an enormous strength for us, especially as it goes hand-in-hand with our determination to base everything on merit.

Our targets might be ambitious, but our feet are firmly on the ground and we have solid values: freedom, innovation, responsibility.

We want to completely repay the faith of our investors around the globe, who have always believed in us and kept great attention on long-term sustainability.

The months that lie ahead promise an abundance of hard work, but we expect solid growth through 2021 as well.

Rosalba Casiraghi
Illimity president

Corrado Passera
Illimity CEO

"We have laid the foundations for the further growth of a new paradigm bank that makes profits and is useful to its country."

Composition of Corporate Bodies

BOARD OF DIRECTORS

We are continuing our commitment to generate benefits for all our stakeholders, by making strategic, responsible, inclusive choices with strong values shared at all levels of the organization.

Rosalba Casiraghi
Chairman

BOARD OF STATUTORY AUDITORS

Chairman	**Standing Auditors**	**Substitute Auditors**
Ernesto Riva	Stefano Caringi	Riccardo Foglia Taverna
	Nadia Fontana	Michela Zeme

Chief Executive Officer

Corrado Passera

Directors

Elena Cialliè

Massimo Brambilla

Paola Elisabetta Galbiati*

Martin Ngombwa

Alessandro Gennari

Maurizia Squinzi***

Marcello Valenti**

FINANCIAL REPORTING OFFICER

Sergio Fagioli

INDEPENDENT AUDITORS

KPMG S.p.A.

* Director co-opted by the Board of Directors on 10 February 2021.
** Director co-opted by the Board of Directors on 10 February 2021.
*** Director who resigned effectively from the date of the Shareholders' Meeting.

illimity stages

2018

January

Establishment of **SPAXS**, Italy's first special purpose acquisition company, with the aim of creating a new banking operator

April

The **Business Combination of SPAXS with Banca Interprovinciale** is announced

August

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

December

illimity's **innovative headquarters** with smart spaces is inaugurated in Palazzo Aporti, Milan

September

Establishment of **illimitybank.com**, the "third soul" of **illimity**, which offers direct digital banking services to retail and corporate customers

June

illimity signs a contract for the **acquisition of IT Auction** that, together with neprix, creates the first end-to-end servicer specialising in distressed corporate credit

April

illimity presents **neprix**, a servicer specialising in the management of distressed corporate loans

March

illimity Bank S.p.A. was born on 5 March with its listing on the MTA of the Italian stock exchange

2019

2020

February

illimity SGR was created
to establish and manage Alternative Investment Funds

May

illimity acquires 100% of **IT Auction**

September

illimity is listed in the STAR segment of Borsa Italiana

Green light for the Joint Venture between illimity and Fabrick (Sella Group) in the Fintech HYPE

November

illimity and neprix receive a **Fitch rating**

December

illimity successfully concludes its **first bond issue**

The illimity Group

illimity is the parent company of the Group of the same name. The story begins in January 2018 with the launch of SPAXS, Italy's largest SPAC (Special Purpose Acquisition Company) and one of the largest in Europe, with the aim of acquiring and capitalising a company in the banking industry, closing with funding of EUR 600 million. With the 2018 acquisition of Banca Interprovinciale and the completion of the merger with SPAXS, illimity Bank was formed. On 5 March 2019 it was listed on the MTA of the Italian stock exchange, and in the STAR segment from 10 September 2020.

illimity is a new-paradigm bank specialising in credit for SMEs. It has a high-innovation, high-technology business model. illimity provides credit to businesses that have great potential but as yet a low rating or no rating, and also covers the segment of non-performing (Unlikely-to-Pay) SMEs. illimity acquires distressed corporate credit with or without guarantees, with the aim of managing these accounts through its proprietary platform, neprix. It also offers direct digital banking services for retail and corporate customers through its own digital bank, illimitybank.com, which in September 2020 announced a Joint Venture with Fabrick in the fintech HYPE.

The illimity Group is formed of the following companies:

neprix, launched in April 2019, is a servicer specialising in the management of distressed corporate credit, and has an innovative, multidisciplinary, technological servicing model. With the acquisition of IT Auction, a leader in online auctions of business assets and real estate, neprix is the primary end-to-end operator specialising in distressed corporate credit and the management and sale of business assets and real estate, with the capacity to cover the entire value chain in a distinctive way.

IT Auction, founded in 2011, specialises in managing and marketing real estate and business assets through its innovative business model, which is focused on the transparent valuation of assets in online auctions on a proprietary network of websites. IT Auction works with more than 120 law courts across Italy, as well as a network of over 1,000 professionals, thousands of national and international firms, and major leasing companies. neprix's acquisition of the 100% shareholding was completed in May 2020.

illimity SGR, the asset management arm of the illimity Group, was formed in order to set up and manage alternative investment funds, with a primary focus on corporate credit investments. It was licensed by the Bank of Italy in February 2020.

The Group also includes a series of securitisation vehicles, which are used for the acquisition of portfolios of distressed loans.

Management Team

At illimity, it's the people who make the difference: our women and men are motivated, determined and open to change. Each day, they work to multiply the potential of our customers, by going beyond the established models and practices.

Francesco Mele
Chief Financial Officer
and Head of Central Functions

Corrado Passera
CEO

Isabella Falautano
Chief Communication &
Stakeholder Engagement Officer

Enrico Fagioli Marzocchi
Head of SME

Filipe Teixeira
Chief Information Officer

Claudio Nordio
Chief Risk Officer

Andrea Clamer
Head of Distressed Credit
Investment and Servicing

Fabio Marchesi
Head of Internal Audit

Silvia Benzi
Head of IR & Strategic Planning

Giovanni Lombardi
General Counsel

Marco Russomando
Head of Human Resources

Carlo Panella
Head of Direct Banking
and Chief Digital Operations Officer

Massimo Di Carlo
Chief Lending Officer

Andrea Battisti
Head of Servicing Distressed Credit
Investment & Servicing

The illimiters

There are more than **600** illimiters

from more than **200** companies

from **17** industrial sectors

and **20** different countries

We have diverse professional skills and backgrounds, but all of us share the strong values that we strive to apply every day as we build our bank: entrepreneurship, independence, innovation and responsibility.

illimitHER is illimity's Diversity & Inclusion programme, aimed at highlighting the potential of young women. This "edutorial" programme is where we give voice to young role models, inspirational women who have managed to "go beyond", reshaping the future thanks to their talent.

frame the page using the Aria App to watch the "illimitHER" video

The goal?
Consolidating the skills of tomorrow’s Asset Managers #neprix

Curiosity, passion and a desire to challenge ourselves.
Relive the first day of the Credit Management Master’s course when our 26 students enjoyed a lively debate with our management, the **#illimiters** and the scientific management of the **#illimityAcademy.**

frame the page using the Aria App
to watch the “illimity Academy” video

Small and Medium Enterprises division

"We are a partner who specialises in SMEs. Our full range of finance services cater for important, growing markets while our business model combines banking and industrial expertise backed up by extensive use of data.

2020 was a satisfactory year, despite the difficult external context: we successfully entered the UTP portfolio market thanks to the complementarity of our team and its collaboration with the DCIS division; we were able to promote public guarantee schemes in the form of loans to SMEs; our Turnaround activities began to generate profits thanks to credit revaluation events, and finally there was strong growth in Factoring which accelerated in the second half of the year."

Enrico Fagioli – Head of SME

817
million euros
net customer loans
+55%YoY

We work alongside Italy's small and medium-sized enterprises with a single objective: working together to realise their potential

The portfolio consists of:

416 million euros
Crossover and Acquisition Finance

243 million euros
Turnaround

158 million euros
Factoring

As of 31 December 2020

Some Italian manufacturing companies tell their stories of how their business has grown and expanded along with illimity.

Ferretto Group's story

This is one of those stories that might often go unnoticed. It is not about heroes or revolutions: it's a story that describes what "Made in Italy" really is, and what it means to build a business that lasts and becomes a landmark in its local area.

frame the image using the Aria App to watch the "illimity stories" video

frame the image using the Aria App to watch the "illimity stories" video

FECS Group's story

The FECS Group deals with the circular economy: the recycling, processing and recovery of scrap metal. The group's sites handle one of the most valuable materials in the modern world: aluminium.

Distressed Credit Investment & Servicing division

"The Distressed Credit division achieved noteworthy results in the past year, again producing a performance that exceeded expectations throughout 2020 both in terms of receipts and profits generated from the early closure of positions. We specialise in specific market segments, and are fully integrated into the value chain, from investments through to finance, including servicing and the remarketing of real estate and business assets.

In 2020 we launched new business initiatives which yielded interesting returns: primarily the UTP portfolios, in collaboration with the SME division, but also the market for past-due credit in the renewable energy sector, and finally in Special Situations Real Estate. With the integration of IT Auction into neprix, we have completed the value chain for the management of distressed corporate credit. After a difficult year due to the closure of the courts, the newly-formed "neprix sales" recovered well at the end of 2020 and is now forging a unique strategic position.

I am very pleased with the results and achievements of the division in 2020 and I am confident that we will continue to make a strong contribution to the performance of illimity."

Andrea Clamer - Head of Distressed Credit Investment & Servicing

As of 31 December 2020

1.3
billion euros
customer loans and investments

972
million euros
in investments

336
million euros
in senior financing

9.1
billion euros
assets under management including assets and receivables (as of 31.01.2021)

neprix

neprix is Italy's leading specialist in the management of distressed corporate credit, and also deals simultaneously with the sale of underlying assets, including real estate, thanks to an extensive network of specialised web portals.

In 2020, neprix merged with IT Auction, focusing on two main areas of business: neprix credit management, with 6.5 billion of assets under management across more than 31,000 positions, and neprix sales, whose 120-strong network of advisers carries out the remarketing of real estate and business assets on proprietary web portals.

These activities are supported by neprix tech, focused on technological upgrades which are functional to the business.

With its strongly data-driven approach, neprix covers the entire value chain for the management of impaired credit, from the due diligence and credit management phase through to the sale of assets, making the entire process much easier for the investor.

frame the image using the Aria App to watch the video "A year of neprix goals"

Direct Banking division

"Direct Banking is changing. Technological advances and regulatory developments have given this field a strong impulse to evolve: a growing number of customers are moving towards three different types of banking service. The first type is for those who want to maintain a complete banking relationship but with simpler, more transparent, comprehensive service and onboarding procedures. Our response to their needs is illimitybank.com.

The second group of customers is looking for easy-to-use fintech platforms to make payments and financial transactions, and is gradually willing to acquire other products on these platforms. Our response to these requirements is Hype*.

Our third offer is for the "white label platforms": the customers of large non-financial companies can benefit from our open banking services thanks to custom versions of our managed platform which are managed directly by the companies themselves."

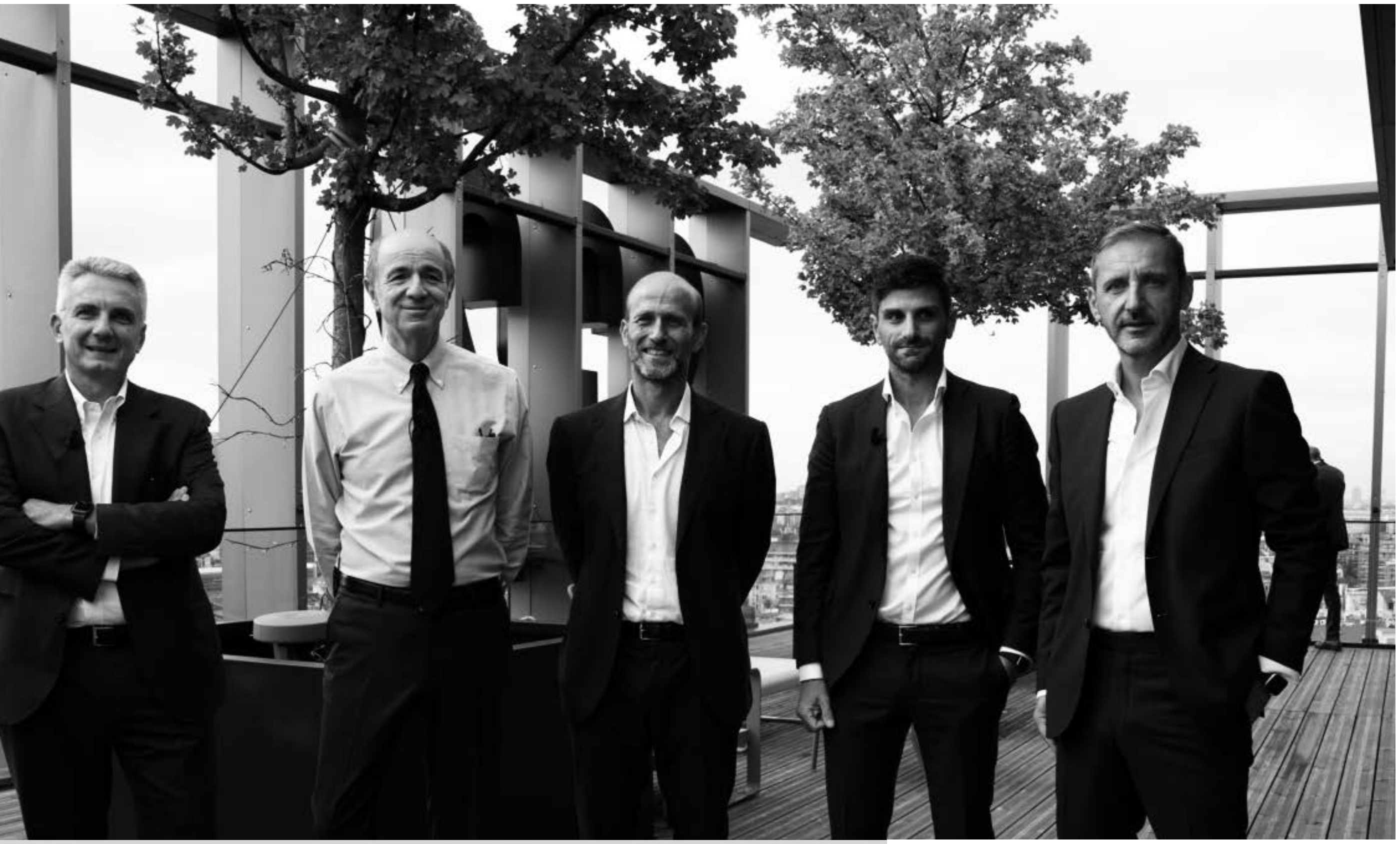
Carlo Panella - Head of Direct Banking & Digital Operations

1.1
billion euros
direct funding through illimitybank.com

2.4
billion euros
direct total funding from retail and corporate customers

As of 31 December 2020

* Hype is the market leading fintech platform on which we agreed a Joint Venture, which closed on 1 January 2021: 21 illimity advisors were moved to Hype, and the integration process is fully underway. Since the Joint Venture was presented in September 2020, the number of Hype customers has grown by 50,000 reaching almost 1.4 million



Click here or frame the QR CODE to watch the video "HYPE Press Conference"

43.000
retail customers

of which 83% active (as of 31.01.2021)

48
Net Promoter Score

Indicator of strong customer focus

illimity SGR

"We have an ambitious plan to grow in asset management with illimity SGR, the asset management arm of the illimity Group, specialising in alternative investments.
Our first fund is currently in the marketing phase and is near to closing. Its main objective will be investment in corporate UTP credit and/or loans with target companies who are under financial strain but have solid prospects for recovery "

Massimo Di Carlo – President of illimity SGR and Chief Lending Officer of illimity

February 2020 saw the formation of illimity SGR which will shortly launch its first alternative investment fund for the UTP (Unlikely To Pay) sector.

illimity SGR's objective is to create funds and investment products which are focused on the world of business. After the launch of the UTP fund, a credit fund will be developed for "performing" businesses, based on a private capital framework, complementary to traditional banking operators.

As of 31 December 2020

Corporate Center

The Corporate Center provides cross-sector support for all Business activities, from the IT architecture through to control systems, finance, HR management, communications and sustainability.

CFO & Central Functions

Administration & Accounting, Budget & Control, General Counsel, IR & Strategic Planning, Human Resources, Procurement, Facility and Capital Markets & Treasury provide support services for the business divisions.

Communication & Stakeholder Engagement

From media through to digital and sustainability projects, this division positions illimity on the market with its external and internal stakeholders, based on the founding values of our project.

CRO

Risk Analytics, Risk Management, Risk Strategy and Compliance & AML deal with the management of risk, and the development of new strategies using advanced, constantly evolving quantitative models.

Digital Operations

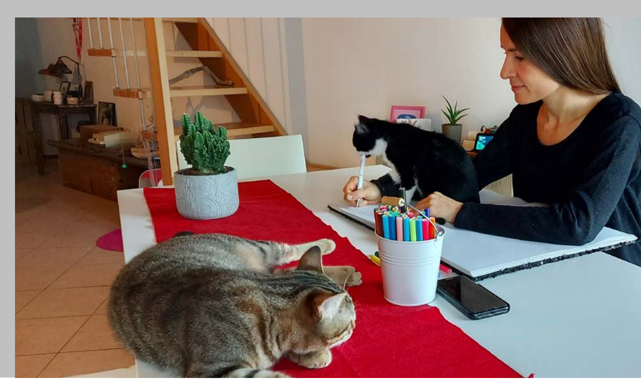
IT architecture is the facilitator for many of the bank's results: it is a full-cloud architecture based on API and developed using the best fintech solutions.
It covers Information Technology, Digital Customer Operations and Process & Organization.

Internal Audit

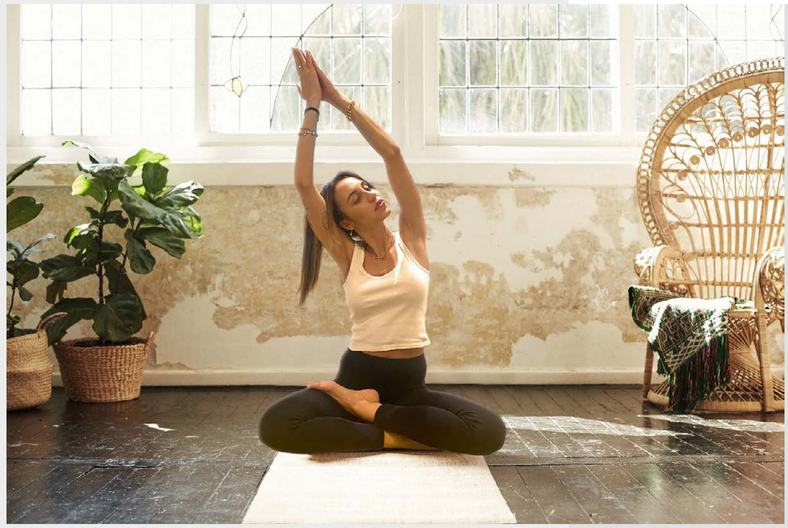
Provides assurance services for the whole of the internal control system, and also provides advice to Management.

With effect from 1 January 2021, the role of CLO (Chief Lending Officer) was set up within the Corporate Center. The desks reporting directly to the CLO are Credit Machine (credit scoring for finance operations) and Credit Monitoring (the monitoring and management of "organic" non-performing accounts) – these desks were previously within the SME division.

Once again this year, illimity's Annual Report has been designed around the illimiters, who are our greatest resource.



Due to social distancing, we guided our illimiters through a photo shoot in their own homes. Our illimiters were photographed in their favourite places, surrounded by their hobbies and interests, often helped by their family members.



Despite the distance,
the illimiters are closer than ever.

Annual Report and Consolidated Financial Statements of the illimity Group

illimity

Report on Consolidated Operations

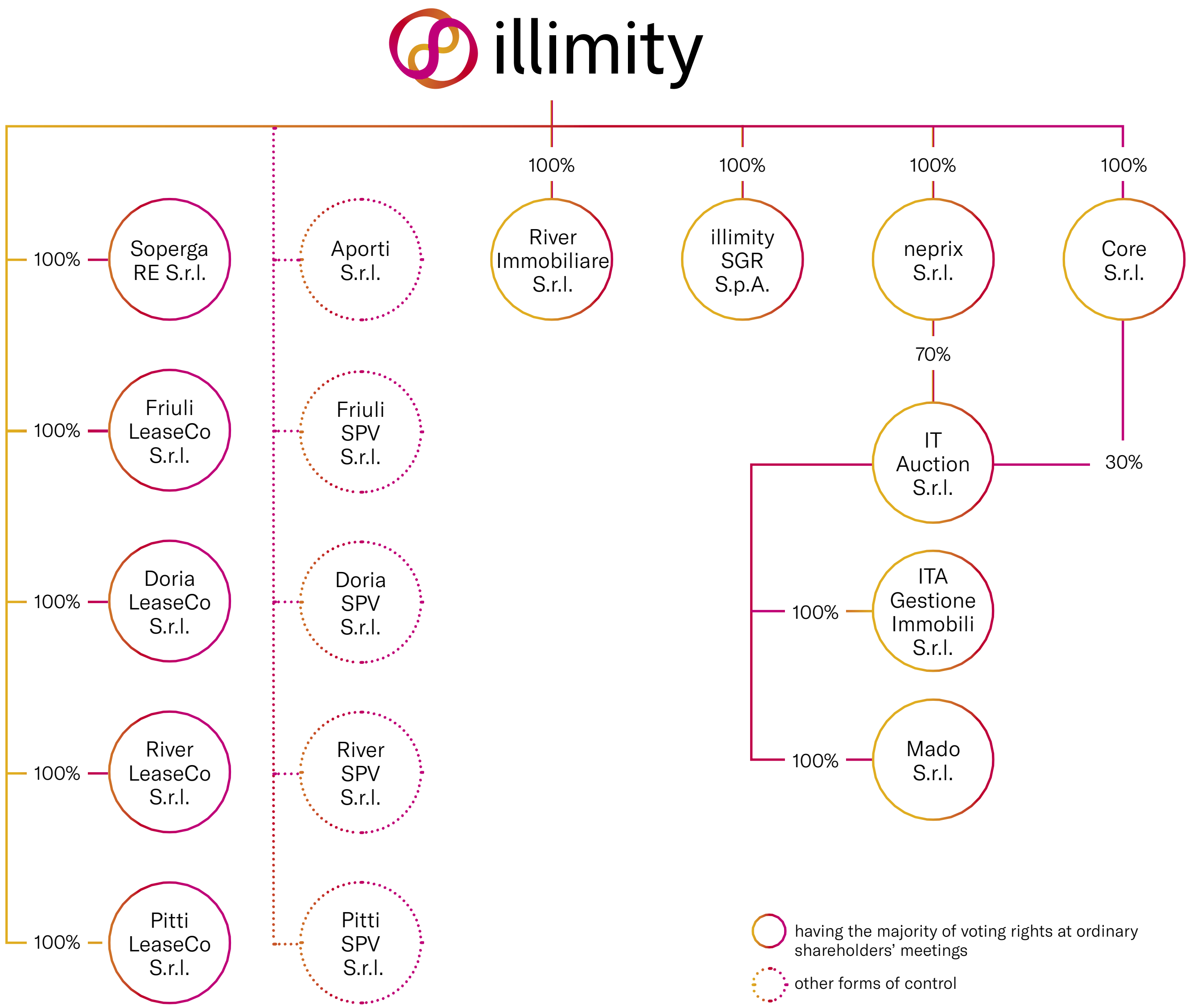
as of 31 December 2020

illimity

BANCA OLTRE LA FORMA

The illimity Group

This consolidated Management Report illustrates the performance and the related 2020 financial results of illimity Bank S.p.A. ("illimity" or the "Bank") and of the entities included in the scope of consolidation (together with the Bank, the "illimity Group" or "Group"). illimity exercises the management and coordination of the Group and has its registered office in Milan, at Via Soperga 9[1].



The Group included the following entities as of 31 December 2020:

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;

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

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, started operations in 2020 and manages the assets 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 property and investment goods originating from insolvency and foreclosure proceedings, leasing and private sales through its own network of platforms/online auctions and a group of professionals operating nationwide;
xiv. ITA Gestione Immobili S.r.l. (“ITA Gestione”), a real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties;
xv. Mado S.r.l. (“Mado”), IT Auction’s software house, which provides it with the in-house resources needed to intervene promptly and periodically improve online auction house portals, as well as to create and promote software on behalf of third parties;
xvi. Core S.r.l. (“Core”), a special purpose company established to acquire shareholdings and to plan, organise and exercise strategic and operating control over its investee companies;
xvii. River Immobiliare S.r.l. ("River Immobiliare"), a wholly owned subsidiary of the Bank, set up for the purchase, the sale and management - aimed at the disposal - of the properties owned by the company.

On 13 January 2021, the deed of merger by absorption of the companies Core, IT Auction e Mado into neprix was signed. The merger became effective on 1 February 2021. The accounting and fiscal effects of the merger started from 1 January 2021. On 7 January 2021, the subsidiary ITA Gestione changed its company name to “NEPRIX AGENCY S.r.l” (“neprix Agency”). In addition, following the merger, neprix holds 100% of the shares in the company neprix Agency (formerly ITA Gestione), previously held by IT Auction. This merger has no effects on the consolidated financial statements, as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

Alternative performance measures as of 31 December 2020

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

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

(amounts in thousands of euros)

PERFORMANCE MEASURES	31 December 2020	31 December 2019	Chg.	Chg. (%)
Total net operating income	174,816	77,223	97,593	>100%
Operating expenses	(132,302)	(89,402)	(42,900)	48%
Operating profit (loss)	42,514	(12,179)	54,693	N/A
Total net write-downs/write-backs	(3,354)	(16,266)	12,912	(79%)
Profit (loss) from operations before taxes	38,692	(28,507)	67,199	N/A
Profit (loss) for the financial year	31,086	(16,140)	47,226	N/A

(amounts in thousands of euros)

BALANCE SHEET MEASURES	31 December 2020	31 December 2019	Chg.	Chg. (%)
Net non-performing loans - organic[2]	**19,055**	**19,457**	**(402)**	**(2%)**
of which: Bad loans	6,108	5,232	876	17%
of which: Unlikely-to-pay positions	12,521	13,016	(495)	(4%)
of which: Past-due positions	426	1,209	(783)	(65%)
Net non-performing loans - inorganic (POCI)[3]	**1,054,778**	**705,421**	**349,357**	**50%**
of which: Bad loans	744,260	544,765	199,495	37%
of which: Unlikely-to-pay positions	310,439	160,657	149,782	93%
of which: Past-due positions	79	-	79	N/A
Net non-performing securities - inorganic (POCI)	**-**	**50,363**	**(50,363)**	**(100%)**
of which: Unlikely-to-pay positions	-	50,363	(50,363)	(100%)
Net performing HTC securities	**249,913**	**299,390**	**(49,477)**	**(17%)**
of which: SME securities – High Yield	4,154	-	4,154	N/A
of which: DCIS securities - Senior Financing	245,759	299,390	(53,631)	(18%)
Receivables from financial entities	**109,993**	**-**	**109,993**	**N/A**
Net performing loans to customers	**881,162**	**563,232**	**317,930**	**56%**
Financial assets (HTCS + FV)	**109,877**	**134,453**	**(24,576)**	**(18%)**
Direct funding from customers	**2,853,141**	**1,978,589**	**874,552**	**44%**
Total Assets	**4,126,289**	**3,025,222**	**1,101,067**	**36%**
Shareholders' equity	**583,122**	**544,455**	**38,667**	**7%**

2 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.

3 POCI = Purchased or Originated Credit Impaired.

RISK RATIOS	31 December 2020	31 December 2019
Gross Organic NPE Ratio[4]	3.2%	4.2%
Net Organic NPE Ratio[5]	1.7%	2.2%
Coverage ratio for organic non-performing loans[6]	49.1%	48.4%
Coverage ratio for organic bad-debt positions[7]	69.4%	70.0%
Coverage ratio for performing loans[8]	1.20%	0.96%
Cost of organic credit risk (BPS)[9]	52	86

STRUCTURAL RATIOS	31 December 2020	31 December 2019
Shareholders' equity/Total Liability	14.1%	18.0%
Interbank Funding/Total Funding	15.8%	15.8%
Liquidity coverage ratio	>700%	>3000%
Net Stable Funding Ratio	>100%	>100%
Net loans with customers/Total assets[10]	53.4%	54.1%
Customer funding/ Total Liability	69.1%	65.4%

CAPITAL RATIOS	31 December 2020	31 December 2019
Tier I capital ratio (Tier I capital/Total weighted assets)	17.86%	21.35%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	17.86%	21.35%
Own Funds	509,127	461,699
of which: Tier I capital	509,127	461,699
Risk-weighted assets	2,850,572	2,162,485

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

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

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

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

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

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

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

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 Enterprises* ("SME"), *Distressed Credit Investment & Servicing* ("DCIS") and *Direct Banking & Digital Operations* ("DDO") divisions. There is also the Asset Management Company, which manages the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.

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* and *acquisition finance*: financing to high-potential businesses with a suboptimal financial structure 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 mainly 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 Bank unit responsible for monitoring loans.

These areas, specialised by Business segment, are flanked by dedicated units, supporting business activities: the Legal SME area supports the business areas regarding legal and contractual aspects; the Business Operations & Credit Support area manages the annual reporting of the Division, monitors relations with tutors, manages the Modena branch and oversees the portfolio of the former Banca Interprovinciale regarding progressive divestment. The Credit Machine unit (credit transaction screening) and Credit Monitoring unit (credit monitoring and non-performing loan management), previously within the SME Division now report to the new CLO (Chief Lending Officer) Department, with effect from 1 January 2021.

Distressed Credit Investment & Servicing Division

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

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

To optimise and streamline activities in the Distressed Credit Investment & Servicing Division, in addition to the changes already implemented in 2019, with effect from the third quarter of 2020 the organisational structure was further enriched, as a result of which the Division is now structured as follows:

1) *Portfolios, Senior Financing, Special Situations – Real Estate* and *Special Situations – Energy* Areas, responsible for the origination of the investment opportunities in NPL portfolios and Senior Financing, as well as the coordination of the entire negotiation and bidding process, until the final closing phase;
2) The *Servicing* Area, responsible for performing due diligence procedures and for adapting, implementing and monitoring recovery strategies through the coordination of internal and external servicers. The *Servicing Unit* neprix, tasked with debt recovery, reports to the Area;
3) The *Portfolio Optimisation Area*, which is responsible for optimising portfolio and single name management by identifying market opportunities for their sale, in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase, including all activities resulting from post-sales;
4) The *Pricing* Area, responsible, under the supervision of the *Risk Management* Function, for developing, implementing and maintaining the pricing models of portfolios/single name (special situations)/senior financing and the capital structure of all investments;
5) The *Business Operations* Area, tasked with coordinating and monitoring the Division's activities, overseeing relations with other Bank units and decision-making bodies, providing legal advice related to individual investment opportunities and initiatives, and monitoring the Division's performance;
6) The *Data Architecture & Analytics* Area, responsible for governing and managing the process of acquiring, transforming and using the data originated and used by the DCIS Division in business processes; it is also responsible for managing the onboarding process.

In more detail, the Investments perimeter, which includes the organisational units "Portfolios", "Special Situations – Real Estate" and "Special Situations – Energy", is responsible for overseeing the market for opportunities to acquire distressed credit assets (financial receivables classified as 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 perimeter is divided into three organisational units, described below:

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

b) "*Special Situations – Real Estate*", aimed at investment opportunities in so-called "*single name*" receivables, meaning exposures to a single borrower or, at most, a cluster of corporate counterparties, that are mainly secured;
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* and interact with the other areas of the Division (Pricing, Business Operations, Servicing) and the Bank (General Counsel, Administration & Accounting, ALM & Treasury, Risk Management, Budget & Control, Compliance & AML), acting as an interface between internal units and investors.

In line with illimity's business model of internalising the entire value chain, the Bank is supported by neprix (acquired on 20 July 2019) and IT Auction, merged into neprix from January 2021, 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, now merged with neprix, 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 companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo and River Immobiliare.

Direct Banking & Digital Operations Division

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

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

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

1) Deposits accounts with competitive rates and a simple, customisable product structure;
2) Current accounts offered according to an innovative, digital user experience;
3) Payment services provided through a platform that combines the most innovative tools available on the market with household budget management services;
4) *Account Aggregator,* i.e. features that enable the aggregation in each customer's home banking of accounts held with other banks, providing an overview of the customer's financial situation within a single screen, and bank credit transfers from the accounts of participating banks directly from the customer's illimity personal area;
5) A complete range of other products, including personal loans, American Express credit cards and insurance products, made available to customers through partnerships with selected market operators;
6) Amazon vouchers on instalment plans, to enable the purchase of products on Amazon through interest-free financing without any additional charges (annual nominal rate of 0% and annual percent rate of 0%), with custom amounts and terms;
7) illimity Hubs, i.e. innovative collaboration models enabling the Customer to use the functionalities offered by our partners - so far Mimoto and Fitbit – via integration into the illimitybank.com platform, and to activate complementary banking services.

Asset Management Company ("SGR")

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

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

To pursue its business objectives in an effective and consistent manner, the SGR has adopted a "traditional" governance model, which has a structure comprising a Board of Directors and a Board of Statutory Auditors. Based on the current characteristics and complexity of the funds and volumes managed, the organisational structure of the SGR assigns powers, at senior level, to two Managing Directors: the Head of the Administration, Finance and Control Function ("AFC"), and the Head of Investments ("AI")

In view of the upcoming start of operations of the first Alternative Investment Fund (AIF), set up in early 2021, the SGR, as part of a broader-ranging project to revise its own organisational structure, has established a new organisational unit "*Sales & Business Development*". The purpose of this department is to systematically obtain subscriptions and diversify business opportunities.

Lastly, the SGR will establish Compliance and AML, Risk Management and Internal Audit functions, outsourced to the central units of the parent company illimity Bank, in order to have a structured system to monitor internal controls.

Bank branches and offices

The Bank's branches and offices are as follows:

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

Human resources

As of 31 December 2020, the Group's employees numbered 587 (348 as of 31 December 2019). A breakdown of the workforce is given below, divided by job level:

Category	31 December 2020			31 December 2019			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Senior managers	55	9%	46	44	13%	46	11	25%
Middle managers	242	41%	37	191	55%	37	51	27%
other employees	290	49%	34	113	32%	32	177	>100%
Employees	**587**	**100%**		**348**	**100%**		**239**	**69%**

Macroeconomic scenario

As indicated by the European Central Bank ("ECB"), in its Macroeconomic forecasts for the euro area, published in December 2020, following a drop of 15% in the first half of 2020, euro area real GDP rebounded by 12.5% in the third quarter, which was a significantly stronger increase than expected in the September ECB staff projections. Positive news on the development of vaccines gives cause for greater confidence in the assumption of a gradual resolution of the health crisis throughout 2021 and in early 2022. This, together with substantial support from monetary and fiscal policies (partly related to the Next Generation EU package) and the ongoing recovery in foreign demand, should allow a firm rebound during the course of 2021. Thus, even though the near-term outlook has deteriorated, the path of euro area GDP from 2022 is expected to be broadly similar to that foreseen in the September 2020 projections.

In view of the continued significant uncertainty regarding the evolution of the pandemic, potential medical solutions (including the distribution and take-up of vaccines) and the degree of economic scarring, two alternative scenarios have again been prepared by the ECB. The mild scenario sees a more successful containment of the virus, a swift roll-out of vaccines and limited scarring. In contrast, the severe scenario, with a delayed resolution of the health crisis and substantial and permanent losses to economic potential, would imply a marginal increase in 2021 in real GDP, which would stand in 2023 still almost 2% below its pre-crisis levels, with inflation at only 0.8% in that year.

Similar observations were made by the Bank of Italy in its January 2021 Economic Bulletin, where it stated that the effects of the pandemic on economic activity and prices in the euro area were longer-lasting than had been previously assumed. To ensure favourable loan conditions for all sectors for the entire time needed, the Executive Board of the European Central Bank has extended and prolonged monetary stimulus measures, and stated it is ready to further recalibrate instruments if necessary.

In Italy, the fresh outbreak in infections since the autumn led to a slowdown in global activity at the end of 2020, above all in advanced countries. The Bank of Italy pointed out that the roll-out of vaccination campaigns will have a favourable impact on mid-term prospects. However, the times and extent of the recovery are still uncertain. Growth above expectations in the third quarter has highlighted a strong capacity for economic recovery. Like other countries in the euro area, the second wave of the pandemic caused a new decline in GDP in the fourth quarter: based on available indicators, this decrease was estimated by the Bank of Italy to be around 3.5%. The Bank of Italy also stated that uncertainty over this estimate was extremely high.

In terms of business segment, the decrease in economic activity was more significant in the services industry, and marginal in manufacturing. In surveys conducted by the Bank of Italy, businesses' appraisal of the economic situation has become less favourable, but is far from the pessimistic outlook of the first half of the previous year. In this context, companies plan to step up investments in 2021, even in a context where the households interviewed reveal that fears of infection, rather than restrictive measures, are still hindering the consumption of services.

The recovery of Italian exports of goods and services was considerable in the third quarter of 2020 and far greater than world trade figures. In autumn this trend continued, but at a slower pace. In this third quarter, with businesses that had been stopped in spring re-opening, the number of hours worked went up considerably, and funds to supplement wages were used. The number of people in paid employment also went back up. However, the latest figures available show an increase in the use of funds to supplement wages, from October onwards, albeit at far lower levels than those recorded during the first wave of infections. In November, the recovery in the number of new jobs basically stopped, highlighting a gap compared to the same period of the previous year, particularly for young people and women.

Changes in consumer prices stayed negative, reflecting price trends in service industries, which were most affected by the crisis, with dynamics still affected by a weak demand. In line with observations made by the ECB and based on studies of the Bank of Italy, analysts' and business' expectations for inflation still point to very low values over the next twelve months.

In the banking sector, the Bank of Italy observed how Italian Banks have continued to meet demand for funds from businesses during the pandemic. Supply conditions have remained relaxed overall, also thanks to continuing support from monetary policy and public guarantees. The cost of bank bonds has further decreased, and rates for business and household loans have stayed at moderate levels.

In response to the worsening health emergency in the autumn, the Government took further measures to support families and businesses in the last quarter of 2020. The budget expects an increase in net debt compared to the current legislative scenario, for the present year and following year. Additional expansionary initiatives should come in the form of measures to be defined as part of the *Next Generation EU* (NGEU) package.

The Bank of Italy's Economic Bulletin also presents the macro-economic projections for the Italian economy over the 2021-2023 period, updating those prepared in December for the euro system forecast year. Underlying the projections are the assumptions that the health emergency will gradually come under control in the first half of this year and will be entirely resolved by the end of 2022, that support for financial policy will continue, consolidated by the use of funds made available as part of the *Next Generation EU* package, and that monetary policy will guarantee favourable financial conditions are maintained for the entire period, as outlined by the Executive Board of the ECB. Based on these assumptions, GDP production would increase significantly from spring, with an increase in GDP in the range of 3.5% on average in 2021, 3.8% in 2022 an 2.3% in 2023, when it would rebound to pre-pandemic crisis levels. Investments would pick up at buoyant rates, benefiting from stimulus measures, and the recovery in exports would be considerable; instead consumption would rebound more gradually, with only a partial reabsorption of the shift towards greater savings, observed since the epidemic started. Inflation would remain low also during the year, to then climb gradually in the 2022-23 period.

The estimate for growth in the current year is affected considerably by the negative impact of the production downturn in the last part of 2020. Activity will be more robust from the second quarter onwards and significantly stronger in 2022, thanks to the stimulus from support measures.

The possibility to increase production is based on the assumption that the expansionary effects of the measures (still being defined) contemplated in the NGEU will be fully felt, that the support measures avoid the higher debt of businesses having negative impacts on financial stability and that fears of the pandemic's progress do not worsen. Conversely, growth could be higher in the event of quicker progress in getting infections under control.

Significant events in 2020

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

After the spread of COVID-19 in the year, and the consequent impacts at a systemic level (shock on financial markets, liquidity inflows from the authorities, recession), and local level (critical operating aspects at an economic fabric level), and in the framework of Bank of Italy rulings (allocation of profits to consolidate own funds, extensions for ICAAP, ILAAP regulatory obligations, recovery plan, flexibility in meeting asset and liquidity requirements), the illimity Group studied and promptly adopted a number of actions to deal with the critical context and mitigate the related risks at operational level in terms of credit strategy and policy and credit risk management, the strategic management of the financial assets portfolio, as well as customer relationship management and the management of their own business models.

In general terms, the increase in demand for remote financial services during the year, promptly and effectively steered by illimity's commercial and technological proposals, along with the Bank's highly conservative approach to pricing investments and providing funding and its limited exposure to economic sectors or asset classes most affected by the pandemic, are all factors that demonstrate the resilience of the business model in a reference scenario characterised by considerable risks.

At a governance level, the specific CV19 Committee was established, comprising the Chairman of the Board of Directors, CEO and top management of the Bank and subsidiaries, which conducted ongoing assessments, at least weekly, throughout 2020, on the actual and potential economic, financial and operational impacts of the pandemic.

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

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

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

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

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

- Italian Legislative Decree no. 18/2020 ("Decreto Cura Italia", converted into Italian Law no. 27/2020) introduced a legal suspension, initially until 30 September 2020, subsequently extended to 31 January 2021 (and then to 30 June 2021), for maturing loans and lines of credit contracted by SMEs, as an urgent measure to contain the effects of the business shutdowns ordered in response to the emergency – similar measures have been implemented at a private level, with the renewal of the agreements between the Italian Banking Association and trade associations;
- Italian Legislative Decree no. 23/2020 ("Decreto Liquidità", converted into Italian Law no. 40/2020) modifies the rules governing public guarantees, expanding the scope of application of the traditional subsidies provided

through the SME Central Guarantee Fund (CGF) and introducing the government guarantee issued by SACE (the "Italy Guarantee"), intended to secure loans of more than EUR 5 million or loans to companies too large to be eligible for the Central Guarantee Fund.

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

In 2020, suspensions and moratoria were finalised for nearly 200 positions, for a total amount of approximately EUR 86 million; 52% of initial exposures in a moratorium was attributable to suspensions for companies provided for in Article 56 of the Cura Italia Decree Law, with a further 44% referring to bilateral interventions, since the conditions required by law to activate legal suspensions had not been met; the remainder (3%) were ABI moratoria and those with individuals pursuant to Article 54 of the Cura Italia Decree Law.

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

Specific contact activity was overseen for the aggregate, targeting customers affected by the suspension or moratoria measures to verify whether, in future, there could be problems with resuming payments, so as to take prompt management measures (e.g., the preparation of forbearance measures, classification as higher risk, etc.). These control activities extend to all moratoria implemented, whether legislative or bilateral.

As of 31 December 2020, the outstanding aggregate amounted to EUR 65 million, further decreasing in January 2021.

Other events

Corporate transactions

On 9 January 2020, the illimity banking Group finalised the acquisition of 70% of the share capital in IT Auction, a company founded in 2011, 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. The acquisition was completed through neprix, an illimity Group company in which all the bank's distressed credit management activities are concentrated. On 5 March 2020 illimity purchased the remaining 30% of the company, to acquire full control of the company and integrate it fully in the illimity Group.

In accordance with the international accounting standard IFRS 3 – *Business Combinations*, a purchase price (PPA) was allocated during the acquisition process, to the acquiree's assets and liabilities and the goodwill associated with the transaction was recognised.

With the acquisition of IT Auction, neprix proposes itself as the first operator specialised in distressed corporate credit, with a distinctive end-to-end logic, thanks to the ability to cover the entire value chain in managing NPL, from acquisition to management and sale on the market of goods connected with these loans, thanks to core activities of IT Auction.

On 25 February 2020, illimity SGR S.p.A., the Asset Management Company of the illimity Group which manages the assets of closed-end alternative investment funds, was authorised by the Bank of Italy to provide collective asset management services as contemplated in Article 34 of Legislative Decree 58 of 24 February 1998. On 16 September 2020, CONSOB, the National Commission for Companies and the Stock Exchange, by agreement with the Bank of Italy for the relevant aspects, therefore authorised illimity SGR S.p.A., in procedure no. 117252/20, to market the reserved Italian securities AIF illimity *Credit & Corporate Turnaround*.

On 22 September 2020, the Boards of Directors of illimity, Banca Sella Holding S.p.A. ("Banca Sella Holding"), Fabrick S.p.A. ("Fabrick") and Hype S.p.A. ("HYPE") approved the agreement for investment by illimity in HYPE, giving rise to a 50-50 joint venture between illimity and Fabrick (until then 100% owner of HYPE, and in turn owned by Banca Sella Holding S.p.A.). The purpose of the industrial transaction is to increase the project's ambitions and also to accelerate the growth of HYPE. For the two partners the transaction is also intended to accelerate illimity's development plans in the specific segment, making the young fintech the highest-potential Italian company in the development of light banking services, along with Fabrick's development plans as an enabler of open banking and novel fintech projects.

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

On 22 December 2020, the Shareholders' Meeting of illimity, in an extraordinary session, following relative authorisations received from the Supervisory Authorities, unanimously approved the increase in share capital to serve agreements made with the Sella Group for the establishment of a joint venture in HYPE S.p.A.

illimity therefore signed a deed of assignment, effective from 1 January 2021, for the acquisition by Fabrick S.p.A. of 37.66% of the share capital of HYPE S.p.A.; illimity subscribed in cash the capital increase in HYPE and a deed was signed to assign the direct banking business unit to HYPE, resulting in illimity holding 50% of HYPE with effect from 1 January 2021.

Main business transactions

Distressed Credit Investment & Servicing Division

On 9 April 2020 illimity Bank announced that it had finalised the purchase of distressed single name loans for a total nominal value (gross book value - "GBV") 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 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 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 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 (GBV) 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 21 July 2020, illimity announced that it had finalised a non-performing loan transaction with a major credit institution for a total gross book value (GBV) of approximately EUR 477 million. The portfolio comprises unsecured loans to corporate borrowers. The Bank also finalised a 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.

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

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

On 21 October 2020, illimity announced that it had closed a transaction involving the purchase from a leading bank of a portfolio of non-performing loans with a GBV of approximately EUR 692 million. In line with illimity's strategy in terms of type of borrowers, the new portfolio is composed exclusively of loans to corporate borrowers secured by real-estate collateral.

On 11 November 2020, illimity announced that it had closed a transaction involving the purchase from a leading bank of a portfolio of unlikely to pay loans with a GBV of approximately EUR 153 million. The purchase is the second tranche of an overall transaction with a GBV equal to EUR 600 million, which is gradually being completed (after a first tranche finalised in October equal to EUR 81 million), and mainly comprising medium-sized UTP loans for approximately EUR 1.3 million held by around 450 corporate counterparties - from the Italian SME segment - active in various sectors, and mainly food & beverage, energy & utilities, real estate and the construction industry.

On 23 December 2020, illimity signed an agreement for the purchase of loans with an overall GBV of approximately EUR 21 million, of a leading bank with the construction and property development company Franco Barberis S.p.A.. The credit lines acquired include UTP positions. As part of the agreement, illimity will supplement the loan, allocating an additional EUR 7.3 million based on progress made.

Small Medium Enterprises Division

The main business transactions conducted in 2020 by the SME Division are reported below:

- a transaction with a leading Italian shipping operator, with a loan for approximately EUR 36 million backed by a SACE Italy Guarantee, to support investments necessary to renew a part of the company fleet;
- the purchase of loans for approximately EUR 26 million relating to a leading group active in the processing, bottling and sale of olive and vegetable oils, in order to assist the group in a structured recovery and relaunch process, also providing support for current operations, with a commercial line of EUR 3 million;
- an EUR 17 million loan to co-fund a corporate on corporate acquisition of a leading business in the baking industry, organising complex measures in a pool with two other lenders;
- an EUR 17 million loan with SACE guarantee, to support the relaunch of an important group active in the ceramics industry, assisting in its relaunch following recently ended restructuring operations;
- an EUR 15 million loan backed by SACE related to a group manufacturing components for the automotive sector;

- a transaction for approximately EUR 15 million with public SACE guarantee for an iron and steel works - a European leader in the manufacture of brass bars and rolled copper and other alloys, to support its business plan investments, concluding a turnaround process;
- an EUR 14 million loan for an important hi-tech player operating in electric mobility, energy trading and demand response, structured partly through a SACE guarantee and partly through a guarantee from the Central Guarantee Fund for SMEs;
- an EUR 10 million loan supporting the development plan of a leading company in the plastic processing machinery sector, specialised in environmentally friendly innovative solutions.

For further information, it should be noted that in November, an important exposure related to the engineering and construction industry (EUR 50 million), was repaid, considerably reducing the sector concentration of the SME portfolio and, in particular, exposure to the specific activity segment.

Direct Banking & Digital Operations Division

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

Subsequently, on 20 April 2020, thanks to the partnership with Aon, illimity expanded the range available to customers to include a wide array of telemedicine 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 access complements the services 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 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 16 June 2020, nine months since its launch, illimitybank.com 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.

Other significant information

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 was recognised as a quality working environment, obtaining the Great Place to Work® certification, an organisational consulting company in the HR field, leader in Italy in the study and analysis of the business climate. This recognition was awarded following a survey, the Trust Index©, 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. In January 2021, the illimity Banking Group, was awarded Great Place to Work® certification for the second year running.

On 19 March 2020 the Bank of Italy, in conclusion of 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 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. In execution of the Shareholders' Meeting resolution of 22 April 2020, as already disclosed to the market, and after it came before the Board of Directors on 3 August 2020, on 5 August 2020 illimity announced that it had commenced a share buy-back programme for up to 87,951 illimity own shares, equivalent to approximately 0.133% of the Bank's share capital, to be placed in service of the Long-Term Incentive Plan ("LTIP") for the Bank's top management, approved by the aforementioned Shareholders' Meeting of 22 April 2020. On 10 August 2020 illimity announced that it had concluded its buy-back programme.

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.

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

On 1 October 2020, illimity renewed its own “Euro Medium Term Note” (EMTN) issue programme for a maximum of EUR 3 billion, exclusively for qualified investors listed on the Dublin Stock Exchange (Ireland). On 3 December 2020, illimity therefore successfully completed the opening issue of a 3-year senior preferred bond for a total amount of EUR 300 million. The issue in question, for institutional investors, is part of the EMTN programme and had a strong uptake, reaching one billion euros (over three times more the amount allocated), from 160 investors, with a good national/foreign distribution. The bond yield has been set at 3.375%. The bond is listed on the Irish Stock Exchange regulated market with a B rating for the issue by Fitch.

On 27 November 2020, the international agency Fitch Ratings give the Bank its first rating: “B+” for the Long-Term Issuer Default Rating (“IDR”) with a Stable Outlook and “b+” for the Viability Rating (“VR”).

The Consolidated Non-Financial Statement prepared pursuant to Legislative Decree 254 of 30 December 2016, which reports on environmental, social and human resources issues, is published - as permitted - in a separate document together with these financial statements, and is available at www.illimity.com, in the section on Sustainability.

Reclassified consolidated financial statements of the Group as of 31 December 2020

This Report on Consolidated Operations 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 Report on Consolidated Operations 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 Report on Consolidated Operations; 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 statement of financial position, various assets and liabilities have been grouped together as follows, in addition to the restatement of the data relating to the transactions discussed in the foregoing paragraphs:

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

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(amounts in thousands of euros)

Components of official items of the statement of financial position	Assets	31 December 2020	31 December 2019	Chg.	Chg. (%)
20 a) + 30	Treasury portfolio - Securities at FV	91,427	125,851	(34,424)	(27%)
20 c)	Financial instruments mandatorily measured at fair value	18,450	8,602	9,848	>100%
40 a)	Due from banks	530,922	344,858	186,064	54%
40 b)	Loans to financial entities	109,993	-	109,993	n.a
40 b)	Loans to customers	1,954,995	1,288,111	666,884	52%
40 b)	Securities at amortised cost – SME	4,154	50,363	(46,209)	(92%)
40 b)	Securities at amortised cost – Senior Financing	245,759	299,390	(53,631)	(18%)
90 + 100	Property and equipment and intangible assets	147,816	66,199	81,617	>100%
	of which: Goodwill	*36,224*	*21,643*	*14,581*	*67%*
110	Tax assets	35,403	37,061	(1,658)	(4%)
10 + 130	Other assets	987,370	804,787	182,583	23%
	of which: Cash and cash equivalents	*944,832*	*772,125*	*172,707*	*22%*
	Total assets	**4,126,289**	**3,025,222**	**1,101,067**	**36%**

(amounts in thousands of euros)

Components of official items of the statement of financial position	Liabilities	31 December 2020	31 December 2019	Chg.	Chg. (%)
10 a)	Amounts due to banks	534,345	376,747	157,598	42%
10 b)	Amounts due to customers	2,552,161	1,963,237	588,924	30%
10 c)	Securities issued	300,980	15,358	285,622	>100%
60	Tax liabilities	4,207	770	3,437	>100%
80 + 90 + 100	Other liabilities	151,474	124,655	26,819	22%
(*)	Shareholders' equity	583,122	544,455	38,667	7%
	Total liabilities and shareholders' equity	**4,126,289**	**3,025,222**	**1,101,067**	**36%**

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

Summary of consolidated statement of financial position data

The Group's total assets amounted to EUR 4,126.3 million as of 31 December 2020 (EUR 3,025.2 as of 31 December 2019), and primarily include financial assets arising from loans to customers of EUR 1,955 million (up compared to EUR 1,288.1 million recorded as of 31 December 2019). The increase is primarily attributable to the new transactions of the SME Division and DCIS Division concluded during the year. For further information and details, refer to the section "Significant events in 2020", as well as the section "Contribution from operating segments to the Group's results".

Financial assets at amortised cost – due from banks – amounted to EUR 530.9 million as of 31 December 2020, up from EUR 186.1 million as of 31 December 2019, primarily due to the new subscriptions of repurchase agreements receivable and deposits receivable with banking counterparties. Taking loans to financial entities into account, as of 31 December 2020, total net exposure to banks and financial entities was EUR 640.9 million. With reference to the Group's liquidity profile, the cash and cash equivalents component, which stood at Euro 944.8 million as of 31 December 2020, increased, compared to EUR 772.1 million as of 31 December 2019, due to the higher liquidity arising from the bond issue in December.

With reference to securities, financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, primarily represented by instruments with other banks and financial institutions, amounted to approximately EUR 91.4 million, down by EUR 34.4 million compared to 31 December 2019. As of 31 December 2020, the Group had a negative valuation reserve of approximately EUR 0.3 million, mainly due to the performance of the markets. Financial instruments mandatorily measured at fair value through profit or loss amounted to EUR 18.5 million as of 31 December 2020 and include two investments in equity instruments for EUR 7.2 million, attributable to the SME Division, as well as an energy transaction and junior and mezzanine investments in securitisation vehicles related to the DCIS Division for EUR 11.2 million.

As of 31 December 2020, property and equipment and intangible assets amounted to EUR 147.8 million, increasing by approximately EUR 81.6 million compared to 31 December 2019. The Group's intangible assets refer to the goodwill from the business combination of SPAXS with Banca Interprovinciale, equal to EUR 21.6 million; the item also includes the measurement of the goodwill recognised on the acquisition of IT Auction and its subsidiaries (amounting to EUR 14.6 million), in addition to the intangible assets identified pursuant to 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 a functional use consisted instead of Right of Use of assets acquired through leasing (IFRS 16).

Total consolidated liabilities and shareholders' equity amounted to EUR 4,126.3 million. Amounts due to customers (net of the lease liability referred to IFRS 16) amounted to EUR 2,552.2 million. Amounts due to Banks - up by EUR 157.6 million compared to 31 December 2019 mainly following the participation in the TLTRO III auction - amounted to EUR 534.3 million. Securities issued were equal to EUR 301 million, following the completion of the EMTN transaction in the fourth quarter of 2020.

Group shareholders' equity amounted to EUR 583.1 million, increasing compared to 2019, mainly due to profit for the year and the increase in capital arising from the acquisition of IT Auction.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(amounts in thousands of euros)

Components of official items of the Income Statement	Income Statement items	31 December 2020	31 December 2019	Chg.	Chg. (%)
10 + 20	Interest margin	105,331	49,295	56,036	>100%
40 + 50	Net fee and commission income	13,516	6,621	6,895	>100%
80 + 100 + 110	Gains/losses on financial assets and liabilities	8,486	10,272	(1,786)	(17%)
130 a)	Net write-downs/write-backs on closed positions - HTC Clients - POCI	42,637	9,118	33,519	>100%
140 + 230 + 280	Other operating expenses and income	4,846	1,917	2,929	>100%
Total net operating income		**174,816**	**77,223**	**97,593**	**>100%**
190 a)	Personnel expenses	(52,063)	(31,066)	(20,997)	68%
190 b)	Other administrative expenses	(71,625)	(55,189)	(16,436)	30%
210 + 220	Net write-downs/write-backs on property and equipment and intangible assets	(8,614)	(3,147)	(5,467)	>100%
Operating expenses		**(132,302)**	**(89,402)**	**(42,900)**	**48%**
Operating profit (loss)		**42,514**	**(12,179)**	**54,693**	**N/A**
130 a)	Net write-downs/write-backs for credit risk - HTC Banks	104	(189)	293	N/A
130 a)	Net write-downs/write-backs for credit risk - HTC Financial entities	(115)	-	(115)	N/A
130 a)	Net write-downs/write-backs for credit risk - HTC Clients	(2,444)	(15,601)	13,157	(84%)
130 b)	Net write-downs/write-backs for credit risk - HTCS	82	4	78	>100%
200 a)	Net write-downs/write-backs for commitments and guarantees	(981)	(480)	(501)	>100%
Total net write-downs/write-backs		**(3,354)**	**(16,266)**	**12,912**	**(79%)**
200 b)	Other net provisions	(468)	(62)	(406)	>100%
Profit (loss) from operations before taxes		**38,692**	**(28,507)**	**67,199**	**N/A**
300	Income taxes for the financial year on continuing operations	(7,606)	12,367	(19,973)	N/A
Profit (loss) for the financial year		**31,086**	**(16,140)**	**47,226**	**N/A**

Consolidated income statement highlights

The Group's total net operating income for the period ended 31 December 2020 amounted to EUR 174.8 million, up sharply on the previous year, when it came to approximately EUR 77.2 million.

The increase in total net operating income is to be attributed to the introduction and expansion of various lines of business by the Bank in 2020, which contributed to the increase in the interest margin of the Group from EUR 49.3 million as of 31 December 2019 to EUR 105.3 million as of 31 December 2020. Net fee and commission income, which amounted to EUR 13.5 million in 2020, also increased over the previous year, due on the one hand to increased operations of the Bank Divisions, and on the other as a consequence of the acquisition in the first quarter of 2020, of IT Auction and its subsidiaries, which contribute to the item through the "auction commissions" earned on the use of proprietary real-estate portals.

Net operating income also includes net write-backs on customer HTC positions closed in 2020 for a total of EUR 42.6 million. Net write-downs on positions in the bank's portfolio were instead negative for EUR 3.4 million. In detail, net write-downs on 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 for existing positions.

Operating expenses of EUR 132.3 million as of 31 December 2020 went up by approximately EUR 42.9 million compared to the same period of 2019. In detail, personnel expenses increased compared to the previous year by approximately EUR 21 million, mainly as a result of new resources being employed, to support the increased activities of the Bank's Divisions, and due to the companies referred to IT Auction and its subsidiaries joining the Group. Other administrative expenses also increased, by approximately EUR 16.4 million compared to the same period of the previous year, due to the increase in Bank operations. Finally, the item includes net write-downs/write-backs on property and equipment and intangible assets totalling EUR 8.6 million, up by EUR 5.5 million compared to 31 December 2019, primarily due to the amortisation of IT investments and depreciation of plant and equipment managed in application of IFRS 16.

Based on the above, as of 31 December 2020, profit for the financial year before taxes amounted to EUR 38.7 million. Net of income taxes for the financial year on current operations, equal to approximately EUR 7.6 million, consolidated net profit as of 31 December 2020 stood at EUR 31.1 million, compared to a loss of EUR 16.1 million as of 31 December 2019.

Basic and diluted earnings per share as of 31 December 2020, calculated by dividing the result for the year by the weighted average number of ordinary shares issued, was equal to EUR 0.47. See the section "Basic and diluted earnings per share" for details of the methodology to calculate earnings per share.

Key statement of financial position figures

Invested assets

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

(amounts in thousands of euros)

DETAILS OF INVESTED ASSETS	31 December 2020		31 December 2019		Change	
	Book Value	Inc. %	Book Value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**944,832**	**24.2%**	**772,125**	**26.7%**	**172,707**	**22%**
Financial assets held for trading	**52**	**0.0%**	**63**	**0.0%**	**(11)**	**(17%)**
Financial assets mandatorily measured at fair value	**18,450**	**0.5%**	**8,602**	**0.3%**	**9,848**	**>100%**
- DCIS Business	11,167	0.3%	2,341	0.1%	8,826	>100%
- SME Business	7,167	0.2%	6,161	0.2%	1,006	16%
– Treasury Portfolio	116	0.0%	100	0.0%	16	16%
HTCS Financial assets	**91,375**	**2.3%**	**125,788**	**4.4%**	**(34,413)**	**(27%)**
– Treasury Portfolio	91,375	2.3%	125,788	4.4%	(34,413)	(27%)
Due from banks	**530,922**	**13.6%**	**344,858**	**11.9%**	**186,064**	**54%**
– of which: Repurchase agreements	395,167	10.1%	276,025	9.6%	119,142	43%
Loans to financial entities	**109,993**	**2.8%**	**-**	**0.0%**	**109,993**	**N/A**
Loans to customers	**1,954,995**	**50.1%**	**1,288,111**	**44.6%**	**666,884**	**52%**
– Organic non-performing loans	19,055	0.5%	19,457	0.7%	(402)	(2%)
– Inorganic non-performing loans	1,054,778	27.0%	705,421	24.4%	349,357	50%
– Performing loans	881,162	22.6%	563,232	19.5%	317,930	56%
Loans to customers - Securities	**249,913**	**6.4%**	**349,753**	**12.1%**	**(99,840)**	**(29%)**
- DCIS Business (Senior Financing) - performing	245,759	6.3%	299,390	10.4%	(53,631)	(18%)
- SME Business - inorganic POCI	-	0.0%	50,363	1.7%	(50,363)	(100%)
- SME Business - performing	4,154	0.1%	-	0.0%	4,154	N/A
Total invested assets	**3,900,532**	**100%**	**2,889,300**	**100%**	**1,011,232**	**35%**

Loans to customers amounted to approximately 1,955 million euros, up from 1,288.1 million euros at the end of the previous year, due to transactions relating to the new *Businesses*. The line item also includes NPLs of approximately EUR 1,054.8 million classified as POCI (Purchased or Originated Credit Impaired), up from EUR 705.4 million recorded as of 31 December 2019, due to the new transactions concluded by the business divisions. Considering Securities, financing to customers amounted to EUR 2,204.9 million.

Financial assets measured at fair value through other comprehensive income held within a hold-to-collect-and-sell business model amounted to approximately EUR 91.4 million, and were represented mainly by securities issued by banks and other financial companies.

Financial instruments mandatorily measured at fair value through profit or loss amounted to EUR 18.5 million and include two investments in equity instruments/earnouts for EUR 7.2 million, attributable to the SME Division, as well as an energy transaction and junior and mezzanine investments in securitisation vehicles related to the DCIS Division for EUR 11.2 million.

The remaining EUR 249.9 million of securities was measured at amortised cost (held-to-collect business model) and mainly comprises EUR 245.8 million of Senior Financing securities and EUR 4.1 million from high-yield securities of the SME Division.

(amounts in thousands of euros)

INVESTED ASSETS BY TECHNICAL FORM	31 December 2020		31 December 2019		Change	
	Book Value	Inc. %	Book Value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**944,832**	**24.2%**	**772,125**	**26.7%**	**172,707**	**22%**
Current accounts and deposits	135,755	3.5%	68,833	2.4%	66,922	97%
Repurchase agreements	395,167	10.1%	276,025	9.6%	119,142	43%
Due from banks	**530,922**	**13.6%**	**344,858**	**11.9%**	**186,064**	**54%**
Loans to financial entities	**109,993**	**2.8%**	**-**	**0.0%**	**109,993**	**N/A**
Current accounts held by customers	273,971	7.0%	57,120	2.0%	216,851	>100%
Loans	1,681,024	43.1%	1,230,991	42.6%	450,033	37%
Loans to customers	**1,954,995**	**50.1%**	**1,288,111**	**44.6%**	**666,884**	**52%**
Debt securities	352,454	9.0%	477,868	16.5%	(125,414)	(26%)
– *Government bonds*	-	0.0%	10,736	0.4%	(10,736)	(100%)
– *Banking*	79,464	2.0%	73,624	2.6%	5,840	8%
– *Others*	272,990	7.0%	393,508	13.6%	(120,518)	(31%)
Equity instruments/earnouts	7,167	0.2%	6,161	0.2%	1,006	16%
Equity securities	18	0.0%	15	0.0%	3	20%
Units of UCIs	151	0.0%	163	0.0%	(12)	(7%)
Securities	**359,790**	**9.2%**	**484,206**	**16.8%**	**(124,416)**	**(26%)**
Total invested assets	**3,900,532**	**100%**	**2,889,300**	**100%**	**1,011,232**	**35%**

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

Loans due from banks totalled EUR 530.9 million, up compared to 31 December 2019, mainly due to new deposits under administration and new repurchase agreements during the year. Loans to customers also increased due to the constant operations of the Bank's Divisions.

Finally, debt securities were equal to EUR 352.5 million and mainly attributable to the transactions of the Treasury Portfolio in financial assets measured at fair value through other comprehensive income.

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

(amounts in millions of euros)

FINANCING BY BUSINESS DIVISION	31 December 2020	Amount %	31 December 2019	Amount %	Chg.	Chg. (%)
DCIS Division	1,308	56.5%	1,008	61.5%	300	30%
SME Division	763	33.0%	444	27.1%	319	72%
Loans to ordinary former BIP customers (SMEs)	134	5.8%	186	11.4%	(52)	(28%)
Total due from customers (Loans and Securities)	**2,205**	**95.2%**	**1,638**	**100.0%**	**567**	**35%**
Loans to other financial institutions	110	4.8%	-	0.0%	110	n.a
Total loans to customers measured at amortised cost	**2,315**	**100%**	**1,638**	**100%**	**677**	**41%**

Financial assets measured at amortised cost

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

(amounts in thousands of euros)

FINANCIAL ASSETS AT AMORTISED COST	31 December 2020						31 December 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	**531,103**	**18.5%**	**(181)**	**530,922**	**18.7%**	**0.03%**	**345,143**	**17.1%**	**(285)**	**344,858**	**17.4%**	**0.08%**
- Loans	531,103	18.5%	(181)	530,922	18.7%	0.03%	345,143	17.1%	(285)	344,858	17.4%	0.08%
- Stage 1/2	531,103	18.5%	(181)	530,922	18.7%	0.03%	345,143	17.1%	(285)	344,858	17.4%	0.08%
Loans to financial entities	**110,108**	**3.8%**	**(115)**	**109,993**	**3.9%**	**0.10%**	**-**	**0.0%**	**-**	**-**	**0.0%**	**0.00%**
- Loans	110,108	3.8%	(115)	109,993	3.9%	0.10%	-	0.0%	-	-	0.0%	0.00%
- Stage 1/2	110,108	3.8%	(115)	109,993	3.9%	0.10%	-	0.0%	-	-	0.0%	0.00%
Loans to customers	**2,234,313**	**77.7%**	**(29,405)**	**2,204,908**	**77.5%**	**1.32%**	**1,670,092**	**82.9%**	**(32,229)**	**1,637,864**	**82.6%**	**1.93%**
- Securities	250,281	8.7%	(368)	249,913	8.8%	0.15%	350,116	17.4%	(363)	349,753	17.6%	0.10%
- Stage 1/2	250,281	8.7%	(368)	249,913	8.8%	0.15%	299,753	14.9%	(363)	299,390	15.1%	0.12%
- Stage 3	-	0.0%	-	-	0.0%	N/A	50,363	2.5%	-	50,363	2.5%	0.00%
- Loans	1,984,032	69.0%	(29,037)	1,954,995	68.7%	1.46%	1,319,976	65.5%	(31,866)	1,288,111	65.0%	2.41%
- Stage 1/2	891,852	31.0%	(10,690)	881,162	31.0%	1.20%	568,673	28.2%	(5,441)	563,232	28.4%	0.96%
- Stage 3	1,092,180	38.0%	(18,347)	1,073,833	37.7%	N/A	751,303	37.3%	(26,425)	724,879	36.6%	N/A
Total	**2,875,524**	**100%**	**(29,701)**	**2,845,823**	**100%**	**N/A**	**2,015,235**	**100%**	**(32,514)**	**1,982,722**	**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.

As of 31 December 2020, the item due from banks amounted to EUR 530.9 million, compared to EUR 344.9 million as of 31 December 2019, and consisted primarily of current accounts, on demand deposits and repurchase agreements.

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

(amounts in thousands of euros)

LOANS TO CUSTOMERS	31 December 2020						31 December 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	**37,402**	**1.7%**	**(18,347)**	**19,055**	**0.9%**	**49.05%**	**37,718**	**2.3%**	**(18,261)**	**19,457**	**1.2%**	**48.42%**
- Bad loans	19,988	0.9%	(13,880)	6,108	0.3%	69.44%	17,429	1.0%	(12,197)	5,232	0.3%	69.98%
- Unlikely-to-pay positions	16,961	0.8%	(4,440)	12,521	0.6%	26.18%	18,880	1.1%	(5,864)	13,016	0.8%	31.06%
- Past-due positions	453	0.0%	(27)	426	0.0%	5.96%	1,410	0.1%	(200)	1,209	0.1%	14.18%
Non-performing loans - inorganic	**1,054,778**	**47.2%**	**-**	**1,054,778**	**47.8%**	**N/A**	**713,585**	**42.7%**	**(8,163)**	**705,422**	**43.1%**	**N/A**
- Bad loans	744,260	33.3%	-	744,260	33.8%	N/A	552,698	33.1%	(7,933)	544,765	33.3%	N/A
- Unlikely-to-pay positions	310,439	13.9%	-	310,439	14.1%	N/A	160,887	9.6%	(230)	160,657	9.8%	N/A
- Past-due positions	79	0.0%	-	79	0.0%	N/A	-	-	-	-	-	-
Impaired securities - Inorganic	**-**	**0.0%**	**-**	**-**	**0.0%**	**N/A**	**50,363**	**3.0%**	**-**	**50,363**	**3.1%**	**N/A**
- Unlikely-to-pay positions	-	0.0%	-	-	0.0%	N/A	50,363	3.0%	-	50,363	3.1%	N/A
Performing assets	**1,142,133**	**51.1%**	**(11,058)**	**1,131,075**	**51.3%**	**0.97%**	**868,426**	**52.0%**	**(5,804)**	**862,622**	**52.7%**	**0.67%**
- Securities	250,281	11.2%	(368)	249,913	11.3%	0.15%	299,753	17.9%	(363)	299,390	18.3%	0.12%
- Loans	891,852	39.9%	(10,690)	881,162	40.0%	1.20%	568,673	34.1%	(5,441)	563,232	34.4%	0.96%
Total	**2,234,313**	**100%**	**(29,405)**	**2,204,908**	**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.

Organic non-performing loans amounted to EUR 19.1 million, down slightly compared to EUR 19.5 million as of 31 December 2019, due to collection activities overseen by the bank with its borrowers. The coverage ratio for organic non-performing loans as of 31 December 2020, was equal to 49.1%, essentially in line with 31 December 2019.

Inorganic non-performing loans amounted to EUR 1,054.8 million, of which:

- EUR 744.3 million relating to purchase transactions concluded by the SME and DCIS Divisions classified as bad loans, registering an increase compared to EUR 544.8 million as of 31 December 2019;
- EUR 310.4 million relating to purchase transactions concluded by the SME and DCIS Divisions classified as unlikely-to-pay positions, registering an increase compared to EUR 160.6 million as of 31 December 2019.

Performing loans amounted to 881.2 million euros, up compared to 563.2 million euros as of 31 December 2019 due to new transactions in the financial year. Performing securities amounted to 249.9 million euros as of 31 December 2020, a decrease compared to 31 December 2019.

The coverage ratio for performing loans of the Bank as of 31 December 2020 was equal to 1.2%, up from the value of 0.96% as of 31 December 2019.

Deposits

(amounts in thousands of euros)

DEPOSITS BY TECHNICAL FORM	31 December 2020		31 December 2019		Change	
	Book Value	Inc. %	Book Value	Inc. %	Absolute	Chg. (%)
Amounts due to customers (A)	2,552,161	75.3%	1,963,237	83.4%	588,924	30%
Securities issued (B)	300,980	8.9%	15,358	0.6%	285,622	>100%
Total financial liabilities from customers (A) + (B)	**2,853,141**	**84.2%**	**1,978,595**	**84.0%**	**874,546**	**44%**
Due to banks (C)	534,345	15.8%	376,747	16.0%	157,598	42%
Total debt (A) + (B) + (C)	**3,387,486**	**100%**	**2,355,342**	**100%**	**1,032,144**	**44%**

At the end of the reporting period, deposits amounted to approximately EUR 3,387.5 million, up compared to 31 December 2019, primarily due to the participation in the TLTRO III, the performance of customer savings deposits and the EMTN transaction.

Property and equipment and intangible assets

Property and equipment amounted to approximately EUR 78.4 million as of 31 December 2020, compared to EUR 25.4 million as of 31 December 2019. In accordance with IFRS 16, the item includes the right of use of assets acquired on lease of approximately EUR 19.8 million, net of accumulated depreciation. The item also includes the value of an owned property for functional purposes, as well as real-estate investments acquired through enforcement, by auction, as part of NPL transactions.

Intangible assets as of 31 December 2020 amounted to approximately EUR 69.4 million, compared to EUR 40.8 million as of 31 December 2019, and increased mainly due to the recognition of goodwill from the acquisition of the Company IT Auction and its subsidiaries in the first quarter of 2020. The item also includes the goodwill arising from the SPAXS-Banca Interprovinciale business combination of EUR 21.6 million and IT investments.

Tax assets and tax liabilities

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

(amounts in thousands of euros)

TAX ASSETS	31 December 2020	31 December 2019	Chg.	Chg. (%)
Current	3,206	5,127	(1,921)	(37%)
Deferred	32,197	31,934	263	1%
Total	**35,403**	**37,061**	**(1,658)**	**(4%)**

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

Deferred tax assets include the benefits from the tax exemption of the goodwill arising from the merger by absorption of SPAXS with Banca Interprovinciale and the exemption, by neprix, of the goodwill and other intangible assets arising from the consolidated financial statements, following the acquisition of 70% of the stake in IT Auction.

Specifically, as regards the merger by absorption of SPAXS with Banca Interprovinciale, goodwill equal to EUR 21.6 million was exempt, pursuant to Article 15, paragraph 10, of Italian Legislative Decree no. 185/2008, and the substitute tax of EUR 3.5 million, corresponding to 16% of the higher goodwill values recognised 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.

Instead, with reference to the acquisition of 70% of the stake in IT Auction, during 2020, for which goodwill equal to EUR 14.6 million and other intangible assets equal to EUR 2.0 million were recognised in the consolidated financial statements on a first-time basis, neprix stated its intention to apply the exemption, pursuant to Article 15, paragraph 10-ter, of Italian Legislative Decree no. 185/2008, in proportion to the percentage of the stake held. Specifically, this generated a net tax benefit in the financial statements equal to EUR 1.3 million, with the recognition of deferred tax assets (IRES and IRAP), equal to EUR 3 million, that will be released in five annual instalments of EUR 0.6 million between 2023 and 2027, simultaneously with lower current taxes.

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

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

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

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

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

(amounts in thousands of euros)

Capital ratios	31 December 2020	31 December 2019
Common Equity Tier 1 (CET1) capital	**509,127**	**461,699**
Additional Tier 1 (AT1) capital	**–**	**–**
Tier 2 (T2) capital	**–**	**–**
Total own funds	**509,127**	**461,699**
Credit risk	*218,290*	*168,492*
Credit valuation adjustment risk	–	-
Settlement risks	–	-
Market risks	*17*	*65*
Operational risk	*9,739*	*4,442*
Other calculation factors	–	-
Total minimum requirements	**228,046**	**172,999**
Risk-weighted assets	**2,850,572**	**2,162,485**
Common Equity Tier 1 ratio	**17.86%**	**21.35%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**17.86%**	**21.35%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**17.86%**	**21.35%**
(Total own funds/Risk-weighted assets)		

As of 31 December 2020, the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds. If special shares had been included in CET1 capital, the CET1 ratio would have been 18.37%.

Changes in shareholders' equity

As of 31 December 2020, shareholders' equity, inclusive of the profit for the period, amounted to approximately EUR 583.1 million, up from EUR 544.5 million at the end of 2019, primarily due to the capital increase during the year and profit for the period, offset partly by changes in valuation reserves and by the treasury share buy-back operation.

(amounts in thousands of euros)

Items/Technical forms	31 December 2020	31 December 2019
1. Share capital	44,007	43,408
2. Share premium reserve	487,373	480,156
3. Reserves	21,766	36,188
4. Equity instruments	-	-
5. (Treasury shares)	(832)	(96)
6. Valuation reserves	(278)	939
7. Profit (loss) for the financial year	31,086	(16,140)
Total shareholders' equity attributable to the Group	**583,122**	**544,455**
Shareholders' equity attributable to minority interests	–	-
Total shareholders' equity	583,122	544,455

Share capital and ownership structure

At 31 December 2020, the Bank's share capital amounted to EUR 45,503,237.77, of which EUR 44,006,566.43 was subscribed and paid up, divided into 66,083,417 ordinary shares and 1,440,000 special shares without par value.

The Ordinary Shares were admitted to trading on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A. on 5 March 2019. By order of the Bank of Italy no. 8688 of 2 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of the MTA market.

The Bank's Special Shares are not traded.

As indicated in the section "Subsequent Events", following the share capital increase for Fabrick S.p.A. and consequent issue of 7,342,602 new ordinary shares for this increase, the share capital of illimity amounted to EUR 50,288,411.49, of which EUR 48,791,740.15 was subscribed and paid up, divided into 73,426,019 ordinary shares and 1,440,000 special shares, all without par value.

Treasury shares

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

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

Following the purchases made and considering the shares already in portfolio, as of 31 December 2020 the Bank held 98,505 treasury shares for a value of EUR (0.8) thousand. The Bank's subsidiaries do not hold any shares in it.

Parent company reconciliation - consolidated

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 31 December 2020:

(amounts in thousands of euros)

	Shareholders' equity	Result
illimity Bank S.p.A.	**584,706**	**32,561**
Effect of consolidation of subsidiaries	643	-
Results of the consolidated companies	(4,198)	(4,198)
Consolidation adjustments	1,971	2,723
Dividends	-	-
Effect of valuation at equity method of associates and joint ventures	-	-
Group	**583,122**	**31,086**

Financial performance

Interest margin

(amounts in thousands of euros)

Items/Technical forms	Loans/ Payables	Debt securities	Other transactions	31 December 2020	31 December 2019	Absolute changes	Change %
Interest and similar income							
1. Financial assets measured at fair value through profit or loss	-	112	-	112	-	112	N/A
Held for trading	-	-	-	-	-	-	*N/A*
Designated at FV	-	-	-	-	-	-	*N/A*
mandatorily measured at fair value	-	*112*	-	*112*	-	*112*	*N/A*
2. Financial assets at FV through other comprehensive income	9,728	2,434		12,162	1,723	10,439	>100%
3. Financial assets at amortised cost	114,624	18,336	-	132,960	60,631	72,329	>100%
Due from banks	*517*			*517*	*1,571*	*(1,054)*	*(67%)*
Loans to customers	*114,107*	*18,336*		*132,443*	*59,060*	*73,383*	*>100%*
4. Hedging derivatives			-	-	-	-	N/A
5. Other assets			5	5	70	(65)	(93%)
6. Financial liabilities				744	249	495	>100%
Total interest income	**124,352**	**20,882**	**5**	**145,983**	**62,673**	**83,310**	**>100%**
Interest expenses							
1. Financial liabilities at amortised cost	(36,820)	(713)		(37,533)	(12,281)	(25,252)	>100%
Amounts due to central banks	*(17)*			*(17)*	*(123)*	*106*	*(86%)*
Amounts due to banks	*(5,685)*			*(5,685)*	*(2,551)*	*(3,134)*	*>100%*
Amounts due to customers	*(31,118)*			*(31,118)*	*(8,310)*	*(22,808)*	*>100%*
Securities issued		*(713)*		*(713)*	*(1,297)*	*584*	*(45%)*
2. Financial liabilities held for trading	-	-	-	-	-	-	N/A
3. Financial liabilities designated at FV	-	-	-	-	-	-	N/A
4. Other liabilities and provisions			(510)	(510)	(10)	(500)	>100%
5. Hedging derivatives			-	-	-	-	N/A
6. Financial assets				(2,609)	(1,087)	(1,522)	>100%
Total interest expenses	**(36,820)**	**(713)**	**(510)**	**(40,652)**	**(13,378)**	**(27,274)**	**>100%**
Interest margin	**87,532**	**20,169**	**(505)**	**105,331**	**49,295**	**56,036**	**>100%**

As of 31 December 2020, the interest margin amounted to approximately EUR 105.3 million, up considerably on the previous year, when it came to approximately EUR 49.3 million.

The change described above is mainly due to the increase in interest income accrued on financial assets at amortised cost: in particular, interest on loans to customers increased by EUR 73.4 million compared to the same period of the previous year. This increase is due to greater loan activity in 2020. Interest income also increased on financial assets measured at fair value through other comprehensive income due to the purchase, in 2020, of securities assigned to this portfolio.

Interest expense increased by approximately EUR 27.3 million compared to 31 December of the previous year, mainly due to the rise of EUR 22.8 million in interest expense on amounts due to customers. This trend was directly linked to the volumes of direct deposits, beginning with the launch of the Digital Bank in the second half of 2019. Interest expenses to banks also increased by approximately EUR 3.1 million due the subscription of repurchase agreements payable by the Bank during 2020.

Net fee and commission income

(amounts in thousands of euros)

Items/Technical forms	31 December 2020	31 December 2019	Absolute changes	Change %
Fee and commission income				**-**
a. guarantees given	85	209	(124)	(59%)
c. management, brokerage and advisory services	351	390	(39)	(10%)
d. collection and payment services	224	411	(187)	(45%)
f. factoring services	1,848	420	1,428	>100%
i. maintenance and management of current accounts	303	546	(243)	(45%)
j. other services	15,718	9,602	6,116	64%
Total	**18,529**	**11,578**	**6,951**	**60%**
Fee and commission expense				
a. guarantees received	(2)	(15)	13	(87%)
c. management and brokerage services	(124)	(279)	155	(56%)
d. collection and payment services	(885)	(257)	(628)	>100%
e. other services	(4,002)	(4,406)	404	(9%)
Total	**(5,013)**	**(4,957)**	**(56)**	**1%**
Net fee and commission income	**13,516**	**6,621**	**6,895**	**>100%**

Net fee and commission income amounted to EUR 13.5 million, up significantly compared to the period ended 31 December 2019, when they amounted to EUR 6.6 million.

The “other services” sub-item of fee and commission income includes structuring commissions on the new transactions of the DCIS and SME Divisions of the Bank 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	31 December 2020	31 December 2019	Absolute changes	Change %
Other operating expenses				
Amortisation of expenses for improvements on third party assets	(73)	(50)	(23)	46%
Other operating costs	(654)	(311)	(343)	>100%
Total	**(727)**	**(361)**	**(366)**	**>100%**
Other operating income				
Recoveries of expenses from other customers	1,657	954	703	74%
Other income	3,916	1,324	2,592	>100%
Total	**5,573**	**2,278**	**3,295**	**>100%**
Other operating income/expenses	**4,846**	**1,917**	**2,929**	**>100%**

The item includes operating income and expenses of the Bank and its subsidiaries. Other operating income is mainly from the management of a real-estate complex recognised under property and equipment, acquired through the NPL business.

Personnel expenses

(amounts in thousands of euros)

Items/Technical forms	31 December 2020	31 December 2019	Absolute changes	Change %
1. Employees	(48,422)	(28,751)	(19,671)	68%
2. Other personnel in service	(1,705)	(970)	(735)	76%
3. Directors and statutory auditors	(1,936)	(1,345)	(591)	44%
Personnel expenses	**(52,063)**	**(31,066)**	**(20,997)**	**68%**

Personnel expenses amounted to approximately EUR 52.1 million and consist mainly of employee wages and salaries and the related social security contributions. This item went up compared to the previous year due to new personnel being employed to support the Group's new, increased operations. Another factor that increased costs is the MBO portion used to consolidate individual incentive systems for employees.

The Group had a total of 587 employees as of 31 December 2020, an increase from 348 as of 31 December 2019. The following table shows the number of employees as of 31 December 2020, broken down by classification, together with changes compared to 31 December 2019.

Level	31 December 2020			31 December 2019			Changes	
	Average age	No. emp.	No. emp. %	Average age	No. emp.	No. emp. %	Ass.	%
Executives	46	55	9%	46	44	13%	11	25%
Middle managers	37	242	41%	37	191	55%	51	27%
White-collar	34	290	49%	32	113	32%	177	157%
Employees		**587**	**100%**		**348**	**100%**	**239**	**69%**

Other Administrative expenses

(amounts in thousands of euros)

Items/Technical forms	31 December 2020	31 December 2019	Absolute changes	Change %
Rental of premises	(2,030)	(1,767)	(263)	15%
Insurance	(2,065)	(575)	(1,490)	>100%
Various payments	(6,351)	(4,582)	(1,769)	39%
Various consulting services	(9,751)	(8,502)	(1,249)	15%
Membership fees	(323)	(263)	(60)	23%
DGS, SRF contribution and voluntary scheme	(2,005)	(873)	(1,132)	>100%
Costs for services and onboarding	(7,267)	(2,429)	(4,838)	>100%
Financial information	(1,109)	(933)	(176)	19%
Adverts and advertising	(3,173)	(4,714)	1,541	(33%)
Financial statement audit	(644)	(373)	(271)	73%
Maintenance and repair costs	(1,241)	(449)	(792)	>100%
Business expenses	(126)	(341)	215	(63%)
IT and software expenses	(11,612)	(9,320)	(2,292)	25%
Legal, notary's fees and due diligence expenses	(12,343)	(10,892)	(1,451)	13%
Postal and stationery expenses	(302)	(230)	(72)	31%
Utilities and services	(1,754)	(1,237)	(517)	42%
Other indirect taxes and duties	(5,049)	(597)	(4,452)	>100%
Others	(4,480)	(7,112)	(2,632)	(37%)
Total other administrative expenses	**(71,625)**	**(55,189)**	**(16,436)**	**30%**

Other administrative expenses amounted to approximately EUR 71.6 million, increasing by EUR 16.4 million, compared to the previous year, and consisted primarily of costs for consultancy services, legal and notary's fees, IT and software expenses and various fees.

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

(amounts in thousands of euros)

Items/Technical forms	31 December 2020	31 December 2019	Absolute changes	Change %
Net write-downs/write-backs on property and equipment				
Property and equipment with functional use	(2,719)	(2,018)	(701)	35%
of which: own Property and equipment	(539)	(411)	(128)	31%
of which: Lease rights of use	(2,180)	(1,606)	(574)	36%
Net write-downs /write-backs on intangible assets				
Finite useful life	(5,895)	(1,129)	(4,766)	>100%
Indefinite useful life	-	-	-	N/A
Net write-downs/write-backs on property and equipment and intangible assets	**(8,614)**	**(3,147)**	**(5,467)**	**>100%**

Net write-downs/write-backs on property and equipment and intangible assets amounted to approximately 8.6 million euros, compared to 3.1 million euros as of 31 December of the previous year. The increase was due to the amortisation of considerable IT investments made by the Bank, as well as greater depreciation for right of use assets, acquired through lease agreements, as indicated in IFRS 16, as well as the amortisation of intangible assets recognised in accordance with IFRS 3.

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

(amounts in thousands of euros)

Transaction/Income item	Write-downs (1)			Write-backs (2)		31.12.2020 (1) + (2)
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three	
		Write-offs	Others			
A. Due from banks	**(215)**	**–**	**–**	**319**	**–**	**104**
- loans	(215)	–	–	319	–	104
– debt securities	–	–	–	–	–	–
of which: purchased or originated credit impaired	–	–	–	–	–	–
B. Loans to customers:	**(7,065)**	**–**	**(102,265)**	**1,736**	**147,672**	**40,078**
- loans	(6,499)	–	(102,265)	1,175	147,672	40,083
– debt securities	(566)	–	–	561	–	(5)
of which: purchased or originated credit impaired	–	–	(98,068)	–	143,422	45,354
Total	**(7,280)**	**–**	**(102,265)**	**2,055**	**147,672**	**40,182**

Net write-backs to assets measured at amortised cost amounted to EUR 40.2 million. In particular, net write-backs to POCI loans amounted to EUR 45.4 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.

The overall valuation of POCI Client HTC closed positions during the year yielded a net result of EUR 42.6 million.

Income taxes for the financial year on current operations

Income taxes for the period amounted to EUR 7.6 million and were mainly affected by positive benefits arising from regulations on aid for economic growth (“ACE”), the tax exemption of the goodwill arising from the merger by absorption of Banca Interprovinciale in SPAXS as well as the exemption of the goodwill and other intangible assets arising in the Consolidated Financial Statements, following the acquisition, by neprix, of a 70% stake in IT Auction.

Specifically, as regards the merger by absorption of Banca Interprovinciale in SPAXS, goodwill equal to EUR 21.6 million was exempt, pursuant to Article 15, paragraph 10, of Italian Legislative Decree no. 185/2008, and the substitute tax of EUR 3.5 million, corresponding to 16% of the higher goodwill values recognised 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.

Instead, with reference to the acquisition of 70% of the stake in IT Auction, during 2020, for which goodwill equal to EUR 14.6 million and other intangible assets equal to EUR 2.0 million were recognised in the consolidated financial statements on a first-time basis, neprix stated its intention to apply the exemption, pursuant to Article 15, paragraph 10-ter, of Italian Legislative Decree no. 185/2008, in proportion to the percentage of the stake held. Specifically, this generated a net tax benefit in the financial statements equal to EUR 1.3 million, with the recognition of deferred tax assets (IRES and IRAP), equal to EUR 3 million, that will be released in five annual instalments of EUR 0.6 million between 2023 and 2027, simultaneously with lower current taxes.

Basic and diluted earnings per share

The basic earnings (loss) per share is calculated by dividing the Group's net profit (loss) for the financial year by the weighted average number of ordinary shares outstanding during the year. The diluted profit per share as of 31 December 2020 coincides with the basic profit per share.

(amounts in thousands of euros)

Basic and diluted earnings per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings per share
Period ended 31 December 2020	31,086	65,700,601	0.47
Period ended 31 December 2019	(16,140)	65,128,632	(0.25)

Quarterly trend

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

(amounts in thousands of euros)

Assets	31 December 2020	30 September 2020	30 June 2020	31 March 2020	31 December 2019
Treasury portfolio - Securities at FV	91,427	139,861	285,731	335,249	125,851
Financial instruments mandatorily measured at fair value	18,450	13,962	7,710	7,505	8,602
Loans mandatorily measured at fair value	–	-	4,422	-	-
Due from banks	530,922	504,806	502,844	566,799	344,858
Loans to financial entities	109,993	139,974	139,959	-	-
Loans to customers	2,204,908	1,830,969	1,765,923	1,751,714	1,637,864
Property and equipment and intangible assets	147,816	137,264	133,946	83,583	66,199
Tax assets	35,403	35,368	39,500	39,043	37,061
Other assets	987,370	589,854	357,821	267,877	804,787
Total assets	**4,126,289**	**3,392,058**	**3,237,856**	**3,051,770**	**3,025,222**

(amounts in thousands of euros)

Liabilities	31 December 2020	30 September 2020	30 June 2020	31 March 2020	31 December 2019
Amounts due to banks	534,345	540,953	582,970	468,190	376,747
Amounts due to customers	2,552,161	2,123,218	1,912,996	1,900,957	1,963,237
Securities issued	300,980	2,256	2,254	10,302	15,358
Financial liabilities designated at *fair value*	-	-	-	7,719	-
Tax liabilities	4,207	4,627	3,187	2,156	770
Other liabilities	151,474	146,489	173,289	125,207	124,655
Shareholders' equity	583,122	574,515	563,160	537,239	544,455
Total liabilities and shareholders' equity	**4,126,289**	**3,392,058**	**3,237,856**	**3,051,770**	**3,025,222**

(amounts in thousands of euros)

Income Statement items	4Q2020	3Q2020	2Q2020	1Q2020	4Q2019
Interest margin	31,580	27,630	24,288	21,833	18,515
Net fee and commission income	5,941	2,949	2,130	2,496	1,513
Gains/losses on financial assets and liabilities	2,747	2,071	(28)	3,696	8,890
Net write-downs/write-backs on closed positions - HTC Clients - POCI	13,995	11,596	7,924	9,122	9,118
Other operating expenses and income	4,112	461	227	46	1,632
Total net operating income	**58,375**	**44,707**	**34,541**	**37,193**	**39,668**
Personnel expenses	(16,023)	(11,495)	(13,246)	(11,299)	(9,071)
Other administrative expenses	(25,416)	(17,028)	(12,899)	(16,282)	(19,040)
Net write-downs/write-backs on property and equipment and intangible assets	(2,456)	(2,298)	(2,027)	(1,833)	(1,117)
Operating expenses	**(43,895)**	**(30,821)**	**(28,172)**	**(29,414)**	**(29,228)**
Operating profit (loss)	**14,480**	**13,886**	**6,369**	**7,779**	**10,440**
Net write-downs/write-backs for credit risk - HTC Banks	57	(72)	252	(133)	8
Net write-downs/write-backs for credit risk - HTC financial entities	25	11	(25)	(126)	
Net write-downs/write-backs for credit risk - HTC Clients	(5,108)	(761)	3,352	73	(9,218)
Net write-downs/write-backs for credit risk - HTCS	82	353	184	(537)	55
Net write-downs/write-backs for commitments and guarantees	(785)	(200)	(137)	141	63
Total net write-downs/write-backs	**(5,729)**	**(669)**	**3,626**	**(582)**	**(9,092)**
Other net provisions	(428)	(40)	36	(36)	61
Profit (loss) from operations before taxes	**8,323**	**13,177**	**10,031**	**7,161**	**1,409**
Income taxes for the financial year on current operations	(1,558)	(3,694)	307	(2,661)	645
Profit (loss) for the financial year	**6,765**	**9,483**	**10,338**	**4,500**	**2,054**

The interest margin amounted to EUR 31.6 million in the fourth quarter of 2020, up on both the previous quarter and the same quarter of 2019. The DCIS Division was able to make a significant contribution to the quarterly result in spite of the challenging market conditions caused by the COVID-19 pandemic.

Net operating income for the fourth quarter of 2020 was EUR 58.4 million, up compared to the previous quarter. In addition to the interest margin, revenues for the year include net fee and commission income of EUR 5.9 million and a positive result of approximately EUR 14 million on closed HTC Clients positions.

Operating expenses in the fourth quarter of 2020 amounted to approximately EUR 43.9 million, up on the previous quarter, and on the same quarter of 2019, in relation to the increase in the Group's operations, as also reflected in the increase in personnel costs due to investment in the IT Auction group and its subsidiaries starting in the first quarter of 2020. Another factor that made costs go up is the increase in the MBO portion used to consolidate individual incentive systems for employees.

Net write-downs, relating mainly to the valuation of the HTC Clients in portfolio, totalled approximately EUR 5.1 million during the quarter.

As a result of the foregoing trends, the fourth quarter of 2020 ended with a profit for the period, before taxes on continuing operations, equal to EUR 8.3 million and a profit for the quarter of EUR 6.8 million.

Contribution of operating segments to the group's results

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

a) Distressed Credit Investment & Servicing (**"**DCIS**"**);
b) Small Medium Enterprises (**"**SME**"**);
c) Digital bank;
d) Asset Management Company (**"**SGR**"**).

In addition, the Corporate Center has the function of steering, coordinating and controlling the entire Group.

illimity Group segment reporting is based on elements that management uses to make its operating decisions ("management approach"), in line with the reporting requirements of IFRS 8.

The next table shows the main data summarising developments in the operating segments of the illimity Group in 2020. The illimity Group did not provide segment reporting in the 2019 consolidated financial statements, as it had identified a single reporting segment. Therefore, this segment reporting is the first prepared by the Group, after identifying operating segments as required by IFRS 8, and no comparative figures are presented.

(amounts in millions of euros)

Economic performance	DCIS	SME	Digital Bank	SGR	Corporate Center (*)	31 December 2020
Interest margin	88.5	17.7	(4.3)	–	3.4	105.3
Net fee and commission income	7.7	7.4	(1.2)	–	(0.4)	13.5
Other economic components	45.8	3.9	–	–	6.3	56.0
Total net operating income	**142.0**	**29.0**	**(5.5)**	**–**	**9.3**	**174.8**
Personnel expenses	(17.0)	(10.9)	(3.8)	(0.6)	(19.8)	(52.1)
Other administrative expenses and net write-downs/write-backs on property and equipment and intangible assets	(36.2)	(10.4)	(12.4)	(0.5)	(20.7)	(80.2)
Operating expenses	**(53.2)**	**(21.3)**	**(16.2)**	**(1.1)**	**(40.5)**	**(132.3)**
Operating profit (loss)	**88.8**	**7.7**	**(21.7)**	**(1.1)**	**(31.2)**	**42.5**
Total net write-downs/write-backs and other provisions	(1.6)	(2.2)	-	–	-	(3.8)
Profit (loss) from operations before taxes	**87.2**	**5.5**	**(21.7)**	**(1.1)**	**(31.2)**	**38.7**

(amounts in millions of euros)

Other financial data	DCIS	SME	Digital Bank	SGR	Corporate Center (*)	31 December 2020
Loans to customers	1,061.8	893.2	-	–	-	**1,955.0**
Securities at amortised cost	245.7	4.2	-	–	-	**249.9**
Property and Equipment	56.1	-	–	–	22.3	**78.4**
Amounts due to customers and Securities issued	-	-	2,366.8	–	508.9	**2,875.7**
RWAs	1,844.8	705.9	n.s.	n.s.	299.9	**2,850.6**

(*) Intersector eliminations are carried out at the Corporate Center.

In line with illimity's business plan, the Divisions' contribution to profitability reflects their different nature and the pace at which they do business. The DCIS Division therefore confirmed a quicker rate of growth in the first few years, to be gradually followed by the SME Division.

In line with a quicker pace of investments, and becoming fully operations, the DCIS Division reported approximately EUR 142 million of revenues in 2020, equal to approximately 80% of the Bank's total net operating income, and EUR 87 million of profit before taxes, equal to 90% of the total, including costs of the Direct Bank and Corporate Center.

The SME Division, besides being affected by a slower growth rate already predicted for the DCIS business, was impacted in 2020 by the temporary slowdown in the generation of business volumes due to the COVID-19 health emergency. However, thanks also to the recovery in performance, in the second half of 2020, the Division reported a profit before taxes of EUR 5.5 million. The SME Division also recorded EUR 134 million of net receivables from Banca Interprovinciale's portfolio, most of which are not part of illimity's core business and have a profitability adjusted for the risk that is decidedly lower than the Division's new business. The negative contribution of this component to the Division's profitability will decrease rapidly in proportion to the results achieved in the next few years, in line with the gradual lower impact of these receivables in relation to the Division's new business.

The SME Division has basically completed its own operating platform, and may therefore benefit from a business model which is now scalable.

The Direct Bank Division as of 31 December 2020 reported an operating loss of approximately EUR 21.7 million. However, the joint venture in HYPE is expected to produce benefits, above all significant cost sharing, as well as revenues enabled from cross selling opportunities.

Lastly, the central functions of the Corporate Center reported an operating loss of EUR 31.2 million in 2020 (of which EUR 13 million relating to the Digital Operations sub-division), mainly due to costs necessary to develop a scalable platform for the future evolution of the business.

Distressed Credit Investment & Servicing

The DCIS Business Unit includes the results of activities carried out by the Distressed Credit Investment & Servicing Division supported by companies of the neprix Group and IT Auction.

As of 31 December 2019, the DCIS Division had purchased NPLs of 5.3 billion euros, in terms of gross book value, for the price of approximately 720 million euros.

During 2020, the Investments area finalised transactions for an invested amount of approximately EUR 400 million. These opportunities, mainly related to acquisitions in the primary market, were finalised through two different structural types:

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

Taking also into account investments made by the Investments area during 2018 and 2019, as of 31 December 2020 the Bank finalised investment transactions in distressed loans, both on its own and through controlled securitisation vehicles, for a total amount of approximately EUR 1,120 million euros, as shown below.

(Amounts in millions of euros)

Investment transactions in Distressed Loans	Price	GBV
Acquisitions as of 31/12/2019	**720**	**5,301**
Q1 2020	37	174
Total as of 31/03/2020	**757**	**5,475**
Q2 2020	100	282
Total as of 30/06/2020	**857**	**5,757**
Q3 2020	12	485
Total as of 30/09/2020	**869**	**6,242**
Q4 2020	251	1,325
Total as of 31/12/2020	**1,120**	**7,567**

Throughout 2020, the Senior Financing area finalised 8 transactions for a total of EUR 84 million. These opportunities, concluded mainly in support of primary investment funds and companies specialised in the purchase of impaired loans, were finalised through two different structural types:

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

Also taking into account investments made during 2018 and 2019, as of 31 December 2020 the Bank entered into 18 asset-backed loan transactions on distressed loans for a total amount of approximately 474 million euros, as shown below.

(Amounts in millions of euros)

Asset-backed financing on Distressed Loans	Amount paid
Investments as of 31/12/2019	**390**
Q1 2020	11
Total as of 31/03/2020	**401**
Q2 2020	13
Total as of 30/06/2020	**414**
Q3 2020	27
Total as of 30/09/2020	**441**
Q4 2020	33
Total as of 31/12/2020[11]	**474**

11 As of 31 December 2020, the accounting balance amounted to approximately EUR 338.1 million, of which EUR 248.2 million of notes and EUR 89.9 million of loans.

SME Division

As of 31 December 2019, gross loan exposures in the SME portfolio totalled EUR 653 million, with the SME portfolio breaking 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 180 million euros (28%);
- Factoring, amounting to EUR 135 million (21%).

2020 was marked by a considerable growth in the lending portfolio, with an increase in volumes of around EUR 273 million (+42% compared to 31 December 2019).

This growth is mainly attributable to the new disbursements by the Crossover & Acquisition Finance and Turnaround Areas, largely owing to transactions secured by public guarantees from the Central Guarantee Fund and SACE pursuant to the Liquidity Decree Law, which mainly occurred in the second part of the year.

In fact, after the start of the year with a gradual positive trend in origination activities, the second quarter of 2020, with the epidemiological crisis and consequent restrictive measures, was affected by a considerable slowdown in new operations for all business areas of the Division, involved in monitoring the future prospects of customer companies based on the changed context, also taking actions to support activities in a very delicate market stage.

In the second part of the year, and in particular in the last quarter, activities stepped up considerably, thanks, in particular, to the disbursement of loans backed by a public guarantee, to assist customer companies, where necessary, in reworking their debt structure to make it consistent with business plans that had been updated to take account of the effects of the health crisis which is still ongoing.

For factoring, a similar trend to that for transactions of the Crossover & Acquisition Finance and Turnaround Areas may be observed, with a significant upturn in the second half of 2020, particularly in the last part of the year, confirming the robustness of the particular business model of the SME Division for this specific product.

Lastly, the first revenues related to operations of the Turnaround business were recorded in 2020, for which the revaluation of invested capital, following positive trends in funded transactions, is a fundamental aspect. In particular, during 2020, positive economic components were recognised for a total of approximately EUR 6 million regarding some dossiers of the Turnaround Area.

In brief, during 2020, the following may be noted:

- an increase in the Turnaround business of EUR 113 million, of which EUR 63.2 million relating to the purchase of POCI loans;
- an increase in the Crossover and Acquisition Finance business for EUR 188 million;
- the run-off of the former BIP portfolio, with a decline in exposures of approximately EUR 52 million.

Factoring recorded a Turnover of EUR 736 million as of 31 December 2020; specific exposure as of 31 December 2020 was equal to approximately EUR 159 million.

As of 31 December 2020, gross exposures in the SME portfolio totalled EUR 926 million; the SME portfolio was therefore composed as follows:

- former BIP portfolio, amounting to EUR 154 million (17%);
- Turnaround amounting to approximately EUR 244 million (26%);
- Crossover and Acquisition Finance amounting to EUR 368 million (40%);
- Factoring, amounting to EUR 160 million (17%).

Digital bank

Direct Banking projects

During 2020, the Direct Banking Division completed an extremely broad-ranging and intensive project Masterplan. Many, highly evolutionary projects were released to customers, with the key words being *Customer Centricity* and *Innovation*.

In the first quarter, partnerships were forged with the AON Group and Helvetia, through two initiatives dedicated to the insurance market, in conjunction with two leading industry operators; the aim was to consolidate non-life insurance products and services offered (e.g. pet insurance launched in January, travel insurance and account insurance launched in March). For the Banking sector, the Open Banking Platform process began straightaway. In March, functions in addition to Direct Bank services were offered to customers such as *illimity connect* (the Account Aggregation service to include accounts of other banks in home banking) directly from mobile phones, or the possibility, during the account-opening process, to complete the recognition phase by sending an incoming credit transfer from another bank, thereby further shortening the time required to finalise onboarding.

In the second quarter, projects centred around PSD2 possibilities were launched.

The *Payment Initiation Service (PIS)*, which enables customers to make payments from other banks' accounts once they have been aggregated in *illimitybank.com* was released. This service was provided by illimity for the first time ever on the Italian financial market.

As regards Open Banking, the *illimity Hubs* and Feltrinelli initiatives were launched. The first is an entirely new innovation in collaboration, developed for open banking and also for the open platform, between illimity and the two partners selected (Mimoto and Fitbit). The initiative enables Customers to activate services from *illimitybank.com*, which are complementary to their own activities, with the two partners, and also receive customised insights based on financial transactions and with the partners. The second initiative also enables Bank customers registered with a promotional code to access dedicated promos of Feltrinelli stores, both in store and from their mobile devices.

In the third quarter, the joint venture with Fabrick (leader in the development of Openbanking and the fintech ecosystem in Italy) in the fintech Hype was announced to the market. The transaction is intended to pursue various objectives:

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

Integration activities are currently taking place and will be completed during 2021. In parallel, *illimitybank.com* will continue its autonomous development process in accordance with its business plan; the operation will not change the positioning on the market, or objectives of the Digital Bank.

The last quarter of the year ended with intense project work that led to other projects and functions being released to consolidate the Direct Bank's ecosystem. These include:

- *Opening a second account*, an initiative to give Customers the chance to open a second current account, in addition to the account opened during onboarding, at *illimitybank.com*;
- *Digital signature*, the project which lets customers use their digital signature for some types of home banking instructions (e.g. increasing credit card limits);
- *Voice of Customer & Experience Excellence*, a project to continually optimise the digital experience of illimity customers, gathering detractors' feedback, and gradually releasing improvements via channels. The Experience optimisation measures along with the *Customer Engagement* campaigns of Q4 2020 (e.g. Happy Birthday, Black Friday, NoPanic Xmas) had a positive impact on customers: the very first results of the NPS point to a considerable improvement in illimity customer satisfaction.

In addition, during the year numerous other minor projects were released, to consolidate products and services, including:

- *Amazon Lending*, giving customers the chance to purchase products from Amazon with loans from Santander Consumer Bank (an illimity partner since 2019);
- As regards SEO/Analytics, functions to identify insights on user behaviour, and consequently customise experience, as well as the commercial offering, were implemented;
- Evolution of the illimity Community - an important survey panel and brand awareness channel (with some 6,000 active users). In 2020, the Community was involved in surveys on various banking and non-banking topics, and also developed functionally, with the enrichment of customer profiles (to collect information on habits and consumption), and new user engagement and rewarding mechanisms.

The projects managed and released during the year enabled *illimitybank.com* to gain a position on the financial market as a leading bank for the retail segment. In particular, excellent results were achieved concerning:

- *Customer Experience,* with the following reference KPIs:
    - A Net Promoter Score (NPS) at 48 (with a promoters' level equal to 58), which indicates customers' considerable appreciation of the Direct Bank, its assets and available processes (e.g. onboarding, bank transfers, expenditure projects). This value increased considerably over December 2019 (+12 points), and is by far above the market average (equal to 9). These results were also due to the impetus of the Design & UK projects, with the digital experience being continually optimised;
    - *Brand Awareness*, at 31% in December, reflects the market's strong knowledge and awareness of the brand. The value went up by 7% from the start of the year, thanks to the planning of customised advertising campaigns and information provided both online (communities, search engines, social networks) and offline (at events), along with institutional communication (e.g. management events, illimity talks);
    - The *Net Sentiment Score* (NSC), at 22% in December, went up by 4% compared to April (when data started to be surveyed). This indicator, through the use of evolved sentiment analysis tools, helps to understand in real time the state of health of the illimity brand and its performance over time.
- The level of activity and customer loyalty, of which the reference KPIs are:
    - The number of active customers, i.e. customers who use the Bank's services, currently amount to 86%, reflecting a customer base that is satisfied with and engaged by the value proposition;
    - The number of loyal customers, that use the products and services of the Bank daily, which currently stands at 29%;
    - The number of customers that access the platform at least once a month stands at 80%, with approximately 14 visits a month, mainly from smartphones.

Finally, to consolidate the strategy of the year that has just ended, additional major projects will be released to customers during 2021, of which the main ones are:

- Projects on the roadmap to continue the Open Banking strategy, relating to intersections with other financial and non-financial partners, selected as they have the same vision as illimity;
- initiatives designed to improve the customer relationship management process through Smart Care, including the automated assignment of transactions to operators and changes to Customer Relationship Management (CRM) systems;
- projects to expand the Direct Bank's products and services.

To support the year's projects, important customer communication campaigns were designed, planned and put in place, based on main market launches. These included the Smart Campaign, launched in October, for illimity's new smart current account, through the activation of consideration and performance advertising channels.

The considerable project work undertaken, and an increasingly innovative outlook meant that the direct bank was awarded yet again in 2020, by numerous events and associations in the finance and banking industries. Accolades include the following:

- in June, *illimitybank.com* received the ABI award for innovation in banking services in 2020, thanks to the launch of Personal Financial Manager (PFM), the innovative tool introduced for the first time by an Italian bank, by illimity, in September 2019;
- in December, *illimitybank.com* was awarded in the "Open Innovation" category at the Milano Finanza Innovation Award, organised by the Milano Finanza newspaper in association with a leading consulting company.

Retail Business performance

As of 31 December 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, contributed approximately EUR 409 million to funding thanks to its nearly 12,000 customers; Compared to the last quarter, growth of approximately EUR 80 million was recorded. Compared to the end of the previous year, the increase was approximately EUR 30 million;
- the strategic partnership with Azimut, a leading advisory and wealth management firm, contributed approximately EUR 54 million to the Bank's funding. Compared to the last quarter, growth of approximately EUR 15 million was recorded, while compared to the end of 2019, growth was approximately EUR 42 million.
- the digital bank *illimitybank.com*, presented to the market in the third quarter of 2019, contributed EUR 1.1 billion to funding (of which 15% on a term basis). The funding raised by *illimitybank.com* increased by approximately EUR 110 million during the last quarter. Compared to 31 December 2019, deposits increased by over EUR 300 million, as the customer base rose from 24,000 to 40,000 customers in the last 12 months.

Total direct deposits from customers, including former customers of Banca Interprovinciale, amounted to approximately EUR 2.4 billion at the end of the year. Compared to the end of 2019, overall direct deposits from customers recorded a net increase, equal to approximately EUR 800 million.

Asset Management Company ("SGR")

With reference to activities carried out in 2020, on 25 February 2020 the company was authorised by the relative competent authorities to provide collective asset management services and, in achieving its corporate object, it began preliminary activities for the setting up of a first Alternative Investment Fund ("Fund" or "FIA"). The Fund will have a main focus on problematic corporate loans which are likely to pay and regain performing status, in a long-term vision. Where functional to the restructuring and loan recovery strategy, the Fund may also hold quotas of capital in companies involved in turnaround projects.

On 29 June 2020, following analysis conducted on the forward-looking balance of the capital structure, and considering the costs that illimity SGR has incurred to structure the first Fund and the delay, mainly attributable to the ongoing health emergency, as well as the Fund marketing start-up times compared to estimates in the Activity Programme approved in 2019, illimity SGR considered it appropriate to arrange for an increase in share capital of EUR 2 million, wholly subscribed by illimity, in order to consolidate its own capital structure.

On 3 July 2020, the Board of Directors of the SGR resolved to set up the illimity Credit & Corporate Turnaround Fund ("the Fund"), also approving (i) the related Management Regulations and (ii) the start of the process to request authorisation from the competent authorities to sell fund units.

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

Corporate Center

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

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

Digital Operations

The business suffered no repercussions due to waves of the COVID-19 pandemic during the year. Remote working, which began in mid-February (at the first national signs of positive cases) is still the standard; the technological infrastructure and processes in place have ensured full functionality for all Divisions, commercial partners and suppliers, including Smart Care. Apart from a brief period between the summer and autumn (when nationwide figures enabled people to go back to the office), remote working for the Divisions was confirmed up to the end of the year. Business continuity was guaranteed by a flexible, robust IT architecture.

IT platform projects

During 2020, the Group's technological platform grew considerably, thanks to the release of numerous projects focussed on the infrastructure's development ("IT4IT projects").

The main areas on which the project Masterplan is based are ICT Security projects, Data projects and Cloud projects. The main work areas addressed the following topics:

- Network & Device Security: the network infrastructure update (installing perimeter projections and head office networks), as well as the consolidation of techniques to protect activities of employees who use devices enabled for both work and personal use;

- Data Security: the activation of specific solutions to protect documentation, and more generally, company content (e.g. mailboxes);
- Identity Access Management: the production of specific user management procedures and related rights to access company content, based on the Group functional organisational model;
- Fraud Management: definition of the anti-fraud framework, with the streamlining of roles and responsibilities, algorithms and behavioural analysis tools;
- Data Quality: creation of a tool to carry out in-depth controls on data quality;
- Disaster Recovery: completion of the Disaster Recovery & Business Continuity project (for Internet Banking), successfully simulating the migration from the primary site to the secondary site in cases of extreme need, due to disaster situations occurring at the primary site.

Projects in support of the other divisions

In addition, the IT Function supported the SME and DCIS Business Divisions in developing the projects identified in their respective roadmaps:

SME Division

- Loan Agency: the purchase, customisation and integration within the illimity infrastructure of the tool dedicated to the management of loans for which the Bank has a loan agency role;
- SME pipeline: creation of a tool dedicated to managing the pipeline, that will specifically enable SME Division operators to efficiently manage incoming transactions and consequent business volumes;
- streams relating to the development of new interfaces in support of users and customers of the factoring business were completed;
- the project dedicated to new forms of technical financing is also being completed, which will enable the Division to complete its range of available products (e.g. stand-by revolving, CDP loans, security current accounts). The project is scheduled for completion in 2021.

DCIS Division

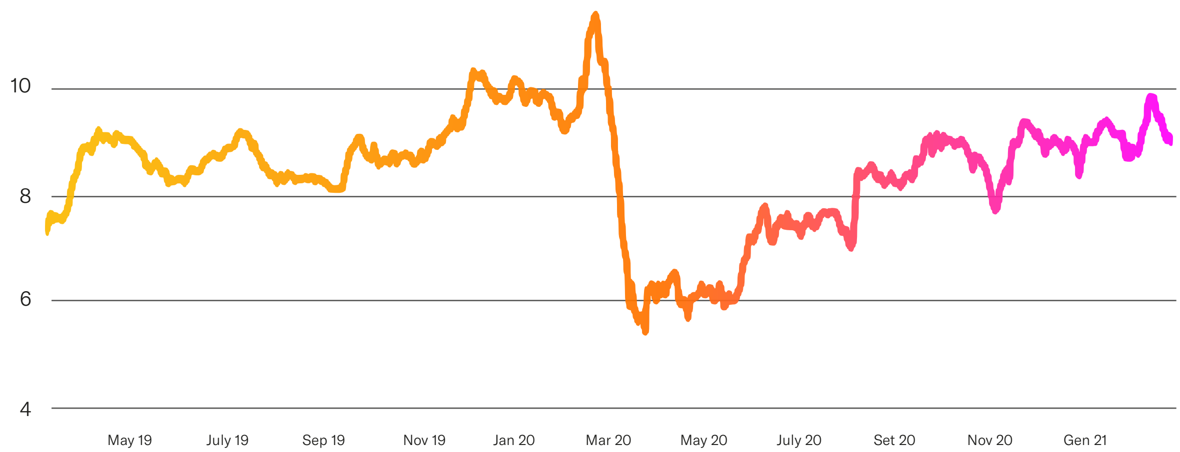
- Vertical NPL: the first modules of the application will be released, that will guide the user throughout the phases of the NPL process, from origination to management, reducing manual intervention. The platform has been designed with the aim of developing credit management according to an increasingly proactive approach, revising and digitalising the supporting processes and tools, optimising the management of credit risk and responding effectively to the authorities' requests. The delivery of the last modules is scheduled for 2021.
- Wand: to consolidate the Bank's strategy, in line with the size and dynamics of the markets in which illimity operates, initial project activities aimed at providing access to a digital, fully dedicated platform for the management of UTP positions, loan portfolios for the market which has just been formed and is destined to become very large, were completed in December. The project was carried out by taking advantage of the competitive edge provided by the combination of experience and competency offered by the DCIS and SME Divisions;
- Titania: the integration of IT Auction and Mado in the illimity Group infrastructure.

In the last two months of the year, panels were started up to define the main project activities for 2021; these will be formalised at the start of the new year.

Lastly, as part of institutional communication, the activity of the illimity.com site was intense, just over one year from the start of operations, with illimity ranking as the best new entry in Lundquist's Webranking classification (for the transparency of digital corporate quality) and .trust classification (for ability to inspire trust). Thanks to work on its institutional website - which synergistically targeted an advanced UX, with original content and transparent information - illimity ranked in the top 40 in both classifications, among the 120 companies selected, and came second in Webranking's best improver category.

illimity Bank share performance

The ordinary shares of illimity are traded on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana since 5 March 2019. Since 10 September 2020, the ordinary shares have been traded on the STAR (Securities with High Requirements) segment of the MTA market. The performance of the share since it has been listed, is reported below:



Significant shareholders with a stake of at least 5% in the share capital with voting rights in illimity, with the percentages calculated by the Bank based on the number of shares resulting from the most recent information available and number of ordinary shares issued, updated at 28 February 2021, are reported below:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding % of the voting capital
GRUPPO SELLA	GRUPPO SELLA	Owned	10.00%	10.00%
LR TRUST	FIDIM SRL	Owned	8.77%	8.77%
TENSILE CAPITAL MANAGEMENT LLC	TENSILE-METIS HOLDINGS SARL	Owned	7.57%	7.57%
ATLAS MERCHANT CAPITAL LLC	AMC METIS SARL	Owned	7.09%	7.09%

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

Management of business risks

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

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

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

The Board of Statutory Auditors oversees the efficiency and adequacy of the risk management and control system and of internal auditing, as well as compliance with the regulations that govern the 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 in terms of the Regulatory Compliance Function and the Anti-Money Laundering and Prevention of Terrorist Financing Function, with a view to preventing and managing the risk of incurring legal or administrative penalties, major financial losses or damage to reputation resulting from violations of mandatory regulations or self-regulation, or preventing and combating violations of regulations on money laundering and terrorist financing. In addition, it fulfils the Group's legal obligations regarding the processing of personal data by appointing a Data Protection Officer in accordance with current legislation.

The Internal Audit 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 RAF, 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 sustainability at a credit and income level and coherence with the RAF.

The RAF 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 at least annually in the Risk Appetite Statement (RAS).

The formalisation, through the definition of the RAF, of risk limits and objectives that reflect the maximum acceptable risk, the business model and strategic guidelines, is essential in determining and adopting 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 relation to related reserves.

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

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

Main risks and uncertainties

The Group has defined and codified, and continually adopted, 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, as a functional requirement to determine the overall risk exposure.

The process to identify material risks for the Group is overseen by the CRO Division, together with the CFO Division and the support of other organisational units of the Parent Company and subsidiaries.

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

Part E of the Consolidated financial statements of the illimity Group contains overall information about the risk governance system and specific information about material risks, indicated below, and the related management, control and hedging policies adopted by the Group:

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

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

As from this year, a process has been adopted to trace risks identified after risk mapping with the risks related to the dimensions of ESG (Environment, Social and Governance) sustainability, in order to assess their significance and identify governance, control and mitigation safeguards. For further information, reference is made to information published in the Consolidated Non-Financial Statement of the illimity Group (pursuant to Legislative Decree 254/2016).

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

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

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

Transactions with related parties

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure “the transparency and material and procedural fairness of operations with related parties” carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the “Regulation on related party transactions”, which was then amended by Resolution no.17389 of 23 June 2010. This sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions.

In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

Throughout 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 parties:

a) that directly or indirectly, through one or more intermediaries,
   (i) control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
   (ii) hold an investment in the entity of an extent that they may have considerable influence on the latter; or
   (iii) jointly control the entity;
b) represent an associate of the entity;
c) represent a joint venture in which the entity participates;
d) are one of the key directors of the entity or its parent;
e) are a close family member of one of the parties in points (a) or (d);
f) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
g) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the IX update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 “Risk assets and conflicts of interest with connected parties” to the said Circular no. 285). This update therefore supplements the

Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

For more detail about the operations with related parties and for an examination of the impact of these operations on the financial situation, refer to Part H of the Notes.

Atypical or non-ordinary transactions

In 2020 the Bank did not carry out any such transactions as defined in the Consob Communication no. 6064293 of 28 July 2006.

Research and Development

illimity's research and development activities in 2020 led to the creation of numerous projects in diverse areas.

For direct banking, with activities started up by illimity in September 2019, projects were released to expand products and services offered, as well as develop the underlying technological ecosystem:

- *PISP* (*Payment Initiation Service Provider*): a service which enables customers to make payments from other banks' accounts once they have been aggregated in *illimitybank.com*was released.
- *illimity Hubs:* a project with an Open Banking/Open Platform focus, that enables customers to activate directly from their own Internet banking, some complementary services directly related to the activity carried out with selected partners.
  - In technological terms, innovation focussed on the important work on Application Programming Interface (API) systems, to enable dialogue between illimity and partner architectures.
  - The Experience component was developed in a UX, Communication and Product synergy, to generate proactive insight and interesting content for customers, who receive customised feedback on their own financial performance and on partner properties.
- Anti-fraud engine: the design and implementation of the transaction monitoring tool, based on Artificial Intelligence techniques, that will enable the Bank to continually monitor fraud events, both within and outside the companies;
- Voice of Customer & Experience Excellence, a project to continually optimise the digital experience of illimity customers, gathering detractors' feedback, and gradually releasing improvements on the channels;
- SEO (Search Engine Optimization)/Analytics: functions were implemented to identify insights on user behaviour, useful for the bank to customise the Customer's digital experience, and the commercial offering.

As regards Distressed Credits, the DCIS Division is developing the Vertical DCIS. This project will release a vertical application for the distressed credits business, that will guide the user throughout the phases of the NPL process, from origination to management, reducing manual intervention and digitalising processes and support tools. Various modules have already been released, while another two are nearing completion, scheduled for 2021.

In the Loans area, the SME and DCIS Divisions are conducting the Wand project, to design and create a digital, fully-dedicated platform to manage UTP loans. The project is still underway and will be released in the first quarter of 2021.

For Central Units, the Exposure Groups project designed and created the engine to calculate Group exposures and their connections. The engine calculations use algorithms and technologies of Artificial Intelligence models.

Events after the reporting date

on 5 January 2021, illimity announced it had finalised a transaction for the sale to Phinance Partners S.p.a. and SOREC S.r.l. of non-performing loans with a gross book value of approximately EUR 129 million, attributable to approximately 4,500 positions. In particular, the portfolio sold by illimity is composed of unsecured loans relating to granular, mainly retail positions acquired by the Bank in 2019, within the framework of investment transactions involving a large portfolio on the primary market.

On 5 January 2021, illimity, following its disclosure dated 29 December 2020, announced the new composition of its share capital, as follows: (i) the reserved capital increase for Fabrick S.p.A. totalling EUR 44,670,596.42 (of which EUR 3,491,882.89 as capital) freed up via the transfer to illimity of shares representing 37.66% of Hype S.p.A. (which took place on 29 December 2020, effective from 1 January 2021), the registration in the Companies' Register of the statement of the directors pursuant to Article 2343-quater of the Italian civil code (made on 5 January 2021) and consequent issue of 5,358,114 new ordinary shares for this increase, as well as (ii) the cash increase in capital for Banca Sella Holding S.p.A. for a total of EUR 16,544,676.46 (of which EUR 1,293,290.83 as capital), subscribed on 29 December 2020 with effect from 1 January 2021 (with regulation dated 5 January 2021), and consequent issue of 1,984,488 new ordinary shares, for this increase.

On 13 January 2021, the deed of merger by absorption of the companies Core, IT Auction e Mado into neprix was signed. The merger became effective on 1 February 2021. The accounting and fiscal effects of the merger started from 1 January 2021.

Following the merger, neprix holds 100% of the shares in the company neprix Agency (formerly ITA Gestione), previously held by IT Auction. This merger has no effects on the consolidated financial statements, as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

On 19 January 2021, illimity signed a six-year, EUR 6.5 million loan, for some Companies of the Mondial Suole group, a well-established manufacturer of soles for footwear from the Marche area, manufacturing items in all plastic materials for footwear of important luxury brands and in general Italian brands.

On 4 February 2021, illimity, in a pool with Solution Bank S.p.A., underwrote a six-year, EUR 12 million loan, secured by the SACE Italy Guarantee, for Frette S.r.l., a long-established Italian textiles brand specialised in the manufacture of luxury linens for the home.

Outlook, main risks and uncertainties

While still suffering from the uncertainty arising from the pandemic, management believes that all the business areas in which illimity works will continue to be highly dynamic, and it is expected that the future growth prospects of certain of these will actually be greater than initially forecast. An example of this is the distressed credit transaction market – in its UTP and bad loans components – where significant growth is expected to be seen over the next few years, also as the result of the economic slowdown resulting from the pandemic. The digital financial service sector will continue the significant growth it has shown in recent years and it is expected that a rising number of SMEs with growth plans will turn to the banking sector to find the right financing solutions.

These favourable conditions on the market, the solid pipeline of new potential deals currently available and the robust generation of new business in the last quarter of the year will further fuel an additional significant increase in interest income during 2021. A robust rise in net fees and commissions is also forecast, driven by the growth in volumes and the expected acceleration in the activity of neprix (whose integration with IT Auction is planned to be completed in February 2021).

The Bank already began incurring costs and making investments in strategic initiatives in support of medium-long term growth prospects in the final part of 2020. An example of this is the investment in the IT and operational platform set up to work in the UTP portfolio market – a new segment of the distressed credit sector, which is likely to grow significantly over the next few years and to offer an important profitability. These investments enabled illimity to be awarded one of the most important transactions occurring in this sector during the year. Investing in new strategic projects that will bring their fruits in the years to come will also continue in 2021 as a means of further

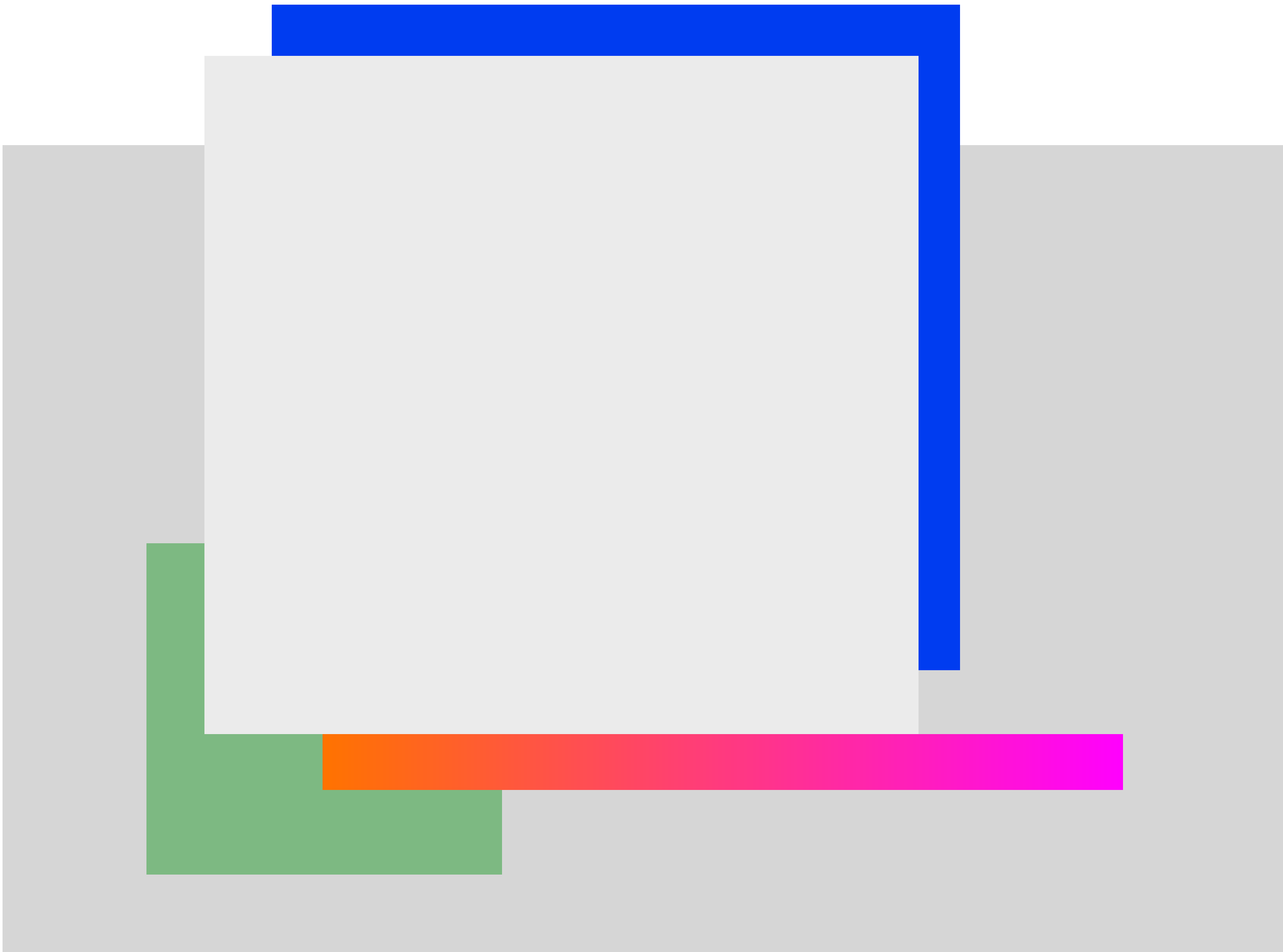
strengthening the market positioning of all of the Bank’s activities.

Given the extent to which the quality of the portfolio with businesses has held up and the support measures in place, including state-backed loans into which a significant portion of the new business generated by the SME Division will be channelled, it is expected that the cost of risk will remain at contained levels in 2021.

An increase in risk-weighted assets is forecast as a result of the expected growth in volumes, although to a lesser extent compared to the rise in loans and investments, also due to the adoption of capital optimisation strategies that are in the process of being realised.

The positive evolution of own funds through the generation of profits, albeit in the presence of the important growth of risk-weighted assets, will ensure that the Common Equity Tier 1 Ratio will remain above regulatory requirements.

Taken as a whole, management is expecting a further significant rise in the Bank’s profits in 2021 despite the costs to be incurred for the new strategic initiatives, which will be announced to the market by the end of the first half of the year on the presentation of illimity’s updated long-term strategic plan.



Consolidated Financial Statements

illimity
BANCA OLTRE LA FORMA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Assets	31 December 2020	31 December 2019
10.	Cash and cash equivalents	944,832	772,125
20.	Financial assets measured at fair value through profit or loss	18,502	8,665
	a) financial assets held for trading	52	63
	b) financial assets designated at fair value	–	–
	c) other financial assets mandatorily measured at fair value	18,450	8,602
30.	Financial assets measured at fair value through other comprehensive income	91,375	125,788
40.	Financial assets measured at amortised cost	2,845,823	1,982,722
	a) due from banks	530,922	344,858
	b) loans to customers	2,314,901	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	78,434	25,395
100.	Intangible assets	69,382	40,804
	of which:		
	– goodwill	36,224	21,643
110.	Tax assets	35,403	37,061
	a) current	3,206	5,127
	b) deferred	32,197	31,934
120.	Non-current assets held for sale and discontinued operations	–	–
130.	Other assets	42,538	32,662
	Total assets	**4,126,289**	**3,025,222**

	Liabilities and shareholders' equity	31 December 2020	31 December 2019
10.	Financial liabilities measured at amortised cost	3,410,034	2,377,250
	a) due to banks	534,345	376,747
	b) due to customers	2,574,709	1,985,145
	c) Securities issued	300,980	15,358
20.	Financial liabilities held for trading	–	–
30.	Financial liabilities designated at fair value	–	–
40.	Hedging derivatives	–	–
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	–	–
60.	Tax liabilities	4,207	770
	a) current	3,460	53
	b) deferred	747	717
70.	Liabilities associated with non-current assets held for sale and discontinued operations	–	–
80.	Other liabilities	121,789	100,568
90.	Employee severance pay	2,656	1,097
100.	Allowances for risks and charges:	4,481	1,082
	a) commitments and guarantees given	3,296	598
	b) post-employment benefits	7	–
	c) other provisions for risks and charges	1,178	484
110.	Technical reserves	–	–
120.	Valuation reserves	(278)	939
130.	Redeemable shares	–	–
140.	Equity instruments	–	–
150.	Reserves	21,766	36,188
160.	Share premium reserve	487,373	480,156
170.	Share capital	44,007	43,408
180.	Treasury shares (-)	(832)	(96)
190.	Equity attributable to minority interests (+/-)	–	–
200.	Profit (loss) for financial year(+/-)	31,086	(16,140)
	Total liabilities and shareholders’ equity	**4,126,289**	**3,025,222**

CONSOLIDATED INCOME STATEMENT

Items		31 December 2020	31 December 2019
10.	Interest income and similar income	145,983	62,673
	of which: interest income calculated according to the effective interest method	143,089	60,033
20.	Interest expenses and similar charges	(42,205)	(14,639)
30.	**Net interest margin**	**103,778**	**48,034**
40.	Fee and commission income	18,529	11,578
50.	Fee and commission expense	(5,013)	(4,957)
60.	**Net fee and commission income**	**13,516**	**6,621**
70.	Dividends and similar income	–	–
80.	Profits (losses) on trading	(389)	111
90.	Fair value adjustments in hedge accounting	–	–
100.	Profits (losses) on disposal or repurchase of	7,699	10,673
	a) financial assets measured at amortised cost	1,863	8,078
	b) financial assets measured at fair value through other comprehensive income	5,837	2,595
	c) financial liabilities	(1)	–
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	1,176	(512)
	a) financial assets and liabilities designated at fair value	–	–
	b) other financial assets mandatorily measured at fair value	1,176	(512)
120.	**Net interest and other banking income**	**125,780**	**64,927**
130.	Net losses/recoveries for credit risks associated with:	40,264	(6,668)
	a) financial assets measured at amortised cost	40,182	(6,672)
	b) financial assets measured at fair value through other comprehensive income	82	4
140.	Profits (losses) on changes in contracts without derecognition	–	(1)
150.	**Net result from banking activities**	**166,044**	**58,258**
160.	Net premiums	–	–
170.	Other net insurance income (expense)	–	–
180.	**Profits (losses) of banking and insurance management**	**166,044**	**58,258**
190.	Administrative expenses:	(125,054)	(86,028)
	a) personnel expenses	(51,944)	(30,864)
	b) other administrative expenses	(73,110)	(55,164)
200.	Net provisions for risks and charges	(1,449)	(542)
	a) commitments and guarantees given	(981)	(480)
	b) other net provisions	(468)	(62)
210.	Net adjustments/recoveries on property and equipment	(2,719)	(2,018)
220.	Net adjustments/recoveries on intangible assets	(5,895)	(1,129)
230.	Other operating income/expenses	7,765	2,952
240.	**Operating expenses**	**(127,352)**	**(86,765)**
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**	**38,692**	**(28,507)**
300.	Income taxes for the financial year on continuing operations	(7,606)	12,367
310.	**Profit (loss) after tax from continuing operations**	**31,086**	**(16,140)**
320.	Net income (Loss) (+/-) from discontinued operations after taxes	–	–
330.	**Profit (loss) for the financial year**	**31,086**	**(16,140)**
340.	Profit (Loss) for the financial year attributable to minority interests	–	–
350.	**Profit (Loss) for the financial year attributable to the Parent Company**	**31,086**	**(16,140)**

STATEMENT OF CONSOLIDATED OTHER COMPREHENSIVE INCOME

	Items	31 December 2020	31 December 2019
10.	**Profit (loss) for the financial year**	**31,086**	**(16,140)**
	Other comprehensive income, net of taxes, that may not be reclassified to the income statement		
20.	Equity instruments designated at fair value through other comprehensive income	(3)	2
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	–	–
40.	Hedging of equity instruments designated at fair value through other comprehensive income	–	–
50.	Property and Equipment	–	–
60.	Intangible assets	–	–
70.	Defined-benefit plans	(44)	(55)
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 equity instruments) measured at fair value through other comprehensive income	(1,170)	967
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)**	**(1,217)**	**914**
180.	**Other comprehensive income (Item 10+170)**	**29,869**	**(15,226)**
190.	Consolidated comprehensive income attributable to minority interests	–	–
200.	**Consolidated comprehensive income attributable to the parent company**	**29,869**	**(15,226)**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2020

	Balance as of 31 December 2019	Change to opening balances	Balance as of 1 January 2020	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Change in reserves
Share capital:						
a) ordinary shares	42,470	–	42,470	–	–	–
b) other shares	938	–	938	–	–	–
Share premium reserve	480,156	–	480,156	–	–	–
Reserves:						
a) retained earnings	12,007	–	12,007	(16,140)	–	(96)
b) other	24,181	–	24,181	–	–	(4)
Valuation reserves	939	–	939	–	–	–
Equity instruments	–	–	–	–	–	–
Treasury shares	(96)	–	(96)	–	–	–
Profit (loss) for the financial year	**(16,140)**	**–**	**(16,140)**	**16,140**	**–**	**–**
Group shareholders' equity	**544,455**	**–**	**544,455**	**–**	**–**	**(100)**
Shareholders' equity attributable to minority interests	**–**	**–**	**–**	**–**	**–**	**–**

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

	Balance as of 31 December 2018 (SPAXS consolidated financial statements)	Change to opening balance (effects of the merger of SPAXS into Banca Interprovinciale)	Balance as of 1 January 2019 (illimity consolidated financial statements)	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Changes in reserves
Share capital:						
a) ordinary shares	61,341	(18,990)	42,351	–	–	–
b) other shares	1,440	(414)	1,026	–	–	–
Share premium reserve	517,827	–	517,827	–	(23,662)	(14,364)
Reserves:						
a) retained earnings	–	–	–	–	–	12,007
b) other	285	19,404	19,689	–	–	3,962
Valuation reserves	13	–	13	–	–	12
Equity instruments	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–
Profit (loss) for the financial year	**(23,662)**	**–**	**(23,662)**	**–**	**23,662**	**–**
Group shareholders' equity	**557,244**	**–**	**557,244**	**–**	**–**	**1,617**
Shareholders' equity attributable to minority interests	**–**	**–**	**–**	**–**	**–**	**–**

Changes in the financial year									
Shareholders' equity transactions									
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income 2020	Shareholders' equity attributable to the Group as of 31/12/2020	Shareholders' equity attributable to minority interests at 31/12/2020
599	–	–	–	–	–	–	–	**43,069**	–
–	–	–	–	–	–	–	–	**938**	–
7,217	–	–	–	–	–		–	**487,373**	–
–	–	–	–	–	–	–	–	**(4,229)**	–
–	–	–	–	–	1,818	–	–	**25,995**	–
–	–	–	–	–	–	–	(1,217)	**(278)**	–
–	–	–	–	–	–	–	–	**–**	–
–	(736)	–	–	–	–	–	–	**(832)**	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**31,086**	**31,086**	**–**
7,816	**(736)**	**–**	**–**	**–**	**1,818**	**–**	**29,869**	**583,122**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Changes in the financial year									
Shareholders' equity transactions									
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income 2019	Shareholders' equity attributable to the Group as of 31/12/2019	Shareholders' equity attributable to minority interests at 31/12/2019
31	–	–	88	–	–	–	–	**42,470**	–
–	–	–	(88)	–	–	–	–	**938**	–
355								**480,156**	–
–	–	–	–	–	–	–	–	**12,007**	–
					530	–	–	**24,181**	–
–	–	–	–	–	–	–	914	**939**	
–	–	–	–	–	–	–	–	**–**	–
–	(96)	–	–	–	–	–	–	**(96)**	
–	**–**	**–**	**–**	**–**	**–**	**–**	**(16,140)**	**(16,140)**	**–**
386	**(96)**	**–**	**–**	**–**	**530**	**–**	**(15,226)**	**544,455**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

A. OPERATING ACTIVITIES	Amount	
	31 December 2020	31 December 2019
1. Cash flow from operations	**90,172**	**(9,924)**
Net profit/loss for the year (+/-)	31,086	(16,140)
Gains/losses on financial assets held for trading and other financial assets measured at fair value through profit or loss (-/+)	(1,258)	-
Profits/losses on hedging activities (-/+)	-	-
Net value adjustments/write-backs for credit risk (+/-)	8,304	23,950
Net value adjustments/write-backs on property and equipment and intangible assets (+/-)	8,614	3,147
Net allocations to allowances for risks and charges and other costs/income (+/-)	7,790	542
Net premiums not collected (-)	-	-
Other income/expenses from insurance activities not collected (-/+)	-	-
Taxes, duties and unpaid tax credits (+)	10,592	(12,361)
Net value adjustments/write-backs on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	25,044	(9,062)
2. Cash flow generated/absorbed by financial assets	**(884,057)**	**(966,002)**
Financial assets held for trading	11	29,188
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	(8,649)	(8,503)
Financial assets measured at fair value through other comprehensive income	34,736	(16,664)
Financial assets measured at amortised cost	(909,988)	(956,041)
Other assets	(167)	(13,982)
3. Cash flow generated/absorbed by financial liabilities	**1,010,226**	**1,702,167**
Financial liabilities measured at amortised cost	1,017,598	1,705,445
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value	-	-
Other liabilities	(7,372)	(3,278)
Net cash generated/absorbed by operating activities	**216,341**	**726,241**

B. INVESTING ACTIVITIES	Amount	
	31 December 2020	31 December 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	**(42,898)**	**(24,668)**
Purchases of equity investments	-	6
Purchases of property and equipment	(8,425)	(4,654)
Purchases of intangible assets	(34,473)	(20,020)
Purchases of subsidiaries and business units	-	-
Net cash generated/absorbed by investing activities	**(42,898)**	**(24,668)**

C. FINANCING ACTIVITIES	Amount	
	31 December 2020	31 December 2019
Issues/Purchases of treasury shares	(736)	(96)
Share capital increases	-	2,560
Distribution of dividends and other purposes	-	-
Sale/purchase of third-party control	-	-
Net cash generated/absorbed by financing activities	**(736)**	**2,464**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**172,707**	**704,037**

Key:

(+) generated
(-) absorbed.

Reconciliation

FINANCIAL STATEMENTS ITEMS	Amount	
	31 December 2020	31 December 2019
Cash and cash equivalents at start of financial year	**772,125**	**68,088**
Total cash and cash equivalents generated/absorbed during the financial year	172,707	704,037
Cash and cash equivalents: foreign exchange effect	-	–
Cash and cash equivalents at end of financial year	**944,832**	**772,125**

Explanatory Notes

Part A - Accounting policies

A.1 General Information

Section 1 – Declaration of compliance with IAS/IFRS

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

In preparing these consolidated financial statements, the IAS/IFRS in force as of 31 December 2020 were applied, including the SIC and IFRIC interpretations as harmonised by the European Commission. The line items presented in this report have been valued and measured on the basis of the IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission, in addition to the guidelines laid down in Article no. 9 of Legislative Decree no. 38/05 and article 43 of Legislative Decree no. 136/15.

There were no derogations from the IAS/IFRS.

The Bank of Italy, with reference to the financial statements of banks and financial companies subject to supervision, has established, by Circular 262 of 22 December 2005, as amended, the financial statements and explanatory notes used for the drafting of these Financial Statements. With the Communication of 15 December 2020, the provisions of Circular 262 - 6th update, issued on 30 November 2018 - were supplemented to give the market information on the effects that COVID-19 and support measures for the economy have had on the risk strategies, objectives and policies, and on the financial position and performance of intermediaries. The additional information in the Communication of 15 December 2020 takes account, where applicable, of the documents published in the last few months by European regulators and supervisory bodies, as well as standard setters, with particular reference to IFRS 9 and IFRS 16 on COVID-19-rent related concessions. The Communication also includes additional amendments to take into account new requests for information contemplated in IFRS 7, regarding the interest rate benchmark reform.

Except as stated herein – and more broadly described in SECTION 5 – there are no changes in the Accounting Standards adopted compared to the previous year.

Section 2 – General preparation principles

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

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

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

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

The Financial Statements have been drafted with clarity and provide a true and fair view of the financial situation and economic result of illimity Bank S.p.A. (the "Parent Company") and subsidiaries and/or consolidated companies as of 31 December 2020, as described in the section "Consolidation area and methods".

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

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

The consolidated statements as of 31 December 2020, which were approved by the Board of Directors on 10 March 2021, were audited by the independent auditors KPMG S.p.A.

Content of the financial statements

1. Consolidated statement of financial position and income statement

The consolidated statement of financial position and consolidated income statement consist of items, sub-items and additional details. In the consolidated income statement, revenues have been presented without sign, whereas costs have been stated in parentheses.

2. Statement of consolidated other comprehensive income

In addition to the profit (loss) for the year, the consolidated statement of other comprehensive income indicates income components taken to valuation reserves, net of the relevant tax effect, in accordance with international accounting standards.

Consolidated other comprehensive income is presented by separately stating income components that will not be reversed to the income statement in the future and those that instead may subsequently be reclassified to profit (loss) for the year in the year in which certain conditions are met. The statement also distinguishes the share of profit attributable to the Parent Company from that attributable to minority-interest shareholders. Negative amounts have been stated in parentheses.

3. Consolidated statement of changes in shareholders' equity

The statement shows the composition of and changes in shareholders' equity during the year of the report, broken down into share capital (ordinary and savings shares), capital reserves, earnings reserves and reserves from the measurement of assets or liabilities and net profit. The treasury shares in portfolio are deducted from shareholders' equity.

4. Consolidated cash flow statement

The statement of cash flows during the reporting year was prepared on the basis of the indirect method, according to which the cash flows from operations are represented by the results for the period, adjusted by the effects of non-monetary operations. The cash flows are divided between those generated by operations, those generated by investment activities and those generated by funding activities.

In the statement, the cash flows generated during the year are indicated without sign, while those absorbed are indicated in brackets.

Content of the Explanatory Notes

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

The main accounting issues relating to COVID-19

In view of the particular seriousness of the events resulting from COVID-19, during the first half of 2020, the IASB and various European regulators issued a series of measures relating to the accounting consequences of the pandemic, of which the most significant aspects are summarised below.

IASB:

- 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. This amendment is not significant for the illimity Group.

ESMA:

- On 11 March 2020, as part of the Public Statement "ESMA recommends action by financial market participants for Covid-19 impact", ESMA set out some guidelines on conduct regarding the impact of the pandemic. In particular these concerned the following topics:
  a) ongoing market disclosure, with issuers recommended to promptly publish information concerning the impact of COVID-19 on their essential aspects, prospects or financial situation, if the information is relevant and significant, in accordance with the transparency obligations indicated in the Market Abuse Regulation;
  b) financial reporting, with companies recommended to be as transparent as possible on the current and potential impacts of COVID-19 on their operations and business, financial situation and economic performance based, as far as possible, on a qualitative and quantitative assessment.
- On 25 March 2020, with reference to the "Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9", ESMA addressed the topic of the recognition of changes

resulting from the introduction of supporting measures, the measurement of the significant increase in credit risk (SICR), avoiding the automatisms contemplated by standards, the Expected Credit Loss Estimation, and public guarantees for the exposures of issuers and the matter of transparent disclosure;

- On 27 March 2020, in the document "Guidance on Financial Reporting Deadlines in light of COVID-19", ESMA provided indications on how to factor in moratoria when applying IFRS 9 requirements regarding the Modification and Derecognition, Assessment of significant increase in credit risk ("SICR") and Expected Credit Loss estimation.
- In its Public statement of 20 May 2020, "Implications of the Covid-19 outbreak on the half-yearly financial reports", ESMA therefore recommended compliance with requirements of transparency and adoption consistent with European rules, with particular reference to international accounting standards, in preparing interim financial reports in the light of the pandemic;
- Lastly, on 28 October 2020, in the communication "European common enforcement priorities for 2020 annual financial reports", ESMA set out the priorities for producing IFRS annual financial reports so that they adequately reflect the consequences of the COVID-19 pandemic, with particular reference to considerations on IAS 1 – Presentation of Financial Statements, IAS 36 – Impairment of Assets, IFRS 9 – Financial Instruments and IFRS 7 – Financial Instruments: Disclosures.

EBA:

- With reference 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:
  a) 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;
  b) 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;
  c) on the possible classification to Stage 2 of positions subject to moratoria, the EBA clarified 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;
- In the Guidelines of 2 April 2020: "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis", the European Union and Member States, to mitigate the economic consequences of the pandemic, introduced a number of measures to support the real economy and the financial sector. In this regard a legislative moratoria on loan repayments was granted, giving borrowers various easing measures for existing loans. Many member states also introduced various types of public guarantees for new loans. The EBA guidelines were therefore further expanded in the Guidelines issued on 2 December 2020 concerning moratoria in the light of the COVID-19 crisis;
- The EBA provided further guidance on 2 June 2020 in its "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis";
- The EBA provided further guidance on 2 June 2020 in its "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis".
- On 2 December 2020, in the "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis", the EBA further explored the issue of extending the "EBA-compliant" moratoria period.

ECB:

- The ECB also acted in response to how coronavirus is affecting the banking sector. In particular, in the communication of 20 March 2020 "ECB Banking Supervisor provides further flexibility to banks in reaction to coronavirus", the ECB provided indications on classifying and measuring loans and receivables. This communication stated that moratoria take up should not be an automatic trigger for likely default, as payments had been deferred in accordance with law and consequently the calculation of days' expiry for identifying past-dues at the end of the moratoria, was not enabled;
- On 1 April 2020, in the document "IFRS 9 in the context of the coronavirus (COVID-19) pandemic", the ECB, to avoid excessively procyclical assumptions to determine expected credit losses, urged banks to apply the transitional IFRS 9 provisions foreseen in the CRR. On 16 April 2020, in the "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;
- In the letter of 4 December 2020, addressed to all significant entities and entitled: "Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic", the ECB further outlined the importance of Risk Management decisions in assessing, classifying and measuring risk for the banking sector.

CONSOB:

- 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, as previously mentioned;
- On 16 February 2021, in its warning notice "COVID 19 - measures to support the economy - drawing attention to financial reporting", CONSOB drew the attention of issuers to:
    - The disclosure to be provided by supervised issuers, based on the aforesaid ESMA document of 28 October 2020 - European common enforcement priorities for 2020 annual financial reports;
    - Verification by control bodies on information flows with the management board;
    - Verification by independent auditors on impacts that may arise from uncertainties related to the effects of the pandemic.

Section 3 – Consolidation scope and methods

The following are the consolidation criteria and principles used to prepare the financial statements as of 31 December 2020.

Financial Statements included in the consolidation

The consolidated financial statements include the illimity Bank S.p.A. and the companies over which it directly or indirectly exercises control, comprising, for the period within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements or reports of companies operating in business segments different from that of the Parent Company. The consolidated financial statements take into account the Parent Company's financial statements for the year ending as of 31 December 2020 and the financial statements of subsidiaries, appropriately reclassified and adjusted to take account of consolidation requirements and, where necessary, to bring them into line with the Group accounting principles.

The scope of consolidation of the consolidated financial statement as of 31 December 2020, as described in more detail below, has changed with respect to the consolidated financial statements for the year ended as of 31 December 2019, due to the following events:

INCLUSIONS

a) the inclusion in the scope of consolidation of IT Auction and its subsidiaries (ITA Gestione and Mado), following the acquisition of control by the Group in the first quarter of 2020;
b) the inclusion in the scope of consolidation of Core, acquired by illimity Bank in the second quarter of 2020;
c) the inclusion in the scope of consolidation of River immobiliare, acquired by illimity Bank in the fourth quarter of 2020;

DISPOSALS

d) Lumen, the transaction which completed the run-off in the second quarter of 2020;
e) vehicle SWAN SPV S.r.l., the vehicle originally created for the parent company's securitisation transaction (SWAN project).

Details on the framework of the subsidiaries as of 31 December 2020 are given below:

1. Shares in fully-owned subsidiaries

Company 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 S.r.l.	Milan	Milan	1	A.0	100.0%
A.10 illimity SGR	Milan	Milan	1	A.0	100.0%
A.11 Pitti Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.12 Pitti SPV S.r.l. (SPV)	Milan	Milan	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 River immobiliare S.r.l.	Milan	Milan	1	A.0	100.0%

(*) 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
(**) Availability of votes in the ordinary meeting: the shareholding is representative of the voting rights in the meeting.

2. Significant assessments and assumptions to determine the consolidation area

2.1 Subsidiaries

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

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

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

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

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

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

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

Line-by-line consolidation

Investments in subsidiaries are consolidated using the line-by-line method. The consolidated financial statements prepared according to the full consolidation method represent the financial situation of the Group as a single economic entity.

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

Subsidiaries are consolidated from the date on which the Group acquires control according to the purchase method, as provided for in IFRS 3, which establish that the identifiable assets purchased and the identifiable liabilities accepted (including the potential liabilities) have to be recognised at their respective fair values on the date of acquisition. Any surplus in the paid price compared to the above fair values is recognised as goodwill or as other intangible assets; if the price is lower, the difference is charged to the income statements.

If there is an event that determines a loss of control, the effect recorded in the income statement is equal to the difference between (i) the sum of the fair value of the price received and the fair value of the residual interest held, and (ii) the previous carrying amount of the assets (including goodwill), of the liabilities of the subsidiary and of any third-party assets. The difference between the sale price of the subsidiary and the carrying amount of its net assets at the same date is recognised in the Income Statement under the item *Gains (losses) on disposal of investments* for companies consolidated on a line-by-line basis. The portion attributable to minority interests is recognised in the statement of financial position under the item *Shareholders' equity attributable to minority interests*, separately from liabilities and shareholders' equity attributable to the Group. In the Income Statement as well, the portion attributable to minority interests is presented separately under the item *Net profit (loss) attributable to minority interests*.

2.2 Joint control agreements

A joint control agreement is a contractual arrangement whereby two or more counterparts have joint control. Joint control is the sharing, on a contractual basis, of the control of an arrangement that only exists when the unanimous consent of all the sharing control parties is required for decisions on major activities.

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

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

Investments in companies under joint control qualified as joint ventures, are recognized using the equity method.

2.3 Associates

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

The controlling entity is considered to have significant influence if:

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

Investments in associates are recognised using the equity method.

Equity method

Investments in associates and joint ventures are measured using the equity method. Post-acquisition profits and losses are recognised in the Income Statement under the line item Gains (losses) from investments. Any distribution of dividends is recognised minus the goodwill of the investment.

As of 31 December 2020, the Group did not have investments in associates or joints ventures.

3. Investments in wholly-owned subsidiaries with significant minority interests

As required by paragraph 12 of IFRS 12, it is reported that there are no significant third-party interests for the period ending as of 31 December 2020.

4. Significant restrictions

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

5. Other information

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

Section 4 – Significant events after the reporting date

In detail, subsequent events are described in the relevant section of the Report on Operations; in this part of the Explanatory Notes it is indicated that pursuant to the requirements of IAS 10, after 31 December 2020 (the reporting date), and until the date when the financial statements were presented to the Board of Directors, no events occurred requiring any rectification of the information presented in the financial statements. For an examination of the business outlook, refer to the Report on Operations.

Section 5 – Other aspects

Risks, uncertainties and impacts of the COVID-19 epidemic

After the spread of COVID-19 in the year, and the consequent impacts at a systemic level (shock on financial markets, liquidity inflows from the authorities, recession), and local level (critical operating aspects at an economic fabric level), and in the framework of Bank of Italy rulings (allocation of profits to consolidate own funds, extensions for ICAAP, ILAAP regulatory obligations, recovery plan, flexibility in meeting asset and liquidity requirements), the illimity Group studied and promptly adopted a number of actions to deal with the critical context and mitigate the related risks at operational level in terms of credit strategy and policy and credit risk management, the strategic management of the financial assets portfolio, as well as customer relationship management and the management of their own business models.

In general terms, the increase in demand for remote financial services during the year, promptly and effectively steered by illimity's commercial and technological proposals, along with the Bank's highly conservative approach to pricing investments and providing funding and its limited exposure to economic sectors or asset classes most affected by the pandemic, are all factors that demonstrate the resilience of the business model in a reference scenario characterised by considerable risks.

At a governance level, the specific CV19 Committee was established, comprising the Chairman of the Board of Directors, CEO and top management of the Bank and subsidiaries, which conducted ongoing assessments, at least weekly, throughout 2020, on the actual and potential economic, financial and operational impacts of the pandemic.

With reference to credit risk, 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; The use of assessments by the business divisions made it possible to factor in specific impacts connected with credit risk, e.g. the increase in the probability of default of the SME Division's counterparties or reduction in recovery rates of portfolios acquired by the DCIS Division.

In forward-looking terms, the increase in transactions concerning distressed loans due to the recession set off by the pandemic, the adoption of calendar provisioning and development of the secondary market of unlikely to pay loans are all aspects in a context where illimity is in a good position, able to seize the opportunities offered.

With reference to market risks, processes to increase volatility and rapid repricing characterising financial markets, particularly in the first quarter of 2020 were mitigated thanks to a conservative asset allocation in investments in financial instruments (mainly represented by government bonds), which made it possible to limit the related financial and economic impacts, and even cancel them during the year. In addition, with reference to the bank portfolio, a reduced sensitivity to short-term market rate changes, regarding structural characteristics of ALM, is reported.

As regards liquidity risk, potential tensions over liquidity profiles and buffers of available resources connected to financial market shocks and logistics/operational problems affecting the economic system were managed and mitigated thanks to a well-diversified funding structure and a considerable liquidity buffer, the offering of funding/investment services via the Digital Bank channel and the German digital platform "Raisin", enabling 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;

With reference to the potential operational risks connected with the epidemiological crisis (for example the decrease in the productivity of human resources, the lack of resources to monitor critical processes, the increase in operating errors in managing new or traditional processes connected with the unavailability of IT systems, IT fraud), the activation of specific safety protocols, to monitor and protect the health of employees and the use of flexible work, made possible thanks to the fully digital dimension of main company businesses, as well as the innovative configuration on which the company IT system is developed (an all-encompassing use of the Cloud to manage main applications and business data, to share company information and to carry out risk control activities), all ensured the business continuity of the Group, also contributing to mitigating potential strategic and business risks concerning the development of 2020 budget objectives.

As regards risks related to the lack of capital adequacy and liquidity, current and forward-looking profiles show, even considering the current evolutionary scenarios relating to COVID-19 (including for example stress scenarios based on regulatory indications and the latest updates in terms of the macro-economic scenario and sector/geographic aspects), consistency with the minimum regulatory thresholds and management limits set out in the Risk Appetite Framework (RAF).

With reference to strategic and business risks, besides the aforementioned resilience of the Group's business model, the current pandemic led to a slowdown in the origination process in the first 6 months of the year for some businesses and the deferment of some collection processes, albeit limited, due to the temporary closure of the courts, which was more than offset by robust collections of exposures already in the portfolio in the second half of the year.

For further details on the objectives and strategies of individual risks in the new context of the epidemiological crisis, reference is made to the specific sections in Part E – Information on risks and hedging policies.

Contractual amendments due to COVID-19

1) Contractual amendments and derecognition (IFRS 9)

   The moratoria and additional measures granted by the Bank for its customers following the COVID-19 epidemic are dictated by particular situations and are not therefore attributable to a general framework of modification & derecognition contemplated in IFRS 9.

   The renegotiation provided for in this regulatory context, in compliance with specifications of the Authorities, suspends for a period remuneration for the bank at the original contract interest rate. At the end of the moratoria period, the payment of the instalments will resume at the same conditions in effect prior to the suspension, without any change to the terms and conditions of the contract. This suspension has had a limited effect on the "current delta value" of future cash flows of relationships the regulations apply to.

2) Amendment to IFRS 16

   On 28 May 2020, the IASB published an amendment "COVID-19-*Related Rent Concessions* (*Amendment to IFRS 16*)". The amendment states that lessees may recognise rent reductions granted in relation to COVID-19 without having to assess, by analysing the contracts, whether the IFRS 16 definition of lease modification has been met. Therefore, lessees that apply this option must recognise the effects of rent reductions directly in the income statement at the date when the reduction comes into effect. The Group has decided not to adopt this amendment.

5.1 Applicable accounting standards for the recognition of 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 investment in IT Auction and the accounting treatment of the resulting goodwill in the illimity Bank Group's consolidated financial statements 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 of 70% of the share capital of IT Auction, for 10.5 million euros, by neprix, an illimity Group company in which all the bank's distressed credit management activities are concentrated, was completed on 9 January 2020. 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 a capital increase of EUR 2 million, 70% subscribed by neprix and 30% by the sellers, through the company Core;
c) finally, on 5 March 2020 illimity's Board of Directors renegotiated the original agreements reached in 2019, which called for put and call obligations on the remaining 30% interest in IT Auction, and approved an extraordinary transaction for the acquisition of the residual interest through a capital increase in service of the contribution of 100% of the interest in Core, agreeing on a representative fair value of the residual interest of EUR 7.7 million;
d) on 27 May 2020, illimity announced that on said date it had entered into an assignment agreement concerning the purchase of the entire share capital of Core; this brought about the consolidation of Core and the purchase of 100% of the equity interest in IT Auction and its subsidiaries.

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

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

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

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

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

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

The purchase price allocation process provided for a provisional allocation, recognised in the interim consolidated statements of the illimity Group during 2020. The process of allocation of the cost of acquisition to the net assets acquired was completed during the preparation of these consolidated financial statements at 31 December 2020 in accordance with IFRS 3.

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

(amounts in thousands of euros)

Description		
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**

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

In compliance with the requirements of the IFRS framework, the preparation of the consolidated financial statements requires the use of estimates and assumptions that may influence the values stated in the statement of financial position and income statement and the disclosures regarding contingent assets and liabilities presented in the consolidated Financial statements.

The estimates and related assumptions are based on the use of available management information and subjective assessments, also founded on historical experience. The use of reasonable estimates is, thus, an essential part of the preparation of the financial statements. The components in which the use of estimates and assumptions is substantially inherent in determining the carrying amounts 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 property and equipment and intangible assets with finite useful lives.

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

5.3 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 Conceptual Framework in IFRS Standards	March 2018	1 January 2020	29 November 2019	(EU) no. 2019/2075 06 December 2019
Definition of Material - Amendments to IAS 1 and IAS 8	October 2018	1 January 2020	29 November 2019	(EU) no. 2019/2104 10 December 2019
Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	September 2019	1 January 2020	15 January 2020	(UE) 2020/34 15 January 2020
Definition of a business - Amendments to IFRS 3	October 2018	1 January 2020	21 April 2020	(UE) 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:

- Commission Regulation (EU) 2019/2075: 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;

- Commission Regulation (EU) 2019/2104]: the Regulation of 29 November 2019 adopts several amendments to IAS 1 and IAS 8 to clarify the definition of *"material information"* and improve understanding of the concept. The Regulation emphasises that materiality depends on the nature and relevance of the information or both. An entity also verifies whether information, both individually and in combination with other information, is material in the overall context of the financial statements.

Coming into force on 1 January 2020, the following were also endorsed in 2020:
- Commission Regulation (EU) 2020/34 (of 15 January 2020), which has 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.
- Commission Regulation (EU) 2020/551 (of 22 April 2020), which has 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 measurement of consolidated goodwill takes such considerations into account.

5.4 IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2020

Documents endorsed by the EU as of 13 January 2021

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Amendments to IFRS 16 Leases (COVID-19-related rent concessions)	May 2020	1 June 2020	09 October 2020	(EU) 2020/1434 12 October 2020
Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9	June 2020	1 January 2021	15 December 2020	(UE) 2020/2097 16 December 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2	August 2020	1 January 2021	13 January 2021	(EU) no. 2021/25 14 January 2021

5.5 IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2020

Documents NOT yet endorsed by the EU as of 31 December 2020

Document title	Date issued by IASB	Date of entry into force of the IASB document	Date of expected endorsement by the EU
Standards			
IFRS 17 Insurance Contracts, including Amendments to IFRS 17 (issued on 25 June 2020)	May 2017 June 2020	1 January 2023	TBD
Amendments			
Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	1 January 2022	TBD
Property, plant and equipment: proceeds before intended use (Amendments to IAS 16)	May 2020	1 January 2022	TBD
Provisions, Contingent Liabilities and Contingent Assets (Amendments to IAS 37)	May 2020	1 January 2022	TBD
Annual improvements to IFRS (2018–2020 Cycle)	May 2020	1 January 2022	TBD
Classification of Liabilities as Current or Non-current (Amendment to IAS 1), including subsequent amendment issued in July 2020	January 2020 July 2020	1 January 2023	TBD

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

5.6 IASs endorsed as of 13 January 2021 with application after 2020

Regulation (EU) No. 2020/1434: During 2020, with entry into force on 1 January 2020, the amendments to IFRS 16 *Leases* (COVID-19-related rent concessions) were endorsed. Considering that the COVID-19 pandemic has caused an unprecedented external shock for the Euro, the Member States and the Union itself have taken measures to provide financial support for businesses, including the suspension of payments based on private or public moratoria, to avoid pointless bankruptcies and job losses, and also support a rapid recovery The amendment to IFRS 16 provides for operational support related to COVID-19, which is temporary and optional, for lessees to benefit from suspensions of lease payments due, without compromising the relevance and usefulness of financial information disclosed by businesses.

Commission Regulation (EU) 2020/2097: The amendments to IFRS 4 aim to remedy the temporary accounting consequences of the mismatch between the date when IFRS 9 Financial Instruments comes into force and the date when IFRS 17 Insurance contracts will come into force. In particular, amendments to IFRS 4 extend the temporary exemption from adopting IFRS 9 until 2023, in order to align the date of entry into force of IFRS 9 with the new IFRS 17.

Commission Regulation (EU) 2021/25: The amendment to take account of the consequences of the actual replacement of benchmarks to determine existing interest rates with alternative benchmark rates. These amendments require specific accounting treatment to allocate, over time, changes in the value of financial instruments or lease agreements due to the replacement of the benchmark to determine interest rates, thus avoiding immediate repercussions on profit (loss) for the period and pointless suspensions in hedging following the replacement of the benchmark to determine interest rates.

These amendments did not have any significant impact on the Group.

A.2 Section on the main financial statement items

This section presents the accounting standards used to prepare the consolidated accounts to 31 December 2020 with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, and for the methods used for the recognition of costs and revenues.

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

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

- financial assets held for trading, which are essentially debt and capital instruments, for which there is a short-term profit-making strategy;
- financial assets with obligatory fair value measurement, represented by the Financial assets which do not meet the requirements for measurement at amortised cost or fair value through other comprehensive income. These are assets for which the contractual terms do not provide only for reimbursement of capital and payment of interest on the amount of capital to be returned (failed "SPPI test"), or which are not held in connection with a "Hold to Collect" business model, or whose objective is the "Hold to Collect and Sell" business model;
- financial assets designated at fair value, namely financial assets which are thus defined at the time of initial recognition, where the requirements are met. An entity can irrevocably designate, on recognition, a financial asset as being measured at fair value through profit or loss if, and only if, by so doing it would eliminate or significantly reduce an inconsistency in the measurement.

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

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

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

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, on the date of disbursement for loans, and on the date of subscription, for derivatives. On the date of initial recognition, financial assets measured at fair value through profit or loss are recorded at fair value without considering the costs or income of settlement which are immediately accounted for even though they are directly attributable to the instrument itself.

Following initial recognition, financial assets measured at fair value through profit or loss are measured at fair value and the effects of applying this measurement criterion are recognised in the Income Statement. To determine the fair value of financial instruments listed on an active market, market prices are used. Without an active market, the commonly-adopted estimation and measurement models are used, which take into account all the risk factors related to the instruments and are based on observable market data, such as: (i) methods based on the measurement of listed instruments with similar characteristics; (ii) discounted cash flow calculations, models for determining the option prices; (iii) recorded values of recent comparable transactions.

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

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

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

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

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

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

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

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

In particular this item includes:

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

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

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

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

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

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

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

The fair value is determined on the basis of the principles already illustrated, for the Financial assets measured at fair value through profit or loss.

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

Financial assets measured at fair value through other comprehensive income – in the form of debt or credit instruments – are subject to verification of the significant increase in credit risk (impairment) provided for in IFRS 9, like Assets at amortised cost, and therefore a value adjustment is recognised in the income statement to hedge the expected losses. These sustained losses are recognised in the income statement under the item "Net Adjustments/write-backs for credit risk relating to: b) financial assets measured at fair value through other comprehensive income", offset by the statement of comprehensive income and also shown under the item "Valuation reserves" of shareholders' equity. Equity instruments are not recognised in the income statement as sustained losses in accordance with IFRS9. Only dividends will be shown in the income statement under the item "Dividends and similar income".

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

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

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

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

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

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

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

3. Financial assets measured at amortised cost

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

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

Specifically, this item includes: customer and bank loans, disbursed directly or acquired from third parties, that provide for fixed or determinate payments, which are not listed on an active market and which have not been classified at origin among financial assets measured at fair value through other comprehensive income.

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

This category also includes the business-related credits connected to the provision of financial services as defined in the TUB and TUF. (for example, for the distribution of financial products and servicing activities).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The quali-quantitative analyses intended to define the substance of the contractual changes made to a financial asset must therefore consider:

- the reasons why the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty;
- commercial reasons, designed to "keep" the customer, involve a borrower that is not in a situation of financial difficulty. This type of case includes any renegotiation designed to adapt the burden of the debt to the market conditions. These operations involve a change to the original contractual conditions, usually requested by the borrower, and relate to the onerousness off the debt resulting in an economic benefit to the borrower. In general it is considered that whenever the Group renegotiates to avoid losing a customer, the renegotiations must be considered as substantial because if they did not take place, the customer could be financed by another bank, and the Group would see a decrease in its expected future revenue;

  - the second type of renegotiation, which is done for "credit risk reasons" (forbearance measures) relates to the Group's attempt to maximise the recovery of cash flows from the original loan. The underlying risks and benefits, after the changes, are not usually substantially transferred, and, therefore, the accounting presentation that gives the most relevant information to the reader (apart from the information given below on objective elements) is "modification accounting" – which implies the recognition in the income statement of the difference between the carrying amount and the discounted value of the modified cash flows, discounted at the original interest rate – and not through derecognition;
- the presence of objective elements or triggers that affect the characteristics and/or contractual flows of the financial instrument (including change of currency, or changes to the type of risk the Bank is exposed to, if it is correlated to equity and commodity criteria), which the derecognition is expected to involve considering their impact (expected to be significant) on the original contractual flows.

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

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

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

As regards the recognition methods of purchased or originated impaired Financial assets (so-called POCI) refer to Section 16 – Other information – Part A of these Notes

4. Hedging operations

As of 31 December 2020 the Group does not hold hedging instruments.

5. Equity investments

The item includes investments in joint ventures and associates.

Companies are considered are joint ventures if, on a contractual basis, control is shared between the Bank and one or more other parties or when the unanimous consent of all the controlling parties is necessary for decisions concerning significant activities.

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

Investments in joint ventures and companies subject to significant influence are recognised at cost and accounted for using the equity method.

On each reporting date, any objective evidence that the investment has been impaired, is verified. The recoverable value will then be calculated by considering the discounted value of the future cash flows that the equity investment could generate, including the final disposal value.

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

As of 31 December 2020, the Group did not hold investments in associates or joint ventures.

6. Property and Equipment

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

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

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

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

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

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

However, the following are not depreciated:
- the land, whether acquired individually or incorporated into the value of the buildings, as it has an indefinite useful life;
- investment property that, as required by IAS 40, is measured at fair value with a contra entry in the income statement, must not be depreciated;
- inventories (IAS 2): these assets are measured at the lesser between cost and the net realisable value.

A tangible asset is eliminated from the statement of financial position at the time of disposal, or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any difference between the disposal value or recoverable amount and the carrying amount is then recognised in the income statement respectively under the item "Profits (losses) on disposal of investments" or "Net adjustments/write-backs on property and equipment".

In application of IFRS 16, from the annual reporting period beginning on or after 1 January 2019, the item property and equipment also includes the right of use referred to lease contracts on property and equipment. A lease is defined as a contract the fulfilment of which depends on the use of an identified asset, and that conveys the right to control the use of the asset for a period of time in exchange for consideration: IFRS 16, therefore, applies to all transactions that provide for a right to use the good, regardless of its contractual form. The scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

In accordance with IFRS 16, the Bank shall initially recognise an asset representing the Right of use ("ROU") of the leased asset, together with a liability represented by the present value of the expected future lease payments over the life of the lease contract (the "Lease Liability") discounted at the implicit rate of the transaction (if determinable); if the rate cannot be easily determined, the lessee shall instead use the incremental borrowing rate (IBR). The ROU is, therefore, initially determined by increasing the Lease Liability of the initial direct costs incurred by the lessee.

With regard to measurements following the initial recognition of lease contracts, the lessee must measure the ROU on the basis of a cost model; therefore:
- the right of use was depreciated over the term of the contract or the useful life of the asset (on the basis of IAS 16) and is subject to impairment;
- the liability was progressively reduced due to the effect of the lease payments and the relevant interest expenses have been recognised and attributed separately to the income statement.

7. Intangible assets

Non-monetary identifiable non-physical assets held to be used over several years or for an indefinite period, are termed intangible. They are generally represented by software and the rights to use intellectual property, trademarks and other intangible assets. They are recognised at the cost of purchase adjusted for any ancillary costs only if the future economic benefits attributable to the asset are likely to be realised and if the cost of the asset can be reliably determined. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred. Intangible assets also include leasehold rights of use relating to the use of intangible assets under IFRS 16.

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

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

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

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

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

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

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

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

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

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

The value of intangible assets having a specific duration is systematically amortised starting from the inclusion of such assets in the production process. An intangible asset is therefore eliminated from the statement of financial position (i) at the time of disposal, (ii) when it is fully amortised or (iii) when future economic benefits are not expected. Any difference between the disposal value or recoverable amount and the carrying amount is recognised in the income statement respectively under the item "Profits (losses) on disposal of investments" or "Net adjustments/recoveries on intangible assets".

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

8. Non-current assets held for sale and discontinued operations

As of 31 December 2020 the Group did not hold such assets/liabilities or groups.

9. Current and deferred taxes

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

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

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

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

Deferred tax assets and liabilities are recognised in the statement of financial position in open balances without set-offs, the former being included in "tax assets" and the latter in "tax liabilities". Any deferred tax liabilities payable on capital reserves under tax suspension are not recognised, as it can reasonably be considered that there will be no operations that will result in their being taxed.

10. Allowances for risks and charges

Commitments and guarantees given

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

Post-employment benefits

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

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

Other Allowances

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

Therefore an allowance is recognised if, and only if:

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

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

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

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

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

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

11. Financial liabilities measured at amortised cost

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

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

Initial recognition is based on the fair value of the liabilities, normally corresponding to the amount received or the issue price, adjusted for any additional costs/income directly attributable to the individual supply or issue transaction. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

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

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

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

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

12. Financial liabilities held for trading

As of 31 December 2020 the Group does not hold financial liabilities held for trading.

13. Financial liabilities designated at fair value

As of 31 December 2020 the Group does not hold financial liabilities designated at fair value.

14. Foreign currency transactions

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

“Off balance sheet” transactions are valued:

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

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

15. Insurance assets and liabilities

As of 31 December 2020 the Group did not hold insurance assets or liabilities.

16. Other information

Impairment of financial instruments

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

a) financial assets measured at amortised cost;
b) financial assets measured at fair value through other comprehensive income other than equity instruments;
c) commitments to lend funds and guarantees issued that are not measured at fair value through profit or loss;
d) contractual activities resulting from operations covered by the scope of application of IFRS 15.

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

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

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

An exception to this are the "Purchased or originated impaired financial assets" so called POCI, dealt with in the next point of this paragraph.

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

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

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

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

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

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

Estimate of expected losses on impaired positions (stage 3)

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

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

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

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

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

Purchased or originated impaired financial assets (POCI)

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

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

These assets are not identified under a specific statement of financial position item but are classified according to the business model in which the asset is managed, under the following headings:

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

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

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

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

Treasury shares

Treasury shares are recognised as a direct reduction of shareholders' equity.

Accruals and deferrals

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

Costs of leasehold improvements

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

Employee benefits

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

1) short-term benefits (other than those due to employees the termination of employment contract, and share ownership benefits), which are expected to be paid in full within twelve months from the end of the year in which the employees did the work, and are recognised entirely in the income statement at the time of accrual (this category includes wages and salaries, and overtime);
2) post-employment benefits due after termination of the working relationship, which require the company to make future payments to staff. This type of benefit includes severance pay and pension fund which in turn can be divided into defined-contribution plans and defined-benefit plans or company pension schemes;

3) early retirement benefits, which are payments made by the company to employees in return for termination of the employment contract following the employee's decision to retire earlier than the normal retirement date;
4) long-term benefits other than the above, which are not expected to be paid in full within twelve months after the end of the year in which the employees did the work.

Employee severance pay

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

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

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

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

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

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

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

Share-based payments

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

Recognition of revenues for commission income

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

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

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

Business combinations

The accounting standard applicable to business combinations is IFRS 3.

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

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

Identifying the acquirer

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

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

Determining the cost of the combination

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

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

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

Segment reporting

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

The fair value of financial instruments

The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal operation between market operators (in other words, not a forced liquidation or sale below cost) on the measurement 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 measurement 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 measurement 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 measurement techniques aimed at establishing the price of a hypothetical independent transaction motivated by normal market considerations, on the measurement date. In incorporating all the factors considered by the operators when setting the price, the measurement 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, measurement 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.

Tax receivables connected with the "Cura Italia" and "Rilancio" Decrees

Decree Laws 18/2020 ("Cura Italia") and 34/2020 ("Rilancio") introduced tax incentives which are commensurate with a percentage of expenditure incurred, and are disbursed as tax receivables or tax deductions. Most of the tax receivables covered by the tax incentives may be sold to third parties, that will use them according to specific applicable regulations. In fact these receivables are tax receivables arising from incentives of which the use, unlike receivables arising from the payment of excess taxes, is governed by the provisions that introduce them.

The receivables in question may be used to offset taxes and contributions or may be further sold to third parties. None of the receivables in question may be refunded (wholly or in party) directly by the State. Moreover, receivables may be used, as applicable, for offsetting, without the possibility of carrying forward or requesting a refund for the part not offset in the reference year due to insufficient balances.

As indicated in the Document of the Bank of Italy/Consob/Ivass no. 9, once acquired from a third party, the specific aspects of the receivables do not allow for them to be immediately attributable to a specific international accounting standard: in fact these receivables are excluded from the provisions of IAS 12 "Income taxes" as they do not come under the taxes that cover the company's ability to generate income; they do not come under the definition of government grants given in IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", as ownership of the receivable as regards the Revenue Agency only arises following the payment of an amount to the assignor; IFRS 9 Financial Instruments is not directly applicable, as the assets comprising the tax receivables acquired do not originate from a contract between the assignee and the Italian government; lastly, IAS 38 "Intangible assets" does not apply as the tax receivables in question cannot be considered as monetary assets, allowing for the payment of tax payables usually settled in cash. Therefore reference must be made to the provisions of IAS 8, which establish the following: In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy that results in information that is a) relevant for the economic decisions of users; and b) reliable [...]".

Based on these considerations, the Group considered the following approach applicable:

a) *Initial recognition*: recognition of the tax receivable at the time of purchase for a value corresponding to the fair value, under the item "Other assets";

b) *Subsequent measurement*: adoption of the provisions in IFRS 9 on the Hold To Collect business model, in which the measurement is at amortised cost.

With reference to the economic effects of income and expenses arising from the purchase and use of tax receivables, this method reflects how financial instruments are managed at amortised cost.

Tax consolidation

illimity Bank S.p.A. has opted to be a part of the national tax consolidation scheme for Corporate Income Tax (IRES), as provided for in Articles 117-129 of the Consolidated Income Tax Act (TUIR). Under this scheme, the taxable income or tax losses of each company which is consolidated are transferred to the consolidating company - along with excess amounts of ACE (economic aid for growth), withheld taxes, tax deductions and receivables - for which a single taxable income or a single tax loss to carry forward is calculated, corresponding to the algebraic sum of the taxable income or tax losses of each company.

Regulations on national tax consolidation establish optional take-up, which is binding for three financial years (with automatic renewal) and is allowed for companies between which control exists as contemplated in Article 2359, paragraph 1) no. 1 of the Italian Civil Code.

For the 2020-2022 period, the companies of the illimity Group joining the national tax consolidation scheme with illimity Bank as the consolidating party were neprix and illimity SGR.

A.3 Information on transfers between portfolios of financial assets

There were no such transfers during the current year.

A.4 Information on fair value

Qualitative information

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

This section provides a summary, divided by type of instrument, of the measurement techniques used for instruments classified as having a level 2 and level 3 fair value.

Assessment of non-contributed shares and equity instruments

On the reporting date, there were no shares or equity instruments classified as level 2.
Items classified as level 3 are shares and equity instruments without market value contributions and for which it is not possible to identify transactions, in particular with reference to the M&A market, that, due to the time from the measurement date or nature of said provide significant information on the instruments being measured, nor are measurement techniques based on observable market multiples applicable.
In these cases, the measurement technique uses estimates of expected cash flows of the assessed entity and their expected value at the measurement date is determined. Significant exposures in non-contributed shares and equity instruments are, currently, ancillary to loan transactions, therefore the measurement techniques are consistent with the model used to measure loan transactions that evaluate the subject’s capacity to repay the entire liability, including equity instruments and shares.

Measurement of loans

The most significant cases concern non-bearing receivables purchased at values below the nominal value. These were purchased as part of loan or re-financing transactions that also include interest-bearing instruments and their measurement is based on models that measure the capacity of the funded subject to repay their liability. Cash flows are therefore discounted to determine their value at the measurement date.
The measurement includes prudent assumptions on the subject’s capacity to generate cash flows, preferring an inclusion of expected cash flows when there is a high probability of their occurrence.

Measurement of structured loan products

Structured loan products are attributable to two groups. The first concerns subordinate tranches of NPL portfolio securitisation transactions, the second securitisation transactions of investments in receivables related to the energy *market*.

In the first case the exposures are part of an investment strategy that involves the subscription of the senior quota by the bank; as the originator, it is required to subscribe to part of the subordinate tranches. The starting point for the measurement is the purchase transaction, of which the price consistency is based on an analysis of the portfolio's capacity to repay first the senior portion, followed by the underlying tranches following *waterfall*mechanisms. This capacity is therefore monitored during payments in order to confirm expectations of recovery predicted during the *origination stage*.

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

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

A.4.2 Processes and sensitivity of valuations

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

The non-observable criteria that can influence the measurement 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 measurement 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 instruments (bonds) at fixed or variable rates, this method reflects the trends in market interest rates and the risk level associated with the instruments' counterparties and issuers;
- this is the same measurement method used last year, for the same securities.

For securities held at fair value level 3:

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

To summarise the characteristics of the different fair value levels:

Level 1

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

Level 2

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

Level 3

The measurement methods will value a non-listed instrument using significant non-market observable data and therefore they require the adoption of estimates and assumptions by management (the "Mark to Model Approach").

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

A.4.4 Other information

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

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

Quantitative information

A.4.5 *Fair value* hierarchy

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

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

Financial assets/liabilities measured at fair value	31 December 2020			31 December 2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	106	-	18,396	106	-	8,559
a) financial assets held for trading	7	-	45	7	-	56
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	99	-	18,351	99	-	8,503
2. Financial assets measured at fair value through other comprehensive income	91,357	-	18	125,773	-	15
3. Hedging derivatives	-	-	-	-	-	-
4. Property and Equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**91,463**	**-**	**18,414**	**125,879**	**-**	**8,574**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

Key:

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

Instruments that are measured to a significant extent on the basis of non-observable parameters (Level 3) amount to 16,76% of the total financial assets measured at *fair value*, and on the reporting date are mainly represented by investments classified in the portfolio of *"Financial assets mandatorily measured at fair value"*, referable to the *Turnaround*, *Senior Financing* and Energy Area.

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

	Financial assets measured at *fair value* through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and Equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**8,559**	**56**	**-**	**8,503**	**15**	**-**	**-**	**-**
2. Increases	**10,281**	**-**	**-**	**10,281**	**4**	**-**	**-**	**-**
2.1 Purchases	8,996	-	-	8,996	4	-	-	-
2.2 Profits charged to:	1,176	-	-	1,176	-	-	-	-
2.2.1 Income Statement	1,176	-	-	1,176	-	-	-	-
- of which capital gains	1,176	-	-	1,176	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	109	-	-	109	-	-	-	-
3. Decreases	**444**	**11**	**-**	**433**	**1**	**-**	**-**	**-**
3.1 Sales	-	-	-	-	-	-	-	-
3.2 Repayments	-	-	-	-	-	-	-	-
3.3 Losses charged to:	11	11	-	-	1	-	-	-
3.3.1 Income Statement	11	11	-	-	-	-	-	-
- of which capital losses	11	11	-	-	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	1	-	-	-
3.4 Transfers from other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	433	-	-	433	-	-	-	-
4. Closing balance	**18,396**	**45**	**-**	**18,351**	**18**	**-**	**-**	**-**

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

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

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31 December 2020				31 December 2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	2,845,823	4,525	-	2,915,262	1,982,722	-	-	2,018,466
2. Property and equipment held for investment	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**2,845,823**	**4,525**	**-**	**2,915,262**	**1,982,722**	**-**	**-**	**2,018,466**
1. Financial liabilities measured at amortised cost	3,410,034	304,716	2,234	3,161,491	2,377,250	-	15,381	2,266,256
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**3,410,034**	**304,716**	**2,234**	**3,161,491**	**2,377,250**	**-**	**15,381**	**2,266,256**

Key:

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

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

A.5 Information on “day one profit/loss”

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

Part B – Information on the consolidated statement of financial position

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2020	Total 31/12/2019
a) Cash	393	70
b) On demand deposits with central banks	944,439	772,055
Total	**944,832**	**772,125**

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

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

2.1 Financial assets held for trading: breakdown

Items/values	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
A. cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCIs	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 held for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**7**	**-**	**45**	**7**	**-**	**56**

Key:

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

2.2 Financial assets held for trading: borrower/issuer breakdown

Items/values	Total 31/12/2020	Total 31/12/2019
A. Cash assets		
1. Debt securities	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	-	-
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. Units of UCIs	52	63
4. Loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**52**	**63**
B. Derivatives		
a) Central counterparties	-	-
b) Others	-	-
Total (B)	**-**	**-**
Total (A+B)	**52**	**63**

2.3 Financial assets designated at fair value: breakdown by product type

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

2.4 Financial assets designated at fair value: breakdown by borrower/issuer

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

2.5 Other financial assets mandatorily measured at fair value: breakdown

Items/values	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**11,660**	**-**	**-**	**2,342**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	11,660	-	-	2,342
2. Equity securities	**-**	**-**	**6,691**	**-**	**-**	**6,161**
3. Units of UCIs	**99**	**-**	**-**	**99**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total	**99**	**-**	**18,351**	**99**	**-**	**8,503**

Key:

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

Financial instruments mandatorily measured at fair value through profit or loss amounted to EUR 18.5 million as of 31 December 2020 and include an investment in equity instruments for EUR 6.7 million and an earnout of EUR 0.5 million, attributable to the SME Division, as well as a transaction and junior and mezzanine investments in securitisation vehicles related to the DCIS Division for EUR 11.2 million.

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

	Total 31/12/2020	Total 31/12/2019
1. Equity securities	**6,691**	**6,161**
of which: banks	-	-
of which: other financial companies	-	-
of which: other non-financial companies	6,691	6,161
2. Debt securities	**11,660**	**2,342**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	17	-
d) Other financial companies	11,166	2,342
of which: insurance companies	-	-
e) Non-financial companies	477	-
3. Units of UCIs	**99**	**99**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**18,450**	**8,602**

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

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

Items/values	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**91,357**	**-**	**-**	**125,773**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	91,357	-	-	125,773	-	-
2. Equity securities	**-**	**-**	**18**	**-**	**-**	**15**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**91,357**	**-**	**18**	**125,773**	**-**	**15**

Key:

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

The debt securities in the balance sheet item are represented by government bonds (approximately EUR 79.4 million) and securities of financial companies (approximately EUR 11.9 million).

Equity instruments classified as “Financial assets measured at fair value through other comprehensive income” are represented by shareholdings not qualified as control, associates or joint control.

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

Items/values	Total 31/12/2020	Total 31/12/2019
1. Debt securities	**91,357**	**125,773**
a) Central banks	-	-
b) Public administrations	-	10,736
c) Banks	79,448	73,624
d) Other financial companies	11,909	22,245
of which: insurance companies	-	-
e) Non-financial companies	-	19,168
2. Equity securities	**18**	**15**
a) Banks	-	-
b) Other issuers:	18	15
- other financial companies	10	7
of which: insurance companies	-	-
- non-financial companies	8	-
- other	-	8
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**91,375**	**125,788**

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

	Gross amount				Total adjustments			Total partial write-offs
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
Debt securities	91,471	8,648	-	-	114	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2020	**91,471**	**8,648**	**-**	**-**	**114**	**-**	**-**	**-**
Total 31/12/2019	**125,969**	**81,541**	**-**	**-**	**196**	**-**	**-**	**-**
of which: purchased or originated credit impaired financial assets	X	X	-	-	X	-	-	-

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

3.3a Financial assets measured at fair value through comprehensive income subject to COVID-19 support measures: gross amount and total adjustments

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

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

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

Type of operations/Values	Total 31/12/2020						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	**530,922**	**-**	**-**	**-**	**-**	**531,064**	**344,858**	**-**	**-**	**-**	**-**	**344,831**
1. Loans	530,922	-	-	-	-	531,064	344,858	-	-	-	-	344,831
1.1 Current accounts and on demand deposits	8,776	-	-	X	X	X	9,791	-	-	X	X	X
1.2. Time deposits	114,477	-	-	X	X	X	59,042	-	-	X	X	X
1.3. Other loans:	407,669	-	-	X	X	X	276,025	-	-	X	X	X
- Repurchase agreements - receivable	395,167	-	-	X	X	X	276,025	-	-	X	X	X
- Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Others	12,502	-	-	X	X	X	-	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**530,922**	**-**	**-**	**-**	**-**	**531,064**	**344,858**	**-**	**-**	**-**	**-**	**344,831**

Key:

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

The obligations to maintain the Compulsory reserve are fulfilled through, and Depobank, the balance is recognised in the sub item “Time deposits”. As can be seen from the above table, the balance sheet item largely consists of Reverse Repurchase Agreements.

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

Type of operations/Values	Total 31/12/2020						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	**991,155**	**1,073,833**	**1,024,612**	**-**	**-**	**2,137,267**	**563,232**	**742,879**	**705,421**	**-**	**-**	**1,323,882**
1.1. Current accounts	28,311	245,659	240,981	X	X	X	39,122	17,998	13,725	X	X	X
1.2. Reverse Repurchase Agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	289,055	537,954	492,831	X	X	X	369,117	357,165	347,407	X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	673	2,525	2,468	X	X	X	961	995	957	X	X	X
1.5 Loans for leasing	-	118,371	118,371	X	X	X	-	89,517	89,517	X	X	X
1.6. Factoring	151,850	276	-	X	X	X	126,561	45	-	X	X	X
1.7 Other loans	521,266	169,048	169,961	X	X	X	27,471	259,159	253,815	X	X	X
2. Debt securities	**249,913**	**-**	**-**	**4,525**	**-**	**246,931**	**299,390**	**50,363**	**50,363**	**-**	**-**	**349,753**
2.1. Structured securities	-	-	-	-	-	-	-	50,363	50,363	-	-	50,363
2.2. Other debt securities	249,913	-	-	4,525	-	246,931	299,390	-	-	-	-	299,390
Total	**1,241,068**	**1,073,833**	**1,024,612**	**4,525**	**-**	**2,384,198**	**862,622**	**775,242**	**755,784**	**-**	**-**	**1,673,635**

"Other debt securities" include securities related to securitisation transactions for a total amount of EURO 249.9 million, of which EUR 245.8 million are senior financing notes and EUR 4.1 million are high-yield bonds of the SME division.

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

Type of operations/Values	Total 31/12/2020			Total 31/12/2019		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired credits	Stage one and Stage two	Stage three	of which: purchased or originated impaired credits
1. Debt securities	**249,913**	**-**	**-**	**299,390**	**50,363**	**50,363**
a) Public administrations	-	-	-	-	-	-
b) Other financial companies	245,760	-	-	299,390	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	4,153	-	-	-	50,363	50,363
2. Loans to:	**991,155**	**1,073,833**	**1,024,612**	**563,232**	**724,879**	**705,421**
a) Public administrations	11,409	60	60	13,805	-	-
b) Other financial companies	229,430	43,116	43,090	52,624	35,152	35,130
of which: insurance companies	454	-	-	565	-	-
c) Non-financial companies	705,213	899,479	853,157	446,770	593,838	577,285
d) Households	45,103	131,178	128,305	50,033	95,889	93,006
Total	**1,241,068**	**1,073,833**	**1,024,612**	**862,622**	**775,242**	**755,784**

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

	Gross amount				Total adjustments		
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three
Debt securities	250,281	-	-	-	369	-	-
Loans	1,471,652	149,793	61,412	1,092,180	9,111	1,875	18,347
Total 31/12/2020	**1,721,933**	**149,793**	**61,412**	**1,092,180**	**9,480**	**1,875**	**18,347**
Total 31/12/2019	**1,194,452**	**434,873**	**19,119**	**793,733**	**5,496**	**594**	**18,492**
of which: purchased or originated impaired financial assets	X	X	2,887	1,022,282	X	557	-

4.4a *Loans at amortised cost receiving COVID-19 support measures: gross amount and total adjustments*

	Gross amount				Total adjustments			Total partial write-offs
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
1. Loans granted in accordance with GL	33,947	-	4,134	198	293	133	51	-
2. Loans subject to other forbearance measures	-	-	1,551	1,023	-	14	55	-
3. New funding	191,733	-	502	5,176	1,506	32	208	-
Total 31/12/2020	**225,680**	**-**	**6,187**	**6,397**	**1,799**	**179**	**314**	**-**

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

Section 5 – Hedging derivatives – Item 50

The Group has no hedge accounting operations.

Section 6 – Fair value change of financial assets in hedged portfolios – Item 60

The Group has no hedge accounting operations.

Section 7 – Equity investments – Item 70

There are no equity investments subject to joint control or significant influence. For more information about the consolidation area, see Part A, Section 3 – Consolidation area and methods.

Section 8 – Technical reinsurance reserves – Item 80

The Group does not conduct insurance business.

Section 9 – Property and equipment – Item 90

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

Assets/Values	Total 31/12/2020	Total 31/12/2019
1. Proprietary assets	**2,531**	**2,583**
a) land	-	-
b) buildings	943	994
c) furniture and fittings	715	667
d) electronic systems	700	828
e) others	173	94
2. Rights of use acquired through leases	**19,754**	**20,489**
a) land	-	-
b) buildings	18,422	19,333
c) furniture and fittings	-	1
d) electronic systems	-	8
e) others	1,332	1,147
Total	**22,285**	**23,072**
of which: obtained by enforcement of guarantees received	-	-

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

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

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

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

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

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

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

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

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

Assets/Values	Total 31/12/2020	Total 31/12/2019
1. Inventories of assets obtained by the enforcement of guarantees received	**56,148**	**2,322**
a) land	-	-
b) buildings	56,148	2,322
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	-	-
2. Other tangible assets inventories	**-**	**-**
Total	**56,148**	**2,322**
of which: measured at fair value net of costs to sell	-	-

9.6 Property and equipment with functional use: annual changes

	Land	Buildings	Furnishings	Electronic systems	Others	Total
A. Gross opening balances	**-**	**22,384**	**1,519**	**1,973**	**1,515**	**27,391**
A.1 Total net write-downs	-	2,057	851	1,137	274	4,319
A.2 Opening net amount	**-**	**20,327**	**668**	**836**	**1,241**	**23,072**
B. Increases:	**-**	**882**	**209**	**125**	**772**	**1,988**
B.1 Purchases	-	-	159	2	8	169
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	-	-	-	-
B.7 Other changes	-	882	50	123	764	1,819
C. Decreases:	**-**	**1,844**	**162**	**261**	**508**	**2,775**
C.1 Sales	-	57	-	-	-	57
C.2 Depreciation	-	1,787	162	261	508	2,718
C.3 Impairment losses charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) Property and Equipment held for investment	-	-	-	-	-	-
b) non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Closing net balances	**-**	**19,365**	**715**	**700**	**1,505**	**22,285**
D.1 Total net write-downs	-	3,862	1,053	1,482	838	7,235
D.2 Closing Gross Amount	**-**	**23,227**	**1,768**	**2,182**	**2,343**	**29,520**
E. Measurement at cost	-	-	-	-	-	-

9.7 Property and equipment held for investment: annual changes

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

9.8 Inventories of Property and equipment regulated by IAS 2: annual changes

	Inventories of assets obtained by the enforcement of guarantees received					Other assets inventories	Total
	Land	Buildings	Furnishings	Electronic systems	Others		
A. Opening balances	**-**	**2,322**	**-**	**-**	**-**	**-**	**2,322**
B. Increases	**-**	**53,826**	**-**	**-**	**-**	**-**	**53,826**
B.1 Purchases	-	6,765	-	-	-	-	6,765
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	-	47,061	-	-	-	-	47,061
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	-	-	-	-	-
C.2 Depreciation and impairment	-	-	-	-	-	-	-
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-	-
D. Closing balance	**-**	**56,148**	**-**	**-**	**-**	**-**	**56,148**

9.9 Commitments to purchase property and equipment

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

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

Assets/Values	Total 31/12/2020		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	**33,158**	**-**	**19,161**	**-**
A.2.1 Assets measured at cost:	33,158	-	19,161	-
a) internally generated intangible assets	3,903	-	2,947	-
b) other assets	29,255	-	16,214	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**33,158**	**36,224**	**19,161**	**21,643**

Identification of the CGU of the illimity Group

The estimate of the value in use, for impairment testing purposes, of intangible assets with an indefinite life (including goodwill), that do not generate cash flows unless with the contribution of other company assets, in line with provisions in IAS 36, requires the preliminary allocation of such intangible assets to organisational units that are fairly autonomous in management terms, that can generate flows of financial resources widely independent of those produced by other areas of activities, but interdependent within the organisational unit generating them. According to IFRS, these organisational units are called Cash Generating Units (CGU).

According to IAS 36, when identifying whether incoming cash flows originating from an asset (or group of assets) are widely independent of those arising from other assets (or groups of assets), the entity considers various factors, including the way in which company management controls the operations of the entity or how company management takes decisions on keeping the goods and assets of the entity operational or on their disposal.

In line with provisions in IAS 36, the level at which goodwill is tested must be correlated with the level of reporting within which management controls the dynamics that increase and decrease this value. Under this profile, the definition of such a level depends closely on the organisational models and allocation of management responsibilities for the purposes of defining guidance for operations and consequent monitoring. The organisational models may leave aside the structure of the legal entities through which operations take place and, very often, are closely related to the definition of operating segments used in the segment reporting contemplated in IFRS 8.

Moreover, each CGU or group of CGUs to which goodwill is allocated must:

a) represent the minimum level within the entity at which the goodwill is monitored for internal operational purposes; and
b) must not be larger than an operating segment, as defined in section 5 of IFRS 8, before the combination.

Paragraph 5 of IFRS 8 indicates that an operating segment is a component of an entity:

a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses concerning transactions with other components of the same entity);
b) whose operating results are reviewed regularly by the entity’s chief operating decision maker for the purposes of adopting decisions on resources to allocate to the sector and evaluating results; and
c) for which discrete financial information is available.

Based on the regulatory references in the aforementioned IAS 36 and IFRS 8, a factor to consider in identifying CGUs is the organisation of the IT system outlined by the entity in keeping with IFRS 8 for management to evaluate results achieved by various operating segments and in order for strategic decisions to be taken.

Following the completion of the start-up stage and gradual development of the type of activities carried out, along with a process for the evolution of division structures, the illimity Group changed procedures to analyse its own business, introducing new tools to monitor the performance of activities by the highest operational decision-making level. Therefore, starting from 2020, the illimity Group, in accordance with IFRS 8 - Operating Segments, presents certain consolidated financial information, in line with the procedures used periodically by the entity's chief operating decision maker for the purposes of adopting decisions on resources to allocate to individual sectors and the assessment of results.

The operating segments were identified taking into consideration the procedures whereby the Bank opted for an organisation also based on the differences in products and services offered.

In view of the above, the illimity Group identified operating segments in accordance with provisions in IFRS 8 and, subsequently determined the segments with the characteristics of a CGU. As described in section L - Segment reporting, the following operating segments were identified: (i) DCIS; (ii) SME; (iii) Digital Bank; (iv) Central Governance; and (v) SGR.

Considering the quantitative and qualitative analyses carried out, the operating segments with the characteristics of a CGU correspond to the operating divisions that generate incoming cash flows for the Bank and benefit from the synergies arising from business combinations. The Bank therefore identified the following CGUs: (i) DCIS; (ii) SME; and (iii) Digital Bank.

Acquisition of the IT Auction Group

On 9 January 2020 neprix, the company of the illimity Group in which all the bank's distressed credit management activities are concentrated, acquired 70% of the share capital of IT Auction (and indirectly its wholly-owned subsidiaries Mado and ITA Gestione), a company specialised in the management of online auctions, for the sum of EUR 10.5 million. On 5 March 2020 illimity's Board of Directors approved an extraordinary transaction for the acquisition of the remaining 30% of the company, held by minority interests, including the company's top management, designed to acquire full control of the company and integrate it completely into the illimity Banking Group. As part of this transaction, Neprix subscribed to a capital increase in IT Auction for EUR 1.4 million (an additional EUR 0.6 million were subscribed by Core) and illimity Bank oversaw a reserved capital increase excluding options rights pursuant to Article 2441, paragraphs 4 and 6 of the Italian Civil Code, freed up through the transfer to illimity of 100% of the share capital in Core (a company holding the remaining 30% in IT Auction) for an amount equal to EUR 7.7 million. The amount for the acquisition of 100% of IT auction was therefore equal to EUR 19.6 million.

The acquisition has been recognised in accordance with the methods set out in 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.

It should be noted that illimity used the so called *"full goodwill method"* to determine goodwill.

After being defined, the acquisition cost was allocated to the shareholders' equity of the acquisition, revalued to take into account the fair value of the assets and liabilities acquired. To determine the fair value of the assets and liabilities acquired, a consolidated at the acquisition date was considered, in compliance with IFRS, with accounting balances adjusted to take into account the fair value adjustment, at the acquisition date, of the assets and liabilities of IT Auction.

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 adjustments were made to other items of assets and liabilities, and as the fair value of these items corresponds to their carrying amount and no potential liabilities were identified, goodwill was recognised in the amount of EUR 14.6 million.

Therefore, following the acquisition of IT Auction, goodwill of EUR 36.2 million was recognised in the Bank's financial statements (EUR 21.6 million as of 31 December 2019), estimated in compliance with IFRS 3, and includes:

a) the goodwill recognised at the time of the purchase price allocation for the purchase of Banca Interprovinciale by SPAXS, the company merged with illimity on 5 March 2019, equal to EUR 21.6 million;
b) the goodwill recognised following the completion of the purchase price allocation for the purchase of IT Auction, equal to EUR 14.6 million (reference is made to Section 5 – Other Aspects, Part A).

The purchase price allocation process provided for a provisional allocation, recognised in the interim consolidated statements of the illimity Group during 2020. The process of allocation of the cost of acquisition to the net assets acquired was completed during the preparation of these consolidated financial statements at 31 December 2020 in accordance with IFRS 3.

The table below summarises the results of the process of allocating the fair value of the net assets acquired, and the determination of goodwill:

(In thousands of euro)

Description		
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**

Allocation of goodwill to the CGUs identified

Following the completion of the process to define the organisation of the information system outlined by the Bank, for management to assess the results achieved by various operating segments and consequently to adopt strategic decisions, in compliance with IFRS 8 and analyses to understand which operating segments have the characteristics of CGUs, three CGUs were identified that correspond to the operating divisions that generate incoming cash flows for the Bank and benefit from the synergies arising from business combinations: (i) DCIS; (ii) SME; and (iii) *Digital Bank*.

The goodwill arising from the purchase price allocation process for the purchase price of Banca Interprovinciale, equal to EUR 21.6 million, previously attributed to a single CGU by the illimity Bank Group, was reallocated to the CGUs DCIS (EUR 17.6 million) and SME (EUR 4 million) based on the percentage of the value in use of each CGU.

The reallocation was carried out in compliance with paragraph 87 of IAS 36, according to which when an entity changes the composition of the CGUs, the reallocation must be based on a criterion of the relative value, at the reorganisation date (similarly to that used when an entity disposes of an asset which is part of the unit generating cash flows), unless the entity can demonstrate that other methods better reflect the goodwill associated with the reorganised units.

No allocation concerned the CGU Digital Bank, as it presents forward-looking economic results that are negative (not considering the new business starting up in 2021), and the CGU SGR, as it is still in the start-up stage.

Goodwill resulting from the purchase price allocation process for the purchase price of the IT Auction Group, equal to EUR 14.6 million, was allocated in full to the CGU DCIS, based on the organisational and operational integration of activities acquired with those of the DCIS division.

Similarly, specific intangible assets identified following the completion of the purchase price allocation process for the purchase price of the IT Auction Group were allocated in full to the CGU DCIS. The effects on the economy caused by the COVID-19 pandemic, including the introduction of restrictions on movement and the closure of some production activities by the Government, as well as the suspension of auctions for some months, point to possible indicators of impairment. At the same time as the activities required by IFRS 3 were completed, the carrying amount of these specific intangible assets was first tested individually; this testing confirmed the values assigned to the intangible assets identified. Subsequently, these intangible assets were included in the carrying amount of the CGU DCIS and tested during the impairment testing of this CGU.

The next table shows the allocation of goodwill to the CGUs of the illimity Group.

	DCIS	SME	Digital Bank	Total
Goodwill arising from the BIP and Spaxs business combination	17.6	4	-	**21, 6**
Goodwill arising from the acquisition of IT Auction	14.6	-	-	**14, 6**
Total Goodwill	**32.2**	**4**	**-**	**36.2**

Impairment Tests

The *impairment test* is governed by accounting standard IAS 36 – *Impairment of Assets*, which requires that, at least annually and, in any case, whenever events arise suggesting a potential impairment, a test must be carried out to verify the adequacy of the value of goodwill subject to recognition.

The impairment test is carried out identifying the units generating financial flows (CGU) to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as its value in use), any losses in value must be recognised in the income statement, they are not susceptible to future value recoveries. As required by IAS 36, goodwill was tested for impairment to check for evidence that its recognition value may not be fully recoverable.

At the end of the reporting period, the impairment policy was updated to represent the impairment testing procedures adopted following the identification of operating segments in compliance with IFRS 8, completed during 2020, and as previously described. The impairment testing policy was approved by the Board of Directors on 28 January 2021.

The process of recognising impairment requires checking impairment indicators and determining any impairment losses. There are essentially two categories of impairment indicators: qualitative indicators such as a negative profit/loss result or a significant deviation from the budget targets or the targets in long-term plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans; quantitative indicators show a carrying amount of the entity's net assets higher than its market capitalisation, or a carrying amount of the investment in the separate financial statement higher than the carrying amount of the net assets and goodwill of the subsidiary on the consolidated financial statement, or the distribution by the latter of a dividend that is higher than its total income.

The illimity Group carries out first level impairment testing, individually considering the cash flows of the CGUs to which the goodwill was allocated (DCIS and SME), and second level impairment testing, considering the overall cash flows of the Bank, in order to ensure the recoverability of all net assets of the Bank.

The purpose of second level testing is to consider the Group's overall cash flows (consolidated level) to verify the recoverability of the value of any net assets not allocated to the CGUs identified (i.e. corporate center, etc.).

This approach is consistent with the guidelines suggested by the Italian Valuation Authority that defines second level impairment testing as the comparison between the carrying amount and the recoverable value of the business considered as a whole.

The CGU Digital Bank and the SGR were not considered for impairment testing purposes as they did not hold non-current assets as of 31 December 2020, nor had goodwill or other intangibles excluded from the scope of IAS 36 allocated. Any current assets allocated to them were measured separately according to main applicable IFRS.

Criteria for the determination of Value in Use

The value in use was determined using the Discounted Dividend Model, in the "Excess Capital" variant, commonly used in valuation practices in the financial industry, on the basis of which the economic value is equal to the sum of the following elements:

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

For the purposes of the consolidated financial statements as of 31 December 2020, the forward-looking financial information used to determine the value in use is inferred from the 2021 budget and updates to estimates of main economic, capital and regulatory aggregates and KPIs of the illimity Group in the 2022-25 period on an inertial basis and in line with the logics to develop the 2018-23 business plan.

Estimates of cash flows

To extrapolate the cash flows beyond the analytical forecasting period, consideration was given to the market context in which the forward-looking scenario is defined. With regard to the impairment test of 31 December 2020 (consistent with the methodology adopted in the previous financial year), in order to determine the terminal value, the cash flows for 2025, the last year of the analytical forecast, were projected in perpetuity based on a growth factor g determined as the average rate of growth of Italy's nominal GDP, which is equal to 0.4%.

In accordance with provisions in section 33 of IAS 36, new initiatives not yet started at the test date were excluded from the estimate of financial flows. Instead, initiatives already underway at the reporting date were included.

The forecasts of main economic, capital and regulatory aggregates and KPIs for each illimity Group CGU considered the following factors:

- TIT: the estimate is based on the TIT estimated during the product ROE test;
- Digital Bank: it is assumed that the interest margin is equal to zero, as the cost of funding the various channels of illimitybank.com is presumed to be in line with the market;
- revenues arising from the treasury portfolio generated in the Central Functions segment were assigned in full to the DCIS and SME Divisions, in terms of lower interest expense;
- the RWA of each division were estimated as the sum of the RWA for credit, counterparty and operational risk;
- forecast data related to the individual CGUs for the 2021-2025 period were developed on the basis of an analysis of the economic context, by elaborating the forecast data on the economic outlook and the outlook for the financial services sector, adjusted as necessary to reflect the context and dynamics in which illimity bases its operations. In particular, the projections considered a scenario characterised by the evolution of the following main macroeconomic variables:
  (i) growth in Italy's GDP in the reference period;
  (ii) the 3-month Euribor, rising from 2022 by -0.56% up to -0.35% in 2025;
  (iii) the mean Nominal GDP equal to 4.43% in 2022.

As regard provisions of prudential supervision, in the development of business volumes for the various divisions, the Bank assumed a capitalisation profile with a CET1 ratio equal to 15% for the 2022-2025 time horizon, in order to develop projections.

Cash flow discounting rate

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

The cost of capital was determined by using the "Capital Asset Pricing Model" (CAPM). According to that model, the cost of capital is determined as the sum of the return on risk-free investments and of a risk premium, which in turn depends on the specific risk of the activity (which means the risk level of the operating unit and the geographical risk level, which is the so-called "country risk").

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

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

1. as regards the risk free rate, the average monthly yield (average of the preceding 12 months) on 30-year Italian government bonds (BTP) was used;
2. with regard to the market risk premium, which represents the premium that an investor would require when investing in the equities market compared to the risk-free rate, the data in the international databases generally used for such valuations, were utilised;
3. with regard to the beta coefficient, which measures the specific risk of an individual company, this was determined by identifying a sample of comparable businesses (in terms of business), and the average beta recorded was then utilised by means of weekly observations over a five-year period.

For the purposes of impairment testing as of 31 December 2020, the cost of own did not include any specific add-on (α – alpha factor) considering the completion of the Bank's start-up stage and update to financial flows, albeit inertial, in light of the current context.

The Ke discounting rate used for the impairment test for the year ending 31 December 2020 was 9.67% (10.07% as of 31 December 2019).

Carrying amount of the CGUs

To carry out first level impairment testing, the carrying amount of each CGU of the illimity Group was determined considering the equity attribution framework as the reference, determining the value of each CGU based on the RWA assigned to each CGU multiplied by the CET1 ratio, i.e. the level of capitalisation assigned to each CGU, and to the goodwill directly or indirectly attributable to each CGU, or the specific intangibles allocated to it.

To carry out second level impairment testing, the carrying amount at a Group CGU level is represented by the shareholders' equity arising from the consolidated financial statements as of 31 December 2020, representing the value of the group's net assets. This approach is consistent with IAS 36, which requires the impairment testing of net assets which, in the Bank's second level test, refer entirely to shareholders' equity.

The next table shows the carrying amount of the CGUs of the illimity Group.

	First level impairment testing		Second level impairment testing
	DCIS	SME	illimity Group
Carrying amount	**363**	**130**	**583**

Results of the impairment tests

The results of first level impairment testing showed that the value in use of the cash generating units DCIS and SME is higher than the carrying amount. Similar conclusions were also reached in the second level test, with reference to the Bank as a whole. Therefore, no write-down was necessary for the purposes of the financial statement for the year ended as of 31 December 2020.

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

Sensitivity tests

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

In particular, an impact was verified on the value in use of the CGUs 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 the 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 tables below show the sensitivity analysis of the value in use of the CGUs, to a change in the rate of growth g or in the discounting rate.

The tables below show the sensitivity analysis of the value in use of the CGUs, to a change in the rate of growth g or in the discounting rate.

TABLE 1 – SENSITIVITY ANALYSIS OF THE CGU DCIS

		Ke				
		9.17%	9.42%	9.67%	9.92%	10.17%
g	0.15%	5%	1%	-2%	-5%	-7%
	0.40%	7%	3%	0%	-3%	-6%
	0.65%	9%	5%	2%	-1%	-4%

TABLE 2 – SENSITIVITY ANALYSIS OF THE CGU SME

		Ke				
		9.17%	9.42%	9.67%	9.92%	10.17%
g	0.15%	7%	3%	-1%	-5%	-8%
	0.40%	8%	4%	0%	-4%	-7%
	0.65%	10%	5%	1%	-3%	-6%

TABLE 3 – SENSITIVITY ANALYSIS OF THE CGU ILLIMITY GROUP

		Ke				
		9.17%	9.42%	9.67%	9.92%	10.17%
g	6%	2%	-1%	-4%	-7%	-7%
	7%	3%	0%	-3%	-6%	-6%
	9%	5%	1%	-2%	-5%	-4%

From a stress test perspective, analyses were carried out in order to highlight the limit values of main assumptions, beyond which the impairment tests would require an impairment of assets to be recognised; in particular, the rate of growth g and the discounting rate that would, assuming the same flows to be discounted, lead to values in use aligned with the recognition values in the financial statements. This analysis showed that the value in use would be reduced to the carrying amounts of the CGUs only in the case of significant deteriorations in the discounting rate (Ke) equal to 27.02% for the CGU DCIS, 16.12% for the CGU SME and 15.37% for the Bank as a whole), and in the rate of growth g (if occurring at the same time as a reduction in flows and the discounting rate).

Moreover, in order to develop a control method, a scenario was assumed in which a differentiated Beta coefficient for the SME and DCIS CGUs was assigned, of which the weighted mean (considering the RWA as the reference) represents the Beta coefficient of the Bank as a whole and responds to that identified in the baseline scenario. In this context, a differentiated Ke equal to 11.66% was therefore determined for the CGU DCIS and equal to 8.45% for the CGU SME. In this case as well, the results showed that the value in use of the cash generating units DCIS and SME is higher than the carrying amount.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balances	**21,643**	**3,057**	**-**	**17,507**	**-**	**42,207**
A.1 Total net write-downs	-	110	-	1,293	-	1,403
A.2 Opening net amount	**21,643**	**2,947**	**-**	**16,214**	**-**	**40,804**
B. Increases	**14,581**	**2,972**	**-**	**18,139**	**-**	**35,692**
B.1 Purchases	14,581	613	-	15,971	-	31,165
B.2 Increases in internal intangible assets	X	1,524	-	-	-	1,524
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	835	-	2,168	-	3,003
C. Decreases	-	**2,016**	**-**	**5,098**	**-**	**7,114**
C.1 Sales	-	-	-	-	-	-
C.2 Write-downs	-	797	-	5,098	-	5,895
- Amortisation	-	797	-	5,098	-	5,895
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value:	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	1,219	-	-	-	1,219
D. Closing net balances	**36,224**	**3,903**	**-**	**29,255**	**-**	**69,382**
D.1 Total net value adjustments	-	995	-	6,618	-	7,613
E. Closing Gross amount	**36,224**	**4,898**	**-**	**35,873**	**-**	**76,995**
F. Measurement at cost	-	-	-	-	-	-

Key:

DEF: useful life.
INDEF: indefinite useful life.

10.3 Other information

The following information is provided in accordance with IAS 38:

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

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

11.1 Deferred tax assets: breakdown

Main deductible temporary differences: IRES	31 December 2020	31 December 2019
Depreciation of loans and receivables with customers	1,573	1,622
Tax losses	11,437	23,692
ACE	5,469	3,429
Write-down of securities HTCS/FVOCI	134	108
Goodwill	8,566	-
Others	2,887	2,477
Total	**30,066**	**31,328**

Main deductible temporary differences: IRAP	31 December 2020	31 December 2019
Depreciation of loans and receivables with customers	194	200
Write-down of securities HTCS/FVOCI	27	22
Goodwill	1,631	-
Others	279	384
Total	**2,131**	**606**

Deferred tax assets include the benefits from the tax exemption of the goodwill arising from the merger by absorption of SPAXS with Banca Interprovinciale and the exemption, by neprix, of the goodwill and other intangible assets arising from the Consolidated Financial Statements, following the acquisition of 70% of the stake in IT Auction.

11.2 Deferred tax liabilities: breakdown

As regards tax liabilities, relating to deferred taxes, as of 31 December 2020 they amounted to Euro 0.7 million, compared to Euro 0.7 million as of 31 December 2019.

Main taxable temporary differences: IRES	31 December 2020	31 December 2019
Gains by instalments	-	-
Write-down of securities HTCS/FVOCI	55	488
Others	586	119
Total	**641**	**607**

Main taxable temporary differences: IRAP	31 December 2020	31 December 2019
Revaluation of securities HTCS/FVOCI	11	99
Others	95	11
Total	**106**	**110**

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

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

	Total 31/12/2020	Total 31/12/2019
1. Initial amount	**29,485**	**13,098**
2. Increases	**14,348**	**22,068**
2.1 Deferred tax assets recognised during the year	14,348	17,543
a) related to previous years	-	3,784
b) due to changes in accounting criteria	-	-
c) write-backs	-	-
d) others	14,348	13,759
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	4,525
3. Decreases	**13,744**	**5,681**
3.1 Deferred tax assets cancelled during the year	13,690	1,156
a) reversals	13,690	1,156
b) write-downs of non-recoverable items	-	-
c) changes in accounting criteria	-	-
d) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions:	54	4,525
a) conversion into tax credits pursuant to Law no. 214/2011	54	233
b) other	-	4,292
4. Final amount	**30,089**	**29,485**

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

In support of the reasonable certainty of the future recovery of the advance tax assets that justifies their recognition in the statement of financial position pursuant to IAS 12, a so-called probability test was conducted. The test consists of simulating the ability to recover the deductible temporary differences and tax losses accrued at the reporting date using future taxable income. The "probability test" conducted on the basis of the forward-looking financial results of the Bank yielded positive results, indicating that advance tax assets would be reabsorbed in 2022.

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

11.4 Changes in deferred tax assets pursuant to Law no. 214/2011

	Total 31/12/2020	Total 31/12/2019
1. Initial amount	**1,821**	**2,054**
2. Increases	**-**	**-**
3. Decreases	**54**	**233**
3.1 Reversals	-	-
3.2 Conversion into tax credits	54	233
a) deriving from loss for the year	54	233
b) arising from tax losses	-	-
3.3 Other reductions	-	-
4. Final amount	**1,767**	**1,821**

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

	Total 31/12/2020	Total 31/12/2019
1. Initial amount	**3**	**192**
2. Increases	**38**	**744**
2.1 Deferred taxes recognised during the year	-	-
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	38	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	744
3. Decreases	**26**	**933**
3.1 Deferred taxes derecognised during the year	-	-
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	26	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	933
4. Final amount	**15**	**3**

11.6 Changes in deferred tax assets (recorded in equity)

	Total 31/12/2020	Total 31/12/2019
1. Initial amount	**2,450**	**4,392**
2. Increases	**359**	**2,209**
2.1 Deferred tax assets recognised during the year	359	2,209
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	359	2,178
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	31
3. Decreases	**701**	**4,151**
3.1 Deferred tax assets cancelled during the year	701	414
a) reversals	701	-
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting criteria	-	-
d) others	-	414
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	3,737
4. Final amount	**2,108**	**2,450**

11.7 Changes in deferred tax liabilities (recorded in equity)

	Total 31/12/2020	Total 31/12/2019
1. Initial amount	**714**	**88**
2. Increases	**780**	**626**
2.1 Deferred taxes recognised during the year	780	564
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	780	564
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	62
3. Decreases	**761**	**-**
3.1 Deferred taxes derecognised during the year	-	-
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	761	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Final amount	**733**	**714**

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.

Current fiscal assets: breakdown

Type of operations/Values	31 December 2020	31 December 2019
Deferred taxes paid to tax authority	1,995	4,237
Withholding taxes	1	193
Other receivables from the Treasury	1,210	697
Total	**3,206**	**5,127**

Current fiscal liabilities: breakdown

Main taxable temporary differences: IRAP	31 December 2020	31 December 2019
Balance for the previous year	53	-
Provision for taxes	3,460	53
Withdrawals to pay taxes	(53)	-
Other changes	-	-
Total	**3,460**	**53**

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

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

Section 13 – Other assets – Item 130

13.1 Other assets: breakdown

Items	
Checks and cash equivalents on hand	10,628
Various borrowers	797
Leasehold improvements	16,653
Items in processing	13,237
Miscellaneous items	1,223
Total 31/12/2020	**42,538**
Total 31/12/2019	**32,662**

The item is largely composed of "Items in processing", linked to normal banking operations, which will be properly recorded in the days following their generation.

LIABILITIES

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

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

Type of operations/Values	Total 31/12/2020				Total 31/12/2019			
	BV	*Fair Value*			BV	*Fair Value*		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**184,721**	**X**	**X**	**X**	**52,409**	**X**	**X**	**X**
2. Amounts due to banks	**349,624**	**X**	**X**	**X**	**324,338**	**X**	**X**	**X**
2.1 Current accounts and sight deposits	81	X	X	X	5	X	X	X
2.2 Time deposits	30,353	X	X	X	25,556	X	X	X
2.3 Loans	308,551	X	X	X	283,091	X	X	X
2.3.1 Repurchase agreements - payable	308,546	X	X	X	279,091	X	X	X
2.3.2 Others	5	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	10,639	X	X	X	15,686	X	X	X
Total	**534,345**	**-**	**-**	**534,345**	**376,747**	**-**	**-**	**376,747**

Key:

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

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

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

Type of operations/Values	Total 31/12/2020				Total 31/12/2019			
	BV	*Fair value*			BV	*Fair value*		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on demand deposits	770,556	X	X	X	391,011	X	X	X
2. Time deposits	1,769,012	X	X	X	1,384,394	X	X	X
3. Loans	10,418	X	X	X	149,625	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	10,418	X	X	X	149,625	X	X	X
4. Debt for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Payables for leasing	22,547	X	X	X	21,690	X	X	X
6. Other payables	2,176	X	X	X	38,425	X	X	X
Total	**2,574,709**	**-**	**-**	**2,627,146**	**1,985,145**	**-**	**-**	**1,889,509**

Key:

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

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

Type of securities/Values	Total 31/12/2020				Total 31/12/2019			
	BV	*Fair value*			BV	*Fair value*		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	300,980	304,716	2,234	-	15,358	-	15,381	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	300,980	304,716	2,234	-	15,358	-	15,381	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**300,980**	**304,716**	**2,234**	**-**	**15,358**	**-**	**15,381**	**-**

Key:

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

Securities issued were equal to EUR 301 million, following the completion of the EMTN transaction in the fourth quarter of 2020.

1.4 Breakdown of subordinated debts/securities

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

1.5 Breakdown of structured debts

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

1.6 Payables for leases

At the reporting date, the Group had outstanding payables for leases equal to EUR 22.5 million, divided between EUR 21.2 million relating to property and EUR 1.4 million relating to company cars.

Section 2 – Financial liabilities held for trading – Item 20

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

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

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

Section 4 – Hedging derivatives – Item 40

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

Section 5 – Fair value change of financial liabilities in hedged portfolio – Item 50

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

Section 6 – Tax liabilities – Item 60

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

Section 7 – Liabilities associated with non-current assets held for sale and discontinued operations – Item 70

The Group does not hold liabilities associated with non-current assets held for sale and discontinued operations on the reporting date.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

Items	
Due to employees	5,019
Due to social security and welfare bodies	2,366
Due to suppliers	25,776
Payables to the treasury	13,967
Deferred Purchase Price	54,411
Miscellaneous items	18,996
Accrued expenses and deferred income	1,254
Total 31/12/2020	**121,789**
Total 31/12/2019	**100,568**

The item is largely composed of the Deferred Purchase Price (DPP), related to the purchase of an NPL portfolio, as well as “miscellaneous items", which mainly includes items in processing, linked to normal banking operations, which see their physiological accounting arrangement in the days following their generation. The sub-item "Payables to suppliers” is, instead, mainly composed of trade payables to suppliers.

Section 9 – Employee severance pay – Item 90

Following the reforms to supplementary pensions in legislative decree no. 252 of 5 December 2005, post-employment benefits accruing from 1 January 2007 can be allocated either to supplementary pension schemes or transferred to the INPS pension fund, at the employee’s discretion; The provisions take into account the actuarial valuations.

9.1 Employee severance pay: annual changes

	Total 31/12/2020	Total 31/12/2019
A. Opening balances	**1,097**	**575**
B. Increases	**1,660**	**639**
B.1 Provisions for the year	697	588
B.2 Other changes	963	51
- from business combinations	580	41
C. Decreases	**101**	**117**
C.1 Payments made	97	114
C.2 Other changes	4	3
D. Closing balance	**2,656**	**1,097**
Total	**2,656**	**1,097**

The following criteria were used to calculate the TFR for IAS purposes:

SUMMARY OF TECHNICAL ECONOMIC ASSUMPTIONS

	31 December 2020	31 December 2019
Annual discount rate	0.53%	1.04%
Annual inflation rate	0.80%	1.20%
Annual rate of TFR increase	2.10%	2.40%
Annual rate of salary increase	1.00%	1.00%

It should be noted that:

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

SUMMARY OF TECHNICAL DEMOGRAPHIC ASSUMPTIONS

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

9.2 Other information

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

Section 10 – Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: breakdown

Items/Components	Total 31/12/2020	Total 31/12/2019
1. Allowances for credit risk relating to commitments and financial guarantees given	3,296	598
2. Provisions for other commitments and guarantees issued	-	-
3. Post-employment benefits and similar commitments	7	-
4. Other provisions for risks and charges	1,178	484
4.1 legal and tax disputes	14	70
4.2 Personnel cost	674	295
4.3 others	490	119
Total	**4,481**	**1,082**

10.2 Allowances for risks and charges: annual changes

	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other provisions for risks and charges	Total
A. Opening balances	**-**	**-**	**484**	**484**
B. Increases	**-**	**7**	**1036**	**1043**
B.1 Provision for the year	-	-	662	662
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to variations in the discount rate	-	-	-	-
B.4 Other changes	-	7	374	381
C. Decreases	**-**	**-**	**342**	**342**
C.1 Utilisations for the year	-	-	-	-
C.2 Changes due to variations in the discount rate	-	-	-	-
C.3 Other changes	-	-	342	342
D. Closing balance	**-**	**7**	**1178**	**1185**

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

	Allowances for credit risk relating to Commitments and financial guarantees given			
	Stage one	Stage two	Stage three	Total
Commitments to disburse funds	365	37	2,798	3,200
Financial guarantees	53	37	6	96
Total	**418**	**74**	**2,804**	**3,296**

10.4 Allowances for other commitments and guarantees issued

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

10.5 Defined-benefit pension funds

Company retirement funds refer to the supplementary benefits of agents of a Group company.

10.6 Allowances for risks and charges – other provisions

The item mainly includes other allowances for risks and charges undertaken in the year related to operations of the DCIS Division.

Section 11 – Technical Reserves – Item 110

The Group does not conduct insurance business.

Section 12 – Redeemable shares – Item 130

The Group does not hold redeemable shares as of the reporting date.

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

13.1 "Capital" and "Treasury shares": breakdown

At 31 December 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.

13.2 Capital – Number of parent company shares: annual changes

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	**65,153,880**	**1,440,000**
- fully paid-up	65,164,434	1,440,000
- not fully paid-up	-	-
A.1 Treasury shares (-)	(10,554)	-
A.2 Shares outstanding: initial balance	**65,153,880**	**1,440,000**
B. Increases	**918,983**	**-**
B.1 New issues	918,983	-
- against payment:	771,656	-
- bonds converted	-	-
- warrants exercised	-	-
- other	771,656	-
- free:	147,327	-
- for employees	147,327	-
- for directors	-	-
- other	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**(87,951)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(87,951)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**65,984,912**	**1,440,000**
D.1 Treasury shares (+)	98,505	-
D.2 Shares existing at the end of the year	66,083,417	1,440,000
- fully paid-up	66,083,417	1,440,000
- not fully paid-up	-	-

13.3 Capital: other information

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

13.4 Profit reserves: other information

	Balance as of 31/12/2020
Legal reserve	804
Extraordinary reserve	10,599
Other Provisions	(15,632)
Total	**(4,229)**

13.5 Equity instruments: breakdown and annual changes

The Group does not hold equity instruments.

13.6 Other information

Basic and diluted earnings (loss) per consolidated share

The basic earnings (loss) per share is calculated by dividing the Group's net loss for the year by the weighted average number of ordinary shares outstanding during the period. The diluted earnings (loss) per share as of 31 December 2020 coincides with the basic loss per share.

(amounts in thousands of euros)

Basic and diluted loss per share	Net profit/loss for the year	Average number of shares	Basic and diluted loss per share
Period ended 31 December 2020	31,086	65,700,601	0.47
Period ended 31 December 2019	(16,140)	65,128,632	(0.25)

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 31 December 2020:

	Shareholders' equity	Result
illimity Bank S.p.A.	**584,706**	**32,561**
Effect of consolidation of subsidiaries	643	-
Results of the consolidated companies	(4,198)	(4,198)
Consolidation adjustments	1,971	2,723
Dividends	-	-
Effect of valuation at equity method of associates and joint ventures	-	-
Group	**583,122**	**31,086**

Section 14 – Equity of minority interests – Item 190

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

Other information

1. Commitments and financial guarantees issued

	Nominal value on commitments and financial guarantees issued			Total 31/12/2020	Total 31/12/2019
	Stage one	Stage two	Stage three		
1. Commitments to disburse funds	**76,473**	**6,242**	**29,164**	**111,879**	**196,481**
a) Central banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	167	-	199	366	30,126
e) Non-financial companies	74,117	5,797	28,943	108,857	162,470
f) Households	2,189	445	22	2,656	3,885
2. Financial guarantees	**6,183**	**333**	**506**	**7,022**	**12,732**
a) Central banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	84	-	12	96	1,948
e) Non-financial companies	5,978	333	486	6,797	10,630
f) Households	121	-	8	129	154

2. Other commitments and guarantees issued

	Nominal value Total 31/12/2020	Nominal value Total 31/12/2019
1. Other guarantees issued		
of which: non-performing loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments	**38,245**	**5,691**
of which: non-performing loans	186	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	5,654	913
e) Non-financial companies	32,591	4,778
f) Households	-	-

3. Assets given as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2020	Amount 31/12/2019
1. Financial assets measured at fair value through profit or loss	99	100
2. Financial assets measured at fair value through other comprehensive income	68,964	42,362
3. Financial assets measured at amortised cost	211,215	279,845
4. Property and Equipment	-	-
of which: Property and Equipment held as inventories	-	-

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

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

5. Administration and brokerage for third parties

Type of service	Amount
1. Execution of orders for customers	**-**
a) purchases	-
1. settled	-
2. not settled	-
b) Sales	-
1. settled	-
2. not settled	-
2. Portfolio management	**-**
a) individual	-
b) collective	-
3. Custody and administration of securities	**2,289,737**
a) third-party securities held in deposit: relating to depositary bank activities (excluding portfolio management)	-
1. securities issued by companies included in the consolidation	-
2. Other securities	-
b) Third party securities deposited (excluding portfolio management): others	466,336
1. securities issued by companies included in the consolidation	155
2. Other securities	466,181
c) Third party securities deposited with third parties	349,917
d) Proprietary securities deposited with third parties	1,473,484
4. Other transactions	**-**

6. *Assets subject to offsetting in financial statement, or subject to master netting agreements or similar agreements*

Technical formats	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets reported in the balance sheet (c=a-b)	Related amounts not offset in the balance sheet		Net amount 31 December 2020 (f=c-d-e)	Net amount 31 December 2019
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	395,167	-	395,167	395,167	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 31/12/2020	**395,167**	**-**	**395,167**	**395,167**	**-**	**-**	**X**
Total 31/12/2019	**276,200**	**-**	**276,200**	**276,200**	**-**	**X**	**-**

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

Technical formats	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Related amounts not subject to accounting offsetting		Net amount 31 December 2020 (f=c-d-e)	Net amount 31 December 2019
				Financial instruments (d)	Cash deposits as guarantees (e)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	308,546	-	308,546	308,546	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2020	**308,546**	**-**	**308,546**	**308,546**	**-**	**-**	**X**
Total 31/12/2019	**278,512**	**-**	**278,512**	**278,512**	**-**	**X**	**-**

Since 1 January 2013, the changes to IFRS 7 concerning disclosures on set-off agreements, as approved with Regulation no. 1256 of 13 December 2012, came into mandatory application. IFRS 7 requires specific disclosures to be given about financial instruments that have been offset in the balance sheet under IAS 32, and which can potentially be offset under certain conditions, but presented in the balance sheet with opening balances as they are regulated by “master netting agreements or similar” which do not however meet the criteria of IAS 32 to make the set off in the financial statements.

In providing disclosures of these agreements, the standard also requires that consideration be given to the effects of the real financial guarantees (including guarantees in cash) received and given.

8. *Securities lending transactions*

There are no securities lending transactions.

9. *Disclosure on joint control activities*

There are no joint control activities.

Part C – Information on the consolidated income statement

Section 1 – Interest - Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial assets measured at *fair value* through profit or loss:	**112**	**-**	**-**	**112**	**-**
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	112	-	-	112	-
2. Financial assets measured at fair value through other comprehensive income	**2,434**	**9,728**	**X**	**12,162**	**1,723**
3. Financial assets measured at amortised cost:	**18,336**	**114,624**	**X**	**132,960**	**60,631**
3.1 Due from banks	-	517	X	517	1,571
3.2 Loans to customers	18,336	114,107	X	132,443	59,060
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**5**	**5**	**70**
6. Financial liabilities	**X**	**X**	**X**	**744**	**249**
Total	**20,882**	**124,352**	**5**	**145,983**	**62,673**
of which: interest income on impaired assets	-	99,690	-	99,690	35,871
of which: interest income on finance leasing	-	-	-	-	-

1.2 Interest income and similar income: other information

1.2.1 Interest income on assets denominated in foreign currency

Items/values	31 December 2020	31 December 2019
Interest income on foreign currency financial assets	311	475

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debt	Securities	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial liabilities measured at amortised cost	(38,373)	(713)	X	(39,086)	(13,542)
1.1 Amounts due to central banks	(17)	X	X	(17)	(123)
1.2 Amounts due to banks	(5,685)	X	X	(5,685)	(2,551)
1.3 Amounts due to customers	(32,671)	X	X	(32,671)	(9,571)
1.4. Securities issued	X	(713)	X	(713)	(1,297)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	(510)	(510)	(10)
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(2,609)	(1,087)
Total	**(38,373)**	**(713)**	**(510)**	**(42,205)**	**(14,639)**
of which: interest expense relative to leasing liabilities	(1,553)	-	-	(1,553)	(1,261)

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in foreign currency

Items/values	31 December 2020	31 December 2019
Interest expenses on liabilities denominated in currency	(2)	(5)

1.5 Differentials on hedging transactions

As of 31 December 2020 there were no hedging transactions.

Section 2 – Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 31/12/2020	Total 31/12/2019
a) guarantees given	85	209
b) credit derivatives	-	-
c) management, brokerage and advisory services:	351	390
1. trading in financial instruments	-	-
2. currency trading	25	12
3. portfolio management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. custody and administration of securities	2	5
5. custodian bank	-	-
6. placement of securities	7	83
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	317	278
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2 collective	-	-
9.2 insurance products	110	258
9.3 other products	207	20
d) collection and payment services	224	411
e) servicing of seuritization transactions	-	-
f) factoring services	1,848	420
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	303	546
j) other services	15,718	9,602
Total	**18,529**	**11,578**

The sub-item “j) other services” 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.

2.2 Fee and commission expenses: breakdown

Service/Amount	Total 31/12/2020	Total 31/12/2019
a) guarantees received	(2)	(15)
b) credit derivatives	-	-
c) management and brokerage services:	(124)	(279)
1. trading in financial instruments	-	(210)
2. currency trading	-	-
3. portfolio management:	-	-
3.1 proprietary	-	-
3.2 delegated to third parties	-	-
4. custody and administration of securities	(124)	(69)
5. placement of financial instruments	-	-
6. off-site distribution of financial instruments, products and services	-	-
d) collection and payment services	(885)	(257)
e) other services	(4,002)	(4,406)
Total	**(5,013)**	**(4,957)**

Section 3 – Dividends and similar income – Item 70

No dividends were collected during the year.

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

4.1 Profits (losses) on trading: breakdown

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) – (C+D)]
1. Financial assets held for trading	**-**	**-**	**(12)**	**(611)**	**(623)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	(12)	(611)	(623)
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**234**
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)**	**(611)**	**(389)**

Section 5 – Fair value adjustments in hedge accounting – Item 90

No hedging transactions were recorded during the year.

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

6.1 Profits (Losses) on disposal/repurchase: breakdown

Item/Income item	Total 31/12/2020			Total 31/12/2019		
	Profit	Loss	Net profit/ loss	Profit	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortised cost	2,410	(547)	1,863	8,788	(710)	8,078
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	2,410	(547)	1,863	8,788	(710)	8,078
2. Financial assets measured at fair value through other comprehensive income	10,120	(4,283)	5,837	2,759	(164)	2,595
2.1 Debt securities	10,120	(4,283)	5,837	2,759	(164)	2,595
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**12,530**	**(4,830)**	**7,700**	**11,547**	**(874)**	**10,673**
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 7 – Profit (loss) on other financial assets and liabilities measured at *fair value* through profit or loss – Item 110

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

Group did not record any profits or losses from such financial assets or liabilities in 2020.

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

Transaction/Income items	Capital gains (A)	Realised profits (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**1,177**	**-**	**(1)**	**-**	**1,176**
1.1 Debt securities	647	-	-	-	647
1.2 Equity instruments	530	-	-	-	530
1.3 UCITS units	-	-	(1)	-	(1)
1.4 Loans	-	-	-	-	-
2. Financial assets: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**1,177**	**-**	**(1)**	**-**	**1,176**

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

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

Transaction/Income items	Write-downs (1)			Write-backs (2)		Total 31/12/2020	Total 31/12/2019
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Due from banks	**(215)**	**-**	**-**	**319**	**-**	**104**	**(189)**
- Loans	(215)	-	-	319	-	104	(189)
- Debt securities	-	-	-	-	-	-	-
of which: purchased or originated credit impaired	-	-	-	-	-	-	-
B. Loans to customers	**(7,065)**	**-**	**(102,265)**	**1,736**	**147,672**	**40,078**	**(6,483)**
- Loans	(6,499)	-	(102,265)	1,175	147,672	40,083	(6,352)
- Debt securities	(566)	-	-	561	-	(5)	(131)
of which: purchased or originated credit impaired	-	-	(98,068)	-	143,422	45,354	911
Total	**(7,280)**	**-**	**(102,265)**	**2,055**	**147,672**	**40,182**	**(6,672)**

The sub-item "purchased or originated credit impaired financial assets" recognises the amount of adjustments/reversals of purchased or originated credit impaired financial assets as a result of collections or revisions of business plans.

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

Transaction/Income items	Net adjustments			Total 31/12/2020
	Stage one and Stage two	Stage three		
		Write-offs	Others	
1. Loans granted in accordance with GL	(117)	-	(51)	(168)
2. Loans subject to other forbearance measures	(5)	-	(53)	(58)
3. New funding	(1,538)	-	(208)	(1,746)
Total	**(1,660)**	**-**	**(312)**	**(1,972)**

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 31/12/2020	Total 31/12/2019
	Stage one and Stage two Write-offs	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Debt securities	(840)	-	-	922	-	82	4
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
Total	**(840)**	**-**	**-**	**922**	**-**	**82**	**4**

8.2a Net losses/recoveries for credit risk relating to loans measured at fair value through comprehensive income subject to Covid-19 support measures: breakdown

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

Section 9 – Profits/losses on changes in contracts without derecognition – item 140

The Group did not achieve any profits or losses on changes in contracts in 2020.

Section 10 – Net premiums – Item 160

The Group does not conduct insurance business.

Section 11 – Other net insurance income (expense) – Item 170

The Group does not conduct insurance business.

Section 12 – Administrative expenses – Item 190

12.1 Personnel expenses: breakdown

Type of expense/Amount	Total 31/12/2020	Total 31/12/2019
1) Employees	(48,303)	(28,548)
a) wages and salaries	(28,319)	(18,865)
b) social security contributions	(8,009)	(4,188)
c) provision for employee severance pay	-	-
d) pension costs	(710)	-
e) provision for employee severance pay	(1,174)	(571)
f) provision for post-employment benefits and similar provisions:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external complementary pension funds:	(810)	(630)
- defined contribution	(810)	(630)
- defined benefits	-	-
h) costs related to share-based payments	(114)	-
i) other employee benefits	(9,167)	(4,294)
2) Other personnel in service	(1,705)	(971)
3) Directors and statutory auditors	(1,936)	(1,345)
4) Early retirement costs	-	-
Total	**(51,944)**	**(30,864)**

12.2 Average number of employees per category

Category	2020
a) senior managers	52
b) middle managers	220
c) other employees	251
Total employees	**523**
Other personnel	**35**

12.3 Defined-benefit pension funds: costs and revenues

This item includes retirement funds for supplementary benefits of agents of a Group company.

12.4 Other employee benefits

The other benefits to employees mainly relate to canteen vouchers and the costs of staff training as well as various insurance policies.

12.5 Other administrative expenses: breakdown

Type of expense/Amount	31.12.2020
Rental of premises	(477)
Insurance	(2,065)
Various payments	(6,351)
Various consulting services	(9,751)
Membership fees	(323)
DGS, SRF contribution and voluntary scheme	(2,005)
Costs for services and onboarding	(7,267)
Financial information	(1,109)
Adverts and advertising	(3,173)
Financial statement audit	(644)
Maintenance and repair costs	(1,241)
Business expenses	(126)
IT and software expenses	(11,612)
Legal, notary’s fees and due diligence expenses	(12,343)
Postal and stationery expenses	(302)
Utilities and services	(1,754)
Other indirect taxes and duties	(7,194)
Others	(5,373)
Total 31/12/2020	**(73,110)**
Total 31/12/2019	**(51,164)**

Section 13 – Net provisions for risks and charges – Item 200

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

Income item/Amount	Write-downs/write-backs		Value write-backs		31 December 2020	31 December 2019
	Stage one and Stage two	Stage three	Stage one and Stage two	Stage three		
Guarantees issued	(37)	(1,082)	33	75	(1,011)	(50)
Irrevocable commitments to disburse funds	(182)	-	212	-	30	(430)
Total	**(219)**	**(1,082)**	**245**	**75**	**(981)**	**(480)**

13.2 Net provisions relating to other commitments and guarantees issued: breakdown

The Group did not make any net provisions relating to other commitments and guarantees issued over the course of the year.

13.3 Net provisions for other funds for risks and charges: breakdown

The item mainly includes other allowances for risks and charges, of which the balance is equal to EUR 468 thousand, and includes provisions for risks and charges undertaken in the year related to operations of the DCIS Division. See Part B of the Explanatory Notes for further details.

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

14.1 Net adjustmets/recoveries on property and equipment: composition

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	(2,719)	-	-	(2,719)
- Owned	(539)	-	-	(539)
- Rights of use acquired through leasing	(2,180)	-	-	(2,180)
2. Held for investment	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through leasing	-	-	-	-
3. Inventories	X	-	-	-
Total	**(2,719)**	**-**	**-**	**(2,719)**

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

15.1 Net adjustmets/recoveries on intangible assets: breakdown

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	(5,895)	-	-	(5,895)
- Generated internally by the company	(797)	-	-	(797)
- Other	(5,098)	-	-	(5,098)
A.2 Rights of use acquired through leasing	-	-	-	-
Total	**(5,895)**	**-**	**-**	**(5,895)**

Section 16 – Other operating income/expenses – Item 230

16.1 Other operating expenses: breakdown

Items/Technical forms	31 December 2020	31 December 2019
Other operating costs	(73)	(50)
Amortisation of expenses for improvements on third party assets	(654)	(311)
Total	**(727)**	**(361)**

16.2 Other operating income: breakdown

Items/Technical forms	31 December 2020	31 December 2019
Recoveries of expenses from other customers	3,802	1,987
Other non-recurrent income	-	16
Other income	4,690	1,310
Total	**8,492**	**3,313**

Other operating income is mainly from the management of a real-estate complex recognised under Property and Equipment, acquired through NPL operations.

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

Cases not present during the year.

Section 18 – Profits (losses) of fair value valuation of property and equipment and intangible assets – Item 260

The Group did not hold tangible and intangible assets measured at fair value during the year.

Section 19 – Goodwill impairment – Item 270

There is no impairment of goodwill.

Section 20 – Profits (losses) on disposal of investments – Item 280

There are no profits (losses) on disposal of investments.

Section 21 – Income taxes for the financial year on continuing operations – Item 300

21.1 Income taxes for the financial year on continuing operations: breakdown

Income items/Sectors	Total 31/12/2020	Total 31/12/2019
1. Current tax (-)	(8,431)	(29)
2. Adjustment to current tax of prior years (+/-)	-	(4,022)
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current taxes for the year for tax credits pursuant to Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	699	16,418
5. Change in deferred taxes (+/-)	126	-
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(7,606)	12,367

21.2 Reconciliation of theoretical tax charge with actual tax charge

Items/Components	31 December 2020
Profit (loss) from continuing operations before tax	**38,692**
IRES - theoretical tax charge (27.5%)	(10,640)
- effect of lower rate	(426)
- effect of non-deductible expenses and other increases - permanent	(2,279)
- effect of non-taxable income and other decreases - permanent	13,205
Non-current IRES	(826)
IRES - actual tax charge	**(967)**
IRAP - theoretical tax charge (5.57%)	(2,155)
- effect of lower rate	(126)
- effect of income/charges that to not contribute to the taxable base	(802)
Non-current IRAP	1,652
IRAP - actual tax charge	**(1,432)**
Other taxes	**(5,207)**
Financial statements actual tax charge	**(7,606)**

The theoretical tax charge, considered on an individual basis, was equal to 33.07% (27.5% ordinary and additional IRES and 5.57% IRAP), for banks and financial entities, and equal to 27.9% (24% ordinary and additional IRES and 3.9% IRAP) for industrial and service companies. The effective tax rate in 2020 was 20.35%. The tax rate in the year reflects the positive effects of the redemption for tax purposes of the goodwill recognised following SPAXS' merger into Banca Interprovinciale, by neprix, the goodwill and other intangible assets recognised in the consolidated financial statements following the acquisition of 70% in IT Auction, as well as the reintroduction of rules on the economic growth scheme (ACE).

Section 22 – Profit (loss) from discontinued operations after taxes – Item 320

There is no profit (loss) from discountinued operations net of taxes.

Section 23 – Profits (losses) for the financial year attributable to minority interests - Item 340

23.1 Breakdown of item 340 "Profit (loss) for the financial year attributable to minority interests"

The Group has no profits/(losses) to be attributed to third parties. On the reporting date, there were no third-party interests.

Section 24 – Other information

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

Disclosure of fees for legal auditing and other fees

With reference to fees for legal auditing, reference is made to Attachment 2 - Fees for audit and non-audit services pursuant to Article 149-*duodecies* of Consob Regulation no. 11971, of these consolidated financial statements.

Section 25 – Earnings per share

25.1 Average number of ordinary shares with diluted capital

Basic earnings (loss) per share are calculated by dividing the Group's net loss for the year by the weighted average number of ordinary shares in issue during the year. The diluted profit per share as of 31 December 2020 coincides with the basic profit per share.

(amounts in thousands of euros)

Basic and diluted earnings per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings (loss) per share
Period ended 31 December 2020	31,086	65,700,601	0.47
Period ended 31 December 2019	(16,140)	65,128,632	(0.25)

25.2 Other information

There is no other information as of the reporting date.

Part D – Consolidated Comprehensive Income

Analytical statement of the consolidated comprehensive income

		31 December 2020	31 December 2019
10.	**Profit (loss) for the financial year**	**31,086**	**(16,140)**
	Other income components not transferred to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	(1)	2
	a) fair value change	(1)	2
	b) transfers to other items of shareholders' equity	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
	a) fair value change	-	-
	b) transfers to other items of shareholders' equity	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
	a) fair value change (hedged instrument)	-	-
	b) fair value change (hedging instrument)	-	-
50.	Property and Equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(61)	(79)
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves connected with investments measured at equity	-	-
100.	Other income components without recycling to the income statement	15	24
	Other income components with recycling to the income statement		
110.	Hedging of foreign investments	-	-
	a) fair value change	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences	-	-
	a) fair value change	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges	-	-
	a) fair value change	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	–
140.	Hedging instruments (undesignated elements)	-	-
	a) fair value change	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(1,752)	1,933
	a) fair value change	(3,086)	1,377
	b) reclassification through income statement	1,334	557
	– adjustments for credit risk	(82)	(3)
	– profits/losses on disposals	1,416	560
	c) other changes	-	-
160.	Non-current assets and asset groups held for sale:	-	-
	a) fair value change	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
170.	Share of valuation reserves for equity investments measured at equity:	-	-
	a) fair value change	-	-
	b) reclassification through income statement	-	-
	– adjustments due to impairment	-	-
	– profits/losses on disposals	-	-
	c) other changes	-	-
180.	Income taxes relating to other income components with recycling to the income statement	582	(966)
190.	**Total other income components**	**(1,217)**	**914**
200.	**Other comprehensive income (Item 10+190)**	**29,869**	**(15,226)**
210.	Consolidated comprehensive income attributable to minority interests	-	-

220.	**Consolidated comprehensive income attributable to the Parent Company**	**29,869**	**(15,226)**

Part E – Information on risks and related hedging policies

Preamble

Risk Management Process and Internal Control System

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

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

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

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

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

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

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

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

Finally, the 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 sustainability at a credit and income level and coherence with the RAF.

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

The 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, as well as the Contingency Funding Plan procedure, that defines the emergency plan to manage liquidity in crisis situations.

In accordance with prudential regulatory provisions, the Group has defined the way in which information is provided to the public about its capital adequacy, risk exposure and the general characteristics of the systems it uses to identify, measure and manage these risks (the so-called Third pillar of Basel 2 – “Pillar 3”), a separate report in addition to the information given in this financial report. The report is published 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, and continually adopted, 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 (at least annual) to identify material risks for the Group is overseen by the CRO Division, together with the CFO Division and the support of other organisational units of the Parent Company and subsidiaries.

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

Part E of the Consolidated financial statements of the illimity Group contains specific information about the risk management system and specific information about material risks, indicated below, and the related management, control and hedging policies adopted by the Group:

- credit risk;
- 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.

As from this year, a process has been adopted to trace risks identified after risk mapping with the risks related to the dimensions of ESG (Environment, Social and Governance) sustainability, in order to assess their significance and identify governance, control and mitigation safeguards. For further information, reference is made to information published in the Consolidated Non-Financial Statement of the illimity Group (pursuant to Legislative Decree 254/2016).

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

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

Section 1 – Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

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

Portfolio/quality	Bad loans	Unlikely-to-pay positions	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	750,367	322,959	506	10,618	1,761,373	2,845,823
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	91,356	91,356
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	11,661	11,661
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2020	**750,367**	**322,959**	**506**	**10,618**	**1,864,390**	**2,948,840**
Total 31/12/2019	**549,998**	**224,034**	**1,209**	**10,082**	**1,325,514**	**2,110,837**

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

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	1,092,179	(18,347)	1,073,832	-	1,783,345	(11,354)	1,771,991	2,845,823
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	91,470	(114)	91,356	91,356
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	11,661	11,661
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2020	**1,092,179**	**(18,347)**	**1,073,832**	**-**	**1,874,815**	**(11,468)**	**1,875,008**	**2,948,840**
Total 31/12/2019	**793,733**	**(18,492)**	**775,241**	**-**	**1,339,539**	**(6,285)**	**1,335,596**	**2,110,837**

B. Disclosure of structured entities (other than SPV)

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

Section 2 – Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

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

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

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

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

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

The main operational factors that contribute to determining and managing credit risk relate to:

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

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, above all, sufficient cash flows to honour the debt;

- an assessment of the nature and scope of the required loan in relation to the actual needs and the financial and economic capacity of the applicant, the performance of the account if already in existence, and the sources of repayment;
- the membership in Legal and Economic Groups.

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

Impacts of the Covid-19 pandemic

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

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

Measures involving the restructuring of customer debt positions, including through the granting of guaranteed loans, are currently being prepared or have already been completed for all larger positions.

As regards risk measurement and control systems, updates were made to PD models during 2020, in line with the forward-looking approach required by IFRS 9, in order to take into account the worsening macro-economic outlook and its impact on the prospective risk level of the performing portfolio.

In particular, during the first part of 2020, an update was made to consider the initial impact of the emerging macro-economic scenario (March 2020). This scenario was subsequently updated in view of the end of the reporting period as of 31 December 2020, considering recent projections from the external provider, Oxford Economics (November 2020).

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

For the information indicated in the EBA Guidelines on the reporting process and disclosure of exposures subject to measures adopted in response to COVID-19, reference is made to the separate document Basel Pillar 3 - Public disclosure, 31 December 2020.

2. Credit risk management policies

2.1 Organisational aspects

Refer to the following paragraph.

2.2 Management, measurement and control systems

SME 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 Bank unit responsible for monitoring loans.

These areas, specialised by Business segment, are flanked by dedicated units, supporting business activities: the Legal SME Area supports the business areas regarding legal and contractual aspects; the Business Operations & Credit Support Area manages the annual reporting of the Division, monitors relations with tutors, manages the Modena branch and oversees the portfolio of the former Banca Interprovinciale regarding progressive divestment. The Credit Machine Area (credit transaction screening) and Operations, Credit Monitoring & NPE Area (credit monitoring and non-performing loan management), previously within the SME Division now report to the new CLO (Chief Lending Officer) Department, with effect from 1 January 2021.

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 Operations, Credit Monitoring & NPE 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 Distressed Credit Investment & Servicing Division is the business area operating in the following segments:

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

To optimise and streamline activities in the DCI&S Division, in addition to the changes already implemented in 2019, with effect from the third quarter of 2020 the organisational structure was further enriched, as a result of which the Division is now structured as follows:

i. 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;
ii. 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;
iii. The Portfolio Optimisation Area, which is responsible for optimising portfolio and single name management by identifying market opportunities for their sale, in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase, including all activities resulting from post-sales;
iv. The Pricing Area, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models for portfolios/single names/senior financing and the capital structure of all investments;
v. 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, and monitoring the Division’s performance;
vi. The Data Architecture & Analytics Area, responsible for governing and managing the process of acquiring, transforming and using the data originated and used by the DCIS Division in business processes; it is also responsible for managing the onboarding process.

In more detail, the Investments perimeter, which includes the organisational units “Portfolios”, “Special Situations – Real Estate” and “Special Situations – Energy”, is responsible for overseeing the market for opportunities to acquire distressed credit assets (financial receivables classified as 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.

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 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 is supported by 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) 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 companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo and River Immobiliare.

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

2.3 Methods of measuring expected losses

Among the main elements characterising this principle are:

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

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

Changesdue to COVID-19

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

- <u>assessment of the significant increase in risk (SICR)</u>: staging criteria adopted (management of the transition from stage 1 to stage 2), and in particular the adoption of the "principle of the significant increase in risk" (SICR), were not changed following the COVID-19 pandemic. In adopting the SICR, the Group carries out an analytical assessment, position by position, taking into account both the outlook of each borrower and impact of the government support measures (e.g. moratoria), in the light of the specific internal policy governing the adoption of criteria to classify forborne loans in the context of a systemic crisis;
- <u>measurement of expected losses</u>: the economic scenarios from the info provider Oxford Economics, used in the process to calculate collective impairment were updated from March 2020 (based on initial macro-economic projections following the unfolding of the pandemic) and in November 2020 (in a more defined forward-looking framework, albeit still characterised by elements of uncertainty), in order to lever the potential increase in portfolio risk due to the effects of the COVID-19 pandemic. The scenarios used show in particular the marked decrease in GDP during 2020 (around -9%), with a general recovery in 2021 (+5%). Consequently, the risks and uncertainties related to the pandemic, of a worsening in the macro-economic scenario resulted, in overall terms, in an initial worsening in the average default probabilities for 2020 estimated for the portfolio (affected by the aforesaid scenarios based on a satellite model) by approximately +50% (in relative terms), with a positive effect on their containment due to an improved economic context in the first half of 2021 (approximately 10% in relative terms). Moreover, the analyses and estimates carried out were not broken down by sector or segment, but instead an add-on was applied at a provision level for some counterparties from economic sectors particularly affected by the pandemic;

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

Significant increase in credit risk

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

Quantitative criteria

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

Qualitative criteria

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

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

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

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

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

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

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

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

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

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

For this purpose, for the 2020 financial statements, the illimity Bank Group has developed a model (hereinafter, the “Main Model”) that implements the following approaches, differentiated by type of portfolio:
- application of an evolved model for the shadow rating of exposures originating from illimity, and attribution of the relative probabilities of default based on the expected default rates for Italian SMEs, also considering the expected macroeconomic scenario;
- application of an external rating to the remaining exposures (former Banca Interprovinciale Portfolio) and attribution of the relative probabilities of default based on historical default rates and expectations also linked to the macroeconomic scenario, using the PD forward looking Model;
- adoption of the new LGD model based on the estimate of recovery percentages in the case of non-performing loans calibrated based on the business plans of non-performing loans of the DCIS Division.

2.4 Credit risk mitigation techniques

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

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

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

3. Non-performing credit exposures

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

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

- Past-due non-performing exposures;
- Unlikely-to-pay positions;
- Non-performing loans.

The term “past-due non-performing exposures" correspond to on-balance sheet credit exposures other than those classified under non-performing loans or unlikely-to-pay positions, which on the reporting date were past-due or have been overrun continuously for more than 90 days.

The “unlikely-to-pay” positions, rather, correspond to exposures for which it is considered unlikely that the borrower will fulfil their loan obligations without the recourse to actions such as enforcement of guarantees. This assessment is made regardless of whether or not there are any amounts or instalments overdue and unpaid. There is thus no need to wait for an express signal such as non-repayment, if there are factors that imply a risk of the borrower defaulting (for example a crisis in the industry they operate in). The total on- and off-balance sheet exposures to the same borrower in the above situation will be termed an unlikely to pay position unless there are conditions for classifying the borrower among non-performing loans.

Finally, non-performing loans correspond to on- and off-balance sheet exposures to a borrower in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Group. They do not, therefore, take into account any secured or personal guarantees given in respect of the loan. They exclude exposures where the irregularity relates to country risk aspects.

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

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

The main forborne exposures or support measures are:

- changes to the terms and conditions of a loan that the counterparty cannot repay, by including new conditions that would not have been granted if the customer had not been in financial difficulty;
- total or partial refinancing, meaning the use of a loan disbursement intended to ensure the full or partial repayment of other existing loan agreements, which would not have been granted if the counterparty had not been in financial difficulty.

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

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

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

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

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

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

4. Financial assets subject to commercial negotiations and forborne exposures

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

Quantitative information

A. Credit quality

A.1 Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.1 Prudential consolidation - Breakdown of financial assets by past due brackets (book value)

Portfolios/risk stages	Stage one			Stage two			Stage three		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortised cost	6,007	93	1,629	112	2,322	455	7,965	5,151	243,488
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2020	**6,007**	**93**	**1,629**	**112**	**2,322**	**455**	**7,965**	**5,151**	**243,488**
Total 31/12/2019	**6,451**	**528**	**-**	**307**	**2,445**	**352**	**1,336**	**1,752**	**692,404**

A.1.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees issued: trend in total value adjustments and total provisions

Description/risk stages	Total value adjustments									
	Assets in stage one					Assets in stage two				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	**5,496**	**196**	**-**	**-**	**5,692**	**594**	**-**	**-**	**-**	**594**
Increases in purchased or originated financial assets	7,769	114	-	-	7,883	1,190	-	-	-	1,190
Derecognitions other than write-offs	(3,437)	(196)	-	-	(3,633)	(134)	-	-	-	(134)
Net adjustments to/recoveries for credit risk	(295)	-	-	-	(295)	(13)	-	-	-	(13)
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	(53)	-	-	-	(53)	238	-	-	-	238
Final total adjustments	**9,480**	**114**	**-**	**-**	**9,594**	**1,875**	**-**	**-**	**-**	**1,875**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-

A.1.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees issued: trend in total value adjustments and total provisions

Descriptions/risk stages	Total value adjustments						Total provisions on commitments to disburse funds and financial guarantees issued			Total
	Assets in stage three					Of which: purchased or originated impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs		Stage one	Stage two	Stage three	
Opening total adjustments	**18,462**	**-**	**-**	**18,462**	**-**	**-**	**479**	**39**	**80**	**25,346**
Increases in purchased or originated financial assets	5,563	-	-	5,471	92	557	339	-	2,799	**17,774**
Derecognitions other than write-offs	(2,361)	-	-	(2,361)	-	-	(388)	(11)	(30)	**(6,557)**
Net adjustments to/recoveries for credit risk	(3,311)	-	-	(3,363)	52	-	-	-	-	**(3,619)**
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	**-**
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	**-**
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	**-**
Other changes	(6)	-	-	(17)	11	-	(12)	46	(45)	**168**
Final total adjustments	**18,347**	**-**	**-**	**18,192**	**155**	**557**	**418**	**74**	**2,803**	**33,112**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	**-**
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	**-**

A.1.3 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From stage 3 to stage 2	From Stage 1 to Stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	34,067	6,918	985	497	8,556	112
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-
Total 31/12/2020	**34,067**	**6,918**	**985**	**497**	**8,556**	**112**
Total 31/12/2019	**19,144**	**7,844**	**6,010**	**1**	**15,677**	**-**

A.1.3a Loans subject to COVID-19 support measures: transfers between the various credit risk stages (gross values)

Portfolio/quality	Gross values/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From Stage 1 to Stage 2	From stage 2 to stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
A. Loans measured at amortised cost	**5,573**	**1,071**	**96**	**-**	**6,397**	**40**
A.1 subject to forbearance in accordance with GL	4,448	708	96	-	221	39
A.2 subject to other forbearance measures	1,125	10	-	-	1,000	1
A.3 new loans	-	353	-	-	5,176	-
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to forbearance in accordance with GL	-	-	-	-	-	-
B.2 subject to other forbearance measures	-	-	-	-	-	-
B.3 new loans	-	-	-	-	-	-
Total 31/12/2020	**5,573**	**1,071**	**96**	**-**	**6,397**	**40**

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

Type of exposures/values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs (*)
	Non-performing	Performing			
A. On-balance sheet exposures					
a) bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely-to-pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	117	-	117	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	610,549	278	610,271	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**610,666**	**278**	**610,388**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**-**	**610,666**	**278**	**610,388**	**-**

(*) Values to be displayed for information purposes.

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

Type of exposures/values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs (*)
	Non-performing	Performing			
A. On-balance sheet exposures					
a) bad loans	764,247	X	13,880	750,367	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely-to-pay	327,399	X	4,440	322,959	-
- of which: forborne exposures	8,410	X	624	7,786	-
c) Non-performing past due exposures	532	X	27	505	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	10,628	127	10,501	-
- of which: forborne exposures	X	301	6	295	-
e) Other performing exposures	X	1,265,183	11,063	1,254,120	-
- of which: forborne exposures	X	25,859	332	25,527	-
Total (A)	**1,092,178**	**1,275,811**	**29,537**	**2,338,452**	**-**
B. Off-balance sheet exposures					
a) Non-performing	29,857	X	2,804	27,053	-
b) Performing	X	127,289	492	126,797	-
Total (B)	**29,857**	**127,289**	**3,296**	**153,850**	**-**
Total (A+B)	**1,122,035**	**1,403,100**	**32,833**	**2,492,302**	**-**

(*) Values to be displayed for information purposes.

A.1.5a Loans subject to Covid-19 support measures: gross and net values

Type of operations/Values	Gross exposure	Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs (*)
A. Non-performing loans:	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New funding	-	-	-	-
B. Loans unlikely to pay:	**6,397**	**314**	**6,083**	**-**
a) Subject to forbearance in accordance with GL	198	51	147	-
b) Subject to other forbearance measures	1,023	55	968	-
c) New funding	5,176	208	4,968	-
C. Impaired overdue loans:	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New funding	-	-	-	-
D. Past due performing loans:	**555**	**32**	**523**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-
b) Subject to other forbearance measures	53	-	53	-
c) New funding	502	32	470	-
E. Other non-performing loans:	**231,312**	**1,946**	**229,366**	**-**
a) Subject to forbearance in accordance with GL	38,081	426	37,655	-
b) Subject to other forbearance measures	1,498	14	1,484	-
c) New funding	191,733	1,506	190,227	-
Total (A+B+C+D+E)	**238,264**	**2,292**	**235,972**	**-**

(*) Values to be displayed for information purposes.

A.1.6 Prudential consolidation – On-balance sheet credit exposures to banks: trend in gross non-performing exposures

There are no on-balance sheet exposures to banks impaired as initial and/or final exposures for the financial year, nor have they occurred during the financial year.

A.1.6bis Prudential consolidation - On-balance sheet credit exposures to banks: trend of the gross forborne exposures, distinguished by credit quality

There are no forborne on-balance sheet exposures to banks.

A.1.7 Prudential consolidation – On-balance sheet credit exposures to customers: trend in gross non-performing exposures

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**572,368**	**219,956**	**1,410**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**497,372**	**218,482**	**8,987**
B.1 transfers from performing exposures	-	6,231	8,025
B.2 transfers from purchased or originated impaired financial assets	263,838	189,561	79
B.3 transfers from other non-performing exposures	4,857	4,584	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	228,677	18,106	883
C. Decreases	**305,493**	**111,039**	**9,865**
C.1 transfers to performing exposures	-	1,715	5,100
C.2 write-offs	-	-	-
C.3 collections	183,776	89,109	139
C.4 proceeds from disposals	22,214	14,743	-
C.5 losses on disposal	3,371	-	-
C.6 transfers to other non-performing exposures	-	4,816	4,626
C.7 Contractual amendments without derecognition	-	-	-
C.8 other decreases	96,132	656	-
D. Gross exposure closing balance	**764,247**	**327,399**	**532**
- of which: assets sold but not derecognised	-	-	-

A.1.7 Prudential consolidation – On-balance sheet credit exposures to customers: trend in non-performing exposures (of which POCI)

Descriptions/Quality	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**554,939**	**170,430**	**-**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**492,429**	**203,481**	**79**
B.1 transfers from performing exposures	-	-	-
B.2 transfers from purchased or originated non-performing financial assets	263,838	189,561	79
B.3 transfers from other non-performing exposures	-	-	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	228,591	13,920	-
C. Decreases	**303,109**	**95,969**	**-**
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	182,089	80,634	-
C.4 proceeds from disposals	21,517	14,743	-
C.5 losses on disposal	3,371	-	-
C.6 transfers to other non-performing exposures	-	-	-
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	96,132	592	-
D. Gross exposure closing balance	**744,259**	**277,942**	**79**
- of which: assets sold but not derecognised	-	-	

A.1.7 On-balance sheet credit exposure to Customers: trend of non-performing exposures (excluding POCI)

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**17,429**	**49,526**	**1,410**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**4,943**	**15,001**	**8,908**
B.1 transfers from performing exposures	-	6,231	8,025
B.2 transfers from purchased or originated impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures	4,857	4,584	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	86	4,186	883
C. Decreases	**2,384**	**15,070**	**9,865**
C.1 transfers to performing exposures	-	1,715	5,100
C.2 write-offs	-	-	-
C.3 collections	1,687	8,475	139
C.4 proceeds from disposals	697	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	4,816	4,626
C.7 Contractual amendments without derecognition	-	-	-
C.8 other decreases	-	64	-
D. Gross exposure closing balance	**19,988**	**49,457**	**453**

A.1.7-bis Prudential consolidation – On-balance sheet credit exposure to customers: trend in gross forborne exposures, distinguished by credit quality

Descriptions/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening balance - gross exposure	**1,397**	**1,495**
- of which: assets sold but not derecognised	-	-
B. Increases	**9,066**	**26,655**
B.1 transfers from performing exposures not forborne	1,005	24,138
B.2 transfers from performing forborne exposures	598	X
B.3 transfers from non-performing forborne exposures	X	248
B.4 inflows from non-performing, non forborne exposures	-	-
B.4 other increases	7,463	2,269
C. Decreases	**2,053**	**1,990**
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	248	X
C.3 outflows towards non-performing forborne exposures	X	598
C.4 write-offs	-	-
C.5 collections	1,805	1,392
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Gross exposure closing balance	**8,410**	**26,160**
- of which: assets sold but not derecognised	-	-

A.1.8 Prudential consolidation – On-balance sheet non-performing credit exposures to banks: trend of the total value adjustments

There are no on-balance sheet exposures to banks impaired as initial and/or final exposures for the financial year, nor have they occurred during the financial year.

A.1.9 Prudential consolidation – On-balance sheet non-performing credit exposures to customers: trend of the total value adjustments

Descriptions/Categories	Bad loans		Unlikely-to-pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**12,197**	**-**	**6,094**	**386**	**200**	**-**
- of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	**4,702**	**-**	**2,389**	**845**	**717**	**-**
B.1 value adjustments to purchased or originated credit impaired assets	-	X	-	X	-	X
B.2 other value adjustments	2,977	-	1,852	770	717	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of deteriorated exposures	1,725	-	390	-	-	-
B.5 contractual amendments without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	147	75	-	-
C. Decreases	**3,019**	**-**	**4,043**	**607**	**890**	**-**
C.1 write-backs from measurement	1,967	-	1,426	63	39	-
C.2 write-backs from recoveries	1,052	-	727	544	20	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of deteriorated exposures	-	-	1,698	-	417	-
C.6 contractual amendments without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	192	-	414	-
D. Final total adjustments	**13,880**	**-**	**4,440**	**624**	**27**	**-**
- of which: assets sold but not derecognised	-	-	-	-	-	-

A.2 Classification of exposures based on internal and external ratings

For the purposes of calculating the capital requirement for credit risk, illimity Bank uses the external rating agency (ECAI) Fitch Ratings only for positions included in the class "Exposures to central governments or central banks" and in the class "Exposures to institutions"; no external ratings are used for other asset classes.

A.2.1 Prudential consolidation – Distribution of financial assets, commitments to disburse funds and financial guarantees issued: by classes of external ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**151,997**	**80,693**	**122,901**	**1,164**	**-**	**-**	**2,518,769**	**2,875,524**
- Stage one	151,997	80,693	122,880	1,164	-	-	1,365,200	1,721,934
- Stage two	-	-	21	-	-	-	61,390	61,411
- Stage three	-	-	-	-	-	-	1,092,179	1,092,179
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**8,648**	**49,991**	**5,181**	**3,081**	**24,570**	**91,471**
- Stage one	-	-	8,648	49,991	5,181	3,081	24,570	91,471
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
Total (A+B + C)	**151,997**	**80,693**	**131,549**	**51,155**	**5,181**	**3,081**	**2,543,339**	**2,966,995**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	796,281	796,281
D. Commitments to disburse funds and financial guarantees given								
- Stage one	-	-	-	-	-	-	82,656	82,656
- Stage two	-	-	-	-	-	-	6,575	6,575
- Stage three	-	-	-	-	-	-	29,670	29,670
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**118,901**	**118,901**
Total (A+B+C+D)	**151,997**	**80,693**	**131,549**	**51,155**	**5,181**	**3,081**	**2,662,240**	**3,085,896**

A.2.2 Prudential consolidation – Distribution of financial assets, commitments to disburse funds and financial guarantees issued by category of internal rating (gross values)

Exposures	Internal rating classes	Total
	No Rating	
A. Financial assets measured at amortized cost	**2,875,524**	**2,875,524**
- Stage one	1,721,934	1,721,934
- Stage two	61,411	61,411
- Stage three	1,092,179	1,092,179
B. Financial assets measured at fair value through other comprehensive income	**91,471**	**91,471**
- Stage one	91,471	91,471
- Stage two	-	-
- Stage three	-	-
C. Financial assets held for sale	**-**	**-**
- Stage one	-	-
- Stage two	-	-
- Stage three	-	-
Total (A+B + C)	**2,966,995**	**2,966,995**
of which: purchased or originated impaired financial assets	796,281	796,281
D. Commitments to disburse funds and financial guarantees given	**118,901**	**118,901**
- Stage one	82,656	82,656
- Stage two	6,575	6,575
- Stage three	29,670	29,670
Total (D)	**118,901**	**118,901**
Total (A+B+C+D)	**3,085,896**	**3,085,896**

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Prudential consolidation – Guaranteed on- and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collaterals (1)			
			Real estate - liens	Real estate - Loans for leasing	Securities	Other real guarantees
1. Guaranteed on-balance sheet exposures:	**395,194**	**395,167**	**-**	**-**	**385,219**	**-**
1.1 totally secured	395,194	395,167	-	-	385,219	-
- of which non-performing	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2. Guaranteed Off-Balance Sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-

Personal guarantees (2)									Total (1)+(2)
Credit derivatives					Endorsement credits				
CLN	Other derivatives				Public administrations	Banks	Other financial companies	Other entities	
	Central Counterparties	Banks	Other financial companies	Other entities					
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**385,219**
-	-	-	-	-	-	-	-	-	385,219
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation – Guaranteed on- and off-balance sheet credit exposures to customers

p.1

			Collateral (1)				Personal guarantees (2)	
							Credit derivatives	
	Gross exposure	Net exposure	Real estate - liens	Real estate - Loans for leasing	Securities	Other real guarantees	CLN	Other derivatives Central Counterparties
1. Guaranteed On-Balance sheet credit exposures:	**1,135,707**	**1,122,289**	**512,103**	**51,033**	**20,654**	**72,271**	**-**	**-**
1.1 totally secured	867,387	857,855	508,688	51,033	20,438	72,156	-	-
- of which non-performing	680,492	673,320	402,424	51,033	736	63,187	-	-
1.2 partially secured	268,320	264,434	3,415	-	216	115	-	-
- of which non-performing	34,208	33,379	3,415	-	-	-	-	-
2. Guaranteed "Off-Balance Sheet" credit exposures:	**17,983**	**17,952**	**538**	**-**	**-**	**1,995**	**-**	**-**
2.1 totally secured	16,359	16,339	538	-	-	1,695	-	-
- of which non-performing	5,868	5,866	50	-	-	14	-	-
2.2 partially secured	1,624	1,613	-	-	-	300	-	-
- of which non-performing	69	67	-	-	-	15	-	-

A.3.2 Prudential consolidation – Guaranteed on- and off-balance sheet credit exposures to customers

p.2

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Endorsement credits				
	Other derivatives							
	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	
1. Guaranteed On-Balance sheet credit exposures:	**-**	**-**	**1,846**	**75,349**	**5,040**	**29,176**	**217,526**	**984,998**
1.1 totally secured	-	-	1,846	17,683	4,554	27,543	146,334	850,275
- of which non-performing	-	-	1,846	1,526	485	12,519	134,167	667,923
1.2 partially secured	-	-	-	57,666	486	1,633	71,192	134,723
- of which non-performing	-	-	-	3,975	166	1,633	7,300	16,489
2. Guaranteed "Off-balance sheet" credit exposures:	**-**	**-**	**-**	**-**	**1,033**	**222**	**13,474**	**17,262**
2.1 totally secured	-	-	-	-	522	222	13,362	16,339
- of which non-performing	-	-	-	-	65	-	5,737	5,866
2.2 partially secured	-	-	-	-	511	-	112	923
- of which non-performing	-	-	-	-	-	-	52	67

A.4 Prudential consolidation - Financial and non-financial assets obtained through the enforcement of guarantees received

	Derecognised credit exposure	Gross amount	Total value adjustments	Book Value	
					of which obtained during the financial year
A. Property and equipment	**-**	**56,148**	**-**	**56,148**	**53,825**
A.1. Used in the business	-	-	-	-	-
A.2. For investment purposes	-	-	-	-	-
A.3. Inventories	-	56,148	-	56,148	53,825
B. Equity securities and debt securities	**-**	**-**	**-**	**-**	**-**
C. Other assets	**-**	**1,440**	**-**	**1,440**	**1,440**
D. Non-current assets and asset groups held for sale	**-**	**-**	**-**	**-**	**-**
D.1. Property and equipment	-	-	-	-	-
D.2. Other assets	-	-	-	-	-
Total 31/12/2020	**-**	**57,588**	**-**	**57,588**	**55,265**
Total 31/12/2019	**-**	**2,322**	**-**	**2,322**	**2,322**

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Prudential consolidation – Sector breakdown of on- and "off-balance sheet" credit exposures to customers

p.1

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet exposures						
A.1 Bad loans	60	-	4,161	25	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	38,954	208	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	1	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	11,409	362	500,708	1,778	454	2
– of which forborne exposures	-	-	-	-	-	-
Total (A)	**11,469**	**362**	**543,824**	**2,011**	**454**	**2**
B. Off-balance sheet exposures						
B.1 Non-performing	-	-	212	-	-	-
B.2 Performing	-	-	250	-	-	-
Total (B)	**-**	**-**	**462**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**11,469**	**362**	**544,286**	**2,011**	**454**	**2**
Total (A+B) 31/12/2019	**24,541**	**434**	**444,306**	**1,337**	**565**	**3**

B.1 Prudential consolidation – Sector breakdown of on- and "off-balance sheet" credit exposures to customers

p.2

Exposures/Counterparties	Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet exposures				
A.1 Bad loans	619,580	12,067	126,566	1,788
– of which forborne exposures	-	-	-	-
A.2 Unlikely to pay	279,525	3,672	4,480	560
– of which forborne exposures	7,519	576	267	48
A.3 Non-performing past-due exposures	373	6	131	21
– of which forborne exposures	-	-	-	-
A.4 Performing exposures	707,401	8,876	45,103	174
– of which forborne exposures	24,019	312	1,803	27
Total (A)	**1,606,879**	**24,621**	**176,280**	**2,543**
B. Off-balance sheet exposures				
B.1 Non-performing	26,812	2,803	29	1
B.2 Performing	123,793	491	2,754	1
Total (B)	**150,605**	**3,294**	**2,783**	**2**
Total (A+B) 31/12/2020	**1,757,484**	**27,915**	**179,063**	**2,545**
Total (A+B) 31/12/2019	**1,289,380**	**20,527**	**149,015**	**2,657**

B.2 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures
A. On-balance sheet exposures					
A.1 Bad loans	750,367	13,880	-	-	-
A.2 Unlikely to pay	322,959	4,440	-	-	-
A.3 Non-performing past-due exposures	506	26	-	-	-
A.4 Performing exposures	1,147,328	10,117	112,594	1,051	2,173
Total (A)	**2,221,160**	**28,463**	**112,594**	**1,051**	**2,173**
B. Off-balance sheet exposures					
B.1 Non-performing	27,053	2,804	-	-	-
B.2 Performing	126,796	492	-	-	1
Total (B)	**153,849**	**3,296**	**-**	**-**	**1**
Total (A+B)	**2,375,009**	**31,759**	**112,594**	**1,051**	**2,174**
Total (A+B)	**1,807,559**	**24,471**	**89,989**	**435**	**2,282**

B.2 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	1
A.4 Performing exposures	10	1,945	9	580	3
Total (A)	**10**	**1,945**	**9**	**580**	**4**
B. Off-balance sheet exposures					
B.1 Non-performing	-	-	-	-	-
B.2 Performing	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**10**	**1,945**	**9**	**580**	**4**
Total (A+B) 31/12/2019	**12**	**3,485**	**19**	**3,346**	**18**

B.2 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.3

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet exposures								
A.1 Bad loans	150,575	968	138,519	12,483	229,554	224	231,719	205
A.2 Unlikely to pay	114,667	99	112,439	3,955	39,647	349	56,206	37
A.3 Non-performing past-due exposures	2	3	499	14	3	4	2	5
A.4 Performing exposures	702,541	4,412	324,333	4,353	101,019	1,193	19,435	159
Total (A)	**967,785**	**5,482**	**575,790**	**20,805**	**370,223**	**1,770**	**307,362**	**406**
B. Off-balance sheet exposures								
B.1 Non-performing	4,034	1,905	21,647	786	1,132	39	240	74
B.2 Performing	49,794	241	52,848	188	11,268	58	12,886	5
Total (B)	**53,828**	**2,146**	**74,495**	**974**	**12,400**	**97**	**13,126**	**79**
Total (A+B) 31/12/2020	**1,021,613**	**7,628**	**650,285**	**21,779**	**382,623**	**1,867**	**320,488**	**485**
Total (A+B) 31/12/2019	**684,048**	**3,506**	**625,969**	**19,168**	**311,073**	**1,374**	**186,468**	**424**

B.3 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.1

Exposures/Geographic Areas	Italy		Other European countries	
	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-balance sheet exposures				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to pay	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-
A.4 Performing exposures	297,780	253	312,607	26
Total (A)	**297,780**	**253**	**312,607**	**26**
B. Off-balance sheet exposures				
B.1 Non-performing	-	-	-	-
B.2 Performing	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**297,780**	**253**	**312,607**	**26**
Total (A+B) 31/12/2019	**114,485**	**210**	**303,997**	**209**

B.3 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.2

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-balance sheet credit exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely-to-pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	159,382	150	19,602	28	118,796	75	-	-
Total (A)	**159,382**	**150**	**19,602**	**28**	**118,796**	**75**	**-**	**-**
B. Off-balance sheet credit exposures								
B.1 Non-performing	-	-	-	-	-	-	-	-
B.2 Performing	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**159,382**	**150**	**19,602**	**28**	**118,796**	**75**	**-**	**-**
Total (A+B) 31/12/2019	**44,093**	**91**	**5,440**	**19**	**64,952**	**100**	**-**	**-**

B.4 Large exposures

	31 December 2020
Carrying amount	2,093,366
Weighted value	468,402
Number	7

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

C. SECURITISATION TRANSACTIONS

Qualitative information

With regard to third-party securitisations, below is a brief description, by Division:

DCIS Division

For its NPL operations, the Parent company uses some SPVs, securitisation vehicles in accordance with Law 130/99, comprised of 130 Servicing, a financial intermediary and securitisation master servicer, through an “orphan” structure headed by the trust company of 130 Servicing, named 130 trust company S.r.l. These vehicles have not been acquired by the Bank and will not be part of the banking group.

In detail, the Parent Company acquires loan portfolios from independent third parties through SPV, which funds itself by issuing monotranching notes fully subscribed by the Bank, replicating the entire return of the underlying portfolio.

Also within the DCIS Division, the Parent Company also structures senior financing operations, represented by financing services to investors of distressed credits through the subscription of Senior or Junior notes.

Quantitative information

C.1 Prudential consolidation – Exposures resulting from the main "originated" securitisation transactions broken down by type of securitised asset and by type of exposure

The Group has no exposures in proprietary securitisations.

C.2 Prudential consolidation – Exposures resulting from the main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of underlying asset/Exposures	On-balance sheet exposures							
	Single tranche		Senior		Mezzanine		Junior	
	Book Value	(Value adjustments)/ write-backs	Book Value	(Value adjustments)/ write-backs	Book Value	(Value adjustments)/ write-backs	Book Value	(Value adjustments)/ write-backs
1. Investments energy sector	8,689	-	-	-	-	-	-	-
2. Senior Financing	243,139	(287)	2,752	(8)	-	-	2,346	-

C.3 Prudential consolidation - Interests in securitisation vehicles

As described above, to carry out the activities of the DCIS and SME Divisions, the Group utilises SPV pursuant to Law 130/99. These SPV have not been acquired by the Bank and will not form part of the banking group. However, since the Parent Company holds de facto control - in accordance with IFRS 10 - of these vehicles, they are subject to inclusion within the consolidated financial statements of illimity.

C.4 Prudential consolidation - Non-consolidated securitization vehicles

The Bank does not use a SPV for non-consolidated securitization.

C.5 Prudential consolidation – Servicer activities – originated securitisations: collections of securitised loans and redemptions of securities issued by the securitisation vehicle

The Group does not act as servicer of its own securitisations.

C.6 Prudential consolidation - Consolidated securitisation vehicles

The Special Purpose Vehicles used for securitisations relating to the DCIS Division the following:

- Aporti SPV
- Doria SPV
- River SPV
- Pitti SPV
- Friuli SPV

All securitised transactions are represented by NPL credits and the transactions are carried out through the issue of monotranche securities.

D. DISPOSALS

A. Financial assets sold not fully derecognised

Qualitative information

The sales connected to financial assets sold and not derecognised relate to repurchase agreements - payable, where the buyer has to resell on expiration of the assets (for example securities).

Quantitative information

D.1 Prudential consolidation - Financial assets sold and fully recognised and associated financial liabilities: Book Value

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book Value	of which subject to securitisation transactions	of which: subject to sale agreements with repurchase clause	of which impaired	Book Value	of which subject to securitisation transactions	of which: subject to sale agreements with repurchase clause
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**68,964**	**-**	**68,964**	**-**	**57,424**	**-**	**57,424**
1. Debt securities	68,964	-	68,964	-	57,424	-	57,424
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**149,961**	**-**	**149,961**	**-**	**223,556**	**-**	**223,556**
1. Debt securities	149,961	-	149,961	-	223,556	-	223,556
2. Loans	-	-	-	-	-	-	-
Total 31/12/2020	**218,925**	**-**	**218,925**	**-**	**280,980**	**-**	**280,980**
Total 31/12/2019	**515,336**	**90,779**	**424,557**	**207**	**278,512**	**-**	**278,512**

D.2 Financial assets sold and partially recognised and associated financial liabilities: Book Value

On the reporting date, the Group does not hold financial assets sold and partially recognised and associated financial liabilities.

D.3 Disposals with liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

In table D.1, the carrying amount of the financial assets indicated may be considered a proxy of the fair value.

B. Financial assets sold and fully derecognised with recognition of continuing involvement

The Group has no such operations.

D.4 Covered bond transactions

The Group has no such operations.

E. PRUDENTIAL CONSOLIDATION - CREDIT RISK MEASUREMENT MODELS

For management purposes, as well as for the calculation of collective write-downs, internal rating models were developed by the Group. These models were developed with the aim of making the measurement metrics more risk-sensitive and more relevant to the Group's business. The most advanced component of these models is the shadow rating model of “organic” exposures originating from illimity, which has been calibrated using deep external databases (Corporate counterparties of the European market), including the forward looking component to incorporate the effect of the expected macroeconomic scenario and providing a documented override process downstream (with qualitative notching in the case of more information).

Rating models provided by external providers are also used to calculate the rating of the component arising from the operations of the former Banca Interprovinciale, with the application of conservative margins.

With reference to the LGD (Loss Given Default) risk parameter, applied for the calculation of collective impairment, a new model was developed in-company compared to the previously used consortium model. This new model is based on the estimate of recovery percentages in the case of non-performing loans calibrated based on the business plans of non-performing loans of the DCIS Division.

Finally, a roadmap is planned for the evolution and consolidation of the aforementioned models (including external performance and calibration on internal data), which will see the use of the innovative component previously described also during origination, both for the definition of decision-making powers, and as a tool for analysis and simulation by business units also for the purpose of pricing.

1.2 Market risk

1.2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

A. General aspects

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

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

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

The daily VAR measurement is accompanied by periodic stress test analyses, which simulate the impacts on the income statement and 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 back testing tests.

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

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

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

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

For unlisted or illiquid financial instruments, the fair value is determined by applying measurement techniques aimed at determining the price that the instrument would have had on the market where freely negotiated between the parties motivated by usual commercial considerations. The techniques include:

- reference to market prices of similar instruments with the same risk profiles as those being valued (comparable approach);
- valuations based on generally accepted pricing models (i.e. Black & Scholes, Discount Cash Flow Model, etc.) or internal models, based on market input data and possibly on estimates or assumptions (Mark to Model).

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

Some complex financial products (structured or synthetic) can be valued on the basis of:

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

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

Impacts of the Covid-19 pandemic

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

No significant changes in risk management objectives and strategies took place, save for an adjustment to the asset allocation initially planned to maintain the risk profile within defined limits.

Instead, no changes to risk measurement and control systems, related to the pandemic, took place.

Quantitative information

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

(Euros)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	570	-	-	-	-	-	-
+ Short positions	-	567	-	-	-	-	-	-

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

(other currencies)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	310	-	-	-	-	-	-
+ Short positions	-	258	-	-	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

The Group does not hold equity instruments and share indices in the trading portfolio, as of the reporting date.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

There are no internal models and other methods of sensitivity analysis, other than those previously specified. The methodology based on the risk value is applied to the whole securities portfolio regardless of the allocation on the accounts.

The total trading portfolio is extremely limited, as per company policy, as of the reporting date there were no financial assets employed in trading operations.

1.2.2 Interest rate risk and price risk – banking book

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

Qualitative information

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

Banking portfolio interest rate risk consists of the risk that unexpected changes in interest rates will be negatively reflected on:

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

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

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

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

Fair value hedging activities

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

Cash flow hedging activity

There are no cash flow hedges.

Hedges of foreign investments

There are no hedges of foreign investments.

Quantitative information

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities

(Euros)

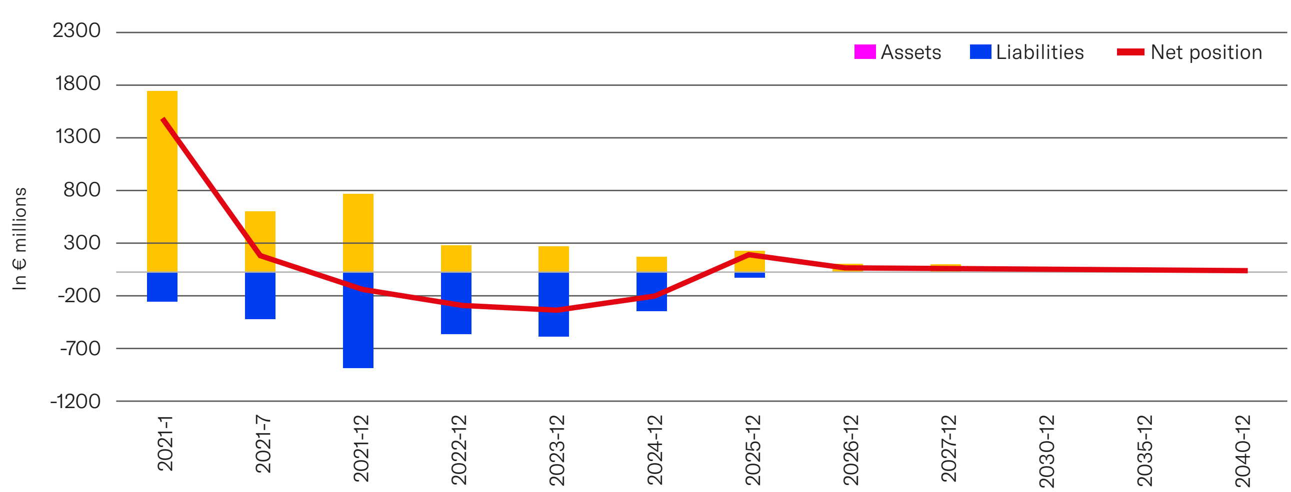
Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	**476,481**	**552,515**	**256,987**	**259,353**	**1,225,717**	**97,492**	**79,815**	**477**
1.1 Debt securities	-	-	-	-	259,695	28,309	64,448	477
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	259,695	28,309	64,448	477
1.2 Loans to banks	65,653	196,158	9	46,870	222,231	-	-	-
1.3 Loans to customers	410,828	356,357	256,978	212,483	743,791	69,183	15,367	-
- current account	25,698	7,094	12,342	48,248	162,101	15,147	200	-
- other loans	385,130	349,263	244,636	164,235	581,690	54,036	15,167	-
- with early repayment option	24,868	176,282	181,988	11,883	6,134	2,774	912	-
- other	360,262	172,981	62,648	152,352	575,556	51,262	14,255	-
2. On-balance sheet liabilities	**864,559**	**260,678**	**222,941**	**340,677**	**1,717,954**	**3,227**	**-**	**-**
2.1 Amounts due to customers	784,268	39,310	219,142	333,619	1,195,143	3,227	-	-
- current account	644,806	-	-	-	-	-	-	-
- other payables	139,462	39,310	219,142	333,619	1,195,143	3,227	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	139,462	39,310	219,142	333,619	1,195,143	3,227	-	-
2.2 Amounts due to banks	80,291	220,134	2,794	7,058	224,069	-	-	-
- current account	5	-	-	-	-	-	-	-
- other payables	80,286	220,134	2,794	7,058	224,069	-	-	-
2.3 Debt securities	-	1,234	1,005	-	298,742	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	1,234	1,005	-	298,742	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**70,202**	**1,208**	**580**	**710**	**33,596**	**15,819**	**2,945**	**-**
+ Long positions	7,672	1,208	580	710	33,596	15,819	2,945	-
+ Short positions	62,530	-	-	-	-	-	-	-

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

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

To monitor compliance with the limit set in the RAF, and to ensure that risk is limited to 20% of the ratio between the change in economic value and own funds, a value analysis is periodically carried out on the banking book (simplified methodology referred to in Annex C of Circular no. 285 issued by the Bank of Italy), both for a stress scenario with a parallel rate shock of +/- 200 bps, and in ordinary conditions using as a shock the 99th percentile (in the case of a rates rise) or 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 31 December 2020, based on which the exposure to the interest rate risk was estimated.



On the reporting date, the measurements indicated a decrease in the value of equity equal to approximately 17 million euros in relation to a parallel shock of the interest rates curve of 200 basis points; banking book exposure to interest rate risk is, therefore, marginal in terms of the ratio compared to the value of own funds, amounting to a minor level of approximately 3%.

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 statement of financial position perspective (constant assets and liabilities), thus excluding potential effects from new operations or future changes in the mix of assets and liabilities. In the scenario of positive rate shock of +200 bps, the change in the margin would amount to approximately EUR +31 million, while in the negative shock scenario of -200 bps, the estimated change would be equal to EUR -31 million.

1.2.3 Exchange risk

Qualitative information

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

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

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

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

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

B. Exchange rate risk hedging

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

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	USD	MXN	ZAR	CAD	CHF	OTHER CURRENCIES
A. Financial assets	**1,341**	**239**	**133**	**78**	**26**	**88**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	6	-	-	-	-	-
A.3 Loans to banks	979	239	133	78	26	88
A.4 Loans to customers	356	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**1,360**	**-**	**-**	**-**	**-**	**-**
C.1 Amounts due to banks	1,270	-	-	-	-	-
C.2 Deposits from customers	90	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial assets	-	-	-	-	-	-
D. Other liabilities	**65**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	265	-	-	-	44	-
+ Short positions	229	-	-	-	29	-
Total assets	**1,606**	**239**	**133**	**78**	**70**	**88**
Total liabilities	**1,654**	**-**	**-**	**-**	**29**	**-**
Difference (+/-)	**(48)**	**239**	**133**	**78**	**41**	**88**

2. Internal models and other methods of sensitivity analysis

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

1.3 Derivative instruments and hedging policies

During the reference year no derivatives transactions have been carried out.

1.4 Liquidity risk

Qualitative information

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

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

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

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

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

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.

Impacts of the Covid-19 pandemic

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

In March and a part of April, the volatility of some short-term funding components increased and some term deposits by corporate customers were released, with effects that were, in any case, negligible on the Group's overall funding. Subsequently, fund volatility returned to pre-COVID-19 physiological levels.

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

Quantitative information

1. Breakdown of financial assets and liabilities by residual contractual maturity

(Euros)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
On-balance sheet assets	**125,752**	**124,718**	**57,313**	**75,538**	**203,218**	**97,536**	**307,242**	**1,872,604**	**393,801**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	148	1,829	449	2,970	5,357	373,226	132,871	-
A.3 Units in UCIs	151	-	-	-	-	-	-	-	-	-
A.4 Loans	125,601	124,718	57,165	73,709	202,769	94,566	301,885	1,499,378	260,930	-
- Banks	16,816	117,119	41,106	94	85,921	9	46,889	222,252	-	-
- Customers	108,785	7,599	16,059	73,615	116,848	94,557	254,996	1,277,126	260,930	-
On-balance sheet liabilities	**776,250**	**20,263**	**9,769**	**5,746**	**75,270**	**226,720**	**407,637**	**1,862,864**	**24,156**	**-**
B.1 Deposits and current accounts	770,989	20,263	4,637	4,878	39,253	221,143	352,419	1,151,934	3,127	-
- Banks	5	19,029	-	4	10,066	13	21	26	-	-
- Customers	770,984	1,234	4,637	4,874	29,187	221,130	352,398	1,151,908	3,127	-
B.2 Debt instruments	-	-	-	-	1,234	1,005	-	298,742	-	-
B.3 Other liabilities	5,261	-	5,132	868	34,783	4,572	55,218	412,188	21,029	-
"Off-balance sheet" operations										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	570	-	-	-	-	-	-	-	-
- Short positions	-	567	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	6,994	-	-	10	1,198	602	726	33,647	19,354	-
- Short positions	62,530	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5 Operational risks

Qualitative information

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

Operational risk is the risk of incurring losses due to inadequate or malfunctioning procedures, human resources or internal systems, or due to exogenous events. It includes among other things losses from fraud, human error, business interruptions, and availability of systems, contractual breaches and natural disasters. This definition does not include strategic, business and reputation risk, while it does include IT and legal risk, intended as the risk of violating laws and other regulations in force, or of failing to fulfil contractual and extra-contractual responsibilities, as well as deriving from other disputes that may arise with contractual counterparties in the course of operations.

Operational risk is characterised by a cause and effect, such that an adverse event is generated by one or more triggers that directly results in a financial loss. Operational loss can thus be defined as all the adverse economic effects resulting from operations, recorded on the company's accounts, and impacting the income statement.

The most common sources of operational risk are, for example, inefficient or inadequate operational processes and monitoring systems, internal and external fraud, operational error, an inadequate physical and logical security, inadequacy of the information technology system with respect to the volume of operations and operating requirements, outsourcing of business functions, the presence of inappropriate management or staff training policies, and finally, social and environmental impacts.

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

The primary objective of the framework is, in fact, the prevention and containment of the frequency and impact on business functions of such risk events through the ex ante implementation of organisational and preventive measures, and ex-post mitigation measures, inspired by the following guiding principles:

- increase overall IT and operational security and efficiency;
- ensure the compliance of activities in regulatory and organisational terms, to reduce the probability of the occurrence of events that could potentially generate operational losses
- mitigating the likely effects of such events;
- transfer any risks that are not to be maintained, where possible, using insurance-type contracts;
- protecting relations with stakeholders, reputation and the brand.

Among the mitigation tools available are insurance policies that, first and foremost, offer broad coverage against various types of adverse event. The Group has taken out adequate insurance policies to cover different 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 Bank of Italy, and based on the integration logic required by the control functions, this system is managed both internally by the Information Technology Area, and externally by the outsourcer Centrico, and by front-end service providers (Fabrick, Kalyera, Nexi, Experian).

To control the economic risks arising from legal proceedings against the Group, a provision is made in the statement of financial position sheet, which is appropriate for and consistent with international accounting standards. The amount of the provision is estimated on the basis of multiple factors, which mainly concern the predicted outcome of the dispute, and in particular the likelihood of losing the proceedings and an order being made against the Group, as well as the amount that the Group may be required to pay to the adverse party.

As regards key processes for the proper management of operational risk, the Group has put in place a structured loss data collection (LDC) process and process to determine the Group's forward-looking exposure to operational risk, based on a Risk Self Assessment (RSA).

Through the Loss Data Collection process, the main information related to the Group's operational loss events and their economic effects is collected and analysed in a timely manner. The process extends throughout the entire banking group, also involving the subsidiaries for which illimity carries out risk management activities as an outsourcer. The data collection process also uses computer applications and processes that ensure the orderly and systematic collection of events and data on operational loss, and that allow the logging of such information for the purposes of monitoring and evaluating appropriate mitigation actions.

RSA activity instead aims to assess and quantify exposure to the Group's operational risks in the year following the assessment, based on a forward-looking self assessment which is conducted from main operating areas. The activity is based on a structured process that starts from the assessment of the frequency and expected impact of main operational risk events that may characterise each organisational unit. These forward-looking estimates are then screened by the control functions based on objective criteria which are then combined to provide an overall vision of expected operational losses at an individual Company or Group level.

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

The operational risk data collection process in 2020 benefited from the active contribution of all illimity Bank Divisions, and from the subsidiaries neprix and IT Auction.

The main operational loss event recorded in the year is attributable to the class of risk events generated by external events (ET 5, harm from external events), and in particular the effects on the income statement caused by the activities of Italian courts being stopped during the lockdown in the first half of 2020. In fact, this emergency condition led to the need to defer expected cash flows from the management of non-performing loans subject to judicial recovery procedures, causing their analytical write-down. This loss, attributable to exogenous factors, such as the COVID-19 pandemic, represented an operating loss for the Bank, which continued over the year. The remaining cases of operating loss recorded in 2020 are mainly related to errors or shortcomings in the configuration of operating processes (ET 4, Customers, products and professional practices), and errors in the execution and management of processes (ET 7, execution, delivery and management of processes), and, to a lesser extent, to episodes of malfunctioning software/ IT systems and external fraud (ET2).

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

Impacts of the Covid-19 pandemic

Because illimity was established as a digital company, with a strong focus on the use of the Cloud for collecting, managing and transferring company information, no particular operating problems were identified, nor increases in the frequency or impact of operating errors related to the activation of remote work.

Business continuity was basically maintained by the use of the digital model and remote working as fundamental aspects of the Bank's original business model, without therefore producing any particular consequences in terms of a slowdown in business activities due to the transition to continual remote working or interruption in critical processes, while also allowing for rapid measures to ensure the safety of personnel at the start of the pandemic.

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

In any case, it should be noted that the pandemic scenario led to an overall revaluation of possible operational risk events related to the onset of COVID-19 and applicable to the specific operations of the illimity Group, and not only to considering the potential effects in terms of an interruption to business continuity and/or shortcomings/deficiencies in process execution. During 2020, operating losses were recorded bordering credit risk related to the closure or suspension of the activities of Italian courts during the pandemic. This situation led to a deferment in expected cash flows from NPL portfolio positions subject to judicial recovery, thus leading to a review of the value of exposures and projection of impairment in the income statement. As the causal factor of this impairment is external - and not related to the credit worthiness of the counterparty - an operating loss was recorded.

Moreover, considering that measures to protect employees' health and safety adopted by the Group were implemented in response to regulations in Legislative Decree of 11 April 2020, and to the respective protocol, said measures represented a mandatory alignment to laws on the COVID-19 emergency and therefore, as defined by EBA guidance ("EBA Report on the implementation of selected Covid-19 Policies"), expenses incurred in this regard were not recognised as an operating loss. Additional infection prevention measures adopted by the Group, even if not specifically required by laws (e.g. regular serological tests, the temporary use of external Workers' Health and Safety Representative consultants), are all measures designed to prevent operational and legal risks related to the spread of the virus, and are not therefore qualified as operating losses, as indicated in the internal Loss Data Collection policy.

The advent of the COVID-19 pandemic led to a new focus on formulating new risk scenarios during the Risk Self Assessment (RSA), to include possible operational risks and the economic effects of the pandemic and its continuation during 2021, within the Group's various business units.

In terms of the potential impact of IT risk, no episodes of IT system or customer banking service unavailability due to the impacts of the spread of the virus were reported.

As regards IT security and cyber attacks, no particular developments in protection tools already in use in the Group (e.g. firewalls, multi factor authentication, conditional access, the least privilege principle, tokens etc.), took place, made necessary by the pandemic, apart from extending the use of the VPN to guarantee remote access to company data.

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

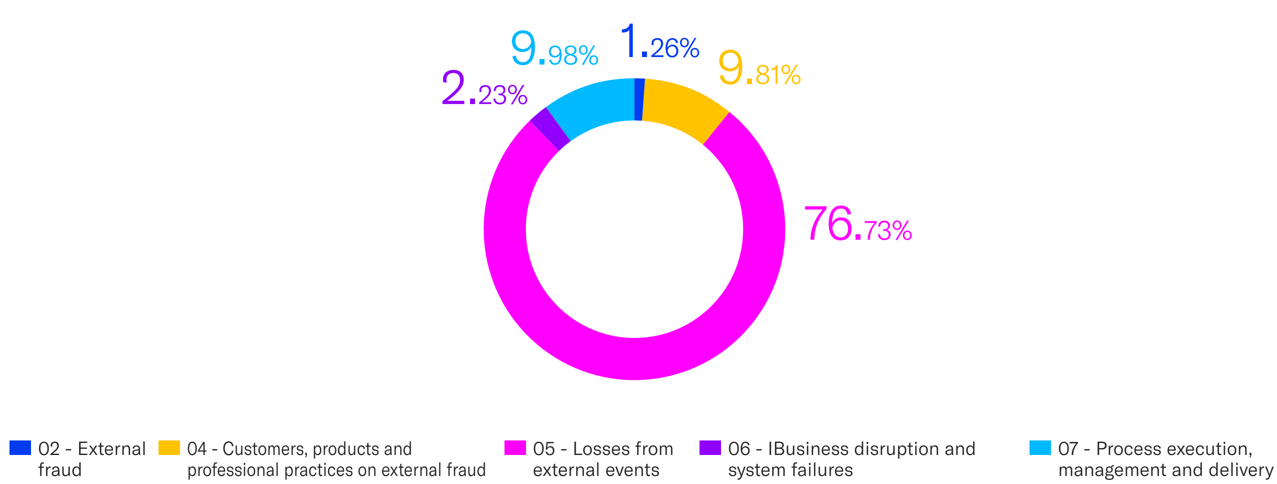
However, in March, April and July 2020, an increase in attempted fraud during the onboarding of new customers of the Direct Bank was recorded, through so-called money mule systems, based on which customers are paid in exchange for handing over their identity for criminal purposes. This type of fraud, also based on its timing, can be considered as being fostered by an impoverishment of the economic context following the first lockdown. This type of fraud, also based on its timing, can be considered as being fostered by an impoverishment of the economic context following the first lockdown.

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

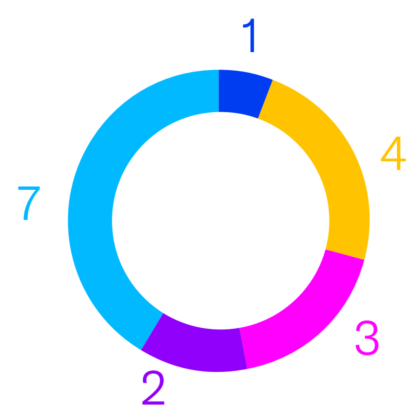
Quantitative information

The breakdown of the total operating losses recorded in the 2020 LDC process by illimity Bank and Group Subsidiaries is reported below:

TOTAL OPERATIONAL LOSSES 2020, BY TYPE



FREQUENCY OF OPERATIONAL LOSSES 2020, BY TYPE



As the charts show, risk events due to external (ET 5, according to official taxonomy), represented the primary source of the Group's operating loss in 2020 (76.73% of the total amount), as these risks are mainly related to the effects of the COVID-19 health emergency in terms of deferring expected cash flows from NPL subject to judicial proceedings, with their consequent analytical write-down. These were followed, as regards overall losses recorded in the year, by operating losses related to an erroneous management or execution of operating processes (ET 7, 9.98%) and the management of customer relations, product development and professional practices (ET 4, 9.81%). As also reported in 2019, risk events with a greater frequency refer to ET 7.

On an overall level, beyond the events of the pandemic, the risk events identified in the year were mainly attributable to the process to consolidate and enhance the operating and organisational activities which the Group bases its business on, because of the Group's recent establishment and the consequences of the initial stages of it being set up. In forward-looking terms, a progressive reduction is expected in the operational risks related to this process settlement stage, and in the risks related to the traditional banking activity of the former Banca Interprovinciale, which, although still present, is gradually being reduced in favour of the distinctive business of the illimity Group.

To calculate the requirement, the Group uses the BIA (Basic Indicator Approach) which calculates the capital requirement by applying a regulatory coefficient of 15% to an indicator of the volume of company business, identified over an average of three years for the relevant indicator, determined in accordance with article 316 of EU Regulation No. 575/2013.

As of 31 December 2020, the capital requirement for operational risk amounted to approximately EUR 9.739 million euros, compared to EUR 121.737 million for Risk Weighted Assets.

OTHER IMPORTANT RISKS

Risk of over-leverage

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

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

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

Settlement risk

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

Counterparty risk

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

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

Transfer risk

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

Sovereign risk

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

Strategic and business risk

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

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

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

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

Compliance risk

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

Money laundering risk

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

Reputation risk

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

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

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

Part F – Information on consolidated shareholders' equity

Section 1 – consolidated shareholders' equity

Qualitative information

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

B.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	21,766	-	-	-	21,766
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(832)	-	-	-	(832)
6. Valuation reserves:	(278)	-	-	-	(278)
- Equities measured at fair value through other comprehensive income:	4	-	-	-	4
– 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	(119)	-	-	-	(119)
- 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	(163)	-	-	-	(163)
– Shares of valuation reserves for equity investments measured at equity	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
7. Profit (loss) (+/-) for the financial year attributable to the Group and minority interests	31,086	-	-	-	31,086
Total	**583,122**	**-**	**-**	**-**	**583,122**

Quantitative information

B.2 Valuation reserves of the financial assets measured at fair value through other comprehensive income: breakdown

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Eliminations and adjustments from consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	469	(588)	-	-	-	-	-	-	469	(588)
2. Equity securities	6	(2)	-	-	-	-	-	-	6	(2)
3. Loans		-	-	-	-	-	-	-	-	-
Total 31/12/2020	**475**	**(590)**	**-**	**-**	**-**	**-**	**-**	**-**	**475**	**(590)**
Total 31/12/2019	**1,776**	**(392)**	**-**	**-**	**-**	**-**	**-**	**-**	**1,776**	**(392)**

B.3 Valuation reserves of the financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	**1,051**	**7**	**-**
2. Positive changes	**3,606**	**-**	**-**
2.1 Increases in fair value	939	-	-
2.2 Adjustments in value for credit risk	92	X	-
2.3 Transfer to income statement of negative reserves following disposal	1,769	X	-
2.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
2.5 Other changes	806	-	-
3. Negative changes	**(4,776)**	**(3)**	**-**
3.1 Decreases in fair value	(4,025)	(1)	-
3.2 Adjustments in value for credit risk	(174)	-	-
3.3 Reclassification through profit or loss of positive reserves: following disposal	(353)	X	-
3.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
3.5 Other changes	(224)	(2)	-
4. Closing balance	**(119)**	**4**	**-**

B.4 Revaluation reserves on defined benefit plans: annual changes

	31 December 2020
1. Opening balance	**(118)**
2. Positive changes	**17**
2.1 Increases in fair value Actuarial (Gains)/Losses	
2.2 Reclassification through profit or loss of negative reserves	
2.3 Other changes	17
3. Negative changes	**(62)**
3.1 Decreases in fair value Actuarial (Gains)/Losses	(62)
3.2 Reclassification through profit or loss of positive reserves	
3.3 Other changes	
4. Closing balance	**(163)**

Section 2 – Own funds and capital ratios

For information on own funds and capital adequacy, reference is made to the separate document Basel Pillar 3 - Public disclosure, 31 December 2020.

Part G – Business combinations

Section 1 – Transactions completed during the year

Description of the transaction

On 9 January 2020, the illimity banking Group finalised the acquisition of 70% of the share capital in IT Auction, a company founded in 2011, 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. The acquisition was completed through neprix, a Group company in which all the bank's distressed credit management activities are concentrated. On 5 March 2020 illimity purchased the remaining 30% of the company, through the acquisition of Core, to acquire full control of the company and integrate it fully in the illimity Banking Group. More information about the reasons for the transaction can be found in the Report on Operations (“Significant events in 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, in the following way:

(In thousands of Euro)

Name	Total revenues (*)	Profit/(loss)
Core S.r.l.	-	(3)
IT Auction S.r.l	7,133	(1,014)
ITA Gestioni S.r.l	631	228
Mado S.r.l.	2,388	91

(*) The data indicated refers to the Net operating income.

The value of assets and liabilities acquired, at the acquisition date, is indicated below. To recognise the business combination in the consolidated financial statements, the carrying amounts of the entity acquired as of 31 December 2019, which is the closest date to the date relevant for the purposes of applying IFRS 3 (9 January 2020) were considered.

(In thousands of Euro)

		Sub-consolidated financial statements of the IT Auction Group as of 31 December 2019
40.	Financial assets measured at amortised cost	2,682
80.	Property and Equipment	818
90.	Intangible assets	532
100.	Tax assets	308
120.	Other assets	3,259
	Total assets	**7,599**
10.	Financial liabilities measured at amortised cost	708
60.	Tax liabilities	363
80.	Other liabilities	2,944
90.	Employee severance pay	580
100.	Provisions for risks and charges:	22
	Accounting difference of assets and liabilities	2,982
	Total	**7,599**

The considerations made on the process to determine the fair value of assets and liabilities, for PPA purposes and for recognising the goodwill of the operation, are reported below.

Accounting of the transaction

Information on the allocation process (according to IFRS 3, paragraph 45) for the acquisition cost of the investment in IT Auction and the accounting treatment of the resulting goodwill in the illimity Bank Group's consolidated financial statements as of 31 December 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 - 5.2 – 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		
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**

The goodwill recognised for a total of EUR 14.6 million refers to the management capacities of the company as a whole, and consequent expected forward-looking profitability, which could not be allocated, for the reasons referred to previously, to either assets or liabilities, nor to specific intangible assets. Reference is made to Part B, Section 10 of the Explanatory Notes for the outcomes of the impairment test carried out on this value as of 31 December 2020.

Lastly, as regards the tax recognition of goodwill, neprix notified its intention to redeem goodwill in proportion to the relative percentage held in IT Auction. It will therefore be possible to recognise goodwill as a tax deduction in five yearly instalments, starting from 2023, for a total of EUR 10.9 million.

Section 2 – Business combinations completed after year-end

There were no business combinations governed by IFRS 3 after the end of the reporting period.

Section 3 – Retrospective adjustments

No retrospective adjustment was made during 2020 to business combinations taking place in previous years.

Part H – Transactions with related parties

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure “the transparency and material and procedural fairness of operations with related parties” carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the “Regulation on related party transactions”, which was then amended by Resolution no.17389 of 23 June 2010. This sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions. In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

In 2020 there were no minor or material related party transactions, which significantly affected the bank’s capital or profit and loss.

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

According to IAS 24, related parties are parties:

a) that directly or indirectly, through one or more intermediaries,
   - (i) control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
   - (ii) hold an investment in the entity of an extent that they may have considerable influence on the latter; or
   - (iii) jointly control the entity;

b) represent an associate of the entity;

c) represent a joint venture in which the entity participates;

d) are one of the key directors of the entity or its parent;

e) are a close family member of one of the parties in points (a) or (d);

f) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or

g) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the IX update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 “Risk assets and conflicts of interest with connected parties” to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

The Bank’s Board of Directors has approved the “Regulation for the management of transactions with entities covered by the Bank's Single Perimeter and of transactions and transactions of personal interest” which defines the internal policies of the Group on the control of risk activities and conflicts of interest with connected parties. That document is published on the Bank’s website in the section “Corporate Governance”, in accordance with current regulations.

With regard to operations performed by the Bank with all its related parties, there have been no atypical or unusual operations.

Atypical and/or unusual operations are any operation that due to its materiality or significance, the nature of the counterparties, the object of the transaction, the method used to determine the transfer price and the timing (for example proximity to year-end) could give rise to doubts about the fairness or completeness of the information about the financial statements, a conflict of interest, about the safeguarding of company assets or the protection of minority shareholders.

1. Information on remuneration of directors with strategic responsibilities

The total remuneration and other benefits paid pertaining to the financial year to directors, statutory auditors and other directors with strategic responsibilities is EUR 6,654 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:

(Thousands of euros)

Category	Amount
a) short-term employee benefits	4,101
b) post-employment benefits	177
c) share-based payments for employees	444
d) compensation of members of the Board of Directors and the Board of Statutory Auditors	1,932

2. Information on related party transactions

With regard to the financial relations, and remembering that directors with strategic responsibilities also include the directors and statutory auditors of the Bank and of the companies of the Group, the situation on the reporting date is that shown in the following table, expressed in thousands of euros.

In the reference year, no particularly important transactions with related parties took place. All such operations are carried out at market conditions in accordance with the relevant policy.

Under the terms of CONSOB Communication no. 6064293 of 28 July 2006, the effects on the consolidated financial statements, of transactions with related parties as referred to in the table below, are highlighted in the relevant column.

(Thousands of euros)

Assets		Book Value	of which with related parties	Impact of related parties
40.b)	**Loans to customers**	**2,314,901**	**755**	**0.03%**
	To directors with strategic responsibilities		755	
	To other related parties		-	

Liabilities		Book Value	of which with related parties	Impact of related parties
10.b)	**Amounts due to customers**	**2,574,709**	**2,856**	**0.11%**
	- To directors with strategic responsibilities:		2,856	
80.	**Other liabilities**	**121,789**	**511**	**0.42%**
	- To directors with strategic responsibilities:		511	
90.	**Employee severance pay**	**2,656**	**135**	**5.08%**
	- To directors with strategic responsibilities:		131	
	- To other related parties		4	
100.	**c) other provisions for risks and charges**	**1,178**	**154**	**13.07%**
	- To directors with strategic responsibilities:		154	
150.	**Reserves**	**21,766**	**388**	**1.78%**
	- To directors with strategic responsibilities:		388	

(Thousands of euros)

Income Statement items		Book Value	of which with related parties	Impact of related parties
10.	Interest income and similar income	145,983	5	0.00%
20.	Interest expenses and similar charges	(42,205)	(21)	0.05%
130.	a) financial assets measured at amortised cost	40,182	(1)	0.00%
190.	Administrative expenses:	(125,054)	(7,292)	5.83%
	a) personnel expenses	(51,944)	(6,654)	12.81%
	b) other administrative expenses	(73,110)	(638)	0.87%
230.	Other operating income/expenses	7,765	8	0.10%

Part I – Share-based payments

Qualitative information

1. Description of payment agreements based on own equity instruments

As to the variable component, the Group Remuneration Policy provides that this can be serviced by:

- a long-term "Stock Option Plan" (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;
- an "Employee Stock Ownership Plan" (ESOP). 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").
- "Long Term Incentive Plan" (LTIP), for the Managing Director and other top management of illimity ("Beneficiaries", identified as managers with strategic responsibilities.

Quantitative information

1. Annual changes

Items/Number of options and exercise prices	31 December 2020			31 December 2019		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balances	**1,530,837**	**7.13**	**30 April 2024**	**-**	**-**	**-**
B. Increases			**X**	**-**	**-**	**X**
B.1 New issues	335,836	7.60	30 April 2024	1,530,837	7.13	30 April 2024
B.2 Other changes			X	-	-	X
C. Decreases			**X**			**X**
C.1 Derecognised	(95,474)	6.94	30 April 2024	-	-	X
C.2 Exercised	-	-	X	-	-	X
C.3 Past-due	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
D. Closing balance	**1,771,199**	**7.23**	**30 April 2024**	**1,530,837**	**7.13**	**30 April 2024**
E. Options exercised as at the end of the financial year	**-**	**-**	**X**	**-**	**-**	**X**

2. Other information

“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 shareholders' equity for the financial year, Gross Organic NPE ratio and the CET1 Capital ratio); and
c) the continuation of the employment relationship between the beneficiary and the Bank and/or its subsidiaries on the vesting date of the option rights.

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

During 2020, as part of the SOP, 335,836 new options were issued and 95,474 option were cancelled compared to the previous year.

“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 gate requirements), in line with the applicable laws and regulations on the date of allocation of the Ordinary Shares.

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

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

Each allocation is related to performance conditions relative to the financial statements of the previous year being attained at the allocation date. Therefore, each annual assignment will be independently recognised at the specific grant date. The ESOP was classified, in accordance with IFRS 2, as equity-settled, because the benefits are not cash settled.

During 2020, as part of the ESOP, 147,327 illimity shares were assigned to Group employees.

“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.

During 2020, as part of the ESOP, 87,951 illimity treasury shares were purchased.

Part L – Segment reporting

illimity Group operating segments

For segment reporting purposes, as provided for by IFRS 8, the identification of operating segments is consistent with the business activities of the segments, the organisational structure of the Group and internal reporting used by management to periodically review results and allocate resources.

Reference is made to the report on operations for further details of the Group's organisational structure and mission of the Divisions, the operating segments identified and criteria for producing the Reclassified Financial Statements.

Financial data broken down by operating segment

	DCIS	SME	Digital bank	SGR	Corporate Center (*)	Consolidated
Economic performance						
Total net operating income	142.0	29.0	5.5	-	9.3	174.8
Operating expenses	(53.2)	(21.3)	(16.2)	(1.1)	(40.5)	(132.3)
Operating profit (loss)	88.8	7.7	(21.7)	(1.1)	(31.2)	42.5
Gross Profit	87.2	5.5	(21.7)	(1.1)	(31.2)	38.7
Other financial data						
Loans to customers	1,061.8	893.2	-	-	-	1,955.0
Securities at amortised cost	245.7	4.2	-	-	-	249.9
Property and Equipment	56.1	-	-	-	22.3	78.4
Amounts due to customers and Securities issued	-	-	2,366.8	-	508.9	2,875.7
RWAs	**1,844.8**	**705.9**	**n.s.**	**n.s.**	**299.9**	**2,850.6**

(*) Intersector eliminations are carried out at the Corporate Center.

Information on geographical areas

The illimity Group mainly operates in Italy.

Part M – Disclosure on leases

Section 1 – Lessee

Qualitative information

Contracts of the Group may be classified in the two following categories:

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

As of 31 December 2020, there were 95 leasing contracts, of which 29 related to real estate leasing], with a total value of rights of use of EUR 18.5 million, of which 66 related to cars, with a total value of rights of use of EUR 1.3 million.

Real estate leasing contracts include rental fees for buildings intended for instrumental use, such as offices and for personal use. Contracts, as a rule, have a duration of greater than 12 months, and typically have renewal and termination options that can be exercised by the lessor and the lessee according to the rules of law or specific contractual provisions.

Contracts relating to other leases refer to cars. These are long-term rental contracts available to employees. Generally, these contracts have a four-year duration, with monthly payments, without the option of renewal and do not include the option of purchasing the asset.

Sub-lease transactions are of an amount attributable to properties intended for residential use.

As previously specified in the accounting policies, the scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

Quantitative information

The following table provides a summary of the components of the statement of financial position relating to leasing contracts; for further information, reference is made to Part B of the explanatory notes:

Contract type	Right of use	Lease Liability
Property rental fees	18,422	21,187
Long Term Rental Cars	1,332	1,361
Total	**19,754**	**22,548**

The following table shows a summary of the components of the Income Statement relating to leasing contracts; for further information refer to the contents of Part C of the Explanatory Note:

Contract type	Interest expense	Net value adjustments to property and equipment
Property rental fees	1,509	1,737
Long Term Rental Cars	44	443
Total	**1,553**	**2,180**

On 31 December 2020 there were no material amounts relating to lease commitments not yet entered into.

Section 2 – Lessor

QUALITATIVE INFORMATION

As of the reporting date, the Group had no leases in the role of lessor with third parties.

Certification of the Consolidated Financial Statements

pursuant to Article 154 bis of Legislative Decree 58/1998

illimity
BANCA OLTRE LA FORMA

Certificate of the Consolidated Financial Statements pursuant to Article 154 bis of Italian Legislative Decree no. 58/1998

1. The undersigned Corrado Passera, as CEO, and Sergio Fagioli, as Financial Reporting Officer of illimity Bank certify, also considering Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:
- the adequacy in relation to the characteristics of the enterprise and
- the effective application of the administrative and accounting procedures used to draft the consolidated financial statements during financial year 2020.

2. The adequacy of the administrative and accounting procedures used to draft the consolidated financial statements as of 31 December 2020 is checked according to an internally defined model that refers to the principles of the “Internal Control - Integrated Framework” (CoSO) and the “Control Objective for IT and related Technologies” (Cobit), which are the benchmarks for the internal control system applicable to financial reporting and generally accepted at international level.

3. We can also certify that:
   3.1 the consolidated financial statements:
      a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) N° 1606/2002 of the European Parliament and Council, of 19 July 2002;
      b) correspond to the accounting records;
      c) are capable of providing a true and correct representation of the issuer's balance sheet, economic and financial situation.
   3.2 The management report includes a reliable analysis of the progress and results of operations as well as the issuer’s situation, together with a description of the key risks and uncertainties the issuer is exposed to.

Milan, 10 March 2021

Signature of the Chief Executive Officer
Corrado Passera
Signature

Signature of the Financial Reporting Officer
Sergio Fagioli
Signature

Independent Auditors' Report

BANCA OLTRE LA FORMA

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)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the illimity Bank Group (the "group"), which comprise the statement of financial position as at 31 December 2020, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the illimity Bank Group as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of illimity Bank S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost" paragraph A.2.16 "Other information - Purchased or originated impaired financial assets (POCI)"

Notes to the consolidated financial statements "Part B - Information on the statement of financial position": section 4 "Financial assets measured at amortised cost - item 40"

Notes to the consolidated financial statements "Part C - Information on the income statement": section 8 "Net losses/recoveries for credit risk - item 130"

Notes to the consolidated financial statements "Part E - Information on risks and related hedging policies": paragraph 1.1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Loans and receivables with customers recognised under financial assets at amortised cost totalled €2,314.9 million at 31 December 2020, accounting for 56.1% of total assets. Net impairment gains on loans and receivables with customers recognised during the year totalled €40.1 million (including gains of €42.6 million arising from positions closed out through transfer and "partial payment and write-off"). For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement or purchase. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates,	Our audit procedures included: — gaining an understanding of the parent's and group companies' processes and IT environments in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein, as well as the adjustments made as a result of the effects of the Covid-19 pandemic. We carried out these

Key audit matter	Audit procedures addressing the key audit matter
the business plans and related regular updates (especially in relation to the POCI exposures), the existence of any indicators of impairment, an assessment of any guarantees and the impact of macroeconomic variables and risks of the sectors in which the parent's and group companies' customers operate. The complexity of the directors' estimation process has increased in 2020 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios, requiring an adjustment to the valuation processes and methods. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	procedures with the assistance of experts of the KPMG network; — selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls in relation to the regular updating of the business plans on which basis the POCI exposures are measured; — for a meaningful sample of POCI exposures, checking the underlying business plans and the cash flow backtesting by tracing the business plan figures to the actual collections; — analysing the significant changes in the categories of loans and receivables with customers and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets at amortised cost, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Measurement of goodwill

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"

Notes to the consolidated financial statements "Part B - Information on the statement of financial position": section 10 "Intangible assets - item 100"

Key audit matter	Audit procedures addressing the key audit matter
In past years and in the current year, as a result of business combinations, the group recognised goodwill, which amounts to €36.2 million at the reporting date. As disclosed in the notes, in accordance with IFRS 3, the directors allocated goodwill to the cash-generating units ("CGUs") they identified. The directors tested the reporting-date carrying amount of goodwill for impairment by comparing the carrying amount of the CGUs to which goodwill is allocated to their recoverable amount. They estimated the recoverable amount based on value in use calculated using the discounted cash flow model. Testing goodwill for impairment requires complex valuations and a high level of judgement, especially in relation to: — the CGUs' expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of group's sector and the directors' forecasts about its future performance; — the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has increased in 2020 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the measurement of goodwill is a key audit matter.	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the parent's directors; — gaining an understanding of the process used to draft the group's long-term plan approved by the parent's directors; — analysing the criteria used to identify the CGUs and tracing the carrying amounts of the assets and liabilities allocated thereto to the consolidated financial statements; — assessing the key assumptions used by the parent's directors to determine the CGUs' value in use. Our assessment included checking the consistency of the method adopted with that used in the previous year and comparing the key assumptions used to external information, where available, also in the light of the financial effects of the Covid-19 pandemic; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures about goodwill and the related impairment test, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 17 December 2018, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2020 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2020 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2020 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of illimity Bank S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 23 March 2021

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit

Annex 1 – Reconciliation between reclassified statement of financial position and income statement and the consolidated financial statements

Below are the reconciliation schemes used for the preparation of the statement of financial position and income statement in reclassified form. Any discrepancies between the figures presented are due solely to rounding.

Reclassified consolidated statement of financial position

Assets	Values as of 31/12/2020
Treasury portfolio - Securities at FV	**91,427**
Item 20. a) Financial assets held for trading	52
Item 30. Financial assets measured at fair value through other comprehensive income	91,375
Financial instruments mandatorily measured at fair value	**18,450**
Item 20. c) Other financial assets mandatorily measured at fair value	18,450
Due from banks	**530,922**
Item 40. a) Due from banks	530,922
Loans to financial entities	**109,993**
Receivables from financial entities	*109,993*
Loans to customers	**1,954,995**
Item 40. b) Loans to customers	2,314,901
To be deducted:	
Loans to financial entities	*(109,993)*
Loans to customers - Securities	*(249,913)*
Securities at amortised cost - SME	**4,154**
Item 40. b) Loans to customers	2,314,901
To be deducted:	
Loans to customers	*(1,954,995)*
Receivables from financial entities	*(109,993)*
DCIS Business senior financing instruments	*(245,759)*
Securities at amortised cost – Senior Financing	**245,759**
Item 40. b) Loans to customers	2,314,901
To be deducted:	
Loans to customers	*(1,954,995)*
Receivables from financial entities	*(109,993)*
SME business instruments	*(4,154)*
Property and equipment and intangible assets	**147,816**
Item 90. Property and equipment	78,434
Item 100. Intangible assets	69,382
Tax assets	**35,403**
Item 110. Tax assets	35,403
Other assets	**987,370**
Item 10. Cash and cash equivalents	944,832
Item 130. Other assets	42,538
Total assets	**4,126,289**

Liability and equity items	Values as of 31/12/2020
Amounts due to banks	**534,345**
Item 10. a) Due to banks	534,345
Amounts due to customers	**2,552,161**
Item 10. b) Due to customers	2,574,709
To be deducted:	
Lease Liability (IFRS 16)	*(22,548)*
Securities issued	**300,980**
Item 10. c) Securities issued	300,980
Tax liabilities	**4,207**
Item 60. Tax liabilities	4,207
Other liabilities	**151,474**
Item 80. Other Liabilities	121,789
Increase:	
Lease Liability (IFRS 16)	*22,548*
Item 90. Employee severance pay	2,656
Item 100. Allowances for risks and charges	4,481
Shareholders' equity	**583,122**
Capital and reserves	
Item 120. Valuation reserves	(278)
Item 150. Reserves	21,766
Item 160. Share premium reserves	487,373
Item 170. Share capital	44,007
Item 180. Treasury shares (-)	(832)
Item 200. Profit (loss) for the financial year	31,086
Total liabilities and shareholders' equity	**4,126,289**

Reclassified consolidated income statement

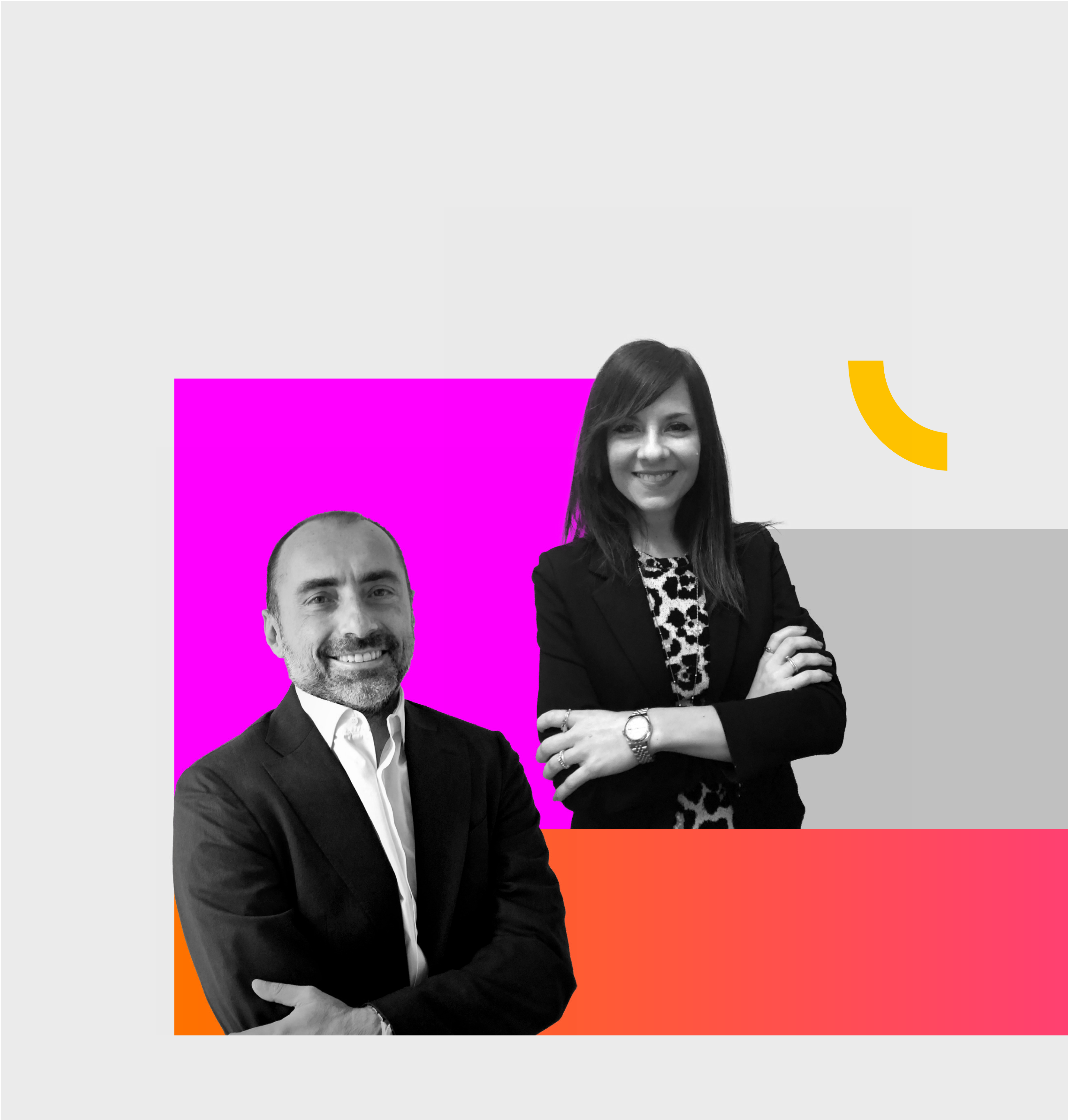
	Values as of 31/12/2020
Interest margin	**105,331**
Item 10. Interest income and similar income	145,983
Item 20. Interest expenses and similar charges	(42,205)
To be deducted:	
IFRS 16 interest expenses	*1,553*
Net fee and commission income	**13,516**
Item 40. Fee and commission income	18,529
Item 50. Fee and commission expense	(5,013)
Gains/losses on financial assets and liabilities	**8,486**
Item 80. Profits (losses) on trading	(389)
Item 100. Profits (losses) on disposal or repurchase	7,699
Item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	1,176
Net write-downs/write-backs on closed positions - HTC Clients - POCI	**42,637**
of which: Net write-downs/write-backs on closed positions - HTC Clients - POCI	*42,637*
Other operating expenses and income	**4,846**
Item 140. Profits (losses) on changes in contracts without derecognition	-
Item 230. Other operating income/expenses	7,765
To be deducted:	
Reclassification of recovery of other operating charges/income to Other administrative expenses	*(2,919)*
Item 280. Profits (losses) on disposal of investments	-
Total net operating income	**174,816**
Personnel expenses	**(52,063)**
Item 190. Administrative expenses: a) Personnel expenses	(51,944)
To be deducted:	
Reclassification of HR expenses from other administrative expenses	*(119)*
Other administrative expenses	**(71,625)**
Item 190. Administrative expenses: b) Other administrative expenses	(73,110)
Reclassification of IFRS 16 interest expenses	*(1,553)*
Reclassification of HR expenses to personnel expenses	*119*
Reclassification of recovery of other operating charges/income to Other administrative expenses	*2,919*
Net write-downs/write-backs on property and equipment and intangible assets	**(8,614)**
Item 210. Net adjustments/recoveries on property and equipment	(2,719)
Item 220. Net adjustments/recoveries on intangible assets	(5,895)
Operating expenses	**(132,302)**
Operating profit (loss)	**42,514**
Net write-downs/write-backs for credit risk - HTC Banks	**104**
Net write-downs/write-backs for credit risk - HTC Financial entities	**(115)**
Net write-downs/write-backs for credit risk - HTC Clients	**(2,444)**
Item 130. Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost	40,182
To be deducted:	
Net write-downs/write-backs for credit risk - HTC Banks	*(104)*
Net write-downs/write-backs for credit risk - HTC Financial entities	*115*
Net write-downs/write-backs on closed positions - HTC Clients	(42,637)
Net write-downs/write-backs for credit risk - HTCS	**82**
Item 130. Net losses/recoveries for credit risks associated with: b) financial assets measured at fair value through other comprehensive income	82

	Values as of 31/12/2020
Net write-downs/write-backs for commitments and guarantees	**(981)**
Item 200. Net provisions for risks and charges: a) commitments and guarantees given	(981)
Total net write-downs/write-backs	**(3,354)**
Other net provisions	**(468)**
Item 200. Net provisions for risks and charges: b) other net provisions	(468)
Profit (loss) from operations before taxes	**38,692**
Income taxes for the financial year on continuing operations	**(7,606)**
Item 300. Income taxes for the financial year on continuing operations	(7,606)
Profit (loss) for the financial year	**31,086**

Attachment 2 – Fees for audit and non-audit services pursuant to Article 149 duodecies of Consob Regulation no. 11971.

Pursuant to the provisions of Article 149 duodecies of Consob Issuers' Regulation, the following table lists information regarding the payments disbursed to Independent Auditors KPMG S.p.A. and coming from companies belonging to the same network. The amounts reported below are net of VAT, Operating Costs and ISTAT Adjustment:

Type of service	Service provider	Sums due	
		illimity Bank S.p.A.	Group Companies
Accounting Audit	KPMG S.p.A.	225,000	266,500
Certification services	KPMG S.p.A.	294,000	10,000
Other services	KPMG S.p.A.	24,000	
Total		**543,000**	**276,500**



Annual Report and Financial Statements of illimity Bank

illimity

Report on Individual Operations

as of 31 December 2020

illimity
BANCA OLTRE LA FORMA

This Management Report illustrates the performance and the related data and results of illimity Bank S.p.A. ("illimity" or the "Bank").

Alternative performance measures as of 31 December 2020

The main indicators of the Bank are presented below. The measures indicated below, even if not provided for by the IFRS/IAS, are provided in accordance with the indications in CONSOB Communication no. 6064293 of 28 July 2006 and the ESMA Recommendation on alternative performance indicators.

PROFIT AND LOSS INDICATORS	31 December 2020	31 December 2019	Chg.	Chg. (%)
Total net operating income	140,880	54,895	85,985	>100%
Operating expenses	(99,565)	(84,192)	(15,373)	18%
Operating profit (loss)	41,315	(29,297)	70,612	N/A
Total net write-downs/write-backs	1,734	158	1,576	>100%
Profit (loss) from operations before taxes	42,054	(29,201)	71,255	N/A
Profit (loss) for the financial year	32,561	(16,840)	49,401	N/A

STRUCTURAL RATIOS	31 December 2020	31 December 2019
Shareholders' equity/Total Liability	14.0%	18.0%
Interbank Funding/Total Funding	15.0%	14.9%
Liquidity coverage ratio	>500%	>1000%
Net Stable Funding Ratio	>120%	>130%
Net loans with customers/Total assets	55.5%	42.8%
Customer funding/ Total Liability	71.5%	68.1%

CAPITAL RATIOS	31 December 2020	31 December 2019
Tier I capital ratio (Tier I capital/Total weighted assets)	18.33%	21.54%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	18.33%	21.54%
Own Funds	512,053	462,136
of which: Tier I capital	512,053	462,136
Risk-weighted assets	2,793,735	2,145,729

For details on the construction logic of the alternative performance indicators shown in the tables above, please refer to the same section of the Consolidated Report on operations.

Composition and organisational structure

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

illimity is currently organised into operating divisions. Each Operating Division has been extensively described in the Consolidated Report on Operations, specifically in Part L, to which please refer.

Bank branches and offices

The Bank's branches and offices are as follows:

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

Human resources

On 31 December 2020 the Bank's registered employees were 364 (296 on 31 December 2019). A breakdown of the workforce is given below, divided by job level:

Category	31 December 2020			31 December 2019			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Senior managers	46	13%	47	40	14%	46	6	15%
Middle managers	200	55%	37	168	57%	37	32	19%
other employees	118	32%	32	88	30%	32	30	34%
Employees	364	100%		296	100%		68	23%

Relations with subsidiaries

Equity investments: information on shareholdings				
Name	Head office	Operational headquarters	Shareholding %	Votes %
A. Wholly-owned subsidiaries				
Soperga RE S.r.l.	Milan	Milan	100%	100%
Friuli LeaseCo S.r.l.	Milan	Milan	100%	100%
Doria LeaseCo S.r.l.	Milan	Milan	100%	100%
River LeaseCo S.r.l.	Milan	Milan	100%	100%
Neprix S.r.l.	Milan	Milan	100%	100%
Core S.r.l.	Faenza	Faenza	100%	100%
illimity SGR S.p.A.	Milan	Milan	100%	100%
Pitti LeaseCo S.r.l.	Milan	Milan	100%	100%
River Immobiliare S.r.l.	Milan	Milan	100%	100%
B. Companies subject to joint control				
N/A				
C. Companies subject to significant influence				
N/A				

(amounts in thousands of euros)

Significant shareholdings: book values, fair values and dividends received			
Name	Book value	Fair value	Dividends received
A. Wholly-owned subsidiaries			
Soperga RE S.r.l.	10	N/A	-
Friuli LeaseCo S.r.l.	10	N/A	-
Doria LeaseCo S.r.l.	10	N/A	-
River LeaseCo S.r.l.	10	N/A	-
Neprix S.r.l.	13,652	N/A	-
Core S.r.l.	7,790	N/A	-
illimity SGR S.p.A.	2,010	N/A	-
Pitti LeaseCo S.r.l.	10	N/A	-
River Immobiliare S.r.l.	10	N/A	-
B. Companies subject to joint control			
N/A			
C. Companies subject to significant influence			
N/A			
Total	**23,512**	**N/A**	**-**

Significant shareholdings: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Revenues totals
A. Wholly-owned subsidiaries						
Soperga RE S.r.l.	-	35	342	-	370	-
Friuli LeaseCo S.r.l.	-	356	29	-	379	-
Doria LeaseCo S.r.l.	-	2,779	623	-	3,395	-
River LeaseCo S.r.l.	-	29	128	-	150	-
Neprix S.r.l.	-	13,460	10,740	2,565	7,710	-
Core S.r.l.	-	676	-	-	9	-
illimity SGR S.p.A.	-	2,222	376	-	588	-
Pitti LeaseCo S.r.l.	-	119	68	-	179	-
River Immobiliare S.r.l.	10	5	6,807	6,706	451	-
B. Companies subject to joint control						
N/A						
C. Companies subject to significant influence						
N/A						

(amounts in thousands of euros)

Interest margin	Value adjustments/ write-backs on property and equipment and intangible assets	Profit (loss) from current operations before tax	Profit (loss) on current operations after tax	Profit (loss) from groups of assets held for sale, net of taxes	Profit (loss) for the period (1)	Other income components, after taxes (2)	Comprehensive income (3) = (1)+(2)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	(1)	(1)	-	(1)	-	(1)
-	-	(1)	(1)	-	(1)	-	(1)
(21)	(92)	(1,253)	267	-	267	(2)	265
-	-	(3)	(3)	-	(3)	-	(3)
-	(6)	(1,288)	(972)	-	(972)	-	(972)
-	-	-	-	-	-	-	-
-	-	(377)	(345)	-	(345)	-	(345)

The macroeconomic scenario

The macroeconomic scenario has been described in the Consolidated management report , to which reference is made.

Significant events in 2020

The main significant events in 2020 were discussed in the Consolidated Management Report, to which reference is made. A brief summary is given below:

- On 9 January 2020, the illimity banking Group finalised the acquisition of 70% of the share capital in IT Auction, a company founded in 2011, 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.
- 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.
- 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. In January 2021, the illimity Banking Group, was awarded Great Place to Work® certification for the second year running.
- 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. In execution of the Shareholders' Meeting resolution of 22 April 2020, as already disclosed to the market, and after coming before the Board of Directors on 3 August 2020, on 5 August 2020 illimity announced that it had commenced a share buy-back programme for up to 87,951 illimity treasury shares (ISIN: IT0005359192 – ticker "ILTY"), equivalent to approximately 0.133% of the Bank's share capital, to be placed in service of the Long-Term Incentive Plan ("LTIP") for the Bank's top management, approved by the aforementioned Shareholders' Meeting of 22 April 2020. On 10 August 2020 illimity then announced that it had concluded its share buy-back programme.
- 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.
- 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 22 September 2020, the Boards of Directors of illimity, Banca Sella Holding S.p.A. ("Banca Sella Holding"), Fabrick S.p.A. ("Fabrick") and Hype S.p.A. ("HYPE") approved the agreement for investment by illimity in HYPE, giving rise to a 50-50 joint venture between illimity and Fabrick (until then 100% owner of HYPE, and in turn owned by Banca Sella Holding S.p.A.).
- On 1 October 2020, illimity renewed its own "Euro Medium Term Note" (EMTN) issue programme for a maximum of EUR 3 billion, exclusively for qualified investors listed on the Dublin Stock Exchange (Ireland). On 3 December 2020, illimity therefore successfully completed the opening issue of a 3-year senior preferred bond for a total amount of EUR 300 million.

- On 27 November 2020, the international agency Fitch Ratings give the Bank its first rating: “B+” for the Long-Term Issuer Default Rating (“IDR”) with a Stable Outlook and “b+” for the Viability Rating (“VR”).
- On 22 December 2020, the Shareholders’ Meeting of illimity, in an extraordinary session, following relative authorisations received from the Supervisory Authorities, unanimously approved the increase in share capital to serve agreements made with the Sella Group for the establishment of a joint venture in HYPE S.p.A.

Reclassified statements of the bank

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

In this document, the mandatory financial statements have been reclassified according to a managerial approach better suited to representing the 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 Management Report includes a reconciliation between the financial statements presented and the mandatory financial reporting format laid down in Bank of Italy Circular No. 262, whose values converge in the items of the reclassified financial statements.

Reconciliation with the items of the mandatory financial statements aids in reclassification of the items in question, but above all facilitates the understanding of the criteria adopted in constructing the Management Report; additional details useful to this end are provided below:

- recoveries of taxes recognised among other operating costs/income are deducted directly from the indirect taxes included among other administrative expenses and therefore their amount has been set off against the relevant item of the mandatory financial statements;
- personnel 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 statement of financial position, 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 financial instruments mandatorily measured 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 purposes14;
- the inclusion of the Provision for Risks and Charges and post-employment benefits in residual items of other liabilities;
- the aggregate indication and items comprising shareholders’ equity.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

Components of official items of the statement of financial position	Assets	31 December 2020	31 December 2019	Chg.	Chg. (%)
20 a) + 30	Treasury portfolio - Securities at FV	91,427	125,852	(34,425)	(27%)
20 c)	Financial instruments mandatorily measured at fair value	18,450	8,602	9,848	>100%
40 a)	Due from banks	528,508	344,858	183,650	53%
40 b)	Loans to financial entities	109,993	-	109,993	n.a
40 b)	Loans to customers	1,187,449	704,476	482,973	69%
40 b)	Securities at amortised cost – SPV	878,003	592,195	285,808	48%
40 b)	Securities at amortised cost – SME	4,154	50,363	(46,209)	(92%)
40 b)	Securities at amortised cost – Senior Financing	245,759	299,390	(53,631)	(18%)
70	Shareholdings – subsidiaries	23,512	1,079	22,433	>100%
80 + 90	Property and equipment and intangible assets	73,037	63,358	9,679	15%
100	Tax assets	31,155	36,955	(5,800)	(16%)
10 + 120	Other assets	978,588	801,621	176,967	22%
	of which: Cash and cash equivalents	944,821	772,125	172,696	22%
	Total assets	**4,170,035**	**3,028,749**	**1,141,286**	**38%**

Components of official items of the statement of financial position	Liabilities	31 December 2020	31 December 2019	Chg.	Chg. (%)
10 a)	Amounts due to banks	524,450	364,694	159,756	44%
10 b)	Amounts due to customers	2,679,197	2,047,156	632,041	31%
10 c)	Securities issued	300,980	15,358	285,622	>100%
60	Tax liabilities	3,037	655	2,382	>100%
80 + 90 + 100	Other liabilities	77,665	56,318	21,347	38%
110 + 140 + 150 + 160 + 170 + 180	Shareholders' equity	584,706	544,568	40,138	7%
	Total liabilities and shareholders' equity	**4,170,035**	**3,028,749**	**1,141,286**	**38%**

RECLASSIFIED INCOME STATEMENT

Components of official items of the Income Statement	Income Statement items	31 December 2020	31 December 2019	Chg.	Chg. (%)
10 + 20	Interest margin	110,326	31,753	78,573	>100%
40 + 50	Net fee and commission income	7,491	10,378	(2,887)	(28%)
80 + 100 + 110	Gains/losses on financial assets and liabilities	8,486	10,272	(1,786)	(17%)
130 a)	Net write-downs/write-backs on closed positions - HTC Clients - POCI	13,840	-	13,840	N/A
140 + 200 + 250	Other operating expenses and income	737	2,492	(1,755)	(70%)
Total net operating income		**140,880**	**54,895**	**85,985**	**>100%**
160 a)	Personnel expenses	(39,295)	(29,429)	(9,866)	34%
160 b)	Other administrative expenses	(52,707)	(51,651)	(1,056)	2%
180 + 190	Net write-downs/write-backs on property and equipment and intangible assets	(7,563)	(3,112)	(4,451)	>100%
Operating expenses		**(99,565)**	**(84,192)**	**(15,373)**	**18%**
Operating profit (loss)		**41,315**	**(29,297)**	**70,612**	**N/A**
130 a)	Net write-downs/write-backs for credit risk - HTC Banks	104	(189)	293	N/A
130 a)	Net write-downs/write-backs for credit risk - HTC financial entities	(115)	-	(115)	N/A
130 a)	Net write-downs/write-backs for credit risk - HTC Clients	2,644	823	1,821	>100%
130 b)	Net write-downs/write-backs for credit risk - HTCS	82	4	78	>100%
170 a)	Net write-downs/write-backs for commitments and guarantees	(981)	(480)	(501)	>100%
Total net write-downs/write-backs		**1,734**	**158**	**1,576**	**>100%**
170 b)	Other net provisions	(5)	(62)	57	(92%)
220	Gains (losses) from equity investments	(990)	-	(990)	N/A
Profit (loss) from operations before taxes		**42,054**	**(29,201)**	**71,255**	**N/A**
270	Income taxes for the financial year on continuing operations	(9,493)	12,361	(21,854)	N/A
Profit (loss) for the financial year		**32,561**	**(16,840)**	**49,401**	**N/A**

Key statement of financial position figures

Given the almost total contribution of the Bank to the consolidated financial statements of the illimity Group, please refer to the Management Report of the consolidated financial statements for more information on the Key statement of financial position aggregates.

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

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	31 December 2020	31 December 2019
Common Equity Tier 1 (CET1) capital	**512,053**	**462,136**
Additional Tier 1 (AT1) capital	**–**	**–**
Tier 2 (T2) capital	**–**	**–**
Total own funds	**512,053**	**462,136**
Credit risk	*214,633*	*167,844*
Credit valuation adjustment risk	*–*	*–*
Settlement risks	*–*	*–*
Market risks	*17*	*65*
Operational risk	*8,849*	*3,749*
Other calculation factors	*–*	*–*
Total minimum requirements	**223,499**	**171,658**
Risk-weighted assets	**2,793,735**	**2,145,729**
Common Equity Tier 1 ratio	**18.33%**	**21.54%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**18.33%**	**21.54%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**18.33%**	**21.54%**
(Total own funds/Risk-weighted assets)		

Changes in shareholders' equity

As of 31 December 2020, shareholder's equity, inclusive of the result for the period, amounted to approximately EUR 584.7 million, up on the figure of EUR 544.6 million at the end of 2019. Profit for the year amounted to approximately 32.6 million euros.

Items/Technical forms	31 December 2020	31 December 2019
1. Share capital	44,007	43,408
2. Share premium reserve	487,373	480,156
3. Reserves	21,875	36,994
4. Equity instruments	-	-
5. (Treasury shares)	(832)	(96)
6. Valuation reserves	(278)	945
7. Profit (loss) for the year	32,561	(16,840)
Total shareholders' equity	**584,706**	**544,568**

Share capital and ownership structure

At 31 December 2020, the Bank's share capital amounted to EUR 45,503,237.77, of which EUR 44,006,566.43 was subscribed and paid up, divided into 66,083,417 ordinary shares and 1,440,000 special shares without par value.

The Ordinary Shares were admitted to trading on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A. on 5 March 2019. By order of the Bank of Italy no. 8688 of 2 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of the MTA market.

The Bank's Special Shares are not traded.

As indicated in the section "Subsequent Events" in the Consolidated Report on Operations, following the share capital increase for Fabrick S.p.A. and the consequent issue of 7,342,602 new ordinary shares to service that increase, illimity's share capital amounted to EUR 50,288,411.49, of which EUR 48,791,740.15 was subscribed and paid up, divided into 73,426,019 ordinary shares and 1,440,000 special shares, all without par value.

Treasury shares

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

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

Following the purchases made and considering the shares already in the portfolio, as of 31 December 2020 the Bank held 98,505 treasury shares for a value of EUR 832 thousand. The Bank's subsidiaries do not hold any shares in it.

Financial performance

Given the almost total contribution of the Bank in the Consolidated Financial Statements, please refer to the Management Report of the Consolidated Financial Statements for more information on the economic results.

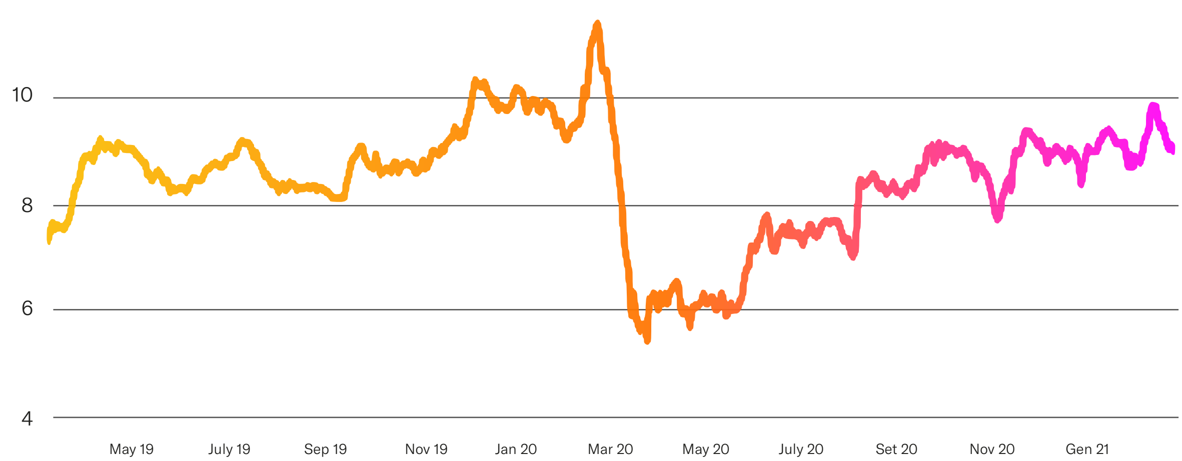
Basic and diluted earnings per share

The basic loss per share is calculated by dividing the Bank's net loss for the year by the weighted average number of ordinary shares in issue during the year. The diluted profit per share as of 31 December 2020 coincides with the basic profit per share.

Basic and diluted earnings per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings per share
Period ended 31 December 2020	32,561	65,700,601	0.50
Period ended 31 December 2019	(16,840)	65,128,632	(0.26)

illimity Bank share performance

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



Significant shareholders with a stake of at least 5% in the share capital with voting rights in illimity, with the percentages calculated by the Bank based on the number of shares resulting from the most recent information available and number of ordinary shares issued, updated at 28 February 2021, are reported below:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding % of the voting capital
GRUPPO SELLA	GRUPPO SELLA	Owned	10.00%	10.00%
LR TRUST	FIDIM SRL	Owned	8.77%	8.77%
TENSILE CAPITAL MANAGEMENT LLC	TENSILE-METIS HOLDINGS SARL	Owned	7.57%	7.57%
ATLAS MERCHANT CAPITAL LLC	AMC METIS SARL	Owned	7.09%	7.09%

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

Management of business risks

For information on the management of business risks, refer to the Management Report of the Consolidated Financial Statements.

Main risks and uncertainties

For information about the main risks and uncertainties, reference is made to the Management Report of the Consolidated Financial Statements.

Transactions with related parties

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure "the transparency and material and procedural fairness of operations with related parties" carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the "Regulation on related party transactions", which was then amended by Resolution no.17389 of 23 June 2010. This sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions.

In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

Throughout 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 parties:

a) that directly or indirectly, through one or more intermediaries,
    (i) control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
    (ii) hold an investment in the entity to the extent that they may exercise considerable influence on the latter; or
    (iii) jointly control the entity;
b) represent an associate of the entity;
c) represent a joint venture in which the entity participates;
d) are one of the key directors of the entity or its parent;
e) are a close family member of one of the parties in points (a) or (d);
f) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
g) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the IX update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

For more detail about the operations with related parties and for an examination of the impact of these operations on the financial situation, refer to Part H of the Notes.

Atypical or non-ordinary transactions

In 2020 the Bank did not carry out any such transactions as defined in the Consob Communication no. 6064293 of 28 July 2006.

Research and Development

illimity's research and development activities in 2020 led to the creation of numerous projects in diverse areas.

For direct banking, with activities started up by illimity in September 2019, projects were released to expand products and services offered, as well as develop the underlying technological ecosystem:

- *PISP* (*Payment Initiation Service Provider*): a service which enables customers to make payments from other banks' accounts once they have been aggregated in *illimitybank.com*was released.
- *illimity Hubs:* a project with an Open Banking/Open Platform focus, that enables customers to activate directly from their own Internet banking, some complementary services directly related to the activity carried out with selected partners.
  - In technological terms, innovation focussed on the important work on Application Programming Interface (API) systems, to enable dialogue between illimity and partner architectures.
  - The Experience component was developed in a UX, Communication and Product synergy, to generate proactive insight and interesting content for customers, who receive customised feedback on their own financial performance and on partner properties.
- Anti-fraud engine: the design and implementation of the transaction monitoring tool, based on Artificial Intelligence techniques, that will enable the Bank to continually monitor fraud events, both within and outside the companies;
- Voice of Customer & Experience Excellence, a project to continually optimise the digital experience of illimity customers, gathering detractors' feedback, and gradually releasing improvements on the channels;
- SEO (Search Engine Optimization)/Analytics: functions were implemented to identify insights on user behaviour, useful for the bank to customise the Customer's digital experience, and the commercial offering.

As regards Distressed Credits, the DCIS Division is developing the Vertical DCIS. This project will release a vertical application for the distressed credits business, that will guide the user throughout the phases of the NPL process, from origination to management, reducing manual intervention and digitalising processes and support tools. Various modules have already been released, while another two are nearing completion, scheduled for 2021.

In the Loans area, the SME and DCIS Divisions are conducting the Wand project, to design and create a digital, fully-dedicated platform to manage UTP loans. The project is still underway and will be released in the first quarter of 2021.

For Central Units, the *Exposure Groups* project designed and created the engine to calculate Group exposures and their connections. The engine calculations use algorithms and technologies of Artificial Intelligence models.

Events after the reporting date

On 5 January 2021, illimity announced it had finalised a transaction for the sale to Phinance Partners S.p.a. and SOREC S.r.l. of non-performing loans with a gross book value of approximately EUR 129 million, attributable to approximately 4,500 positions. In particular, the portfolio sold by illimity is composed of unsecured loans relating to granular, mainly retail positions acquired by the Bank in 2019, within the framework of investment transactions involving a large portfolio on the primary market.

On 5 January 2021, illimity, following its disclosure dated 29 December 2020, announced the new composition of its share capital, as follows: (i) the reserved capital increase for Fabrick S.p.A. totalling EUR 44,670,596.42 (of which EUR 3,491,882.89 as capital) freed up via the transfer to illimity of shares representing 37.66% of Hype S.p.A. (which took place on 29 December 2020, effective from 1 January 2021), the registration in the Companies' Register of the statement of the directors pursuant to Article 2343-quater of the Italian civil code (made on 5 January 2021) and consequent issue of 5,358,114 new ordinary shares for this increase, as well as (ii) the cash increase in capital for Banca Sella Holding S.p.A. for a total of EUR 16,544,676.46 (of which EUR 1,293,290.83 as capital), subscribed on 29 December 2020 with effect from 1 January 2021 (with regulation dated 5 January 2021), and consequent issue of 1,984,488 new ordinary shares, for this increase.

On 19 January 2021, illimity signed a six-year, EUR 6.5 million loan, for some Companies of the Mondial Suole group, a well-established manufacturer of soles for footwear from the Marche area, manufacturing items in all plastic materials for footwear of important luxury brands and in general Italian brands.

On 4 February 2021, illimity, in a pool with Solution Bank S.p.A., underwrote a six-year, EUR 12 million loan, secured by the SACE Italy Guarantee, for Frette S.r.l., a long-established Italian textiles brand specialised in the manufacture of luxury linens for the home.

Outlook, main risks and uncertainties

While still suffering from the uncertainty arising from the pandemic, management believes that all the business areas in which illimity works will continue to be highly dynamic, and it is expected that the future growth prospects of certain of these will actually be greater than initially forecast. An example of this is the distressed credit transaction market – in its UTP and bad loans components – where significant growth is expected to be seen over the next few years, also as the result of the

economic slowdown resulting from the pandemic. The digital financial service sector will continue the significant growth it has shown in recent years and it is expected that a rising number of SMEs with growth plans will turn to the banking sector to find the right financing solutions.

These favourable conditions on the market, the solid pipeline of new potential deals currently available and the robust generation of new business in the last quarter of the year will further fuel an additional significant increase in interest income during 2021. A robust rise in net fees and commissions is also forecast, driven by the growth in volumes and the expected acceleration in the activity of neprix (whose integration with IT Auction is planned to be completed in February 2021).

The Bank already began incurring costs and making investments in strategic initiatives in support of medium-long term growth prospects in the final part of 2020. An example of this is the investment in the IT and operational platform set up to work in the UTP portfolio market – a new segment of the distressed credit sector, which is likely to grow significantly over the next few years and to offer an important profitability. These investments enabled illimity to be awarded one of the most important transactions occurring in this sector during the year. Investing in new strategic projects that will bring their fruits in the years to come will also continue in 2021 as a means of further

strengthening the market positioning of all of the Bank's activities.

Given the extent to which the quality of the portfolio with businesses has held up and the support measures in place, including state-backed loans into which a significant portion of the new business generated by the SME Division will be channelled, it is expected that the cost of risk will remain at contained levels in 2021.

An increase in risk-weighted assets is forecast as a result of the expected growth in volumes, although to a lesser extent compared to the rise in loans and investments, also due to the adoption of capital optimisation strategies that are in the process of being realised.

The positive evolution of own funds through the generation of profits, albeit in the presence of the important growth of risk-weighted assets, will ensure that the Common Equity Tier 1 Ratio will remain above regulatory requirements.

Taken as a whole, management is expecting a further significant rise in the Bank's profits in 2021 despite the costs to be incurred for the new strategic initiatives, which will be announced to the market by the end of the first half of the year on the presentation of illimity's updated long-term strategic plan.

Proposals to the Shareholders' Meeting

The Board of Directors submits the following proposal for a resolution to the Meeting.

PROPOSAL

The Ordinary Shareholders' Meeting of illimity Bank S.p.A., ("illimity" or the "Bank"),

- having examined the draft financial statements of the Bank for the year ended 31 December 2020, accompanied by the annexes and documentation required by law, and having also examined the consolidated financial statements of the Group as of 31 December 2020;
- having examined the results of the draft financial statements for the year, which closed with a profit for the year of EUR 32,561,450.27;
- having regard to the report of the Board of Directors on operations as of 31 December 2020;
- having taken note of the respective reports drawn up by the Board of Statutory Auditors and the Company responsible for the statutory audit of the accounts KPMG S.p.A.,

RESOLVES

- to approve the financial statements of illimity Bank S.p.A., accompanied by the Directors' Report on Operations, which show a profit for the year of EUR 32,561,450.27;

The Ordinary Shareholders' Meeting of illimity Bank S.p.A., ("illimity" or the "Bank"),

- having examined the draft financial statements of the Bank for the year ended 31 December 2020, accompanied by the annexes and documentation required by law, and having also examined the consolidated financial statements of the Group as of 31 December 2020;
- having examined the results of the draft financial statements for the year, which closed with a profit for the year of EUR 32,561,450.27;
- having regard to the report of the Board of Directors on operations as of 31 December 2020;
- having taken note of the respective reports drawn up by the Board of Statutory Auditors and the Company responsible for the statutory audit of the accounts KPMG S.p.A.,

RESOLVES

- to approve the proposal to allocate a part of the profit for the year to cover retained losses from the previous year, for an amount equal to EUR 16,840,115.40;
- to approve the proposal to allocate to the legal reserve EUR 786,066.74, equal to 5% of the profit for the year net of the amount allocated to cover retained losses;
- to approve the proposal to carry forward profit for EUR 14,935,268.13.

Milan, 10 March 2021

On behalf of the Board of Directors
President, Rosalba Casiraghi
Signature

Financial Statements

Assets		31 December 2020	31 December 2019
10.	Cash and cash equivalents	944,821,217	772,124,903
20.	Financial assets measured at fair value through profit or loss	18,501,870	8,665,751
	a) financial assets held for trading	51,823	63,431
	b) financial assets designated at fair value	–	–
	c) other financial assets mandatorily measured at fair value	18,450,047	8,602,321
30.	Financial assets measured at fair value through other comprehensive income	91,374,646	125,788,333
40.	Financial assets measured at amortised cost	2,953,865,645	1,991,281,099
	a) due from banks	528,508,065	344,857,962
	b) loans to customers	2,425,357,580	1,646,423,138
50.	Hedging derivatives	–	–
60.	Fair value change of financial assets in hedged portfolios (+/-)	–	–
70.	Equity investments	23,512,235	1,079,269
80.	Property and equipment	21,286,663	22,846,340
90.	Intangible assets	51,750,377	40,511,239
	of which:		
	- goodwill	21,643,000	21,643,000
100.	Tax assets	31,155,485	36,955,140
	a) current	3,048,044	5,126,848
	b) deferred	28,107,441	31,828,292
110.	Non-current assets held for sale and discontinued operations	–	–
120.	Other assets	33,767,290	29,496,729
	Total assets	**4,170,035,428**	**3,028,748,805**

Liabilities and shareholders' equity		31 December 2020	31 December 2019
10.	Financial liabilities measured at amortised cost	3,526,375,247	2,448,897,845
	a) due to banks	524,449,425	364,693,692
	b) due to customers	2,700,945,493	2,068,845,905
	c) Securities issued	300,980,329	15,358,248
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	3,036,992	654,764
	a) current	2,930,499	–
	b) deferred	106,493	654,764
70.	Liabilities associated with non-current assets held for sale and discontinued operations	–	–
80.	Other liabilities	50,134,798	32,487,292
90.	Employee severance pay	1,681,870	1,058,971
100.	Allowances for risks and charges	4,100,202	1,082,093
	a) commitments and guarantees given	3,296,474	598,316
	b) post-employment benefits	–	–
	c) other provisions for risks and charges	803,728	483,777
110.	Valuation reserves	(278,478)	945,404
120.	Redeemable shares	–	–
130.	Equity instruments	–	–
140.	Reserves	21,875,665	36,993,978
150.	Share premium reserve	487,372,973	480,156,446
160.	Share capital	44,006,566	43,407,662
170.	Treasury shares (-)	(831,857)	(95,534)
180.	Profit (loss) for financial year(+/-)	32,561,450	(16,840,115)
	Total liabilities and shareholders' equity	**4,170,035,428**	**3,028,748,805**

INCOME STATEMENT

Items		31 December 2020	31 December 2019
10.	Interest income and similar income	149,942,035	44,006,967
	of which: interest income calculated according to the effective interest method	147,031,904	41,366,910
20.	Interest expenses and similar charges	(41,131,449)	(13,512,142)
30.	**Net interest margin**	**108,810,586**	**30,494,825**
40.	Fee and commission income	10,454,375	11,580,569
50.	Fee and commission expense	(2,963,254)	(1,203,269)
60.	**Net fee and commission income**	**7,491,121**	**10,377,301**
70.	Dividends and similar income	–	–
80.	Profits (losses) on trading	(389,030)	111,438
90.	Fair value adjustments in hedge accounting	–	–
100.	Profits (losses) on disposal or repurchase of	7,698,830	10,673,606
	a) financial assets measured at amortised cost	1,862,928	8,078,310
	b) financial assets measured at fair value through other comprehensive income	5,836,952	2,595,296
	c) financial liabilities	(1,050)	–
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	1,176,057	(511,517)
	a) financial liabilities designated at fair value	–	–
	b) other financial assets mandatorily measured at fair value	1,176,057	(511,517)
120.	**Net interest and other banking income**	**124,787,564**	**51,145,654**
130.	Net losses/recoveries for credit risks associated with:	16,554,187	638,366
	a) financial assets measured at amortised cost	16,472,526	634,526
	b) financial assets measured at fair value through other comprehensive income	81,661	3,839
140.	Profits (losses) on changes in contracts without derecognition	–	(1,137)
150.	**Net result from banking activities**	**141,341,751**	**51,782,882**
160.	Administrative expenses:	(93,928,859)	(80,856,256)
	a) personnel expenses	(39,699,020)	(29,226,130)
	b) other administrative expenses	(54,229,839)	(51,630,126)
170.	Net provisions for risks and charges	(985,630)	(541,579)
	a) commitments and guarantees given	(980,630)	(480,041)
	b) other net provisions	(5,000)	(61,538)
180.	Net adjustments/recoveries on property and equipment	(2,465,598)	(2,003,910)
190.	Net adjustments/recoveries on intangible assets	(5,096,961)	(1,108,263)
200.	Other operating income/expenses	4,179,108	3,525,939
210.	**Operating expenses**	**(98,297,940)**	**(80,984,068)**
220.	Profits (losses) on equity investments	(989,629)	–
230.	Profits (losses) of fair value valuation of property and equipment and intangible assets	–	–
240.	Goodwill impairment	–	–
250.	Profits (losses) on disposal of investments	–	(152)
260.	**Profit (loss) before tax from continuing operations**	**42,054,182**	**(29,201,337)**
270.	Income taxes for the financial year on continuing operations	(9,492,732)	12,361,222
280.	**Profit (loss) after tax from continuing operations**	**32,561,450**	**(16,840,115)**
290.	Net income (Loss) (+/-) from discontinued operations after taxes	–	–
300.	**Profit (loss) for the financial year**	**32,561,450**	**(16,840,115)**

STATEMENT OF COMPREHENSIVE INCOME

		31 December 2020	31 December 2019
10.	**Profit (loss) for the financial year**	**32,561,450**	**(16,840,115)**
	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	(2,917)	2,164
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	(51,150)	(49,000)
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 equity instruments) measured at fair value through other comprehensive income	(1,169,815)	967,081
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)**	**(1,223,882)**	**920,245**
180.	**Other comprehensive income (Item 10+170)**	**31,337,568**	**(15,919,871)**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31/12/2020

	Balance as of 31 December 2019	Change to opening balances	Balance as of 1 January 2020	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Change in reserves
Share capital:						
a) ordinary shares	42,469,181	–	42,469,181	–	–	–
b) other shares	938,481	–	938,481	–	–	–
Share premium reserve	480,156,446	–	480,156,446	–	–	–
Reserves:						
a) retained earnings	12,007,404	–	12,007,404	(16,840,115)	–	(96,017)
b) other	24,986,574	–	24,986,574	–	–	–
Valuation reserves	945,404	–	945,404	–	–	–
Equity instruments	–	–	–	–	–	–
Treasury shares	(95,534)	–	(95,534)	–	–	–
Profit (loss) for the financial year	**(16,840,115)**	**–**	**(16,840,115)**	**16,840,115**	**–**	**–**
Shareholders' equity	**544,567,841**	**–**	**544,567,841**	**–**	**–**	**(96,017)**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31/12/2019

	Balance as of 31 December 2018	Merger deeds (before taxation and securities adjustment)	Balance as of 1 January 2019	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Change in reserves
Share capital:						
a) ordinary shares	42,350,711	–	42,350,711	–	–	–
b) other shares	1,026,289	–	1,026,289	–	–	–
Share premium reserve	–	508,925,647	508,925,647	(29,124,439)	–	–
Reserves:						
a) retained earnings	12,007,404	–	12,007,404	–	–	(467,342)
b) other	202,581,607	(179,742,569)	22,839,038	–	–	1,617,798
Valuation reserves	(961,377)	986,536	25,159	–	–	–
Equity instruments	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–
Profit (loss) for the financial year	**(29,124,439)**	**–**	**(29,124,439)**	**29,124,439**	**–**	**–**
Shareholders' equity	**227,880,195**	**330,169,614**	**558,049,809**	**–**	**–**	**1,150,456**

Changes in the financial year							Shareholders' equity at 31/12/2020
Shareholders' equity transactions							
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income for the financial year 2020	
598,904	–	–	–	–	–	–	**43,068,085**
–	–	–	–	–	–	–	**938,481**
7,216,527	–	–	–	–	–	–	**487,372,973**
–	–	–	–	–	–	–	**(4,928,728)**
–	–	–	–	–	1,817,819	–	**26,804,393**
–	–	–	–	–	–	(1,223,882)	**(278,478)**
–	–	–	–	–	–	–	**–**
–	(736,323)	–	–	–	–	–	**(831,857)**
–	**–**	**–**	**–**	**–**	**–**	**32,561,450**	**32,561,450**
7,815,431	**(736,323)**	**–**	**–**	**–**	**1,817,819**	**31,337,568**	**584,706,319**

Changes in the financial year							Shareholders' equity at 31/12/2019
Shareholders' equity transactions							
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income for the financial year 2019	
30,662	–	–	87,808	–	–	–	**42,469,181**
–	–	–	(87,808)	–	–	–	**938,481**
355,238							**480,156,446**
–	467,342	–	–	–	–	–	**12,007,404**
–	–	–	–	–	529,738	–	**24,986,574**
–	–	–	–	–	–	920,245	**945,404**
–	–	–	–	–	–	–	**–**
–	(95,534)	–	–	–	–	–	**(95,534)**
–	**–**	**–**	**–**	**–**	**–**	**(16,840,115)**	**(16,840,115)**
385,900	**371,808**	**–**	**–**	**–**	**529,738**	**(15,919,871)**	**544,567,841**

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

A. OPERATING ACTIVITIES	Amount	
	31 December 2020	31 December 2019
1. Cash flow from operations	**88,312,204**	**(26,672,491)**
Net profit/loss for the year (+/-)	32,561,450	(16,840,115)
Gains/losses on financial assets held for trading and other financial assets measured at fair value through profit or loss (-/+)	(1,257,718)	-
Profits/losses on hedging activities (-/+)	-	-
Net value adjustments/write-backs for credit risk (+/-)	9,293,419	7,936,776
Net value adjustments/write-backs on property and equipment and intangible assets (+/-)	7,562,559	3,112,172
Net allocations to allowances for risks and charges and other costs/income (+/-)	5,711,723	541,579
Taxes, duties and unpaid tax credits (+)	8,933,437	(12,361,222)
Net value adjustments/write-backs on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	25,507,334	(9,061,681)
2. Cash flow generated/absorbed by financial assets	**(932,150,142)**	**(1,321,135,351)**
Financial assets held for trading	11,608	29,187,800
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	(8,649,029)	(8,503,645)
Financial assets measured at fair value through other comprehensive income	34,736,661	(16,772,298)
Financial assets measured at amortised cost	(962,838,116)	(1,310,378,780)
Other assets	4,588,734	(14,668,428)
3. Cash flow generated/absorbed by financial liabilities	**1,049,131,597**	**1,764,730,792**
Financial liabilities measured at amortised cost	1,062,330,668	1,772,335,788
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value	-	-
Other liabilities	(13,199,071)	(7,604,996)
Net cash generated/absorbed by operating activities	**205,293,659**	**416,922,950**

B. INVESTING ACTIVITIES	Amount	
	31 December 2020	31 December 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 business units	-	-
2. Cash flows used in	**(31,861,021)**	**(22,892,127)**
Purchases of equity investments	(15,304,889)	(1,063,000)
Purchases of property and equipment	(905,921)	(2,122,908)
Purchases of intangible assets	(15,650,211)	(19,706,219)
Purchases of business units	-	-
Net cash generated/absorbed by investing activities	**(31,861,021)**	**(22,892,127)**

C. FINANCING ACTIVITIES	Amount	
	31 December 2020	31 December 2019
Issues / Purchases of treasury shares	(736,323)	(95,534)
Share capital increases	-	310,101,915
Distribution of dividends and other purposes	-	-
Net cash generated/absorbed by financing activities	**(736,323)**	**310,006,381**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**172,696,315**	**704,037,204**

Reconciliation

FINANCIAL STATEMENTS ITEMS	Amount	
	31 December 2020	31 December 2019
Cash and cash equivalents at start of year	**772,124,903**	**68,087,699**
Total cash and cash equivalents generated/absorbed during the financial year	172,696,314	704,037,204
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at end of year	**944,821,217**	**772,124,903**

Key:

(+) generated
(–) absorbed

Explanatory Notes

Part A – Accounting policies

A.1 General information

Section 1 – Declaration of compliance with IAS/IFRS

These Financial Statements have been drafted in application of Legislative Decree no. 38 of 28 February 2005, according to the accounting standards issued by the International Accounting Standards Board (IASB) approved by the European Commission and the interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC), as established by the Community Regulation no. 1606 of 19 July 2002.

In preparing these Financial Statements, the IAS/IFRS in force as of 31 December 2020 were applied, including the SIC and IFRIC interpretations as harmonised by the European Commission. The line items presented in this report have been valued and measured on the basis of the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Commission, in addition to the guidelines issued for the implementation of Article 9 of Legislative Decree 38/05 and article 43 of Legislative Decree no. 136/15.

There were no derogations from the IAS/IFRS.

The Bank of Italy, with reference to the financial statements of banks and financial companies subject to supervision, has established, by Circular 262 of 22 December 2005, as amended, the financial statements and explanatory notes used for the drafting of these Financial Statements. With the Communication of 15 December 2020, the provisions of Circular 262 - 6th update, issued on 30 November 2018 - were supplemented to give the market information on the effects that COVID-19 and support measures for the economy have had on the risk strategies, objectives and policies, and on the financial position and performance of intermediaries. The additional information in the Communication of 15 December 2020 takes account, where applicable, of the documents published in the last few months by European regulators and supervisory bodies, as well as standard setters, with particular reference to IFRS 9 and IFRS 16 on COVID-19-rent related concessions. The Communication also includes additional amendments to take into account new requests for information contemplated in IFRS 7, regarding the interest rate benchmark reform.

With the exceptions mentioned in this document – and more broadly described in SECTION 4 – there were no changes in the Accounting Standards adopted, compared to the previous year.

Section 2 – General preparation principles

The Financial Statements comprise the statement of financial position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (drafted with application of the "indirect" method) and the Explanatory Notes. The set of financial statements is also accompanied by the Directors' Report on Operations.

In accordance with art. 5 of Legislative Decree no. 38/2005, the financial statements have been drafted using the Euro as the functional currency. The amounts presented in the Bank's financial statements and the Explanatory Notes are stated in thousands of EUR, unless otherwise indicated. Any discrepancies between the figures presented are due solely to rounding.

These financial statements have been prepared on the assumption of continuity of the business, since there are no significant uncertainties regarding events or conditions that may lead to doubts as to the Group's ability to continue to operate as a going concern. The valuation criteria adopted are therefore consistent with the business continuity assumption and comply with the principles of competence, relevance and materiality of accounting information and the precedence of economic substance over legal form. These criteria remained unchanged from the previous year.

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

The Financial Statements have been drafted with clarity and provide a true and fair view of the financial situation and economic result of illimity Bank S.p.A.

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

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

The consolidated financial statements to 31 December 2020, which were approved by the Board of Directors on 10 March 2021, are subject to auditing by the auditing firm KPMG S.p.A.

Content of the financial statements

1. Statement of financial position and income statement

The statement of financial position and income statement consist of items, sub-items and additional details. In the income statement, revenues have been presented without sign, whereas costs have been stated in parentheses.

2. Statement of comprehensive income

In addition to the profit (loss) for the year, the statement of other comprehensive income indicates income components taken to valuation reserves, net of the relevant tax effect, in accordance with international accounting standards.

Profitability With Regulation No. 475/2012, the European Commission harmonised various changes to IAS 1, aimed at clarifying the statement of comprehensive income (Other Comprehensive Income - OCI), by grouping items that would not be recycled to the income statement in the future and those that may be recycled to the income statement under certain conditions.

3. Statement of changes in shareholders' equity

The statement shows the composition of and changes in the shareholders' equity accounts during the year of the report, broken down into share capital (ordinary and savings shares), capital reserves, earnings reserves and reserves from the valuation of assets or liabilities and net profit. The treasury shares in portfolio are deducted from shareholders' equity.

4. Cash flow statement

The statement of cash flows during the reporting year was prepared on the basis of the indirect method, according to which the cash flows from operations are represented by the results for the period, adjusted by the effects of non-monetary operations. The cash flows are divided between those generated by operations, those generated by investment activities and those generated by funding activities.

In the statement, the cash flows generated during the year are indicated without sign, while those absorbed are indicated in brackets.

Content of the Explanatory Notes

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

The main accounting issues relating to COVID-19

In view of the particular seriousness of the events resulting from COVID-19, during the first half of 2020, the IASB and various European regulators issued a series of measures relating to the accounting consequences of the pandemic, of which the most significant aspects are summarised below.

IASB:

- 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. This amendment is not significant for illimity.

ESMA:

- On 11 March 2020, as part of the Public Statement "ESMA recommends action by financial market participants for Covid-19 impact", ESMA set out some guidelines on conduct regarding the impact of the pandemic. In particular these concerned the following topics:
  a) ongoing market disclosure, with issuers recommended to promptly publish information concerning the impact of COVID-19 on their essential aspects, prospects or financial situation, if the information is relevant and significant, in accordance with the transparency obligations indicated in the Market Abuse Regulation;
  b) financial reporting, with companies recommended to be as transparent as possible on the current and potential impacts of COVID-19 on their operations and business, financial situation and economic performance based, as far as possible, on a qualitative and quantitative assessment.
- On 25 March 2020, with reference to the "Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9", ESMA addressed the topic of the recognition of changes resulting from the introduction of supporting measures, the measurement of the significant increase in credit risk (SICR), avoiding the automatisms contemplated by standards, the Expected Credit Loss Estimation, and public guarantees for the exposures of issuers and the matter of transparent disclosure;
- On 27 March 2020, in the document "Guidance on Financial Reporting Deadlines in light of COVID-19", ESMA provided indications on how to factor in moratoria when applying IFRS 9 requirements regarding the Modification and Derecognition, Assessment of significant increase in credit risk ("SICR") and Expected Credit Loss estimation.
- In its Public statement of 20 May 2020, "Implications of the Covid-19 outbreak on the half-yearly financial reports", ESMA therefore recommended compliance with requirements of transparency and adoption consistent with European rules, with particular reference to international accounting standards, in preparing interim financial reports in the light of the pandemic;
- On 28 October, in its communication "European common enforcement priorities for 2020 annual financial reports", ESMA set out its priorities for the presentation of IFRS annual reports to ensure that they would adequately reflect the consequences of the COVD-19 pandemic, with particular reference to considerations about IAS 1 – Presentation of Financial Statements, IAS 36 – Impairment of Assets, IFRS 9 – Financial Instruments and IFRS 7 – Financial Instruments: Disclosures.

EBA:

- With reference 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:
  a) 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;
  b) 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;
  c) on the possible classification to Stage 2 of positions subject to moratoria, the EBA clarified 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 importance of having reliable information on capital, risks and liquidity in order to understand banks' prudential and financial positions during this turbulent period for the financial system;
- In the *Guidelines* of 2 April 2020: "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis", the EU and the Member States introduced a series of measures to support the real economy and the financial sector in order to mitigate the economic consequences of the pandemic. A legal moratorium was introduced on loan repayments, allowing borrowers to access various forms of facilitating measures, on existing loans. Many member states also introduced various types of public guarantees

for new loans. The EBA's orientations were then further explored in the Guidelines issued on 2 December 2020 concerning moratoria in the light of the COVID-19 crisis.

- The EBA provided further guidance on 2 June 2020 in its "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis".
- On 2 December 2020, in the "*Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis*", the EBA explored the issue of extending the period of "Eba-compliant" moratoria.

ECB:

- The ECB also acted in response to how coronavirus is affecting the banking sector. In particular, in the communication of 20 March 2020 "ECB Banking Supervisor provides further flexibility to banks in reaction to coronavirus", the ECB provided indications on classifying and measuring loans and receivables. This communication stated that moratoria take up should not be an automatic trigger for likely default, as payments had been deferred in accordance with law and consequently the calculation of days' expiry for identifying past-dues at the end of the moratoria, was not enabled;
- On 1 April 2020, in the document "IFRS 9 in the context of the coronavirus (COVID-19) pandemic", the ECB, to avoid excessively procyclical assumptions to determine expected credit losses, urged banks to apply the transitional IFRS 9 provisions foreseen in the CRR. On 16 April 2020, in the "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;
- In the letter of 4 December 2020, addressed to all significant entities and entitled: "Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic", the ECB further outlined the importance of Risk Management decisions in assessing, classifying and measuring risk for the banking sector.

CONSOB:

- 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, as previously mentioned;
- On 16 February 2021, in its notice "COVID-19 - measures to support the economy – focus on disclosure", CONSOB concentrated the issuers' attention on:
  - Disclosures to be given by regulated issuers based on the above mentioned ESMA communication of 28 October 2020 "European common enforcement priorities for 2020 annual financial reports";
  - Verification by control bodies on information flows with the management board;
  - Verification by independent auditors on impacts that may arise from uncertainties related to the effects of the pandemic.

Section 3 – Significant events after the reporting date

In detail, subsequent events are described in the relevant section of the Report on Operations; in this part of the Explanatory Notes it is indicated that pursuant to the requirements of IAS 10, after 31 December 2020 (the reporting date), and until the date when the financial statements were presented to the Board of Directors, no events occurred requiring any rectification of the information presented in the financial statements. For an examination of the business outlook, refer to the Report on Operations.

Section 4 – Other aspects

Risks, uncertainties and impacts of the COVID-19 epidemic

After the spread of COVID-19 in the year, and the consequent impacts at a systemic level (shock on financial markets, liquidity inflows from the authorities, recession), and local level (critical operating aspects at an economic fabric level), and in the framework of Bank of Italy rulings (allocation of profits to consolidate own funds, extensions for ICAAP, ILAAP regulatory obligations, recovery plan, flexibility in meeting asset and liquidity requirements), the illimity Group studied and promptly adopted a number of actions to deal with the critical context and mitigate the related risks at operational level in terms of credit strategy and policy and credit risk management, the strategic management of the financial assets portfolio, as well as customer relationship management and the management of their own business models.

In general terms, the increase in demand for remote financial services during the year, promptly and effectively steered by illimity's commercial and technological proposals, along with the Bank's highly conservative approach to pricing investments and providing funding and its limited exposure to economic sectors or asset classes most affected by the pandemic, are all factors that demonstrate the resilience of the business model in a reference scenario characterised by considerable risks.

At a governance level, the specific CV19 Committee was established, comprising the Chairman of the Board of Directors, CEO and top management of the Bank and Subsidiaries, which conducted ongoing assessments, at least weekly, throughout 2020, on the actual and potential economic, financial and operational impacts of the pandemic.

With reference to credit risk, the possible impacts in terms of the slowing down of 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 our counterparties' operations and those of the courts, and the 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, so that strategies and policies (including risk) can be adapted to respond to the changing situation. The use of assessments by the business divisions allowed them to factor in the specific impact connected to credit risk, such as the increased probability of default by counterparties in the SME Division, or the lower rates of recovery on the portfolios acquired by the DCIS Division.

Looking forward, the rise in the number of transactions involving distressed loans due to the recession triggered by the pandemic, the implementation of calendar provisioning rules and the growth of the secondary market for UtP exposures are all elements with respect to which illimity is well placed as an operator, to seize the related opportunities.

With reference to market risk, the rising volatility and rapid repricing which characterised the financial markets during the first four months of 2020 have been mitigated thanks to a conservative asset allocation on investments in financial instruments (primarily government bonds); this has limited the related financial impacts, which were even cancelled out during the course of the year. In addition, on the banking portfolio, there was reduced sensitivity to short-term changes in market rates, in relation to the structural ALM characteristics.

With reference to liquidity risk, the potential strain on liquidity and the buffer of available resources connected to the shock on the financial markets and the logistic and operational issues that have affected the economic system have been mitigated and managed using a well-diversified funding structure and a considerable liquidity buffer, the offer of funding/investment services through the Digital Bank channel and the German digital platform "Raisin". This 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.

With reference to the operational risks potentially connected to the pandemic (such as a drop in staff productivity, a lack of personnel in charge of critical processes, an increase in operational errors in the management of new or traditional processes, problems relating to the unavailability of IT systems or cyber fraud), specific measures have been taken to protect and monitor the health and safety of employees. Widespread use has been made of smart working, as the company's main businesses are already fully digital; this is also thanks to the innovative structure of the business information system (the cloud environment is used across the business to manage its main applications and data, to share information, and for risk control). This has allowed the Group to maintain business continuity and has also helped to mitigate potential strategic and business risks, regarding the fulfilment of the 2020 budget objectives.

With regard to the risks of lack of capital adequacy and liquidity, the current and forward-looking indicators, also considering the developments in the COVID-19 situation (for example, incorporating the stress scenarios defined on the basis of the regulatory guidelines and the latest updates regarding macroeconomic and sector specific/geographical scenarios) show that capital adequacy and liquidity are consistent with the minimum regulatory thresholds and its management limits as defined in the Risk Appetite Framework (RAF).

With reference to strategic and business risks, other than the information already given with regard to the Group's business model it can be seen that the current pandemic situation resulted in a slowdown in the origination process during the first 6 months of the year in certain businesses, with a (limited) postponement of some of the collection processes due to the courts being temporarily closed. This was more than compensated by the robust collections on other exposures already in the portfolio, during the second half of the year.

For further details on the objectives and strategies of individual risks in the new pandemic situation, refer to the specific section in Part E – information on risks and hedging policies.

Contractual amendments due to COVID-19

1. Contractual amendments and derecognition (IFRS 9)

   The moratoria and other measures granted by the Bank for customers following the COVID-19 pandemic are dictated by an unusual situation, and they cannot therefore be placed within the general framework of modification and derecognition provided for in IFRS 9.

   The renegotiation provided for in this regulatory context, in compliance with specifications of the Authorities, suspends for a period remuneration for the bank at the original contract interest rate. At the end of the moratoria period, the payment of the instalments will resume at the same conditions in effect prior to the suspension, without any change to the terms and conditions of the contract. This suspension has had a limited effect on the "current delta value" of future cash flows of relationships the regulations apply to.

2. Amendment to IFRS 16

   On 28 May 2020, the IASB published an amendment "COVID-19-*Related Rent Concessions* (*Amendment to IFRS 16*)". The amendment states that lessees may recognise rent reductions granted in relation to COVID-19 without having to assess, by analysing the contracts, whether the IFRS 16 definition of lease modification has been met. Therefore, lessees that apply this option must recognise the effects of rent reductions directly in the income statement at the date when the reduction comes into effect. The Group has decided not to adopt this amendment.

4.1 Use of estimates and assumptions in preparing the financial statements

In compliance with the requirements of the IFRS framework, the preparation of the financial statements requires the use of estimates and assumptions that may influence the values stated in the statement of financial position and income statement and the disclosures regarding contingent assets and liabilities presented in the financial statements.

The estimates and related assumptions are based on the use of available management information and subjective assessments, also founded on historical experience. The use of reasonable estimates is, thus, an essential part of the preparation of the financial statements. The components in which the use of estimates and assumptions is substantially inherent in determining the carrying amounts 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 property and equipment and intangible assets with finite useful lives.

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

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

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

- Regulation no. 2019/2075: 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. 2019/2104: the Regulation of 29 November 2019 adopts several amendments to IAS 1 and IAS 8 to clarify the definition of *"material information"* and improve understanding of the concept. The Regulation emphasises that materiality depends on the nature and relevance of the information or both. An entity also verifies whether information, both individually and in combination with other information, is material in the overall context of the financial statements.

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

- Regulation no. 2020/34 (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 (EU) no. 2020/551 (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".

4.3 IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2020

Documents endorsed by the EU as of 31 December 2020

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Amendments to IFRS 16 Leases (COVID-19-related rent concessions)	May 2020	1 June 2020	9 October 2020	(EU) 2020/1434 12 October 2020
Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9	June 2020	1 January 2021	15 December 2020	(UE) 2020/2097 16 December 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2	August 2020	1 January 2021	13 January 2021	(EU) no. 2021/25 14 January 2021

4.4 IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2020

Documents NOT yet endorsed by the EU as of 31 December 2020

Document title	Date issued by IASB	Date of entry into force of the IASB document	Date of expected endorsement by the EU
Standards			
IFRS 17 Insurance Contracts, including Amendments to IFRS 17 (issued on 25 June 2020)	May 2017	1 January 2023	TBD
Amendments			
Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	1 January 2022	TBD
Property, plant and equipment: proceeds before intended use (Amendments to IAS 16)	May 2020	1 January 2022	TBD
Provisions, Contingent Liabilities and Contingent Assets (Amendments to IAS 37)	May 2020	1 January 2022	TBD
Annual improvements to IFRS Standards (Cycle 2018–2020)	May 2020	1 January 2022	TBD
Classification of Liabilities as Current or Non-current (Amendment to IAS 1), including subsequent amendment issued in July 2020	January 2020 July 2020	1 January 2023	TBD

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

4.5 IAS endorsed as of 13 January 2021 with application after 2020

Regulation (EU) No. 2020/1434: Amendments to IFRS 16 *Leases* (lease payment concessions due to COVID-19) came into force on 1 June 2020 and have been approved. As the COVID-19 pandemic has caused an unprecedented shock to the European Union, the Member States and the EU itself have taken measures to provide financial support to businesses, including the suspension of payments under private or public moratoria in order to avoid bankruptcies and loss of jobs, and to support rapid recovery. The amendment to IFRS 16 provides for operational support related to COVID-19, which is temporary and optional, for lessees to benefit from suspensions of lease payments due, without compromising the relevance and usefulness of financial information disclosed by businesses.

Regulation (EU) No. 2020/2097: The amendments to IFRS 4 are aimed at remedying the temporary accounting impact of the time lag between the date of entry into force of IFRS 9 Financial instruments and the effective date of the future IFRS 17 Insurance contracts. In particular, amendments to IFRS 4 extend the temporary exemption from adopting IFRS 9 until 2023, in order to align the date of entry into force of IFRS 9 with the new IFRS 17.

Regulation (EU) No. 2021/25: The change is to take into account the consequences of replacing the benchmark indexes used to determine interest rates, with alternative reference rates. These amendments require specific accounting treatment to allocate, over time, changes in the value of financial instruments or lease agreements due to the replacement of the benchmark to determine interest rates, thus avoiding immediate repercussions on profit (loss) for the period and pointless suspensions in hedging following the replacement of the benchmark to determine interest rates.

These amendments did not have any significant impact on the Bank.

A.2 Section on the main financial statement items

This section presents the accounting standards used for the drafting of the financial statements to 31 December 2020 with reference to the classification, recognition, valuation and derecognition of the various asset and liability items, and for the methods used for the recognition of costs and revenues.

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

This category of financial assets measured at fair value through profit or loss (FVTPL) includes Financial assets that cannot be qualified as Financial assets measured at fair value with impact on the comprehensive income or as Financial assets valued at amortised cost. This item therefore includes:

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

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

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

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

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

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

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

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

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

The accounting treatment of financial assets mandatorily measured at fair value or designated at fair value is similar to that of "Financial assets held for trading”, with the recording of profits or losses, realised and measured, under the item “Profits (losses) on other financial assets and liabilities measured at fair value with impact on income statement”, respectively under the components “a) financial assets and liabilities designated at fair value” and “b) other financial assets mandatorily measured at fair value”.

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

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

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

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

In particular this item includes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Financial assets measured at amortised cost

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

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

Specifically, this item includes: customer and bank loans disbursed directly or acquired from third parties that provide for fixed or determinable payments, which are not listed on an active market and which have not been classified at origin under Financial assets measured at fair value through other comprehensive income.

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

This category also includes the business-related credits connected to the provision of financial services as defined in the TUB and TUF. (for example, for the distribution of financial products and servicing activities).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The quali-quantitative analyses intended to define the substance of the contractual changes made to a financial asset must therefore consider:

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

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

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

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

As regards the recognition methods of purchased or originated impaired Financial assets (so-called POCI) refer to Section 15 – Other information – Part A of these Notes

4. Hedging operations

As of 31 December 2020 the Bank did not hold hedging instruments.

5. Equity investments

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

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

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

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

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

Investments in subsidiaries and companies subject to significant influence are recognised at cost at the settlement date, adjusted as necessary to reflect impairment.

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

On each reporting date, any objective evidence that the investment has been impaired, is verified. The recoverable value will then be calculated by considering the discounted value of the future cash flows that the equity investment could generate, including the final disposal value. Any lesser value thus determined with respect to the book value, is recognised in the same year in the income statement under the item "Profits (Losses) on equity investments". This item also includes any future write-backs if the reasons that led to the previous write-downs no longer exist.

On each financial closing date, the Group assesses whether there are any indications of long-term loss of value of the equity investments. If such indicators do emerge, an impairment test is carried out. If the carrying value of the equity investments exceeds the recoverable value, they will be written down to reflect the recoverable value. The recoverable value is the higher of the fair value of an asset or cash generating unit (CGU) net of the cost of sale or value in use, and is determined for each individual asset, except where that asset generates cash flows that are not largely independent of those generated by other assets or asset groups, in which case the Group will estimate the recoverable value of the CGU to which the asset belongs.

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

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

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

6. Property and Equipment

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

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

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

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

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

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

However, the following are not depreciated:

- the land, whether acquired individually or incorporated into the value of the buildings, as it has an indefinite useful life;
- investment property that, as required by IAS 40, is valued at fair value with contra party on the income statement, must not be depreciated;
- inventories (IAS 2): these assets are measured at the lesser between cost and the net realisable value.

A tangible asset is eliminated from the statement of financial position at the time of disposal, or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any difference between the disposal value or recoverable amount and the carrying amount is then recognised in the income statement respectively under the item "Profits (losses) on disposal of investments” or “Net adjustments/write-backs on property and equipment”.

In application of IFRS 16, from the annual reporting period beginning from 1 January 2019 on, the item tangible assets also includes the right of use relating to leases on tangible assets. A lease is defined as a contract the fulfilment of which depends on the use of an identified asset, and that conveys the right to control the use of the asset for a period of time in exchange for consideration: IFRS 16, therefore, applies to all transactions that provide for a right to use the good, regardless of its contractual form. The scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

In accordance with IFRS 16, the Bank shall initially recognise an asset representing the Right of use (“ROU”) of the leased asset, together with a liability represented by the present value of the expected future lease payments over the life of the lease contract (the "Lease Liability") discounted at the implicit rate of the transaction (if determinable); if the rate cannot be easily determined, the lessee shall instead use the incremental borrowing rate (IBR). The ROU is, therefore, initially determined by increasing the Lease Liability of the initial direct costs incurred by the lessee.

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

- the right of use was depreciated over the term of the contract or the useful life of the asset (on the basis of IAS 16) and is subject to impairment;
- the liability was progressively reduced due to the effect of the lease payments and the relevant interest expenses recognised and attributed separately to the income statement.

7. Intangible assets

Non-monetary identifiable non-physical assets held to be used over several years or for an indefinite period, are termed intangible. They are generally represented by software and the rights to use intellectual property, trademarks and other intangible assets. They are recognised at the cost of purchase adjusted for any ancillary costs only if the future economic benefits attributable to the asset are likely to be realised and if the cost of the asset can be reliably determined. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred. Intangible assets also include leasehold rights of use relating to the use of intangible assets under IFRS 16.

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

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

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

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

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

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

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

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

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

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

The value of intangible assets having a specific duration is systematically amortised starting from the inclusion of such assets in the production process. An intangible asset is therefore eliminated from the statement of financial position (i) at the time of disposal, (ii) when it is fully amortised or (iii) when future economic benefits are not expected. Any difference between the disposal value or recoverable amount and the carrying amount is recognised in profit or loss respectively under the item "Profits (losses) on disposal of investments” or “Net value adjustments/recoveries on intangible assets”

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

8. Non-current assets held for sale and discontinued operations

As of 31 December 2020, the Bank does not hold non-current assets held for sale and discontinued operations, as of the reporting date.

9. Current and deferred taxes

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

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

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

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

Deferred tax assets and liabilities are recognised in the statement of financial position in open balances without set-offs, the former being included in “tax assets” and the latter in “tax liabilities”. Any deferred tax liabilities payable on capital reserves under tax suspension are not recognised, as it can reasonably be considered that there will be no operations that will result in their being taxed.

10. Allowances for risks and charges

Commitments and guarantees given

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

Post-employment benefits

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

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

Other Allowances

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

Therefore an allowance is recognised if, and only if:

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

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

In cases where the time value of money is a relevant aspect, the amount of the provision must be discounted at a rate, inclusive of the fiscal effects, which reflects the market valuations of the passage of time on the value of the liabilities and which takes into account the specific risks of the liability itself (IAS 37 - 45.47). The provision, and the increases due to the time factor are recorded on the income statement.

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

The allocation for the year, recorded under the item "Net allocations to provisions for risks and charges: b) other net provisions" of the income statement, includes increases in provisions due to the passage of time and is net of any adjustments.

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

11. Financial liabilities measured at amortised cost

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

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

Initial recognition is based on the fair value of the liabilities, normally corresponding to the amount received or the issue price, adjusted for any additional costs/income directly attributable to the individual supply or issue transaction. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

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

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

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

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

12. Financial liabilities held for trading

As of 31 December 2020 the Bank does not hold financial trading liabilities.

13. Financial liabilities designated at fair value

As of 31 December 2020 the Bank does not hold financial liabilities measured at fair value.

14. Foreign currency transactions

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

“Off balance sheet” transactions are valued:

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

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

15. Other information

Impairment of financial instruments

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

a) financial assets measured at amortised cost;
b) financial assets valued at fair value through other comprehensive income other than equity instruments;
c) commitments to lend funds and guarantees issued that are not valued at fair value through profit or loss;
d) contractual activities resulting from operations covered by the scope of application of IFRS 15.

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

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

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

An exception to this are the “Purchased or originated impaired financial assets” so called POCI, dealt with in the next point of this paragraph.

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

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

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

For more detailed information on the criteria adopted by the Bank to understand the significant increase in credit risk, reference is made to Part E of the Explanatory Notes to these Financial Statements.

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

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

Estimate of expected losses on impaired positions (stage 3)

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

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

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

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

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

Purchased or originated impaired financial assets (POCI)

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

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

These assets are not identified under a specific statement of financial position item but are classified according to the business model in which the asset is managed, under the following headings:

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

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

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

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

Treasury shares

Treasury shares are recognised as a direct reduction of shareholders' equity.

Accruals and deferrals

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

Costs of leasehold improvements

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

Employee benefits

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

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

Employee severance pay

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

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

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

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

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

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

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

Share-based payments

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

Recognition of revenues for commission income

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

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

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

Business combinations

The accounting standard applicable to business combinations is IFRS 3.

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

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

Identifying the acquirer

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

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

Determining the cost of the combination

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

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

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

Segment reporting

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

The fair value of financial instruments

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

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

The measurement 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.

Tax receivables connected with the "Cura Italia" and "Rilancio" Decrees

Decree Laws 18/2020 ("Cura Italia") and 34/2020 ("Rilancio") introduced tax incentives which are commensurate with a percentage of expenditure incurred, and are disbursed as tax receivables or tax deductions. Most of the tax receivables covered by the tax incentives may be sold to third parties, that will use them according to specific applicable regulations. In fact these receivables are tax receivables arising from incentives of which the use, unlike receivables arising from the payment of excess taxes, is governed by the provisions that introduce them.

The receivables in question may be used to offset taxes and contributions or may be further sold to third parties. None of the receivables in question may be refunded (wholly or in party) directly by the State. Moreover, receivables may be used, as applicable, for offsetting, without the possibility of carrying forward or requesting a refund for the part not offset in the reference year due to insufficient balances.

As indicated in the Document of the Bank of Italy/Consob/Ivass no. 9, once acquired from a third party, the specific aspects of the receivables do not allow for them to be immediately attributable to a specific international accounting standard: in fact these receivables are excluded from the provisions of IAS 12 "Income taxes" as they do not come under the taxes that cover the company's ability to generate income; they do not come under the definition of government grants given in IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", as ownership of the receivable as regards the Revenue Agency only arises following the payment of an amount to the assignor; IFRS 9 Financial Instruments is not directly applicable, as the assets comprising the tax receivables acquired do not originate from a contract between the assignee and the Italian government; lastly, IAS 38 "Intangible assets" does not apply as the tax receivables in question cannot be considered as monetary assets, allowing for the payment of tax payables usually settled in cash. Therefore reference must be made to the provisions of IAS 8, which establish the following: In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy that results in information that is a) relevant for the economic decisions of users; and b) reliable [...]".

Based on these considerations, the Group considered the following approach applicable:

a) *Initial recognition*: the tax credit is recognised at the time of purchase, for a value corresponding to its fair value, within the item "Other assets";
b) *Subsequent measurement*: the provisions of IFRS 9 in relation to the hold to collect business model are applied; these provide for measurement at amortised cost.

With reference to the economic effect of the income and charges resulting from the acquisition and use of tax credits, this reflects the management of financial instruments at amortised cost.

Tax consolidation

illimity Bank S.p.A. has opted to be a part of the national tax consolidation scheme for Corporate Income Tax (IRES), as provided for in Articles 117-129 of the Consolidated Income Tax Act (TUIR). Under this scheme, the taxable income or tax losses of each company which is consolidated are transferred to the consolidating company - along with excess amounts of ACE (economic aid for growth), withheld taxes, tax deductions and receivables - for which a single taxable income or a single tax loss to carry forward is calculated, corresponding to the algebraic sum of the taxable income or tax losses of each company.

Regulations on national tax consolidation establish optional take-up, which is binding for three financial years (with automatic renewal) and is allowed for companies between which control exists as contemplated in Article 2359, paragraph 1) no. 1 of the Italian Civil Code.

For the 2020-2022 period, the companies of the illimity Group joining the national tax consolidation scheme with illimity Bank as the consolidating party were neprix and illimity SGR.

A.3 Information on transfers between portfolios of financial assets

There were no such transfers during the current year.

A.4 Information on fair value

Qualitative information

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

The following section contains a summary, divided by type of instrument, of the valuation techniques used for instruments classified at fair value level 2 and level 3.

Assessment of non-contributed shares and equity instruments

On the reporting date, there were no shares or equity instruments classified as level 2.

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

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

Measurement of loans

The most significant cases concern non-bearing receivables purchased at values below the nominal value. These were purchased as part of loan or re-financing transactions that also include interest-bearing instruments and their measurement is based on models that measure the capacity of the funded subject to repay their liability. Cash flows are therefore discounted to determine their value at the measurement date.

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

Measurement of structured loan products

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

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

In the second case the exposures are unitranche notes, whereby there is an assessment of the collateral's capacity to replay the contractually defined flows of interest and capital. The variable returns related to collateral performance are incorporated with highly conservative assumptions.

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

A.4.2 Processes and sensitivity of valuations

For a description of the process used to value instruments classified at fair value level 3, see section A.4.1.

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 measurement of the equity instruments are those used by normal market practices and that a change in them does not have a significant impact for the explanatory notes.

A.4.3 *Fair value* hierarchy

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

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

For securities held at fair value level 2:

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

For securities held at fair value level 3:

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

To summarise the characteristics of the different fair value levels:

Level 1:
The measurement is based on observable inputs or listed prices (without adjustment) on active markets for identical assets or liabilities, which the entity can access on the measurement date. The presence of official prices on an 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 measurement takes place using methods used if the instrument is not listed on an active market, and is based on inputs other than those for Level 1. The measurement of the instrument is based on prices taken from the market prices for similar assets, or using measurement techniques whereby all the significant factors are deduced from market-observable parameters. The pricing is non-discretionary as the main parameters used are drawn from the market and the calculation methods replicate the prices on active markets. If there is no active market, the estimation methods will be based on the measurement of listed instruments with similar characteristics, on the amounts recognised in recent comparable transactions, or by using measurement models that discount future cash flows, also taking into account all the risk factors connected to the instruments, and which are based on market-observable data.

Level 3:
The measurement methods will value a non-listed instrument using significant non-market observable data and therefore they require the adoption of estimates and assumptions by management (the "*Mark to Model Approach*").

A.4.4 Other information

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

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

Quantitative information

A.4.5 *Fair value* hierarchy

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

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

Financial assets / liabilities measured at fair value	31 December 2020			31 December 2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	106	-	18,396	106	-	8,559
a) financial assets held for trading	7	-	45	7	-	56
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	99	-	18,351	99	-	8,503
2. Financial assets measured at fair value through other comprehensive income	91,357	-	18	125,773	-	15
3. Hedging derivatives	-	-	-	-	-	-
4. Property and Equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**91,463**	**-**	**18,414**	**125,879**	**-**	**8,574**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

Key:

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

Instruments that are valued to a significant extent on the basis of non-observable parameters (Level 3) make up 16.76% of the total financial assets measured at fair value. On the reporting date they were mainly represented by investments classified in the portfolio of "Financial assets mandatorily measured at fair value", relating to the Turnaround, Senior Financing and Energy areas.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and Equipment	Intangible assets
	Total	of which a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**8,559**	**56**	-	**8,503**	**15**	-	-	-
2. Increases	**10,281**	-	-	**10,281**	**4**	-	-	-
2.1 Purchases	8,996	-	-	8,996	4	-	-	-
2.2 Profits charged to:	1,176	-	-	1,176	-	-	-	-
2.2.1 Income Statement	1,176	-	-	1,176	-	-	-	-
- of which capital gains	1,176	-	-	1,176	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	109	-	-	109	-	-	-	-
3. Decreases	**444**	**11**	-	**433**	**1**	-	-	-
3.1 Sales	-	-	-	-	-	-	-	-
3.2 Repayments	-	-	-	-	-	-	-	-
3.3 Losses charged to:	11	11	-	-	1	-	-	-
3.3.1 Income Statement	11	11	-	-	-	-	-	-
- of which capital losses	11	11	-	-	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	1	-	-	-
3.4 Transfers from other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	433	-	-	433	-	-	-	-
4. Closing balance	**18,396**	**45**	-	**18,351**	**18**	-	-	-

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

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

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31 December 2020				31 December 2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	2,953,865	4,525	-	3,025,853	1,991,282	-	-	2,021,489
2. Property and equipment held for investment	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**2,953,865**	**4,525**	**-**	**3,025,853**	**1,991,282**	**-**	**-**	**2,021,489**
1. Financial liabilities measured at amortised cost	3,526,373	304,716	2,234	3,150,796	2,448,898	-	15,381	2,217,765
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**3,526,373**	**304,716**	**2,234**	**3,150,796**	**2,448,898**	**-**	**15,381**	**2,217,765**

Key:

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

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

A.5 Information on “day one profit/loss”

According to paragraph 28 of IFRS 7, it is necessary to provide evidence of the “day one profit or loss” to be recognised in the income statement at year end, together with a reconciliation compared to the initial balance. “Day one profit or loss” refers to the difference between the fair value of a financial instrument acquired or issued at the time of initial recognition (transaction price) and the amount determined on that date using a valuation technique.

There are no cases that require reporting in this section.

Part B - Information on the statement of financial position

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2020	Total 31/12/2019
a) Cash	382	70
b) On demand deposits with central banks	944,439	772,055
Total	**944,821**	**772,125**

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

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

2.1 Financial assets held for trading: breakdown

Items/values	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCIs	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 held for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**7**	**-**	**45**	**7**	**-**	**56**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

2.2 Financial assets held for trading: borrower/issuer/breakdown

Items/values	Total 31/12/2020	Total 31/12/2019
A. Cash assets		
1. Debt securities	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	-	-
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. Units of UCIs	52	63
4. Loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**52**	**63**
B. Derivatives	**-**	**-**
a) Central counterparties	-	-
b) Others	-	-
Total (B)	**-**	**-**
Total (A+B)	**52**	**63**

2.3 Financial assets designated at fair value: breakdown by product type

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

2.4 Financial assets designated at fair value: breakdown by borrower/issuer

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

2.5 *Other financial assets mandatorily measured at fair value: breakdown*

Items/values	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**11,660**	**-**	**-**	**2,342**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	11,660	-	-	2,342
2. Equity securities	**-**	**-**	**6,691**	**-**	**-**	**6,161**
3. Units of UCIs	**99**	**-**	**-**	**99**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total	**99**	**-**	**18,351**	**99**	**-**	**8,503**

Key:

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

Financial instruments mandatorily measured at fair value through profit or loss amounted to EUR 18.5 million as of 31 December 2020, and include one investment in equity instruments for EUR 6.7 million and an earnout of EUR 0.5 million attributable to the SME Division, as well as an *energy* operation and investments in junior and mezzanine investments in securitisation vehicles related to the DCIS Division for EUR 11.2 million.

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

	Total 31/12/2020	Total 31/12/2019
1. Equity securities	**6,691**	**6,161**
of which: banks	-	-
of which: other financial companies	-	-
of which: other non-financial companies	6,691	6,161
2. Debt securities	**11,660**	**2,342**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	17	-
d) Other financial companies	11,166	2,342
of which: insurance companies	-	-
e) Non-financial companies	477	-
3. Units of UCIs	**99**	**99**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**18,450**	**8,602**

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

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

Items/values	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**91,357**	**-**	**-**	**125,773**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	91,357	-	-	125,773	-	-
2. Equity securities	**-**	**-**	**18**	**-**	**-**	**15**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**91,357**	**-**	**18**	**125,773**	**-**	**15**

Key:

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

The debt securities in the statement of financial position item are represented by securities of credit institutions (approximately 79.4 million euros) and securities of Financial companies (approximately 11.9 million euros).

Equity instruments classified as "Financial assets measured at fair value through comprehensive income (IAS)" are represented by shareholdings not qualified as control, connection or joint control.

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

Items/values	Total 31/12/2020	Total 31/12/2019
1. Debt securities	**91,357**	**125,773**
a) Central banks	-	-
b) Public administrations	-	10,736
c) Banks	79,448	73,624
d) Other financial companies	11,909	22,245
of which: insurance companies	-	-
e) Non-financial companies	-	19,168
2. Equity securities	**18**	**15**
a) Banks	-	-
b) Other issuers:	18	15
- other financial companies	10	7
of which: insurance companies	-	-
- non-financial companies	8	-
- other	-	8
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**91,375**	**125,788**

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

	Gross amount				Total adjustments			Total partial write-offs
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
Debt securities	91,471	8,648	-	-	114	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2020	**91,471**	**8,648**	**-**	**-**	**114**	**-**	**-**	**-**
Total 31/12/2019	**125,984**	**81,541**	**-**	**-**	**196**	**-**	**-**	**-**
of which: purchased or originated credit impaired financial assets	X	X	-	-	X	-	-	-

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

3.3a Financial assets measured at fair value through comprehensive income receiving Covid-19 support measures: gross amount and total adjustments

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

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

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

Type of operations/Values	Total 31/12/2020						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	**528,508**	**-**	**-**	**-**	**-**	**528,650**	**344,858**	**-**	**-**	**-**	**-**	**344,831**
1. Loans	528,508	-	-	-	-	528,650	344,858	-	-	-	-	344,831
1.1 Current accounts and on demand deposits	6,362	-	-	X	X	X	9,791	-	-	X	X	X
1.2. Time deposits	114,477	-	-	X	X	X	59,042	-	-	X	X	X
1.3. Other loans:	407,669	-	-	X	X	X	276,025	-	-	X	X	X
- Repurchase agreements - receivable	395,167	-	-	X	X	X	276,025	-	-	X	X	X
- Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Others	12,502	-	-	X	X	X	-	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**528,508**	**-**	**-**	**-**	**-**	**528,650**	**344,858**	**-**	**-**	**-**	**-**	**344,831**

Key:

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

The obligations to maintain the Compulsory reserve are fulfilled through, and Depobank, the balance is recognised in the sub item "Time deposits". As can be seen from the above table, the balance sheet item largely consists of a large Reverse Repurchase Agreements.

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

Type of operations/Values	Total 31/12/2020						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	**1,002,876**	**294,566**	**245,345**	**-**	**-**	**1,369,720**	**566,379**	**138,097**	**118,674**	**-**	**-**	**736,973**
1.1. Current accounts	37,588	30,084	25,406	X	X	X	39,122	17,998	13,725	X	X	X
1.2. Reverse Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	291,499	211,197	166,073	X	X	X	372,391	79,071	69,313	X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	673	57	-	X	X	X	961	38	-	X	X	X
1.5 Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	151,850	276	-	X	X	X	126,434	11	-	X	X	X
1.7. Other loans	521,266	52,952	53,866	X	X	X	27,471	40,979	35,636	X	X	X
2. Debt securities	**249,913**	**878,003**	**878,003**	**4,525**	**-**	**1,127,483**	**300,538**	**641,410**	**641,410**	**-**	**-**	**939,685**
2.1. Structured securities	-	-	-	-	-	-	-	50,363	50,363	-	-	50,363
2.2. Other debt securities	249,913	878,003	878,003	4,525	-	1,127,483	300,538	591,047	591,047	-	-	889,322
Total	**1,252,789**	**1,172,569**	**1,123,348**	**4,525**	**-**	**2,497,203**	**866,917**	**779,507**	**760,084**	**-**	**-**	**1,676,658**

Key:

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

"Other debt securities" include securities related to securitisation transactions for a total amount of EUR 1,128 million, of which EUR 245.8 million are senior financing notes and EUR 4.1 million are high-yield bonds of the SME division, as well as EUR 878 million of notes issued by vehicles belonging to the Group.

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

Type of operations/Values	Total 31/12/2020			Total 31/12/2019		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired credits	Stage one and Stage two	Stage three	of which: purchased or originated impaired credits
1. Debt securities	**249,913**	**878,003**	**878,003**	**300,538**	**641,410**	**641,410**
a) Public administrations	-	-	-	-	-	-
b) Other financial companies	245,760	878,003	878,003	300,538	591,047	591,047
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	4,153	-	-	-	50,363	50,363
2. Loans to:	**1,002,876**	**294,566**	**245,345**	**566,379**	**138,097**	**118,674**
a) Public administrations	11,409	-	-	13,805	-	-
b) Other financial companies	231,874	16,508	16,483	52,624	8,841	8,819
of which: insurance companies	454	-	-	565	-	-
c) Non-financial companies	714,490	248,539	202,217	449,917	103,482	86,963
d) Households	45,103	29,519	26,645	50,033	25,774	22,892
Total	**1,252,789**	**1,172,569**	**1,123,348**	**866,917**	**779,507**	**760,084**

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

	Gross amount				Total adjustments		
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three
Debt securities	250,281	-	-	880,551	368	-	2,548
Loans	1,480,958	154,661	61,412	312,913	9,111	1,875	18,347
Total 31/12/2020	**1,731,239**	**154,661**	**61,412**	**1,193,464**	**9,479**	**1,875**	**20,895**
Total 31/12/2019	**1,198,955**	**439,503**	**19,119**	**798,418**	**5,704**	**594**	**18,911**
of which: purchased or originated impaired financial assets	X	X	2,887	1,123,566	X	557	2,548

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

4.4a Loans measured at amortised cost receiving Covid-19 support measures: gross amount and total adjustments

	Gross amount				Total adjustments			Total partial write-offs*
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
1. Loans granted in accordance with GL	33,947	-	4,134	198	293	133	51	-
2. Loans subject to other forbearance measures	-	-	1,551	1,023	-	14	55	-
3. New funding	191,733	-	502	5,176	1,506	32	208	-
Total 31/12/2020	**225,680**	**-**	**6,187**	**6,397**	**1,799**	**179**	**314**	**-**
Total 31/12/2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Section 5 – Hedging derivatives – Item 50

The Bank has no Hedging operations.

Section 6 – Fair value change of financial assets in hedged portfolios – Item 60

The Bank has no Hedging operations.

Section 7 – Equity investments – Item 70

7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Shareholding %	Votes %
A. Wholly-owned subsidiaries				
1. Soperga RE S.r.l.	Milan	Milan	100%	100%
2. Friuli LeaseCo S.r.l.	Milan	Milan	100%	100%
3. Doria LeaseCo S.r.l.	Milan	Milan	100%	100%
4. River LeaseCo S.r.l.	Milan	Milan	100%	100%
5. neprix s.r.l.	Milan	Milan	100%	100%
6. Core S.r.l.	Faenza	Faenza	100%	100%
7. illimity SGR S.p.A.	Milan	Milan	100%	100%
8. Pitti LeaseCo S.r.l.	Milan	Milan	100%	100%
9. River Immobiliare S.r.l.	Milan	Milan	100%	100%
B. Companies subject to joint control				
N/A				
C. Companies subject to significant influence				
N/A				

7.2 Significant shareholdings: book values, fair values and dividends received

(amounts in thousands of euros)

Name	Book value	Fair Value	Dividends received
A. Wholly-owned subsidiaries			
1. Soperga RE S.r.l.	10	N/A	-
2. Friuli LeaseCo S.r.l.	10	N/A	-
3. Doria LeaseCo S.r.l.	10	N/A	-
4. River LeaseCo S.r.l.	10	N/A	-
5. neprix S.r.l.	13,652	N/A	-
6. Core S.r.l.	7,790	N/A	-
7. illimity SGR S.p.A.	2,010	N/A	-
8. Pitti LeaseCo S.r.l.	10	N/A	-
9. River Immobiliare S.r.l.	10	N/A	-
B. Companies subject to joint control			
N/A			
C. Companies subject to significant influence			
N/A			
Total	**23,512**	**N/A**	**-**

7.3 Significant shareholdings: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues
A. Wholly-owned subsidiaries						
1. Soperga RE S.r.l.	-	35	342	-	370	-
2. Friuli LeaseCo S.r.l.	-	356	29	-	379	-
3. Doria LeaseCo S.r.l.	-	2,779	623	-	3,395	-
4. River LeaseCo S.r.l.	-	29	128	-	150	-
5. neprix S.r.l.	-	13,460	10,740	2,565	7,710	-
6. Core S.r.l.	-	676	-	-	9	-
7. illimity SGR S.p.A.	-	2,222	376	-	588	-
8. Pitti LeaseCo S.r.l.	-	119	68	-	179	-
9. River Immobiliare S.r.l.	10	5	6,807	6,706	451	-
B. Companies subject to joint control						
N/A						
C. Companies subject to significant influence						
N/A						

(amounts in thousands of euros)

Interest margin	Value adjustments/ write-backs on property and equipment and intangible assets	Profit (loss) from continuing operations before tax	Profit (loss) from continuing operations after tax	Net profit (loss) from assets held for sale	Profit (loss) for the period (1)	Other income components, after taxes (2)	Comprehensive income (3) = (1)+(2)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	(1)	(1)	-	(1)	-	(1)
-	-	(1)	(1)	-	(1)	-	(1)
(21)	(92)	(1,253)	267	-	267	(2)	265
-	-	(3)	(3)	-	(3)	-	(3)
-	(6)	(1,288)	(972)	-	(972)	-	(972)
-	-	-	-	-	-	-	-
-	-	(377)	(347)	-	(345)	-	(345)

7.4 Non-significant shareholdings: accounting information

The Bank does not hold such shareholdings as of the reporting date.

7.5 Equity investments: annual changes

	Total 31/12/2020	Total 31/12/2019
A. Opening balances	**1,079**	**10**
B. Increases	**23,423**	**1,069**
B.1 Purchases	21,423	1,069
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	2,000	-
C. Decreases	**990**	**-**
C.1 Sales	-	-
C.2 Write-downs	-	-
C.3 Depreciation	990	-
C.4 Other changes	-	-
D. Closing balance	**23,512**	**1,079**
E. Total revaluations	**-**	**-**
F. Total write-downs	**-**	**-**

7.6 Commitments regarding equity investments in joint ventures

The bank does not have equity investments in joint ventures.

7.7 Commitments regarding equity investments in companies subject to significant influence

The bank does not have equity investments in companies subject to significant influence.

7.8 Significant restrictions

There are no significant restrictions as indicated in IFRS 12(13).

7.9 Other information

There is no other information to report in this section.

Section 8 – Property and equipment – Item 80

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

Assets/Values	Total 31/12/2020	Total 31/12/2019
1. Proprietary assets	**2,317**	**2,583**
a) land	-	-
b) buildings	943	994
c) furniture and fittings	673	667
d) electronic systems	608	828
e) others	93	94
2. Rights of use acquired through leases	**18,970**	**20,263**
a) land	-	-
b) buildings	17,854	19,116
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	1,116	1,147
Total	**21,287**	**22,846**
of which: obtained by enforcement of guarantees received	-	-

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

The Bank does not hold such assets as of the reporting date.

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

The Bank does not hold such assets as of the reporting date.

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

The Bank does not hold Property and Equipment held for investment measured at fair value as of the reporting date.

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

The Bank does not hold these items as of the reporting date.

8.6 Property and equipment with functional use: annual changes

	Land	Buildings	Furnishings	Electronic systems	Others	Total
A. Gross opening balances	**-**	**22,155**	**1,518**	**1,962**	**1,515**	**27,150**
A.1 Total net write-downs	-	2,045	851	1,134	274	4,304
A.2 Opening net balance	**-**	**20,110**	**667**	**828**	**1,241**	**22,846**
B. Increases:	**-**	**375**	**159**	**2**	**370**	**906**
B.1 Purchases	-	-	159	2	8	169
- from business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	375	-	-	362	737
C. Decreases:	**-**	**1,688**	**153**	**222**	**402**	**2,465**
C.1 Sales	-	-	-	-	-	-
- from business combinations	-	-	-	-	-	-
C.2 Depreciation	-	1,688	153	222	402	2,465
C.3 Impairment losses charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
A) Property and Equipment held for investment	-	-	X	X	X	-
B) Non-current assets and groups of assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Closing Net Balance	**-**	**18,797**	**673**	**608**	**1,209**	**21,287**
D.1 Total net write-downs	-	3,683	1,003	1,355	668	6,709
D.2 Closing Gross balance	**-**	**22,480**	**1,676**	**1,963**	**1,877**	**27,996**
E. Valuation at cost	-	-	-	-	-	-

8.7 Property and equipment held for investment: annual changes

The Bank does not hold such assets as of the reporting date.

8.8 Inventories of property and equipment governed by IAS 2: annual changes

The Bank does not hold these items as of the reporting date.

8.9 Commitments to purchase Property and equipment

The Bank did not hold such commitments as of the reporting date.

Section 9 – Intangible assets – Item 90

9.1 Intangible assets: breakdown

Assets/Values	Total 31/12/2020		Total 31/12/2019	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**21,643**	**X**	**21,643**
A.2 Other intangible assets	**30,107**	**-**	**18,869**	**-**
A.2.1 Assets measured at cost:	30,107	-	18,869	-
a) internally generated intangible assets	3,252	-	2,947	-
b) other assets	26,855	-	15,922	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**30,107**	**21,643**	**18,869**	**21,643**

Key:

DEF: finite life;
INDEF: indefinite useful life.

Impairment Tests

The estimate of the value in use, for impairment testing purposes, of intangible assets with an indefinite life (including goodwill), that do not generate cash flows unless with the contribution of other company assets, in line with provisions in IAS 36, requires the preliminary allocation of such intangible assets to organisational units that are fairly autonomous in management terms, that can generate flows of financial resources widely independent of those produced by other areas of activities, but interdependent within the organisational unit generating them. These units are known as *Cash Generating Units* (CGU).

According to IAS 36, when identifying whether incoming cash flows originating from an asset (or group of assets) are widely independent of those arising from other assets (or groups of assets), the entity considers various factors, including the way in which company management controls the operations of the entity or how company management takes decisions on keeping the goods and assets of the entity operational or on their disposal.

In line with provisions in IAS 36, the level at which goodwill is tested must be correlated with the level of reporting within which management controls the dynamics that increase and decrease this value. Under this profile, the definition of such a level depends closely on the organisational models and allocation of management responsibilities for the purposes of defining guidance for operations and consequent monitoring. The organisational models may leave aside the structure of the legal entities through which operations take place and, very often, are closely related to the definition of operating segments used in the segment reporting contemplated in IFRS 8.

IAS 36 and IFRS 8 require that one factor to be considered when identifying CGUs is the organisation of the information system determined by the entity, to allow *management* to assess the results achieved by the various sectors of the business in order to take strategic decisions.

As the organisational model adopted by illimity Bank is not structured by legal entity, as the adoption of strategic decisions by illimity's *management* takes place at Group level, overall, and not at the level of individual *legal entity*, and as the activities performed by the investees are strictly functional to the activities performed directly by the parent company, the CGUs are identified under a broader scope which coincides with the one used as a reference for the consolidated financial reports . Thus the impairment test performed a consolidation level is also relevant for the individual financial reports, in order to verify the value for the recognition of goodwill that emerged at the time of the *allocation* by SPAXS (the company which merged with illimity on 5 March 2019) of the purchase price of EUR 21.6 million for Banca Interprovinciale, and of the controlling interests.

In light of the above, the impairment testing carried out for the purposes of preparing the Consolidated Financial Statements was considered valid also with reference to the Separate Financial Statements. Where there is a write-down of the goodwill for a certain CGU on the consolidated financial reports, that write-down must be attributed on the individual financial reports to the assets of the same CGU, not tested individually, namely goodwill and the controlling interests.

For a description of the criteria used to determine the CGU and procedures for goodwill impairment testing, reference is made to Part B - Intangible assets of the Explanatory Notes to the Consolidated Financial Statements.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balances	**21,643**	**3,057**	**-**	**17,189**	**-**	**41,889**
A.1 Total net write-downs	-	110	-	1,268	-	1,378
A.2 Opening net amount	**21,643**	**2,947**	**-**	**15,921**	**-**	**40,511**
B. Increases	**-**	**2,137**	**-**	**15,419**	**-**	**17,556**
B.1 Purchases	-	613	-	15,419	-	16,032
B.2 Increases in internal intangible assets	X	1,524	-	-	-	1,524
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**1,833**	**-**	**4,484**	**-**	**6,317**
C.1 Sales	-	-	-	-	-	-
C.2 Write-downs	-	613	-	4,484	-	5,097
- Amortisation	X	613	-	4,484	-	5,097
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value:	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	X	-	-	-	-	-
C.4 Transfer to non current assets held for sale	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	1,220	-	-	-	1,220
D. Closing Net Balance	**21,643**	**3,251**	**-**	**26,856**	**-**	**51,750**
D.1 Total net value adjustments	-	723	-	5,752	-	6,475
E. Closing Gross amount	**21,643**	**3,974**	**-**	**32,608**	**-**	**58,225**
F. Valuation at cost	-	-	-	-	-	-

9.3 Intangible assets: other information

The following information is provided in accordance with IAS 38:

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

Section 10 – Tax assets and tax liabilities – Item 100 of assets and Item 60 of liabilities

Tax assets amounted to approximately EUR 28.1 million as of 31 December 2020, down from the EUR 31.8 million recognised as of 31 December 2019. Details of the breakdown of tax assets are shown below.

10.1 Deferred tax assets: breakdown

	Total 31/12/2020	Total 31/12/2019
– As a contra entry to the income statement	26,403	29,480
– As a contra entry to shareholders' equity	1,704	2,348
Total	**28,107**	**31,828**

Main deductible temporary differences: IRES	31 December 2020	31 December 2019
Depreciation of loans and receivables with customers	1,573	1,622
Tax losses	10,608	23,586
ACE	5,422	3,429
Write-down of HTCS - FVOCI securities	134	108
Goodwill	5,952	-
Others	2,714	2,477
Total	**26,403**	**31,222**

Main deductible temporary differences: IRAP	31 December 2020	31 December 2019
Depreciation of loans and receivables with customers	193	200
Write-down of HTCS - FVOCI securities	27	22
Goodwill	1,205	-
Others	279	384
Total	**1,704**	**606**

10.2 Deferred tax liabilities: breakdown

As regards tax liabilities, relating to deferred taxes, as of 31 December 2020 they amounted to Euro 0.1 million, compared to Euro 0.6 million as of 31 December 2019.

Main taxable temporary differences: IRES	31 December 2020	31 December 2019
Revaluation of securities HTCS - FVOCI	55	488
Others	33	57
Total	**88**	**545**

Main taxable temporary differences: IRAP	31 December 2020	31 December 2019
Revaluation of securities HTCS - FVOCI	11	99
Others	7	11
Total	**18**	**110**

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

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

	Total 31/12/2020	Total 31/12/2019
1. Initial amount	**29,480**	**13,098**
2. Increases	**10,395**	**22,064**
2.1 Deferred tax assets recognised during the year	10,395	17,539
a) related to previous years	-	3,784
b) due to changes in accounting criteria	-	-
c) write-backs	-	-
d) others	10,395	13,755
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	4,525
3. Decreases	**13,472**	**5,682**
3.1 Deferred tax assets cancelled during the year	13,418	1,157
a) reversals	13,418	1,157
b) write-downs of non-recoverable items	-	-
c) changes in accounting criteria	-	-
d) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions:	54	4,525
a) conversion into tax credits pursuant to Law no. 214/2011	54	233
b) other	-	4,292
4. Final amount	**26,403**	**29,480**

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

In support of the reasonable certainty of the future recovery of the advance tax assets that justifies their recognition in the statement of financial position pursuant to IAS 12, a so-called probability test was conducted. The test consists of simulating the ability to recover the deductible temporary differences and tax losses accrued at the reporting date using future taxable income. The probability test conducted on the basis of the Bank's income plans yielded positive results, indicating that advance tax assets would be reabsorbed by 2022.

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

10.3 bis Changes in deferred tax assets pursuant to Law no. 214/2011

	Total 31/12/2020	Total 31/12/2019
1. Initial amount	**1,821**	**2,054**
2. Increases	**-**	**-**
3. Decreases	**54**	**233**
3.1 Reversals	-	-
3.2 Conversion into tax credits	54	233
a) arising from loss for the year	54	233
b) arising from tax losses	-	-
3.3 Other reductions	-	-
4. Final amount	**1,767**	**1,821**

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

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

	Total 31/12/2020	Total 31/12/2019
1. Initial amount	**2**	**2**
2. Increases	**-**	**744**
2.1 Deferred tax liabilities recognised during the year	-	-
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	744
3. Decreases	**-**	**744**
3.1 Deferred tax liabilities cancelled during the year	-	-
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	744
4. Final amount	**2**	**2**

10.5 Changes in deferred tax assets (recorded in shareholders' equity)

	Total 31/12/2020	Total 31/12/2019
1. Initial amount	**2,348**	**655**
2. Increases	**51**	**2,107**
2.1 Deferred tax assets recognised during the year	51	2,107
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	51	2,107
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**695**	**414**
3.1 Deferred tax assets cancelled during the year	695	414
a) reversals	695	-
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting criteria	-	-
d) others	-	414
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Final amount	**1,704**	**2,348**

10.6 Changes in deferred tax liabilities (recorded in shareholders' equity)

	Total 31/12/2020	Total 31/12/2019
1. Initial amount	**653**	**88**
2. Increases	**-**	**1,310**
2.1 Deferred tax liabilities recognised during the year	-	1,310
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	-	1,310
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**549**	**745**
3.1 Deferred tax liabilities derecognised during the year	549	745
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	549	745
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Final amount	**104**	**653**

10.7 Other information

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

Current fiscal assets: breakdown

Type of operations/Values	31 December 2020	31 December 2019
Advances paid to tax authority	1,995	4,237
Withholding taxes	1	193
Other receivables from the Treasury	1,052	697
Total	**3,048**	**5,127**

Current fiscal liabilities: breakdown

Type of operations/Values	31 December 2020	31 December 2019
Balance for the previous year	-	–
Provision for taxes	2,930	–
Withdrawals to pay taxes	-	–
Other changes	-	–
Total	**2,930**	**–**

Section 11 – Non-current assets and groups of assets held for disposal and associated liabilities – Item 110 of assets and Item 70 of liabilities

The Group does not hold such assets or groups of assets, as of the reporting date.

Section 12 – Other assets – Item 120

12.1 Other assets: breakdown

Items	
Various borrowers	9,078
Leasehold improvements	797
Items in processing	16,975
Miscellaneous items	5,694
Ecobonus tax receivables	1,223
Total 31/12/2020	**33,767**
Total 31/12/2019	**29,497**

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

LIABILITIES

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

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

Type of operations/Values	Total 31/12/2020				Total 31/12/2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**184,721**	X	X	X	**52,409**	X	X	X
2. Due to banks	**339,728**	X	X	X	**312,285**	X	X	X
2.1 Current accounts and on-demand deposits	5	X	X	X	5	X	X	X
2.2 Time deposits	30,353	X	X	X	25,556	X	X	X
2.3 Loans	308,546	X	X	X	283,091	X	X	X
2.3.1 Repurchase agreements - payables	308,546	X	X	X	279,091	X	X	X
2.3.2 Others	-	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 Payables for leasing	-	X	X	X	-	X	X	X
2.6 Other Payables	824	X	X	X	3,633	X	X	X
Total	**524,449**	**-**	**-**	**524,449**	**364,694**	**-**	**-**	**364,694**

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

As per the ESMA communication of 6 January 2021 the book value of the TLTRO III operation as of 31 December 2020 amounted to EUR 184.7 million, with the related income component recognised on the basis of the operation's floor yield was 0.5 million.

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

Type of operations/Values	Total 31/12/2020				Total 31/12/2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	833,413	X	X	X	445,001	X	X	X
2. Time deposits	1,769,012	X	X	X	1,384,394	X	X	X
3. Loans	74,597	X	X	X	215,774	X	X	X
3.1 Repurchase agreements - payables	-	X	X	X	-	X	X	X
3.2 Others	74,597	X	X	X	215,774	X	X	X
4. Debt for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Payables for leasing	21,748	X	X	X	21,690	X	X	X
6. Other payables	2,175	X	X	X	1,987	X	X	X
Total	**2,700,945**	**-**	**-**	**2,626,349**	**2,068,846**	**-**	**-**	**1,853,071**

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

Type of securities/Values	Total 31/12/2020				Total 31/12/2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	300,980	304,716	2,234	-	15,358	-	15,381	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Others	300,980	304,716	2,234	-	15,358	-	15,381	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Others	-	-	-	-	-	-	-	-
Total	**300,980**	**304,716**	**2,234**	**-**	**15,358**	**-**	**15,381**	**-**

Securities issued were equal to EUR 301 million, following the completion of the EMTN transaction in the fourth quarter of 2020.

1.4 Breakdown of subordinated debts/securities

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

1.5 Breakdown of structured debts

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

1.6 Payables for leases

At the reporting date, the Bank had outstanding payables for leases equal to EUR 21.7 million, divided between EUR 20.6 million relating to the rental component of Properties for personal and business use, and EUR 1.1. million relating to the component of long-term rental of automobiles.

Section 2 – Financial liabilities held for trading – Item 20

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

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

The Group does not hold such financial liabilities measured at fair value on the reporting date.

Section 4 – Hedging derivatives – Item 40

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

Section 5 – Fair value change of financial liabilities in hedged portfolios – Item 50

The Bank does not hold such generic hedging financial liabilities on the reporting date.

Section 6 – Tax liabilities – Item 60

Refer to Section 10 of Assets.

Section 7 – Liabilities associated with non-current assets held for sale and discontinued operations – Item 70

The Group does not hold liabilities associated with non-current assets held for sale and discontinued operations on the reporting date.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

Items	
Due to employees	4,794
Due to social security and welfare bodies	1,899
Due to suppliers	18,162
Due to the Treasury	11,337
Miscellaneous items	12,689
Various borrowers	1,254
Total 31/12/2020	**50,135**
Total 31/12/2019	**32,487**

The item consists mainly of trade payables to suppliers; this item also includes tax payables.

Section 9 – Employee severance pay – Item 90

Following the reforms to supplementary pensions in legislative decree no. 252 of 5 December 2005, post-employment benefits accruing from 1 January 2007 can be allocated either to supplementary pension schemes or transferred to the INPS pension fund, at the employee's discretion. The provisions take into account the actuarial valuations.

9.1 Employee severance pay: annual changes

	Total 31/12/2020	Total 31/12/2019
A. Opening balance	**1,059**	**575**
B. Increases	**724**	**598**
B.1 Provisions for the year	691	588
B.2 Other changes	33	10
C. Decreases	**101**	**114**
C.1 Payments made	97	114
C.2 Other changes	4	-
D. Closing balances	**1,682**	**1,059**
Total	**1,682**	**1,059**

The following criteria were used to calculate the TFR for IAS purposes:

SUMMARY OF TECHNICAL ECONOMIC ASSUMPTIONS

	31 December 2020	31/12/2019
Annual discount rate	0.53%	1.04%
Annual inflation rate	0.80%	1.20%
Annual rate of TFR increase	2.10%	2.40%
Annual rate of salary increase	1.00%	1.00%

It should be noted that:

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

The technical demographic assumptions used are illustrated below.

SUMMARY OF TECHNICAL DEMOGRAPHIC ASSUMPTIONS

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

9.2 Other information

The new IAS19 for post-employment defined benefit plans requires a series of additional pieces of information which must be included in the Notes to the financial statements, such as:

- a sensitivity test for each actuarial scenario at year-end, highlighting the effect that would arise if there were changes to the actuarial scenarios that were reasonably possible on that date, in absolute terms;
- an indication of the contribution for the following year;
- an indication of the average financial duration of the obligation for defined-benefit plans;
- the payments provided for in the plan.

That information is detailed below:

Sensitivity test for the main valuation criteria	31 December 2020
Turnover rate +1.00%	1,647,928.11
Turnover rate -1.00%	1,722,497.56
Inflation rate +0.25%	1,733,352.11
Inflation rate -0.25%	1,632,609.36
Discount rate +0.25%	1,618,457.82
Discount rate -0.25%	1,749,234.95

Estimated future payments	31 December 2020
Payments scheduled for 1st year	152,956.25
Payments scheduled for 2nd year	87,423.10
Payments scheduled for 3rd year	107,654.41
Payments scheduled for 4th year	126,972.13
Payments scheduled for 5th year	145,445.63

Reconciliation of IAS 19 valuations for the period	31 December 2020
Defined Benefit Obligation as of 01/01/2020	1,058,971.20
Service Cost	622,874.05
Interest Cost	30,981.55
Benefits paid	(97,048.62)
Transfers in/(out)	(4,459.18)
Expected DBO as of 31/12/2020	1,611,319.00
Actuarial (Gains)/ Losses from experience	1,538.24
Actuarial (Gains) or Losses due to change in financial assumptions	69,012.73
Defined Benefit Obligation as of 31/12/2020	1,681,869.97

Reconciliation of TFR IAS 19 and statutory TFR	31 December 2020
Defined Benefit Obligation as of 31/12/20	1,681,869.97
Statutory TFR as of 31/12/2020	1,348,654.78
Surplus/(Deficit)	(333,215.19)

Service Cost and Duration	31 December 2020
Service Cost per future year	703,110.48
Duration of plan (years)	24.9

The book values, relating to the interval between the previous valuation and the current one are represented by the following components:

- the initial DBO, namely the current expected value of benefits payable in the future for work done in the past, already available at the start of the period;
- the Curtailment/Settlement, i.e. the change in the liability due to modifications to the plan or events resulting in a reduction in personnel, such as plant closures, mobility, etc.;
- the Service Cost (SC), which is the current expected value of benefits payable in the future in relation to work done in the current period, which in conceptual terms is assimilated to the accruing quota of statutory TFR (obviously if the methodology described in paragraph 3 point B is used, this amount will be nil);
- the Interest Cost (IC), which is the interest on what was set aside at the start of the period and on the corresponding changes in the same period; this element is conceptually similar to the net legal revaluation of TFR;
- the Benefits paid and Transfers in/(out) which represent all the payments and any incoming or outgoing transfers in relation to the period in question, elements that result in the utilisation of the provision set aside.

The sum of the above elements gives the Expected DBO for the end of the period of observation. When this is compared with the DBO recalculated at the end of the period based on the actual collective, as of that date and based on the new valuation scenarios, this identifies the Actuarial Gains/Losses (AGL).

Section 10 – Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: breakdown

Items/values	Total 31/12/2020	Total 31/12/2019
1. Allowances for credit risk relating to Commitments and financial guarantees given	3,296	598
2. Provisions for other commitments and guarantees issued	-	-
3. Post-employment benefits and similar commitments	-	-
4. Other provisions for risks and charges	804	484
4.1 legal and tax disputes	-	70
4.2 Personnel cost	673	295
4.3 others	131	119
Total	**4,100**	**1,082**

10.2 Allowances for risks and charges: annual changes

	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other provisions for risks and charges	Total
A. Opening balances	**-**	**-**	**484**	**484**
B. Increases	**-**	**-**	**662**	**662**
B.1 Provision for the year	-	-	662	662
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to variations in the discount rate	-	-	-	-
B.4 Other changes	-	-	-	-
C. Decreases	**-**	**-**	**342**	**342**
C.1 Utilisations for the year	-	-	-	-
C.2 Changes due to variations in the discount rate	-	-	-	-
C.3 Other changes	-	-	342	342
D. Closing balance	**-**	**-**	**804**	**804**

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

	Provisions for credit risk relating to financial commitments and guarantees given			
	Stage one	Stage two	Stage three	Total
1. Commitments to disburse funds	365	37	2,798	3,200
2. Financial guarantees	53	37	6	96
Total	**418**	**74**	**2,804**	**3,296**

10.4 Allowances for other commitments and guarantees issued

The Bank does not have any allowance for other commitments and guarantees issued as of the reporting date.

10.5 Defined-benefit pension funds

The Bank does not present any corporate pension funds as of the reporting date.

10.6 Allowances for risks and charges– other provisions

Allowances mainly include personnel costs regarding:

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

Section 11 – Redeemable shares – Item 120

The Bank does not hold redeemable shares as of the reporting date.

Section 12 – Bank’s equity – Items 110, 130, 140, 150, 160, 170 and 180

12.1 “Capital” and “Treasury shares”: breakdown

As of 31 December 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.

12.2 Capital – Number of shares: annual changes

Items/Type	Ordinary	Others
A. Shares as at the beginning of the year	**65,153,880**	**1,440,000**
- fully paid-up	65,164,434	1,440,000
- not fully paid-up	-	-
A.1 Treasury shares (-)	(10,554)	-
A.2 Shares outstanding: initial balance	**65,153,880**	**1,440,000**
B. Increases	**918,983**	**-**
B.1 New issues	918,983	-
- against payment:	771,656	-
- business combinations	-	-
- bonds converted	-	-
- warrants exercised	-	-
- others	771,656	-
- free:	147,327	-
- for employees	147,327	-
- for directors	-	-
- others	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**(87,951)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(87,951)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**65,984,912**	**1,440,000**
D.1 Treasury shares (+)	98,505	-
D.2 Shares existing at the end of the year	66,083,417	1,440,000
- fully paid-up	66,083,417	1,440,000
- not fully paid-up	-	-

12.3 Capital - other information

On 29 May 2020, illimity reported the issue of 771,656 new ordinary shares for the reserved capital increase, for a total of EUR 7,719,415.13 (of which EUR 502,888.22 as capital) for the acquisition of Core S.r.l.

On 17 June 2020, the illimity reported the issue of 147,327 ordinary shares for the "Employee Stock Ownership Plan - ESOP" for 2020, with an increase in share capital for a total of EUR 96,016.4.

12.4 Profit reserves: other information

Items/values	31 December 2020	31/12/2019
A. Profit reserves	**(4,929)**	**12,007**
1. Legal reserve	804	804
2. Reserve for purchase of treasury shares	-	-
3. Extraordinary reserve	10,599	10,228
4. Losses carried forward	(16,840)	-
5. First-time reserves	508	508
6. Other reserves	-	467
B. Capital reserves	**26,804**	**24,987**
1. Reserve on account of future capital increase	-	-
2. Other reserves	26,804	24,987
Total	**21,876**	**36,994**

The profit reserves as of 31 December 2020 amount to a negative EUR 4,929 thousand.

As required by Article 2427, paragraph 1, no. 7 bis) Italian civil code, below is a report summarising the shareholders' equity items, distinguished by origin, with details of the possibility of use and distribution.

Nature/Description	Amount	Possible use	Available share	Summary of the amounts used in the past three years	
				to cover losses	for other reasons
Share capital	**44,007**		**-**		
Share premium reserve	**487,373**	**ABC (1)**	**487,373**	**(29,124)**	
Valuation reserves	**(278)**		**-**		
Financial assets at fair value through other comprehensive income	(115)	(3)	-		
Actuarial profits (losses) relating to defined benefit plans	(163)		-		
Reserves	**21,875**		**21,071**	**(16,840)**	
Legal reserve	804	B (2)	-		
Reserve for purchase	-	ABC	-		
treasury shares					
Extraordinary reserve	10,599	ABC	10,599		
Other reserves	10,472	ABC	10,472	(16,840)	
Treasury shares	**(832)**		**-**		
Profit (loss) for the financial year	**32,561**		**-**		
Total	**584,706**		**508,444**	**(45,964)**	

Key:

A = for capital increases

B = to cover losses

C = for distribution to shareholders

(1) According to Article 2431 Italian Civil Code, the issue premium reserve can be fully utilised, as the legal reserve has reached the limit of one-fifth of the share capital as required by Article 2430 of the Italian civil code.

(2) The legal reserve is available for a capital increase and distribution only for the portion exceeding one-fifth of the share capital, according to Article 2430 (1) of the Italian civil code.

(3) The revaluation reserve is not available pursuant to Article 6 of Legislative Decree no. 38/2005.

12.5 Equity instruments: breakdown and annual changes

The Bank does not hold equity instruments.

12.6 Other information

Basic and diluted earnings per share

The basic earnings (loss) per share is calculated by dividing the Bank's net profit (loss) for the financial year by the weighted average number of ordinary shares outstanding during the year. The diluted profit per share as of 31 December 2020 coincides with the basic profit per share.

(amounts in thousands of euros)

Basic and diluted earnings per share	Net profit/loss for the year	Average number of shares	Earnings (loss) per basic share and diluted share
Period ended on 31 December 2020	32,561	65,700,601	0.50
Period ended 31 December 2019	(16,840)	65,128,632	(0.26)

Other information

1. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given			Total 31/12/2020	Total 31/12/2019
	Stage one	Stage two	Stage three		
1. Commitments to disburse funds	**79,063**	**6,242**	**29,164**	**114,469**	**201,481**
a) Central banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	167	-	199	366	30,126
e) Non-financial companies	76,707	5,797	28,943	111,447	167,470
f) Households	2,189	445	22	2,656	3,885
2. Financial guarantees	**6,183**	**333**	**506**	**7,022**	**12,732**
a) Central banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	84	-	12	96	1,948
e) Non-financial companies	5,978	333	486	6,797	10,630
f) Households	121	-	8	129	154

2. Other commitments and guarantees issued

	Nominal value Total 31/12/2020	Nominal value Total 31/12/2019
1. Other guarantees issued	**-**	**-**
of which: impaired	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments	**38,245**	**5,691**
of which: impaired	186	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	5,654	913
e) Non-financial companies	32,591	4,778
f) Households	-	-

3. Assets given as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2020	Amount 31/12/2019
1. Financial assets measured at fair value through profit or loss	99	100
2. Financial assets measured at fair value through comprehensive income	68,964	42,362
3. Financial assets measured at amortised cost	211,215	279,845
4. Property and Equipment	-	-
of which: Property and Equipment held as inventories	-	-

4. Administration and brokerage for third parties

Type of service	Amount 31/12/2020
1. Execution of orders for customers	**-**
a) purchases	-
1. settled	-
2. not settled	-
b) Sales	-
1. settled	-
2. not settled	-
2. Individual portfolio management	**-**
3. Custody and administration of securities	**2,289,737**
a) third-party securities held in deposit: relating to depositary bank activities (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) Third party securities deposited (excluding portfolio management): others	466,336
1. securities issued by the reporting bank	155
2. other securities	466,181
c) Third party securities deposited with third parties	349,917
d) Proprietary securities deposited with third parties	1,473,484
4. Other transactions	**-**

5. Assets subject to offsetting in financial statements, or subject to master netting agreements or similar agreements

Technical formats	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets reported in the balance sheet (c=a-b)	Related amounts not offset in the balance sheet		Net amount (f=c-d-e) 31 December 2020	Net amount 31/12/2019
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	395,167	-	395,167	395,167	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 31/12/2020	**395,167**	**-**	**395,167**	**395,167**	**-**	**-**	**X**
Total 31/12/2019	**276,200**	**-**	**276,200**	**276,200**	**-**	**X**	**-**

6. Financial liabilities subject to offsetting in financial statements, or subject to master netting agreements and or similar agreements

Technical formats	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Related amounts not subject to accounting offsetting		Net amount (f=c-d-e) 31 December 2020	Net amount 31/12/2019
				Financial instruments (d)	Cash deposits as guarantees (e)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	308,546	-	308,546	308,546	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2020	**308,546**	**-**	**308,546**	**308,546**	**-**	**-**	**X**
Total 31/12/2019	**276,200**	**-**	**276,200**	**276,200**	**-**	**X**	**-**

Since 1 January 2013, the changes to IFRS 7 concerning disclosures on set-off agreements, as approved with Regulation no. 1256 of 13 December 2012, came into mandatory application. IFRS 7 requires specific disclosures to be given about financial instruments that have been offset on the statement of financial position under IAS 32, and which can potentially be offset under certain conditions, but presented on the statement of financial position with opening balances as they are regulated by "master netting agreements or similar" which do not however meet the criteria of IAS 32 to make the set off on the financial statements.

In providing *disclosures* of these agreements, the standard also requires that consideration be given to the effects of the real financial guarantees (including guarantees in cash) received and given.

7. Securities lending transactions

There are no securities lending transactions at the reference date.

8. Disclosure on joint control activities

There are no joint control activities at the reference date.

Part C – Information on the Income Statement

Section 1 – Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial assets measured at fair value through profit or loss:	**112**	**-**	**-**	**112**	**-**
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	112	-	-	112	-
2. Financial assets measured at fair value through comprehensive income	**2,434**	**-**	**X**	**2,434**	**1,723**
3. Financial assets measured at amortised cost:	**110,617**	**36,029**	**X**	**146,646**	**41,965**
3.1 Due from banks	-	517	X	517	407
3.2 Loans to customers	110,617	35,512	X	146,129	41,558
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**5**	**5**	**70**
6. Financial liabilities	**X**	**X**	**X**	**745**	**249**
Total	**113,163**	**36,029**	**5**	**149,942**	**44,007**
of which: interest income on impaired assets	92,280	11,352	-	103,632	17,445
of which: interest income on finance leasing	-	-	-	-	-

1.2 Interest income and similar income: other information

1.2.1 Interest income on assets denominated in foreign currency

Items/values	31 December 2020	31/12/2019
Interest income on foreign currency financial assets	311	475

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debt	Securities	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial liabilities measured at amortised cost	(37,809)	(713)	X	(38,522)	(12,424)
1.1 Amounts due to central banks	(17)	X	X	(17)	(123)
1.2 Amounts due to banks	(5,155)	X	X	(5,155)	(2,188)
1.3 Amounts due to customers	(32,637)	X	X	(32,637)	(9,568)
1.4. Securities issued	X	(713)	X	(713)	(545)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	(1)
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(2,609)	(1,087)
Total	**(37,809)**	**(713)**	**-**	**(41,131)**	**(13,512)**
of which: interest expense relative to leasing liabilities	(1,515)	-	-	(1,515)	(1,258)

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in foreign currency

Items/values	31 December 2020	31/12/2019
Interest expense on foreign currency financial assets	(2)	(5)

1.5 Differentials on hedging transactions

As of 31 December 2020 there were no hedging transactions.

Section 2 – Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 31/12/2020	Total 31/12/2019
a) guarantees given	85	209
b) credit derivatives	-	-
c) management, brokerage and advisory services:	351	391
1. trading in financial instruments	-	-
2. currency trading	25	12
3. individual portfolio management	-	-
4. custody and administration of securities	2	5
5. custodian bank	-	-
6. placement of securities	7	83
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	317	279
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	110	259
9.3. other products	207	20
d) collection and payment services	224	411
e) servicing of securitization transactions	-	-
f) factoring services	1,848	420
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	303	549
j) other services	7,643	9,601
Total	**10,454**	**11,581**

The sub-item "j) other services" includes *structuring fee* commissions relating to new finance transactions within the DCIS Division (Senior Financing) and the SME Division.

2.2 Fee and commission income: distribution channels of products and services

Channel/Amount	Total 31/12/2020	Total 31/12/2019
a) at own branches:	**14**	**103**
1. portfolio management	-	-
2. placement of securities	7	83
3. third-party services and products	7	20
b) off-site:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
c) other distribution channels:	**310**	**259**
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	310	259

2.3 Fee and commission expenses: breakdown

Service/Amount	Total 31/12/2020	Total 31/12/2019
a) guarantees received	(2)	(15)
b) credit derivatives	-	-
c) management and brokerage services:	(124)	(279)
1. trading in financial instruments	-	(210)
2. currency trading	-	-
3. portfolio management:	-	-
3.1 own portfolio	-	-
3.2 delegated to third parties	-	-
4. custody and administration of securities	(124)	(69)
5. placement of financial instruments	-	-
6. off-site distribution of financial instruments, products and services	-	-
d) collection and payment services	(160)	(257)
e) other services	(2,677)	(652)
Total	**(2,963)**	**(1,203)**

Section 3 – Dividends and similar income – Item 70

No dividends were collected during the year.

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

4.1 Profits (losses) on trading: breakdown

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**(12)**	**(611)**	**(623)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 Units of UCIs	-	-	(12)	(611)	(623)
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**	**234**
4. Derivative instruments	**-**	**-**	**-**	**-**	**-**
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)**	**(611)**	**(389)**

Section 5 – Fair value adjustments in hedge accounting – Item 90

The Bank has no hedge accounting operations.

Section 6 – Profits (losses) on disposal/repurchase – item 100

6.1 Profits (Losses) on disposal/repurchase: breakdown

Item/Income item	Total 31/12/2020			Total 31/12/2019		
	Profit	Loss	Net profit/ loss	Profit	Loss	Net result
A. Financial assets						
1. Financial assets measured at amortised cost	2,410	(547)	1,863	8,788	(710)	8,078
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	2,410	(547)	1,863	8,788	(710)	8,078
2. Financial assets measured at fair value through comprehensive income	10,120	(4,283)	5,837	2,759	(164)	2,595
2.1 Debt securities	10,120	(4,283)	5,837	2,759	(164)	2,595
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**12,530**	**(4,830)**	**7,700**	**11,547**	**(874)**	**10,673**
B. 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 7 – Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss – Item 110

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

Bank did not record any profits or losses from such assets or liabilities in 2020.

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

Transaction/Income items	Capital gains (A)	Realised profits (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**1,177**	**-**	**(1)**	**-**	**1,176**
1.1 Debt securities	647	-	-	-	647
1.2 Equity instruments	530	-	-	-	530
1.3 Units of UCIs	-	-	(1)	-	(1)
1.4 Loans	-	-	-	-	-
2. Financial assets in currency: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**1,177**	**-**	**(1)**	**-**	**1,176**

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

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

Transaction/Income items	Write-downs (1)			Write-backs (2)		Total 31/12/2020	Total 31/12/2019
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Due from banks	**(215)**	**-**	**-**	**319**	**-**	**104**	**(189)**
- Loans	(215)	-	-	319	-	104	(189)
- Debt securities	-	-	-	-	-	-	-
of which: purchased or originated impaired loans	-	-	-	-	-	-	-
B. Loans to customers	**(7,086)**	**-**	**(19,546)**	**1,736**	**41,265**	**16,369**	**823**
- Loans	(6,499)	-	(17,448)	1,175	41,265	18,493	1,612
- Debt securities	(587)	-	(2,098)	561	-	(2,124)	(789)
of which: purchased or originated impaired loans	-	-	(13,251)	-	37,046	23,795	8,844
Total	**(7,301)**	**-**	**(19,546)**	**2,055**	**41,265**	**16,473**	**634**

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

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

Transaction/Income items	Net adjustments			Total 31/12/2020	Total 31/12/2019
	Stage one and Stage two	Stage three			
		Write-offs	Others		
1. Loans granted in accordance with GL	(117)	-	(51)	(168)	-
2. Loans subject to other forbearance measures	(5)	-	(53)	(58)	-
3. New funding	(1,538)	-	(208)	(1,746)	-
Total	**(1,660)**	**-**	**(312)**	**(1,972)**	**-**

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

Transaction/Income items	Write-downs (1)			Write-backs (2)		Total 31/12/2020	Total 31/12/2019
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Debt securities	**(840)**	**-**	**-**	**922**	**-**	**82**	**4**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
Total	**(840)**	**-**	**-**	**922**	**-**	**82**	**4**

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

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

Section 9 - Profits (losses) on changes in contracts without derecognition – item 140

The Bank did not achieve any profits or losses on changes in contracts without derecognition in 2020.

Section 10 – Administrative expenses – Item 160

10.1 Personnel expenses: breakdown

Type of expense/Amount	Total 31/12/2020	Total 31/12/2019
1) Employees	(37,049)	(26,942)
a) wages and salaries	(20,828)	(17,809)
b) social security contributions	(6,804)	(3,858)
c) provision for employee severance pay	-	-
d) pension costs	-	-
e) provision for employee severance pay	(632)	(529)
f) provision for post-employment benefits and similar provisions:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to complementary pension funds:	(810)	(596)
- defined contribution	(810)	(596)
- defined benefits	-	-
h) costs related to share-based payments	-	-
i) other employee benefits	(7,975)	(4,150)
2) Other personnel in service	(1,428)	(970)
3) Directors and statutory auditors	(1,413)	(1,314)
4) Early retirement costs	-	-
5) Recoveries of costs of employees seconded to other companies	191	-
6) Reimbursement of costs of third-party employees seconded to the company	-	-
Total	**(39,699)**	**(29,226)**

10.2 Average number of employees per category

Category	2020
a) senior managers	45
b) middle managers	185
c) other employees	101
Total employees	**331**
Other personnel	**32**

10.3 Defined-benefit pension funds: costs and revenues

There are no company defined-benefit pension funds.

10.4 Other employee benefits

The other benefits to employees mainly relate to remunerated benefits, canteen vouchers and various insurance policies.

10.5 Other administrative expenses: breakdown

Type of expense/Amount	31 December 2020
Rental of premises	(448)
Insurance	(1,214)
Various payments	(6,301)
Various consulting services	(8,274)
Membership fees	(323)
DGS, SRF contribution and voluntary scheme	(2,005)
Cost of services	(6,720)
Financial information	(1,109)
Adverts and advertising	(1,811)
Financial statement audit	(302)
Maintenance and repair costs	(96)
IT and software expenses	(11,036)
Legal, notary's fees and due diligence expenses	(8,209)
Postal and stationery expenses	(291)
Utilities and services	(1,600)
Other indirect taxes and duties	(3,332)
Others	(1,159)
Total 31/12/2020	**(54,230)**
Total 31/12/2019	**(51,630)**

Section 11 – Net provisions for risks and charges – Item 170

11.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

Income item/Amount	Write-downs/write-backs		Value write-backs		31 December 2020	31/12/2019
	Stage one and Stage two	Stage three	Stage one and Stage two	Stage three		
Guarantees issued	(37)	(1,082)	33	75	(1,011)	(50)
Irrevocable commitments to disburse funds	(182)	-	212	-	30	(430)
Total	**(219)**	**(1,082)**	**245**	**75**	**(981)**	**(480)**

11.2 Net provisions relating to other commitments and guarantees issued: breakdown

In 2020 the Bank did not make any net provisions relating to other commitments and guarantees issued.

11.3 Net provisions for other funds for risks and charges: breakdown

The item Net Provisions to other funds for risks and charges, the balance of which amounts to 5 thousand euros, includes allocations and releases for the year that mainly related to passive causes and provisions for personnel costs, see Part B of the Explanatory Notes for more details.

Section 12 – Net adjustments/recoveries on property and equipment – Item 180

12.1 Net adjustments/recoveries on 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	(2,466)	-	-	(2,466)
- Owned	(426)	-	-	(426)
- Rights of use acquired through leasing	(2,040)	-	-	(2,040)
2. Held for investment	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through leasing	-	-	-	-
3. Inventories	X	-	-	-
Total	**(2,466)**	**-**	**-**	**(2,466)**

Section 13 – Net adjustments/recoveries on property and equipment – Item 190

13.1 Net adjustments/recoveries to property and equipment: breakdown

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	(5,097)	-	-	(5,097)
- Generated internally by the company	(613)	-	-	(613)
- Other	(4,484)	-	-	(4,484)
A.2 Rights of use acquired through leasing	-	-	-	-
Total	**(5,097)**	**-**	**-**	**(5,097)**

Section 14 – Other operating income/expenses – Item 200

14.1 Other operating expenses: breakdown

Items/Technical forms	31 December 2020
Amortisation of expenses for improvements on third party assets	(74)
Other operating costs	(181)
Total Other operating costs 31/12/2020	**(255)**
Total Other operating costs 31/12/2019	**(186)**

14.2 Other operating income: breakdown

Items/Technical forms		31 December 2020
Recoveries of expenses from other customers		3,177
Other income		1,257
Total	**Other operating income 31/12/2020**	**4,434**
Total	**Other operating income 31/12/2019**	**3,712**

Section 15 – Profits (losses) on equity investments – Item 220

15.1 Profits (losses) on equity investments: breakdown

Income item/Amount	Total 31/12/2020	Total 31/12/2019
A. Income	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Value write-backs	-	-
4. Other income	-	-
B. Costs	(990)	-
1. Write-downs	(990)	-
2. Depreciation and impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net profit/loss	**(990)**	**-**

Section 16 – Profits (losses) of fair value valuation of property and equipment and intangible assets - Item 230

The Bank did not hold any property and equipment or intangible assets measured at fair value over the course of the year.

Section 17 – Goodwill impairment – Item 240

The Bank made no start-up value adjustments in 2020.

Section 18 – Profits (losses) on disposal of investments – Item 250

There are no profits (losses) from disposals of investments during 2020.

Section 19 – Income taxes for the financial year on continuing operations – Item 270

19.1 Income taxes for the financial year on continuing operations: breakdown

Income items/Amounts	Total 31/12/2020	Total 31/12/2019
1. Current tax (-)	(6,511)	-
2. Adjustment to current tax of prior years (+/-)	-	(4,022)
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current taxes for the year for tax credits pursuant to Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(2,982)	16,383
5. Change in deferred tax liabilities (+/-)	-	-
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(9,493)**	**12,361**

During the year, pursuant to Article 15, paragraph 10, of Italian Decree Law no. 185/2008, the goodwill of EUR 21.6 million resulting from the merger by incorporation of SPAXS into Banca Interprovinciale was redeemed. Specifically, the substitute tax of EUR 3.5 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.

19.2 Reconciliation of theoretical tax charge with actual tax charge

Items/Components	31.12.2020
Profit (loss) from continuing operations before tax	**42,054**
IRES - theoretical tax charge (27.5%)	(11,565)
- effect of lower rate	-
- effect of non-deductible expenses and other increases - permanent	(1,016)
- effect of non-taxable income and other decreases - permanent	12,581
- Non-current IRES	(4,177)
IRES - actual tax charge	**(4,177)**
IRAP - theoretical tax charge (5.57%)	(2,342)
- effect of lower rate	-
- effect of income/charges that to not contribute to the taxable base	(705)
- Non-current IRAP	1,194
IRAP - actual tax charge	**(1,853)**
Other taxes	**(3,464)**
Financial statements actual tax charge	**(9,493)**

The theoretical tax charge, considered on an individual basis, was equal to 33.07% (27.5% ordinary and additional IRES and 5.57% IRAP), for banks and financial entities. The effective tax rate in 2020 was 22.57%. The tax rate for the year 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 20 – Profit (Loss) from discontinued operations after taxes – Item 290

There is no profit (loss) from disposed operations net of taxes.

Section 21 – Other information

There is no other information as of the reporting date.

Section 22 – Profit per share

Refer to the presentation in the same section of the Explanatory Notes of the Financial Statement.

Part D – Comprehensive income

Analytical report of comprehensive income

		31.12.2020	31.12.2019
10.	**Profit (Loss) for the financial year**	**32,561**	**(16,840)**
	Other income components not transferred to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	(1)	2
	a) fair value changes	(1)	2
	b) transfers to other items of shareholders' equity	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
	a) fair value changes	-	-
	b) transfers to other items of shareholders' equity	-	-
40.	Hedging of equity instruments measured at fair value through comprehensive income	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(70)	(71)
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity:	-	-
100.	Other income components without recycling to the income statement	17	22
	Other income components with recycling to the income statement		
110.	Hedging of foreign investments	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes		-
	of which: result of net positions	-	-
140.	Hedging instruments (undesignated elements)	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(1,752)	1,933
	a) fair value changes	(3,086)	1,377
	b) reclassification through income statement	1,334	556
	- adjustments for credit risk	(82)	(4)
	- profits/losses on disposals	1,416	560
	c) other changes	-	-
160.	Non-current assets and asset groups held for sale:	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
170.	Share of valuation reserves for equity investments measured at equity:	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	- adjustment due to impairment	-	-
	- profits/losses on disposals	-	-
	c) other changes	-	-
180.	Income taxes relating to other income components with recycling to the income statement	582	(966)
190.	**Total other income components**	**(1,224)**	**920**
200.	**Other comprehensive income (Item 10+190)**	**31,337**	**(15,920)**

Part E – Information on risks and related hedging policies

Preamble

Quantitative information on the risks referred to the Bank is provided in this part of the Explanatory note to the Financial Statements. For qualitative information, refer to the exposure in Part E of the Explanatory note to the consolidated financial statements.

The qualitative and quantitative information is presented in the order established by Bank of Italy Circular No. 262, which also regulates, in a timely manner – in addition to the form of the table – the sequence of the different topics, with the exception of the section relating to market risks in relation to the application of internal models.

Section 1 – Credit Risk

Qualitative information

Qualitative information on credit quality is illustrated in Part E of the Explanatory Note to the consolidated financial statements.

Quantitative information

A. CREDIT QUALITY

For the purposes of quantitative information on credit quality, the term "credit exposures" means financial assets excluding equity securities and units of UCIs.

A.1 Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

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

Portfolio/quality	Non-performing loans	Unlikely-to-pay positions	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	922,647	249,416	506	10,618	1,770,678	2,953,865
2. Financial assets measured at fair value through comprehensive income	-	-	-	-	91,356	91,356
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	11,661	11,661
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2020	**922,647**	**249,416**	**506**	**10,618**	**1,873,695**	**3,056,882**
Total 31/12/2019	**631,105**	**147,193**	**1,209**	**10,082**	**1,329,808**	**2,119,397**

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

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	1,193,465	(20,896)	1,172,569	-	1,792,650	(11,354)	1,781,296	2,953,865
2. Financial assets measured at fair value through comprehensive income	-	-	-	-	91,470	(114)	91,356	91,356
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	11,661	11,661
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2020	**1,193,465**	**(20,896)**	**1,172,569**	**-**	**1,884,120**	**(11,468)**	**1,884,313**	**3,056,882**
Total 31/12/2019	**798,418**	**(18,911)**	**779,507**	**-**	**1,344,041**	**(6,493)**	**1,339,890**	**2,119,397**

A.1.3 Breakdown of financial assets by past due bracket (book values)

Portfolios/risk stages	Stage one			Stage two			Stage three		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortised cost	6,007	93	1,629	112	2,322	455	7,965	5,151	995,335
2. Financial assets measured at fair value through comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2020	**6,007**	**93**	**1,629**	**112**	**2,322**	**455**	**7,965**	**5,151**	**995,335**
Total 31/12/2019	**6,451**	**528**	**-**	**307**	**2,445**	**352**	**1,336**	**1,718**	**697,153**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: trend in the total value adjustments and total provisions

Descriptions/risk stages	Total value adjustments									
	Assets in stage one					Assets in stage two				
	Financial assets measured at amortised cost	Financial assets measured at fair value through comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	**5,704**	**196**	**-**	**-**	**5,900**	**594**	**-**	**-**	**-**	**594**
Increases in purchased or originated financial assets	7,769	114	-	-	7,883	1,190	-	-	-	1,190
Derecognitions other than write-offs	(3,437)	(196)	-	-	(3,633)	(134)	-	-	-	(134)
Net adjustments to/recoveries for credit risk	(295)	-	-	-	(295)	(13)	-	-	-	(13)
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	(261)	-	-	-	(261)	238	-	-	-	238
Final total adjustments	**9,480**	**114**	**-**	**-**	**9,594**	**1,875**	**-**	**-**	**-**	**1,875**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: trend in the total value adjustments and total provisions

Descriptions/risk stages	Total value adjustments						Total provisions on commitments to disburse funds and financial guarantees issued			Total
	Assets in stage three					of which: purchased or originated impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs		Stage one	Stage two	Stage three	
Opening total adjustments	**18,912**	**-**	**-**	**18,912**	**-**	**450**	**479**	**39**	**80**	**26,004**
Increases in purchased or originated financial assets	5,563	-	-	5,471	92	557	339	-	2,799	17,774
Derecognitions other than write-offs	(2,361)	-	-	(2,361)	-	-	(388)	(11)	(30)	(6,557)
Net adjustments to/recoveries for credit risk	(1,213)	-	-	(1,265)	52	2,098	-	-	-	(1,521)
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	(6)	-	-	(17)	11	-	(12)	46	(45)	(40)
Final total adjustments	**20,895**	**-**	**-**	**20,740**	**155**	**3,105**	**418**	**74**	**2,804**	**35,660**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross values / nominal value					
	Transfer between Stage 1 and Stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	34,067	6,918	985	497	8,556	112
2. Financial assets measured at fair value through comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-
Total 31/12/2020	**34,067**	**6,918**	**985**	**497**	**8,556**	**112**
Total 31/12/2019	**19,144**	**7,844**	**6,010**	**1**	**15,612**	**-**

A.1.5a Loans subject to Covid-19 support measures: transfers between the various credit risk stages (gross values)

Portfolio/quality	Gross values / nominal value					
	Transfer between Stage 1 and Stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 1 to stage 2	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Loans measured at amortised cost	**5,573**	**1,071**	**96**	**-**	**6,397**	**40**
A.1 subject to forbearance in accordance with GL	4,448	708	96	-	221	39
A.2 subject to other forbearance measures	1,125	10	-	-	1,000	1
A.3 new loans	-	353	-	-	5,176	-
B. Loans measured at fair value through comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to forbearance in accordance with GL	-	-	-	-	-	-
B.2 subject to other forbearance measures	-	-	-	-	-	-
B.3 new loans	-	-	-	-	-	-
Total 31/12/2020	**5,573**	**1,071**	**96**	**-**	**6,397**	**40**

A.1.6 On and off-balance-sheet credit exposures to banks: gross and net

Type of exposures/values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet exposures					
a) bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely-to-pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	117	-	117	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	608,135	280	607,855	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**608,252**	**280**	**607,972**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**-**	**608,252**	**280**	**607,972**	**-**

A.1.7 On- and off-balance sheet credit exposures to customers: gross and net

Type of exposures/values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet exposures					
a) bad loans	939,076	X	16,429	922,647	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely-to-pay	253,856	X	4,440	249,416	-
- of which: forborne exposures	8,410	X	624	7,786	-
c) Non-performing past due exposures	532	X	27	505	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	10,628	127	10,501	-
- of which: forborne exposures	X	301	6	295	-
e) Other performing exposures	X	1,276,903	11,062	1,265,841	-
- of which: forborne exposures	X	25,859	332	25,527	-
Total (A)	**1,193,464**	**1,287,531**	**32,085**	**2,448,910**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	29,857	X	2,804	27,053	-
b) Performing	X	129,879	492	129,387	-
Total (B)	**29,857**	**129,879**	**3,296**	**156,440**	**-**
Total (A+B)	**1,223,321**	**1,417,410**	**35,381**	**2,605,350**	**-**

A.1.7a Loans subject to Covid-19 support measures: gross and net

Type of exposures/values	Gross exposure	Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs (*)
A. Non-performing loans:	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New funding	-	-	-	-
B. Loans unlikely to pay:	**6,398**	**314**	**6,084**	**-**
a) Subject to forbearance in accordance with GL	198	51	147	-
b) Subject to other forbearance measures	1,023	55	968	-
c) New funding	5,177	208	4,969	-
C. Impaired past-due loans:	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New funding	-	-	-	-
D. Non-impaired loans:	**555**	**32**	**523**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-
b) Subject to other forbearance measures	53	-	53	-
c) New funding	502	32	470	-
E. Other non-impaired finance	**231,312**	**1,946**	**229,366**	**-**
a) Subject to forbearance in accordance with GL	38,081	426	37,655	-
b) Subject to other forbearance measures	1,498	14	1,484	-
c) New funding	191,733	1,506	190,227	-
Total (A+B+C+D+E)	**238,265**	**2,292**	**235,973**	**-**

A.1.8 On-balance sheet credit exposure to banks: trend in gross non-performing exposures

There are no on-balance sheet exposures to banks impaired as initial and/or final exposures for the financial year, nor have they occurred during the financial year.

A.1.8a On-balance sheet credit exposure to banks: trend in gross impaired forborne exposures, distinguished by credit quality

There are no on-balance sheet exposures to banks impaired as initial and/or final exposures for the financial year, nor have they occurred during the financial year.

A.1.9 On-balance sheet credit exposure to customers: trend of the gross non-performing exposures

Descriptions/Categories	Bad loans	Unlikely-to-pay positions	Non-performing past due exposures
A. Opening balance - gross exposure	**643,752**	**153,256**	**1,410**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**333,541**	**205,653**	**8,987**
B.1 transfers from performing exposures	-	6,231	8,025
B.2 transfers from purchased or originated impaired financial assets	14,254	183,890	79
B.3 transfers from other non-performing exposures	4,857	4,584	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	314,430	10,948	883
C. Decreases	**38,217**	**105,053**	**9,865**
C.1 transfers to performing exposures	-	1,715	5,100
C.2 write-offs	-	-	-
C.3 collections	37,520	83,779	139
C.4 proceeds from disposals	697	14,743	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	4,816	4,626
C.7 Contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**939,076**	**253,856**	**532**
- of which: assets sold but not derecognised	-	-	-

A.1.9 On-balance sheet credit exposure to customers: trend in non-performing exposures (of which POCI)

Descriptions/Categories	Bad loans	Unlikely-to-pay positions	Non-performing past due exposures
A. Opening balance - gross exposure	**626,322**	**103,795**	**-**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**328,599**	**190,651**	**79**
B.1 transfers from performing exposures	-	-	-
B.2 transfers from purchased or originated impaired financial assets	14,254	183,890	79
B.3 transfers from other non-performing exposures	-	-	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	314,345	6,761	-
C. Decreases	**35,833**	**90,047**	**-**
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	35,833	75,304	-
C.4 proceeds from disposals	-	14,743	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	-	-
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**919,088**	**204,399**	**79**
- of which: assets sold but not derecognised			

A.1.9 On-balance sheet credit exposures to customers: trend in non-performing exposures (excluding POCI)

Descriptions/Categories	Bad loans	Unlikely-to-pay positions	Non-performing past due exposures
A. Opening balance - gross exposure	**17,429**	**49,461**	**1,410**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**4,943**	**15,001**	**8,908**
B.1 transfers from performing exposures	-	6,231	8,026
B.2 transfers from purchased or originated impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures	4,857	4,584	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	86	4,187	882
C. Decreases	**2,384**	**15,006**	**9,865**
C.1 transfers to performing exposures	-	1,715	5,100
C.2 write-offs	-	-	-
C.3 collections	1,687	8,475	139
C.4 proceeds from disposals	697	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	4,816	4,626
C.7 Contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**19,988**	**49,457**	**453**
- of which: assets sold but not derecognised			

A.1.9 bis On-balance sheet credit exposures to customers: gross forborne exposures by credit quality

Descriptions/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening balance - gross exposure	**1,397**	**1,495**
- of which: assets sold but not derecognised	-	-
B. Increases	**9,066**	**26,655**
B.1 transfers from performing exposures not forborne	1,005	24,138
B.2 transfers from performing forborne exposures	598	X
B.3 transfers from non-performing forborne exposures	X	248
B.4 inflows from non-performing, non forborne exposures	-	-
B.5 other increases	7,463	2,269
C. Decreases	**2,053**	**1,990**
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	248	X
C.3 outflows towards non-performing forborne exposures	X	598
C.4 write-offs	-	-
C.5 collections	1,805	1,392
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Gross exposure closing balance	8,410	26,160
- of which: assets sold but not derecognised	-	-

A1.10 On-balance sheet impaired credit exposure to banks: trend in total value adjustments

There are no on-balance sheet exposures to banks impaired as initial and/or final exposures for the financial year, nor have they occurred during the financial year.

A.1.11 On-balance sheet impaired credit exposure to customers: trend of total value adjustments

Descriptions/Categories	Bad loans		Unlikely-to-pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**12,647**	**-**	**6,063**	**386**	**200**	**-**
- of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	**6,801**	**-**	**2,389**	**845**	**717**	**-**
B.1 adjustments in value from purchased or originated impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	5,076	-	1,852	770	717	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures	1,725	-	390	-	-	-
B.5 contractual amendments without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	147	75	-	-
C. Decreases	**3,019**	**-**	**4,012**	**607**	**890**	**-**
C.1 write-backs from valuation	1,967	-	1,426	63	39	-
C.2 write-backs from recoveries	1,052	-	727	544	20	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposures	-	-	1,698	-	417	-
C.6 contractual amendments without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	161	-	414	-
D. Final total adjustments	**16,429**	**-**	**4,440**	**624**	**27**	**-**
- of which: assets sold but not derecognised	-	-	-	-	-	-

A.2 Classification of financial assets, of commitments to disburse funds and financial guarantees issued on the basis of external and internal ratings

For the purposes of calculating the capital requirement for credit risk, illimity Bank uses the external rating agency (ECAI) Fitch Ratings only for positions included in the "Exposures to central governments or central banks” and “Exposures to institutions” classes; no external ratings are used for other asset classes.

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees issued, by classes of external ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets designated at amortised cost	**151,997**	**80,693**	**122,901**	**1,164**	**-**	**-**	**2,629,359**	**2,986,114**
- Stage one	151,997	80,693	122,880	1,164	-	-	1,374,505	1,731,239
- Stage two	-	-	21	-	-	-	61,390	61,411
- Stage three	-	-	-	-	-	-	1,193,464	1,193,464
B. Financial assets measured at fair value through comprehensive income	**-**	**-**	**8,648**	**49,991**	**5,181**	**3,081**	**24,570**	**91,471**
- Stage one	-	-	8,648	49,991	5,181	3,081	24,570	91,471
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
Total (A+B + C)	**151,997**	**80,693**	**131,549**	**51,155**	**5,181**	**3,081**	**2,653,929**	**3,077,585**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	265,034	265,034
D. Commitments to disburse funds and financial guarantees given								
- Stage one	-	-	-	-	-	-	85,246	85,246
- Stage two	-	-	-	-	-	-	6,575	6,575
- Stage three	-	-	-	-	-	-	29,670	29,670
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**121,491**	**121,491**
Total (A+B+C+D)	**151,997**	**80,693**	**131,549**	**51,155**	**5,181**	**3,081**	**2,775,420**	**3,199,076**

A.2.2 Prudential consolidation – Distribution of financial assets, commitments to disburse funds and financial guarantees issued by classes of external ratings (gross values)

Exposures	Internal rating classes No Rating	Total
A. Financial assets measured at amortised cost	**2,986,115**	**2,986,115**
- Stage one	1,731,239	1,731,239
- Stage two	61,412	61,412
- Stage three	1,193,464	1,193,464
B. Financial assets measured at fair value through comprehensive income	**91,471**	**91,471**
- Stage one	91,471	91,471
- Stage two	-	-
- Stage three	-	-
C. Financial assets held for sale	**-**	**-**
- Stage one	-	-
- Stage two	-	-
- Stage three	-	-
Total (A+B + C)	**3,077,586**	**3,077,586**
of which: purchased or originated impaired financial assets	265,034	265,034
D. Commitments to disburse funds and financial guarantees given	**121,491**	**121,491**
- Stage one	85,245	85,245
- Stage two	6,575	6,575
- Stage three	29,670	29,670
Total (D)	**121,491**	**121,491**
Total (A+B+C+D)	**3,199,076**	**3,199,076**

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Guaranteed on- and off-balance sheet credit exposure to banks

	Gross exposure	Net exposure	Collaterals (1)			
			Real estate - mortgages	Real estate - Loans for leasing	Securities	Other real guarantees
1. Guaranteed on-balance sheet exposures:	**395,194**	**395,167**	**-**	**-**	**385,219**	**-**
1.1 totally secured	395,194	395,167	-	-	385,219	-
- of which non-performing	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2. Guaranteed Off-Balance Sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-

Personal guarantees (2)									Total (1)+(2)
Credit derivatives					Endorsement credits				
CREDIT LINK NOTES	Other derivatives				Public administrations	Banks	Other financial companies	Other entities	
	Central Counterparties	Banks	Other financial companies	Other entities					
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**385,219**
-	-	-	-	-	-	-	-	-	385,219
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

p.1

	Gross exposure	Net exposure	Collaterals (1)				Personal guarantees (2)	
							Credit derivatives	
			Real estate - liens	Real estate - Loans for leasing	Securities	Other real guarantees	CLN	Other derivatives
								Central Counterparties
1. Guaranteed On-Balance sheet credit exposures:	**623,700**	**610,282**	**242,113**	**-**	**20,654**	**9,680**	**-**	**-**
1.1 totally secured	362,581	353,049	242,106	-	20,438	9,565	-	-
- of which non-performing	175,686	168,514	135,842	-	736	596	-	-
1.2 partially secured	261,119	257,233	7	-	216	115	-	-
- of which non-performing	27,007	26,178	7	-	-	-	-	-
2. Guaranteed "Off-Balance Sheet" credit exposures:	**17,983**	**17,952**	**538**	**-**	**-**	**1,995**	**-**	**-**
2.1 totally secured	16,359	16,339	538	-	-	1,695	-	-
- of which non-performing	5,868	5,866	50	-	-	14	-	-
2.2 partially secured	1,624	1,613	-	-	-	300	-	-
- of which non-performing	69	67	-	-	-	15	-	-

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

p.2

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Endorsement credits				
	Other derivatives			Public administrations	Banks	Other financial companies	Other entities	
	Banks	Other financial companies	Other entities					
1. Guaranteed On-Balance sheet credit exposures:	**-**	**-**	**-**	**74,093**	**5,040**	**15,721**	**106,098**	**473,399**
1.1 totally secured	-	-	-	16,427	4,554	15,718	36,662	345,470
- of which non-performing	-	-	-	270	485	694	24,495	163,118
1.2 partially secured	-	-	-	57,666	486	3	69,436	127,929
- of which non-performing	-	-	-	3,975	166	3	5,544	9,695
2. Guaranteed "Off-Balance Sheet" credit exposures:	**-**	**-**	**-**	**-**	**1,033**	**222**	**13,474**	**17,262**
2.1 totally secured	-	-	-	-	522	222	13,362	16,339
- of which non-performing	-	-	-	-	65	-	5,737	5,866
2.2 partially secured	-	-	-	-	511	-	112	923
- of which non-performing	-	-	-	-	-	-	52	67

A.4 Financial and non-financial assets obtained through the enforcement of guarantees received

There are no financial and non-financial assets obtained through the enforcement of guarantees received.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Sector breakdown of on- and off-balance sheet credit exposures to customers

p.1

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet exposures						
A.1 Bad loans	-	-	878,012	2,574	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	16,498	208	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	1	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	11,409	362	500,708	1,778	454	2
- of which: forborne exposures	-	-	-	-	-	-
Total (A)	**11,409**	**362**	**1,395,219**	**4,560**	**454**	**2**
B. Off-balance sheet exposures						
B.1 Non-performing	-	-	212	-	-	-
B.2 Performing	-	-	250	-	-	-
Total (B)	**-**	**-**	**462**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**11,409**	**362**	**1,395,681**	**4,560**	**454**	**2**
Total (A+B) 31/12/2019	**24,541**	**434**	**1,009,690**	**1,995**	**565**	**3**

B.1 Sector breakdown of on- and off-balance sheet credit exposures to customers p.2

Exposures/Counterparties	Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet exposures				
A.1 Bad loans	19,688	12,067	24,946	1,788
– of which forborne exposures	-	-	-	-
A.2 Unlikely to pay	228,478	3,672	4,440	560
– of which forborne exposures	7,519	576	267	48
A.3 Non-performing past-due exposures	373	6	131	21
– of which forborne exposures	-	-	-	-
A.4 Performing exposures	719,120	8,876	45,103	174
– of which forborne exposures	24,019	312	1,803	27
Total (A)	**967,659**	**24,621**	**74,620**	**2,543**
B. Off-balance sheet exposures				
B.1 Non-performing	26,812	2,803	29	1
B.2 Performing	126,383	491	2,754	1
Total (B)	**153,195**	**3,294**	**2,783**	**2**
Total (A+B) 31/12/2020	**1,120,854**	**27,915**	**77,403**	**2,545**
Total (A+B) 31/12/2019	**790,233**	**20,496**	**79,839**	**2,657**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures
A. On-balance sheet exposures					
A.1 Bad loans	922,647	16,429	-	-	-
A.2 Unlikely to pay	249,416	4,440	-	-	-
A.3 Non-performing past-due exposures	506	26	-	-	-
A.4 Performing exposures	1,159,047	10,117	112,594	1,051	2,173
Total (A)	**2,331,616**	**31,012**	**112,594**	**1,051**	**2,173**
B. Off-balance sheet exposures					
B.1 Non-performing	27,053	2,804	-	-	-
B.2 Performing	129,386	492	-	-	1
Total (B)	**156,439**	**3,296**	**-**	**-**	**1**
Total (A+B) 31/12/2020	**2,488,055**	**34,308**	**112,594**	**1,051**	**2,174**
Total (A+B) 31/12/2019	**1,821,118**	**25,098**	**89,989**	**435**	**2,282**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-
A.4 Performing exposures	10	1,945	9	579	4
Total (A)	**10**	**1,945**	**9**	**579**	**4**
B. Off-balance sheet exposures					
B.1 Non-performing	-	-	-	-	-
B.2 Performing	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**10**	**1,945**	**9**	**579**	**4**
Total (A+B) 31/12/2019	**12**	**3,485**	**19**	**3,346**	**18**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures								
A.1 Bad loans	882,875	3,517	7,565	12,483	13,995	224	18,212	205
A.2 Unlikely to pay	112,595	99	46,169	3,955	38,631	349	52,021	37
A.3 Non-performing past-due exposures	2	3	499	14	3	4	2	5
A.4 Performing exposures	714,114	4,412	324,479	4,353	101,019	1,193	19,435	159
Total (A)	**1,709,586**	**8,031**	**378,712**	**20,805**	**153,648**	**1,770**	**89,670**	**406**
B. Off-balance sheet credit exposures								
B.1 Non-perfoming	4,034	1,905	21,647	786	1,132	39	240	74
B.2 Performing	52,384	241	52,848	188	11,268	58	12,886	5
Total (B)	**56,418**	**2,146**	**74,495**	**974**	**12,400**	**97**	**13,126**	**79**
Total (A+B) 31/12/2020	**1,766,004**	**10,177**	**453,207**	**21,779**	**166,048**	**1,867**	**102,796**	**485**
Total (A+B) 31/12/2019	**1,153,145**	**4,132**	**477,150**	**19,168**	**132,564**	**1,374**	**58,259**	**424**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-
A.4 Performing exposures	295,366	253	312,607	26	-
Total (A)	**295,366**	**253**	**312,607**	**26**	**-**
B. Off-balance sheet exposures					
B.1 Non-perfoming	-	-	-	-	-
B.2 Performing	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**295,366**	**253**	**312,607**	**26**	**-**
Total (A+B) 31/12/2019	**114,485**	**210**	**303,997**	**209**	**-**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks *p.2*

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-
A.4 Performing exposures	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing	-	-	-	-	-
B.2 Performing	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**-**	**-**	**-**	**-**	**-**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-balance sheet exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	156,968	150	19,602	28	118,796	75	-	-
Total (A)	**156,968**	**150**	**19,602**	**28**	**118,796**	**75**	**-**	**-**
B. Off-balance sheet exposures								
B.1 Non-performing	-	-	-	-	-	-	-	-
B.2 Performing	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**156,968**	**150**	**19,602**	**28**	**118,796**	**75**	**-**	**-**
Total (A+B) 31/12/2019	**44,093**	**91**	**5,440**	**19**	**64,952**	**100**	**-**	**-**

B.4 Large exposures

	31 December 2020
Carrying amount	1,869,618
Weighted value	333,496
Number	7

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

C. SECURITISATION TRANSACTIONS

Qualitative information

With regard to third-party securitisations, below is a brief description, by Division:

DCIS Division

For its NPL operations, the Bank uses some SPVs, securitisation vehicles in accordance with Law 130/99, comprising 130 Servicing, a financial intermediary and securitisation *master servicer*, through an "orphan" structure headed by the trust company of 130 Servicing, named 130 trust company S.r.l. These vehicles have not been acquired by the Bank and will not be part of the banking group.

In detail, the Bank acquires loan portfolios from independent third parties through SPV, which funds itself by issuing *monotranching* notes fully subscribed by the Bank, replicating the entire return of the underlying portfolio.

Also within the DCIS Division, the Bank also structures senior financing transactions, represented by financing services to investors of *distressed* credits through the subscription of Senior or Junior notes.

Quantitative information

C.1 Exposures resulting from the main "originated" securitisation transactions broken down by type of securisations and by type of exposures

The Bank has no exposures in proprietary securitisations.

C.2 Exposures resulting from the main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of underlying asset/ Exposures	On-balance sheet exposures							
	Single tranche		Senior		Mezzanine		Junior	
	Book Value	(Value adjustments)/ write-backs	Book Value	(Value adjustments)/ write-backs	Book Value	(Value adjustments)/ write-backs	Book Value	(Value adjustments)/ write-backs
1 NPL portfolio	878,003	(2,548)						
2 Energy sector investments	8,689							
3 Senior Financing	243,139	(287)	2,752	(8)			2,346	

C.3 Interests in securitisation vehicles

As described above, in order to carry out the activities of the DCIS and SME Divisions, the Bank utilises securitisation vehicles pursuant to Law 130/99. These SPV have not been acquired by the Bank and will not form part of the banking group. However, since the Parent Company holds de facto control of these vehicles - in accordance with IFRS 10 - they are subject to inclusion within the consolidated financial statements of illimity.

C.4 Non-consolidated securitization vehicles

The Bank does not use a SPV for non-consolidated securitisation.

C.5 Servicer activities - originated securitisations: proceeds of securitised credits and reimbursements of securities issued by the SPV

The Bank does not act as servicer of its own securitisations.

D. DISCLOSURE OF STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SPV FOR SECURITISATION)

The Bank does not use structured entities not consolidated in the accounts, other than special purpose vehicles for securitisation transactions (SPV).

E. DISPOSAL TRANSACTIONS

A. Financial assets sold and not fully derecognised

Qualitative information

The sales connected to financial assets sold and not derecognised relate to repurchase agreements - payable, where the buyer has to resell on expiration of the assets (for example securities).

Quantitative information

E.1 Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book Value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause	of which impaired	Book Value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through comprehensive income	**68,964**	**-**	**68,964**	**-**	**57,424**	**-**	**57,424**
1. Debt securities	68,964	-	68,964	-	57,424	-	57,424
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets designated at amortised cost	**242,801**	**-**	**242,801**	**-**	**223,556**	**-**	**223,556**
1. Debt securities	242,801	-	242,801	92,840	223,556	-	223,556
2. Loans	-	-	-	-	-	-	-
Total 31/12/2020	**311,765**	**-**	**311,765**	**-**	**280,980**	**-**	**280,980**
Total 31/12/2019	**515,336**	**90,779**	**424,557**	**207**	**278,512**	**-**	**278,512**

E.2 Financial assets sold and partially recognised and associated financial liabilities: book values

As of the reporting date of 31 December 2020, the Bank did not hold partially recognised financial assets sold and associated financial liabilities

E.3 Disposal transactions with liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

In table E.1, the book value of the indicated financial assets may be considered a proxy of the same fair value.

B. Assets sold and fully derecognised with recognition of continuing involvement

Qualitative information

The Bank has no such operations.

Quantitative information

E.4 Covered bond transactions

The Bank has no such operations.

F. CREDIT RISK MEASUREMENT MODELS

The Bank has no internal credit risk measurement models for prudential purposes.

Section 2 – Market Risks

2.1 Interest rate risk and price risk – regulatory trading portfolio

Qualitative information

Qualitative information on the measurement of the financial risks generated by the regulatory trading portfolio is illustrated in Part E of the Explanatory Note to the consolidated financial statements.

Quantitative information

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

EURO

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	570	-	-	-	-	-	-
+ Short positions	-	567	-	-	-	-	-	-

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

OTHER CURRENCIES

Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	310	-	-	-	-	-	-
+ Short positions	-	258	-	-	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

The Bank did not hold equity instruments and share indices in the trading portfolio, as of the reporting date.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

Refer to Part E of the Explanatory Note to the consolidated financial statements.

2.2 Interest rate risk and price risk - banking book

Qualitative information

Qualitative information on the measurement of financial risks generated by the banking portfolio is illustrated in Part E of the Explanatory Note to the consolidated financial statements.

Quantitative information

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	**485,765**	**526,804**	**214,230**	**139,657**	**673,275**	**59,343**	**957,329**	477
1.1 Debt securities	-	-	-	-	259,695	28,309	942,451	477
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	259,695	28,309	942,451	477
1.2 Loans to banks	63,239	196,158	9	46,870	222,231	-	-	-
1.3 Loans to customers	422,526	330,646	214,221	92,787	191,349	31,034	14,878	-
- current account	37,411	95	217	19,609	9,642	-	-	-
- other loans	385,115	330,551	214,004	73,178	181,707	31,034	14,878	-
- with early repayment option	24,868	176,282	181,988	11,883	6,134	2,774	912	-
- other	360,247	154,269	32,016	61,295	175,573	28,260	13,966	-
2. On-balance sheet liabilities	**990,789**	**260,665**	**220,147**	**333,619**	**1,717,928**	**3,227**	-	-
2.1 Amounts due to customers	910,503	39,310	219,142	333,619	1,195,143	3,227	-	-
- current account	707,661	-	-	-	-	-	-	-
- other payables	202,842	39,310	219,142	333,619	1,195,143	3,227	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	202,842	39,310	219,142	333,619	1,195,143	3,227	-	-
2.2 Amounts due to banks	80,286	220,121	-	-	224,043	-	-	-
- current account	5	-	-	-	-	-	-	-
- other payables	80,281	220,121	-	-	224,043	-	-	-
2.3 Debt securities	-	1,234	1,005	-	298,742	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	1,234	1,005	-	298,742	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**70,202**	**1,208**	**580**	**710**	**33,596**	**15,819**	**2,945**	-
+ Long positions	7,672	1,208	580	710	33,596	15,819	2,945	-
+ Short positions	62,530	-	-	-	-	-	-	-

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

The Bank does not have internal models.

2.3 Exchange risk

Qualitative information

For qualitative information, including exchange rate risk hedging assets, please refer to Part E of the Explanatory Note to the consolidated financial statements.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	USD	MXN	ZAR	CAD	CHF	OTHER CURRENCIES
A. Financial assets	**1,341**	**239**	**133**	**78**	**26**	**88**
A.1 Debt instruments						
A.2 Equity instruments	6					
A.3 Loans to banks	979	239	133	78	26	88
A.4 Loans to customers	356					
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities	**1,360**	-	-	-	-	-
C.1 Amounts due to banks	1,270					
C.2 Deposits from customers	90					
C.3 Debt instruments						
C.4 Other financial assets						
D. Other liabilities	**65**					
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions	265	-			44	
+ Short positions	229	-			29	
Total assets	**1,606**	**239**	**133**	**78**	**70**	**88**
Total liabilities	**1,654**	**-**	**-**	**-**	**29**	**-**
Difference (+/-)	**(48)**	**239**	**133**	**78**	**41**	**88**

2. Internal models and other methods of sensitivity analysis

Refer to Part E of the consolidated Explanatory Note.

Section 3 – Derivative instruments and hedging policies

During the reference year no derivatives transactions have been carried out.

Section 4 – Liquidity risk

Qualitative information

For qualitative information, refer to Part E of the Explanatory Note to the consolidated financial statements.

Quantitative information

1. Breakdown of financial assets and liabilities by residual contractual maturity

EURO

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 months to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
A. On-balance-sheet assets	**125,728**	**124,693**	**57,313**	**74,513**	**180,008**	**56,254**	**188,418**	**1,293,861**	**1.141.625**	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	148	1,829	449	2,970	5,357	373,226	919.516	-
A.3 Units in UCIs	151	-	-	-	-	-	-	-	-	-
A.4 Loans	125,577	124,693	57,165	72,684	179,559	53,284	183,061	920,635	222,109	-
- Banks	14,404	117,119	41,106	94	85,921	9	46,889	222,252	-	-
- Customers	111,173	7,574	16,059	72,590	93,638	53,275	136,172	698,383	222,109	-
B. On-balance sheet liabilities	**888,772**	**20,259**	**9,769**	**5,742**	**75,262**	**223,926**	**400,583**	**1,876,687**	**24,015**	-
B.1 Deposits and current accounts	833,844	20,259	4,637	4,874	39,245	221,130	352,398	1,151,908	3,127	-
- Banks	5	19,025	-	-	10,058	-	-	-	-	-
- Customers	833,839	1,234	4,637	4,874	29,187	221,130	352,398	1,151,908	3,127	-
B.2 Debt instruments	-	-	-	-	1,234	1,005	-	298,742	-	-
B.3 Other liabilities	54,928	-	5,132	868	34,783	1,791	48,185	426,037	20,888	-
C. "Off-balance sheet" operations										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	570	-	-	-	-	-	-	-	-
- Short positions	-	567	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	6,994	-	-	10	1,198	602	726	33,647	19,354	-
- Short positions	62,530	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 5 – Operational Risks

Qualitative information

For qualitative information, including legal risks and tax litigation, see Part E of the Explanatory Note to the consolidated financial statements.

OTHER RISKS

For information relating to Other Risks, refer to Part E of the Explanatory Notes to the consolidated financial statements.

Part F – Information on shareholders’ equity

Section 1 – Bank's shareholders' equity

A. Qualitative information

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

B. Quantitative information

B.1 Equity: breakdown

Items/values	Amount 31/12/2020	Amount 31/12/2019
1. Share capital	**44,007**	**43,408**
2. Share premium reserve	**487,373**	**480,156**
3. Reserves	**21,876**	**36,994**
- earnings	(4,929)	12,007
a) legal	804	804
b) Articles of Association	-	-
c) treasury shares	-	467
d) others	(5,733)	10,736
- others	26,804	24,987
4. Equity instruments	-	-
5. (Treasury shares)	**(832)**	**(96)**
6. Valuation reserves:	**(278)**	**946**
- Equities measured at fair value through comprehensive income:	4	7
– Hedging of equity instruments measured at fair value through comprehensive income	-	-
- Financial assets (other than equity instruments) measured at fair value through comprehensive income	(119)	1,051
- Property 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	(163)	(112)
- Share of valuation reserves for equity investments measured at equity	-	-
- Special revaluation laws	-	-
7. Profit (loss) for financial year	**32,561**	**(16,840)**
Total	**584,706**	**544,568**

B.2 Valuation reserves of the financial assets measured at fair value through comprehensive income: breakdown

Assets/Values	Total 31/12/2020		Total 31/12/2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	469	(588)	1,443	(392)
2. Equity securities	6	(2)	7	-
3. Loans	-	-	-	-
Total	**475**	**(590)**	**1,450**	**(392)**

B.3 Valuation reserves of the financial assets measured at fair value through comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	**1,051**	**7**	**-**
2. Positive changes	**3,606**	**-**	**-**
2.1 Increases in fair value	939	-	-
2.2 Adjustments in value for credit risk	92	X	-
2.3 Transfer to income statement of negative reserves following disposal	1,769	X	-
2.4 Transfers to other shareholders' equity items (equity securities)	-	-	-
2.5 Other changes	806	-	-
3. Negative changes	**(4,776)**	**(3)**	**-**
3.1 Decreases in fair value	(4,025)	(1)	-
3.2 Adjustments in value for credit risk	(174)	-	-
3.3 Reclassification through profit or loss of positive reserves: following disposal	(353)	X	-
3.4 Transfers to other shareholders' equity items (equity securities)	-	-	-
3.5 Other changes	(224)	(2)	-
4. Closing balance	**(119)**	**4**	**-**

B.4 Revaluation reserves on defined benefit plans: annual changes

	31 December 2020	31/12/2019
1. Opening balance	**(112)**	**(63)**
2. Positive changes	**19**	**22**
2.1 Increases in fair value Actuarial (Gains)/Losses		
2.2 Reclassification through profit or loss of negative reserves		
2.3 Other changes	19	22
3. Negative changes	**(70)**	**(71)**
3.1 Decreases in fair value Actuarial (Gains)/Losses	(70)	(71)
3.2 Reclassification through profit or loss of positive reserves		
3.3 Other changes		
4. Closing balance	**(163)**	**(112)**

Section 2 – Own funds and Capital ratios

For information on own funds and capital adequacy, reference is made to the separate document Basel Pillar 3 - Public disclosure, 31 December 2020.

Part G – Business combinations

Section 1 – Transactions completed during the year

During 2020, as part of the operation which resulted in the illimity Group holding 100% in IT Auction S.r.l., illimity purchased the total interest in Core S.r.l.. For further information on this transaction, in compliance with IFRS 3, reference is made to indications in Part G - Consolidated Financial Statements

Section 2 – Business combinations completed after year-end

There were no business combinations governed by IFRS 3 after the end of 2020

Section 3 – Retrospective adjustments

No retrospective adjustment was made during 2020 to business combinations taking place in previous years.

Part H – Transactions with related parties

Transactions with related parties are mainly governed by Article 2391-*bis* of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure "the transparency and material and procedural fairness of operations with related parties" carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the "Regulation on related party transactions", which was then amended by Resolution no.17389 of 23 June 2010. This sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions. In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

In 2020 there were no minor or material related party transactions, which significantly affected the bank's capital or profit and loss.

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

According to IAS 24, related parties are parties:

a) that directly or indirectly, through one or more intermediaries,
    (i) control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
    (ii) hold an investment in the entity to the extent that they may exercise considerable influence on the latter; or
    (iii) jointly control the entity;
b) represent an associate of the entity;
c) represent a joint venture in which the entity participates;
d) are one of the key directors of the entity or its parent;
e) are a close family member of one of the parties in points (a) or (d);
f) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
g) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the IX update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

The Bank’s Board of Directors has approved the “Regulation for the management of transactions with entities covered by the Bank's Single Perimeter and of transactions” which defines the Group’s internal policies on the control of risk activities and conflicts of interest with connected parties. That document is published on the bank’s website in the section “*Corporate Governance*”, in accordance with current regulations.

With regard to operations performed by the Bank with all its related parties, there have been no atypical or unusual operations.

Atypical and/or unusual operations are any operation that due to its materiality or significance, the nature of the counterparties, the object of the transaction, the method used to determine the transfer price and the timing (for example proximity to year-end) could give rise to doubts about the fairness or completeness of the information about the financial statements, a conflict of interest, about the safeguarding of company assets or the protection of minority shareholders.

1. Information on remuneration of directors with strategic responsibilities

The total remuneration and other benefits paid pertaining to the financial year to directors, statutory auditors and other directors with strategic responsibilities is EUR 5,771 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:

(Thousands of euros)

Category	Amount
a) short-term employee benefits	3,786
b) post-employment benefits	164
d) share-based payments for employees	408
e) compensation of members of the Board of Directors and the Board of Statutory Auditors	1,413

2. Information on related party transactions

With regard to the financial relations, and remembering that directors with strategic responsibilities also include the directors and statutory auditors of the Bank and of the companies of the Group, the situation on the reporting date is that shown in the following table, expressed in thousands of euros.

In the reference year, no particularly important transactions with related parties took place. All such operations are carried out at market conditions in accordance with the relevant policy.

Under the terms of CONSOB Communication no. 6064293 of 28 July 2006, the effects on the consolidated financial statements 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	2,425,358	890,478	36.72%
- To subsidiaries		889,723	
- To companies subject to significant influence		-	
- To directors with strategic responsibilities		755	
- To other related parties		-	
70. Equity investments	23,512	23,512	100.00%
- To subsidiaries		23,512	
- To companies subject to significant influence		-	
- To directors with strategic responsibilities		-	
- To other related parties		-	
120. Other assets	33,767	484	1.43%
- To subsidiaries		484	
- To companies subject to significant influence		-	
- To directors with strategic responsibilities		-	
- To other related parties		-	

BALANCE SHEET			
Liabilities	Book value	of which with related parties	Impact of related parties
10. b) Amounts due to customers	2,700,945	129,730	4.80%
- To subsidiaries		126,874	
- To companies subject to significant influence		-	
- To directors with strategic responsibilities		2,856	
- To other related parties		-	
80. Other liabilities	50,135	4,039	8.06%
- To subsidiaries		3,528	
- To companies subject to significant influence			
- To directors with strategic responsibilities		511	
- To other related parties			
90. Employee severance pay	1,682	122	7.25%
- To subsidiaries			
- To companies subject to significant influence			
- To directors with strategic responsibilities		122	
- To other related parties			
100. c) other provisions for risks and charges	804	154	19.15%
- To subsidiaries			
- To companies subject to significant influence			
- To directors with strategic responsibilities		154	
- To other related parties			
140. Reserves	21,876	388	1.77%
- To subsidiaries			
- To companies subject to significant influence			
- To directors with strategic responsibilities		388	
- To other related parties			

INCOME STATEMENT			
Income Statement items	Book value	of which with related parties	Impact of related parties
10. Interest income and similar income	149,942	92,300	61.56%
20. Interest expenses and similar charges	(41,131)	(24)	0.06%
130. a) financial assets measured at amortised cost	16,473	(2,120)	n.s.
160. Administrative expenses:	(93,929)	(14,803)	27.30%
a) personnel expenses	(39,699)	(5,596)	14.10%
b) other administrative expenses	(54,230)	(9,207)	16.98%
200. Other operating income/expenses	4,179	516	12.35%
220. Profits (losses) on equity investments	(990)	(990)	100.00%

Part I – Share-based Payments

Qualitative information

1. Description of payment agreements based on own equity instruments

As to the variable component, the Bank's Remuneration Policy provides that this can be serviced by

- a long-term "*Stock Option Plan*" (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;
- an "*Employee Stock Ownership Plan*" (ESOP), intended for all the employees of the Bank and/or of its subsidiaries, who have, either with the Company or with one of its direct or indirect subsidiaries (i) a permanent contract of employment, or (ii) a fixed-term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment").
- a "*Long Term Incentive Plan*" (LTIP), for the CEO and other Top Management of illimity (the "Beneficiaries"), who are identified as Directors with strategic responsibilities

Quantitative information

1. Annual changes

Items/Number of options and exercise prices	31 December 2020			31/12/2019		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balances	**1,503,711**	**7.10**	**30 April 2024**	–	–	–
B. Increases	-	-	**X**			
B.1 New issues	260,166	8.03	30 April 2024	**1,503,711**	**7.10**	**30 April 2024**
B.2 Other changes	-	-	X	-	-	X
C. Decreases	-	-	**X**			
C.1 Derecognised	(95,474)	6.94	30 April 2024	-	-	X
C.2 Exercised	-	-	X	-	-	X
C.3 Past-due	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
D. Closing balance	**1,668,403**	**7.26**	**30 April 2024**	**1,503,711**	**7.10**	**30 April 2024**
E. Options exercised as at the end of the financial year	-	-	**X**	-	-	**X**

2. Other information

"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 *gate* objectives linked to, among other things, the maintenance of certain capital and liquidity ratios, earnings, and the absence of any individual violations of laws or regulations;
b) the attainment of performance targets linked to, among other things, the profitability of the Bank and the maintenance of certain financial *ratios* (*Cost/Income Ratio, ROE* – ratio between net profits for the period and average shareholders' equity for the financial year, *Gross Organic NPE ratio* and the *CET1 Capital ratio*); and
c) the continuation of the employment relationship between the beneficiary and the Bank and/or its subsidiaries on the *vesting* date of the option rights.

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

"Employee Stock Option Plan" (hereinafter also "ESOP")

The ESOP provides for the free allocation of up to 700,000 Ordinary Shares, which will be issued in execution of the decision article 2443 of the Italian civil code for the free increase of share capital, Article 2349, paragraph 1, of the Italian civil code up to a maximum of EUR 498,890, authorised by the Meeting on 18 January 2019. The Ordinary Shares will be allocated in five annual cycles.

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

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

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

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

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

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

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

During 2020, as part of the ESOP, 90,372 illimity shares were assigned to illimity Bank employees.

“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 is intended 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.

In 2020, 87,951 illimity own shares were acquired in the context of the LTIP.

Part L – Segment reporting

illimity Bank S.p.A., the parent company of the illimity, banking group, opting for the possibility in IFRS 8, prepares segment reporting in Part L of the Explanatory Notes to the Consolidated Financial Statements, to which reference is made.

Part M – Disclosure on leases

Section 1 – Lessee

Qualitative information

The Bank holds lease contracts that may be classified in the two following categories:

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

As of 31 December 2020, there were 66 leasing contracts, of which 19 related to real estate *leasing*, with a total value of rights of use of 17.9 million euros, and of which 47 related to cars, with a total value of rights of use of 1.1 million euros.

Real estate leasing contracts include rental fees for buildings intended for instrumental use, such as offices and for personal use.

Contracts, as a rule, have a duration of greater than 12 months, and typically have renewal and termination options that can be exercised by the lessor and the lessee according to the rules of law or specific contractual provisions.

Contracts relating to other *leases* relate to cars. These are long-term rental contracts available to employees. Generally, these contracts have a four-year duration, with monthly payments, without the option of renewal and do not include the option of purchasing the asset.

Sub lease transactions are of an amount attributable to properties intended for residential use.

As previously specified in the accounting policies, the scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

Quantitative information

The following table provides a summary of the components of the statement of financial position relating to *leasing* contracts; for further information, see Part B of the Explanatory Notes:

Type of contract	Right of use	Lease Liability
Property rental fees	17,854	20,604
Long Term Rental Cars	1,116	1,144
Total	**18,970**	**21,748**

The following table contains a summary of the components of the Income Statement relating to *leasing contracts;* for further information refer to the contents of Part C of the Explanatory Notes:

Type of contract	Interest expense	Net value adjustments to property and equipment
Property rental fees	1,474	1,638
Long Term Rental Cars	41	402
Total	**1,515**	**2,040**

As of 31 December 2020 there were no material amounts relating to lease commitments not yet entered into.

Section 2 – Lessor

Qualitative information

At the reporting date, the Bank had no leases in the role of lessor to third parties.

Certification of Financial Statements

pursuant to Article 154 bis of Legislative Decree 58/1998

illimity
BANCA OLTRE LA FORMA

Certification of financial statements in accordance with Article 154 bis of Legislative Decree 58/1998

1. The undersigned Corrado Passera, as CEO, and Sergio Fagioli, as Financial Reporting Officer of illimity Bank certify, also considering Article 154-bis, paragraphs 3 and 4, of 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 financial statements during financial year 2020.

2. The adequacy of the administrative and accounting procedures used in the formation of the accounts as of 31 December 2020 is checked according to the "*Internal Control - Integrated Framework*" (CoSO) and the "*Control Objective for IT and related Technologies*" (Cobit), which are the benchmarks for the internal control system applicable to financial reporting and generally accepted at international level.

3. We can also certify that:

   3.1 the financial statements:

      a) a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) N° 1606/2002 of the European Parliament and Council, of 19 July 2002;

      b) correspond to the accounting records;

      c) are capable of providing a true and correct representation of the issuer's balance sheet, economic and financial situation.

   3.2 The management report includes a reliable analysis of the progress and results of operations as well as the issuer's situation, together with a description of the key risks and uncertainties the issuer is exposed to.

Milan, 10 March 2021

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

Report of the Board of Statutory Auditors

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

illimity
BANCA OLTRE LA FORMA

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING ON ACTIVITIES PERFORMED IN 2020 (ARTICLE 153 OF LEGISLATIVE DECREE 58/1998)

Shareholders,

The Board of Statutory Auditors (hereafter also the "**Board**") hereby reports to the Meeting of Shareholders of illimity Bank S.p.A. (hereafter also "**illimity**" or "**illimity Bank**" or the "**Bank**) - pursuant to Article 153 of Legislative Decree no. 58/1998 (hereafter "**TUF**") - on its supervision activities for the year ending 31 December 2020.

The defining event of last year, 2020, was the spread of the Covid-19 virus, which progressively affected all countries and conditioned economic performance throughout the world for most of the year.

In our country, following initial uncertainties, at the start of spring the broad spread of the pandemic became clear; this led the Government to take drastic action to contain it, shutting down all production and services not deemed essential. This was followed by economic measures to provide support and assistance to the sectors most severely affected by the lockdown. When the virus started to spread again in the autumn, the Government and the regions adopted a targeted intervention strategy, imposing partial blocks of differing severity between geographical areas and economic sectors, which enabled many operations to resume, whilst keeping the health situation under control.

A detailed description of the measures adopted by the Italian Government, the European Commission and the European Central Bank, as well as European and national regulators, is provided in the Directors' Report accompanying the 2020 Financial Statements.

The banking sector was also affected by the crisis, both on an operational level and also in terms of the current and future knock-on effects of the economic difficulties of banks' clients. However, the major concern during the initial months of the crisis subsequently gave way to an awareness that, thanks to the action taken by the competent authorities, it would be possible to overcome it, albeit not within the short term.

Following the initial uncertainty that affected the entire banking sector's strategies, illimity showed a strong capacity for resilience, favoured also by its structure as an online bank, the advanced technologies adopted, the special nature of the business and the commitment of all of its staff.

Acting also in its capacity as a Supervisory Body under Legislative Decree no. 231/2001, the Board of Statutory Auditors at all times oversaw the measures adopted by the Board of Directors and the Management in order to ensure the proper application of the vast body of regulations issued by governmental and supervisory authorities in order to combat the spread of the pandemic and to support businesses and families.

1. Activities carried out by the Board of Statutory Auditors

Starting from February 2020 the Board of Statutory Auditors, along with all of the Bank's other governance bodies, carried out its activities and held its meetings by video/audio conference, operating exclusively in remote working mode. This was permitted under Article 30 of the Articles of Association, as well as being provided for under law and the protocols adopted by the illimity Bank Group in order to protect the health of all staff. The Board was thus able to carry out its activities properly throughout 2020 without any restrictions or inconvenience whatsoever.

In view of the above, during the 2020 financial year, the Board of Statutory Auditors carried out its statutory duties in compliance with the Civil Code, Legislative Decree no. 385/1993 (hereafter the "**TUB**"), the TUF, Bank of Italy Circular no. 285, the guidance provided by CONSOB in communication no. 1025564 of 6 April 2001 as amended, Legislative Decree no. 39/2010 (Decree implementing Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts) as amended, statutory provisions and provisions issued by the regulatory and supervisory authorities, and also taking into account the rules of conduct laid down by the National Council of Chartered Accountants and Accounting Experts.

The Board of Statutory Auditors also complied with the regulations applicable to public interest bodies, as the "Internal Control and Audit Committee", performing additional specific control and monitoring duties with regard to financial reporting and statutory auditing, as provided for in Article 19 of the abovementioned Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016.

The Board of Statutory Auditors also performed the functions of the Supervisory Body, established pursuant to Legislative Decree no. 231/2001 on corporate responsibility, assigned by resolution of the Board of Directors on 18 January 2019.

In accordance with the Bank of Italy Circular no. 285, on 26 February 2020, the Board of Statutory Auditors carried out a self-assessment of its composition and of the integrity, professionalism and independence of its members, once again with a positive result. On 4 March 2021, it arranged for a review to be carried out of the suitability for appointment of its own members in accordance with the requirements laid down by Decree of the Ministry of Economy and Finance no. 169 of 23 November 2020, again with a positive result.

In this Report, the Board of Statutory Auditors discusses the activities carried out in the 2020 financial year. The relevant information is provided below in accordance with applicable provisions.

2. Monitoring of compliance with laws, regulations and statutory provisions

Overall, in 2020 the Board held 27 meetings lasting for around three hours each, and held 6 joint meetings with the Risks Committee; it attended all Shareholders' Meetings and all meetings of the Board of Directors.

The Board also attended 18 meetings of the Risks Committee, 7 meetings of the Remuneration Committee, 3 meetings of the Nominations Committee, 6 meetings of the Committee for Related Party Transactions and 4 meetings of the Sustainability Committee, in most cases with all of its members attending.

In its capacity as a Supervisory Body pursuant to Legislative Decree 231/2001, the Board met 13 times, 6 of which within the ambit of meetings of the Board of Statutory Auditors concerning issues of common interest.

During the financial year, the Board of Statutory Auditors also issued 29 opinions on compliance or the sharing of decisions taken by the Executive Body, required by the law or regulations.

As part of its control activities, the Board of Statutory Auditors, among other things:
- monitored compliance with the laws, By-laws and industry regulations, including with reference to the obligations regarding regulated or insider information or information requested by the Supervisory Authorities;
- monitored compliance with the principles of sound management as well as the efficiency and adequacy of the Bank's organisational structure, administrative-accounting and internal control systems through direct examination, data and information collection from the Heads of the main business Functions concerned, the Financial Reporting Officer pursuant to Article 154-*bis* of the TUF (hereafter the "**Financial Reporting Officer**") and the company responsible for the independent auditing of the accounts, KPMG S.p.A. (hereafter "**KPMG**" or the "**Independent Auditors**");
- monitored the adequacy of the company control functions and their independence;

- monitored, pursuant to Article 149, paragraph 1, letter c-*bis* of the TUF, the implementation of the Corporate Governance Code for listed companies, which the company endorses;
- examined the measures taken by the Bank to comply with the Bank of Italy's requirements regarding internal organisation and control systems;
- checked that the criteria and verification procedures adopted by the Board to assess the requirements for Directors have been properly applied;
- carried out its checks on the internal control system, systematically supported by the Head of Internal Audit's attendance of board meetings, which were also attended - where considered appropriate - by the Head of Compliance & AML and the Head of Risk Management;
- monitored the compliance of the internal regulations concerning related party transactions with the principles set out in CONSOB resolution no. 17221 of 12 March 2010 as amended, as well as compliance with the regulation itself;
- met with the Board of Statutory Auditors of the subsidiary neprix S.r.l. (hereafter "**neprix**") and that or the subsidiary illimity SGR S.p.A. (hereafter "**illimity SGR**") to discuss matters of common interest;
- monitored the adoption and proper application of remuneration policies submitted to the Shareholders' Meeting for approval;
- examined corporate the transactions concluded during the year, referred to above;
- carried out the activities related to the functions of the Supervisory Body, monitoring the application of illimity's Organisational Model pursuant to Legislative Decree 231/2001.

With regard to the provisions of Article 2408 of the Civil Code, the Board of Statutory Auditors informs the Shareholders' Meeting that in 2020 no complaints of reportable matters were received from Shareholders. Similarly, during the year the Board of Statutory Auditors did not receive reports of actions or matters that may constitute a breach of the rules governing banking activities pursuant to Article 52 *bis* of the TUB, or pursuant to Article 6, paragraph 2 *bis* of Legislative Decree no. 231/2001. Neither did it receive reports from customers or other parties of irregularities or reportable conduct by Bank personnel.

There were no alleged cases of breach of duties by the Directors in 2020 as set out by Articles 2406 and 2409 of the Civil Code.

3. Compliance with the principles of sound management - related party transactions

In the 2020 financial year, the Board of Statutory Auditors obtained the necessary information about the activities performed and the major financial and equity transactions carried out in exercising the Bank's activities from the Directors.

On the basis of the information obtained by the Board of Directors and the Management, as well as the documents made available to the Board of Statutory Auditors, it can reasonably be considered that these transactions were carried out in accordance with the law and the company By-laws, and that they were not demonstrably imprudent, reckless, in conflict with the resolutions passed by the Shareholders' Meeting nor would they compromise the integrity of the company's assets.

The Board also examined the company's management planning and reporting documents, and did not identify any atypical or unusual transactions carried out with subsidiaries, with securitisation vehicles pursuant to Law 130/1999 (SPVs) included in the consolidation, with related parties or with third parties.

3.1 Development operations of the Bank and the Group

The principal significant events and development operations affecting the Bank and the Group during 2020 and the first few months of 2021 are reported in the Financial Statements and the 2020 Report.

Amongst these, the most significant development operations may be identified as the acquisition of full control of IT Auction S.r.l. (hereafter "**IT Auction**") and the establishment of a partnership with Bank Sella Holding in HYPE S.p.A.

Detailed information concerning corporate transactions may be obtained from the Management Report, although it is noted that IT Auction was a company specialising in the management and marketing of real estate and capital assets according to an innovative business model, which sought to realise assets through online auctions on its network of portals. The acquisition of 70% of the shares was concluded through neprix, whilst the remaining 30% were acquired directly by illimity by obtaining control of the company Core S.r.l. With effect for civil law purposes from 1 February 2021 (with accounting and tax effects back-dated to 1 January 2021), IT Auction and its subsidiary Mado S.r.l., along with Core S.r.l., were incorporated into neprix.

The other corporate transaction of strategic significance involved the entry of illimity into HYPE through the establishment of a joint venture under which the Bank holds 50% of the shares. HYPE is a company providing "light banking" services, the objective of which is to establish itself as a leading operator on the Italian market in the segment of innovative financial services provided by non-banking operators; the entry of illimity will enable both partners to realise important technological and commercial synergies. The business combination has been operational since 1 January 2021.

It should also be recalled that, after obtaining all authorisations from the competent authorities, illimity SGR - the entire share capital of which is held by the Bank - started trading in 2020. The object of the new company is to manage the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors. The launch of operations by the first investment fund is scheduled for the first quarter of 2021.

For the sake of completeness, it is finally necessary to mention two own capital transactions concluded in 2020, which were aimed at employees of the Group, further details of which are provided in the Report by the Board of Directors.

The Meeting of 22 April 2020 approved the Long Term Incentive Plan (LTIP) for the period 2020-2023, which is intended for the Bank's senior management. Acting in accordance with that resolution, as well as the resolution adopted by the Board of Directors on 3 August 2020, between 5 and 10 August illimity purchased 87,951 of its own shares on the open market for allocation to that Plan.

In addition, on 15 June 2020 the Board approved the capital increase in order to service the Employee Stock Ownership Plan – ESOP for 2020 totalling EUR 96,016.40, corresponding to 147,327 ordinary shares, in accordance with the resolution adopted by the Meeting on 18 January 2019. The broad-base shareholder plan, of which this transaction comprises the second stage, is intended for employees of the Bank and of companies controlled by it, and is to be implemented through five issuing cycles, each at annual intervals, over the period 2019-2023.

3.2 Compliance with the principles of sound management

As part of its activities, the Board of Statutory Auditors has systematically and effectively liaised with the Bank's Board of Directors, its Chairman, Chief Executive Officer and other Board Members, both in the context of board meetings and, above all, in the context of the internal Board Committees, in whose important examination activities the Auditors systematically participate.

Also as part of its statutory duties, the Board of Statutory Auditors had the full cooperation of all the Bank's departments, in particular the Internal Control Functions: the Internal Audit Function, the Risk Management Function and the Compliance & AML Function.

In order to monitor compliance with the principles of sound management, the Board of Statutory Auditors regularly met with the Head of Administration & Accounting and Financial Reporting Officer, discussing the various issues within its area of responsibility, with particular reference to the implementation of IT instruments and its impact on the administrative structure. The Financial Reporting Officer did not highlight any significant shortcomings in the operational and control processes that could impair its opinion of adequacy and effective application of the administrative and accounting procedures for the purposes of giving an accurate representation of the Bank and Group's asset and financial situation, as required under Article 154-bis of the TUF. A specific report presented to the Board of Directors and the Board of Statutory Auditors identified some areas with potential scope for improvement, with particular reference to the increase in various core banking applications in order to eliminate some of the manual aspects still present within administrative management.

The Board has exercised and continues to exercise constant control over the process of updating the ICT system, which should also be considered within the context of the expansion in business seen in 2020 which, according to a forward-looking perspective, should also be relevant for the current year.

3.3 Transactions with related parties and intergroup transactions. Atypical and/or non-ordinary transactions

The Bank has adopted "Regulations for the management of transactions with entities covered by the Bank's Single Perimeter and of transactions", most recently updated on 17 December 2018, which were adopted in accordance with the provisions of Consob Regulation 17221/2010 as amended, Article 2391-bis of the Civil Code, and Bank of Italy Circular no. 263 of 27 December 2006 – 9th update of 12 December 2011, on "Risk activities and conflicts of interest of banks and banking groups with regard to Related Parties", which is applicable also to transactions concluded through subsidiary companies (which rules were incorporated into Bank of Italy Circular no. 285/2013 in 2020). In this regard, it is clarified that the Board is contributing to the process of updating the above Regulations in order to bring them into line with the new rules contained in Bank of Italy Circular no. 285 as well as the new Consob Regulations on Transactions with Related Parties published on 11 December 2020.

Subject to the clarifications provided above concerning adaptation to the new rules, the Board of Statutory Auditors takes the view that the procedures mentioned above are compliant with the requirements of Consob Regulation 17221/2010, as amended, and Circular 285 of 2013: during the course of the year the Board monitored compliance with them by the Company.

In the Management Report and Explanatory Notes, the Board of Directors provided an illustration of the transactions with Related Parties, based on adequate internal control and under the control of the Board of Statutory Auditors, indicating the related asset and financial effects. Also described are the methods used to determine the amount of the related considerations, illustrating that these transactions were carried out in the interests of the Company and were conducted according to the principles of sound management.

At the meeting held on 10 March 2021, the Board of Directors approved the transaction concerning the liability action previously launched by the Bank against the former directors of Bank Emilveneta, a company incorporated into Banca Interprovinciale. The Board endorsed that transaction, which will be referred to the Meeting for a resolution.

As far as we are aware, no atypical and/or non-ordinary transactions were concluded in 2020.

4. Monitoring of the adequacy of the organisational and IT structure

The organisational structure of the Bank and of the Group and its development are described in detail in the Corporate Governance and Ownership Report.

The organisational structure of illimity comprises the tasks and responsibilities of company departments, the hierarchical and functional relations between them and the related coordination mechanisms.

The Board of Statutory Auditors has monitored the adequacy of the overall organisational structure of illimity and the Group as well as the instructions issued to subsidiaries pursuant to Article 114, paragraph 2 of the TUF.

The far-reaching process of organisational restructuring, involving the adoption of new management and operational procedures, which were put in place during 2019 with the approval of the new bodies of rules comprised of the Regulations, Policies and Guidelines regulating in detail all of the Bank's operations, was implemented in a number of respects during 2020 in order to take account of the further expansion in the business as well as the adoption of new regulations.

The Board of Statutory Auditors continuously followed this process for producing and implementing internal regulations, which overall appears to adequately regulate the governance, expertise and responsibilities of the corporate bodies and corporate structures as well as operational processes, in the context of an organisational system that is consistent overall with the nature and characteristics of the Bank's activities.

The Board of Statutory Auditors thus acquired the necessary knowledge of the Bank's organisational structure and IT system and monitored, within its scope of responsibility, the implementation of the adjustment and/or improvement measures requested by Bank of Italy supervisory requirements as well as operational and control Functions, by acquiring information from the Heads of all the internal Functions involved in the process, which reported on the specific activities carried out by them. Also the engagement with the auditors at KPMG concerning the efficiency of the organisational structure and ICT systems has been and is continuous.

As previously stressed in our Report on the 2019 Financial Statements, the new business model required the adoption of innovative ICT solutions: a new ICT servicer was chosen, migrating the central information system from the platform of the previous service provider to that of the new one, and outsourcing some IT activities closely connected to business expansion. In addition, and most significantly, the Digital Bank was launched. The Board of Statutory Auditors monitored these activities on an ongoing basis.

The management of core banking ICT has been entrusted to Centrico S.p.A., a company from the group Banca Sella Holding, whilst the management of the cloud computing infrastructure component, required for the direct development of the new modular IT system by illimity, has been entrusted to Microsoft Ireland Operations Limited.

The ICT Department (Information and Communication Technologies) is regarded by the Bank of Italy as an "Essential or Important Department", Italian acronym: FEI) and, where it has been outsourced, must be subject to specific annual controls by the Internal Audit Department along with a report concerning its operations, which must be approved by the Board of Directors, duly accompanied by comments by the Board of Statutory Auditors, and submitted to the Bank of Italy by 30 April during the year after the year it refers to.

It should be recalled that, when authorising the migration and outsourcing to Centrico of a significant proportion of ICT operations, the Bank of Italy asked for a series of improvements, the implementation of which was overseen by the Board through continuous dialogue with the competent internal departments and with the auditors at KPMG.

Having noted the above, during 2020 the Board of Statutory Auditors was able to establish the overall efficacy of core banking ICT services. However, further improvements would be appropriate in order to ensure the optimum management of the overall ICT system; the Board will continue to encourage their adoption within a reasonable timescale. As far as Microsoft is concerned, the functionality of the "Microsoft Azure" system has been assessed as adequate.

As mentioned above, during 2020 illimity SGR, a company from the illimity Bank banking group, started trading. As a result, agreements were concluded also with this new entity concerning the outsourcing of control activities to the parent company illimity, which is responsible for direction and control over entities from the Group and has the task of ensuring the overall consistency of the Group's framework through direction and coordination.

The Board of Statutory Auditors also monitors, within the scope of its responsibility, the instructions given by the Parent Company to subsidiaries pursuant to Article 114, paragraph 2 of the TUF (fulfilment of reporting obligations established by law). Special attention is paid to the close relationship with neprix, a company which is closely integrated from an operational point of view.

The Board, which as mentioned above also performs the functions of a Supervisory Body pursuant to Legislative Decree no. 231/2001, has also consulted and obtained information concerning organisational and procedural arrangements adopted previously (which are currently being updated), which are relevant for the purposes of that Decree, as amended and supplemented, in relation to the administrative responsibility of entities for the offences provided for under that legislation.

In particular, when carrying out its ordinary activities, the Supervisory Body has monitored: (i) the efficiency, efficacy and adequacy of the Organisational and Management Model (OMM, hereafter the “**Model**”) in preventing and combatting the commission of the offences to which the Decree applies. The Model was implemented in 2020 in order to take account of new significant criminal offences; (ii) compliance by addressees with the requirements contained in Model; (iii) the updating of the Model, making proposals to Corporate Bodies; and (iv) the implementation of the staff training plan. In this context, it examined the information sent to the Supervisory Body as well as the periodic reports of the Compliance & AML Function, the Internal Audit Function and the related dashboards, and monitored the email account and the implementation of other whistleblowing procedures. The Board of Statutory Auditors, in carrying out the tasks and functions of the Supervisory Body, also monitored compliance with the principles and values contained in the Group’s Code of Ethics.

The spread of the Covid-19 pandemic made it essential for all Group entities to take action in order to protect the health of all stakeholders: clients, employees, external contractors, suppliers and shareholders. Acting also in its capacity as a Supervisory Body, the Board of Statutory Auditors has overseen compliance by the Bank with the directives issued by the competent authorities, examining the requirements adopted in relation to them by the Human Resources Department and meeting regularly with the Head of Department.

For the best performance of its tasks, the Body made use of the Bank’s departments, in particular the Internal Audit Function, the Compliance & AML Function and the Risk Management Function, as well as the Organisation, Corporate Affairs and Human Resources Functions.

4.1 Compliance with the Corporate Governance Code, composition of the Board of Directors and remuneration

As stated in the Corporate Governance and Ownership Report, until the end of 2020 illimity applied the Code of Self-Governance for listed companies, which was most recently approved in July 2018 by the Corporate Governance Committee. The Bank then adopted the Corporate Governance Code approved by the Corporate Governance Committee, which was published on 31 January 2020 and came into force on 1 January 2021.

The Board of Statutory Auditors has assessed the application by illimity of that Corporate Governance Code of Conduct as illustrated in the “Corporate Governance and Ownership Report”, but has not made any observations in relation to it.

The Board of Statutory Auditors acknowledges that the Board of Directors has carried out an assessment of its operations, size and composition, as well as similar assessments of Board committees. The process and results of self-assessment activity were examined by the Board of Directors at the meeting held on 28 January 2021, which was attended by the Board of Statutory Auditors.

The Board of Statutory Auditors also verified the correct application of the criteria and process put in place by the Board of Directors in order to assess the prerequisites of directors’ independence.

The Board of Statutory Auditors has verified the corporate processes that resulted in the adoption of the remuneration policies, with particular reference to those of the heads of the control functions and the Financial Reporting Officer, who is responsible for the preparation of the company's accounting documentation.

5. Adequacy of the internal control and risk management system, and of the administration and accounting system

The Corporate Governance and Ownership Report describes the principal characteristics of the internal control and risk management system.

The internal control and risk management system (hereafter "**SCIGR**") is comprised of the rules, procedures and corporate structures that enable the Bank and the Group to operate effectively and the main risks to which they are exposed to be identified, managed and monitored. The SCIGR is an integrated system that covers the entire organisational structure; both corporate bodies and corporate structures, including the control functions, are required to contribute to its operation in a coordinated and interdependent manner.

According to current regulations and best practices, within illimity Bank, the types of control are organised into three levels:
- line controls (level I) carried out by the company Functions responsible for business/operational activities;
- risk and compliance controls (level II) falling under the competence of the Risk Management and Compliance & AML Functions;
- internal auditing (level III) carried out by the Internal Audit Function.

As part of the process of organising the illimity Bank structures related to the new businesses and listed company status, during the financial year, the structure of the second and third level control functions was completed, whose efficiency and independence is continuously monitored by the Board of Statutory Auditors.

The Board of Statutory Auditors has monitored the adequacy of the SCIGR operated by illimity and the Group, and has verified its specific operation. In particular, the Board of Statutory Auditors has:

i) taken note of the assessment made by the Board of Directors based on the opinion of the Risks Committee (hereafter the "**CR**") "of the adequacy and efficacy of the internal control and risk management system [.....] as an effective safeguard against risks, having regard to the planned initiatives and those being adopted in order to reinforce it through implementing action and improvements [...]"; reference is made in this regard to the Corporate Governance and Ownership Report;

ii) examined the half-yearly report issued by the CR to support the Board of Directors;

iii) examined the summary documents concerning the assessment of the adequacy and efficacy of the internal control and risk management system drawn up by the Internal Audit Function;

iv) attended all meetings of the CR, acquiring information also in relation to the initiatives that the Committee considered it appropriate to promote or to require in relation to specific issues;

v) acquired information concerning the evolution of the organisational structures and activities carried out by the Control Function;

vi) examined reports concerning the activities of the above-mentioned functions that have been brought to the attention of the CR and the Board of Directors;

vii) verified the autonomy, independence and manner of operation of the Internal Audit Function, and put in place and maintained appropriate and constant links with it;

viii) examined the Audit Plan drawn up by the Internal Audit Function and approved by the Board of Directors, after monitoring compliance with it and receiving information concerning the results of the audit and the actual implementation of the related mitigatory initiatives and corrective action;

ix) acknowledged the assessment and adequacy of the Internal Audit Function's SCIGR issued at six-monthly intervals, after obtaining information from the Director Responsible for the Control System on 1 March 2021 and the heads of the company functions involved in the SCIGR;
x) taken note of the development of the Group's regulatory system.

At the end of 2020, the CRO Department (Chief Risk Officer) was comprised of 22 staff, who were appropriate both professionally and in terms of their number, 5 of whom have the status of company officer. As of the same date, the Compliance & AML Function comprised 12 staff, 1 of whom with the status of company officer, whilst the Internal Audit function comprised 7 staff, 1 of whom with the status of company officer. The Board of Statutory Auditors will ensure that the Control Functions continue to have staff in the appropriate number and with the appropriate professional profile within the context of the ongoing expansion of the Group and the launch of new business and initiatives.

During the financial year, the Board of Statutory Auditors carried out the required continuous exchange of relevant information with the Control Functions mentioned above. These functions fulfilled their reporting obligations towards the executive and supervisory bodies by providing them with the necessary periodic reports on their work and also with reports on the outcomes of the most significant checks.

In 2020 the Internal Audit Function completed the action plan approved by the Board of Directors at the start of the year. Of these, the reports of the Internal Audit Function were of particular importance for the control of the Bank's operations, which concerned in particular: (i) analysis of internal credit risk models; (ii) analysis of the profess for monitoring performing loans and default (going concern); (iii) analysis of the recovery plan; (iv) verification of the business continuity plan; (v) analysis of the ICAAP process; (vi) analysis of the ILAAP process; (vii) analysis of the ICT governance model; (viii) analysis of the liquidity risk management process, all of which activities have been completed. The activity carried out established substantial control of the risks underlying the corporate processes analysed, albeit with scope for improvement (already addressed by the Board), which will not significantly interfere with the Bank's operations and the efficacy of its controls, regarding which it is nonetheless appropriate to take action to increase efficiency.

The CRO Function carried out activity of primary importance during 2020, being required to monitor banking risks in accordance with the requirements set forth in Bank of Italy Circular no. 285, taking account also of the new risk associated with the pandemic. The activity concerned the control and monitoring of risks and a verification of the consistency of indicators with the Risk Appetite Framework – RAF as well as specific controls required by the supervisory authorities. This activity was focused on: (i) regulatory requirements, with particular reference to primary capital adequacy; (ii) credit profile, with reference to credit quality and concentration; (iii) financial profile; (iv) income profile in relation to Return on investment – ROI, Return on equity – ROE and Cost/ Income ratio; (v) other management indicators capable of monitoring the Bank's performance. The specific requests made by the Bank of Italy concerned in particular RAF, ICAAP/ ILAAP and the recovery plan. The Board of Statutory Auditors engaged with the CRO Function in relation to the implementation and validation of the new model for calculating the collective adjustment of performing loans. Special attention was then paid to the internal process used to determine capital adequacy and the management criteria used to define the risk appetite framework. The consistency of the data in the annual ICAAP summary, which is required by the prudential supervision regulations of the Bank of Italy, was also checked.

Significant investigations were carried out in particular in relation to products and services offered to clients and appropriate "ex post" controls were carried out into compliance with the rules of the Compliance&AM Function, a second-level control function, similar to the CRO function.

With reference to the preparation of the Financial Statements, financial reporting and the management of related risks, the Board of Statutory Auditors held regular meetings with the Financial Reporting Officer to acquire the information necessary in order to assess the internal procedures for classifying loans to customers according to the degree of impairment.

Based on the information obtained, the Board of Statutory Auditors verified that the internal control system in operation during the financial year permitted, overall, an informed and prudent management of business risks, within a complex framework of policies, planning and systematic monitoring by the Control Functions.

In conclusion, the Board of Statutory Auditors considers that - as mentioned above - the control system, which relies on an adequate number of personnel with the right qualifications, is capable of supporting the business growth that illimity is implementing.

6. Independent auditing, monitoring of the financial and non-financial reporting process, and independence of the Independent Auditors

By the resolution of the Shareholders' Meeting of 17 December 2018, the independent auditing was assigned to the independent auditors KPMG S.p.A. for the financial years 2018 to 2026.

In accordance with Article 19 of Legislative Decree no. 39/2010, which designates the Board of Statutory Auditors as the "Internal Control and Audit Committee", throughout 2020 the Board verified and examined the process of drawing up regular financial reports (Consolidated Financial Report as of 30 June 2020 and Consolidated Interim Reports as of 31 March and 30 September 2020), the consolidated financial statements and the separate (individual) financial statements of illimity Bank for 2020, along with non-financial reporting, compliance with the laws and regulations in force and consistency with the resolutions adopted by the Board of Directors.

6.1 Monitoring of the financial reporting process

In this capacity, during the course of 2020 the Board of Statutory Auditors *inter alia*:

— informed the Board of Directors of illimity Bank concerning the outcome - without any findings or information requests - of the reports relating to the 2019 Financial Statements of illimity Bank, and sent to it the Additional Report referred to in Article 11 of European Regulation No 537/2014 to the Board, accompanied by observations;
— monitored the limited audit of interim financial reporting;
— verified and monitored the independence of KPMG, with particular reference to the provision of non-audit services provided to the Bank.

In this regard, on 16 March 2020, KPMG issued a statement confirming its independence pursuant to Article 6, paragraph 2 of Regulation (EU) No 537/2014. This statement was reissued on 23 March 2021.

During the 2020 financial year, the Board of Statutory Auditors held numerous meetings (9, followed by another 5 at the start of 2021) with the Auditing Manager and his or her co-workers, exchanging the necessary information and assessments, in accordance with Article 2409-*septies* of the Civil Code. The main topic of the meetings was the work carried out by KPMG, based on an auditing plan shared by the Board of Statutory Auditors, also benefiting from the collaboration of experts from its network to verify specific issues.

— identification within the 2020 Financial Statements of the Cash Generating Unit (CGU), in accordance with IAS 36;
— the application of IFRS 3 in relation to the acquisition of IT Auction;
— the implementation of the "collective" adjustment calculation model;
— the valuation of significant credit exposure and of certain "repossessed" properties.

The Board of Statutory Auditors also discussed and shared with KPMG and the Financial Reporting Officer the accounting procedures and standards used, the assessments of the adequacy of the asset and liability items, the methodology for implementation, and the results of the goodwill impairment testing and the deferred tax probability testing (DTA) and the other choices made in the preparation of the 2020 Financial Statements of illimity Bank, the subsidiaries Neprix S.r.l. and illimity SGR S.p.A., as well as the reporting packages of the Securitisation Vehicles pursuant to Law 130/1999 (SPVs), companies which illimity relies on for the securitisation of purchased NPL credits. It should be noted that neprix, illimity SGR, IT Auction and its subsidiaries and SPVs are all subject to independent auditing by KPMG. In early 2021, meetings between the Board of Statutory Auditors and the Independent Auditors were intensified in order to ensure an adequate flow of information in compliance with their respective control duties, including with regard to the timing of the preparation of the relevant Reports.

As already highlighted, in 2020, the Board of Statutory Auditors systematically liaised with the Financial Reporting Officer in order to ensure the exchange of information required, among other things, for the fulfilment of the supervision carried out by it as well as for the purpose of acquiring information and clarifications concerning the adequacy of the administrative-accounting system, the critical issues arising from the migration of the central IT system and the progress in the recalibration, improvement and implementation actions necessary in order to adapt the system to new *business* (for example, new UTP operations), with results that the Board considered satisfactory.

In light of the provisions in force, on 23 March 2021 the Independent Auditors:

- issued the Reports referring to the individual and consolidated financial statements as of 31 December 2020, pursuant to Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) 537/2014. With regard to opinions and statements, KPMG issued the Reports on the Individual and Consolidated Financial Statements without findings, which show that these financial statements provide a true and fair view of the Group and Bank's financial position and performance and cash flows;
- issued an opinion, stating that the Management Report and the Corporate Governance and Ownership Report, limited to the information indicated in Article 123-*bis*, paragraph 4 of Legislative Decree 58/1998, reflect the financial statements and have been prepared in accordance with legal requirements;
- stated that it had nothing to report, with reference to Article 14, paragraph 2, letter e) of Legislative Decree 39/2010, regarding the identification of any material errors in the Management Report, based on its knowledge and understanding of the company and its context acquired during its activities;
- issued to the Board of Statutory Auditors pursuant to Article 11 of Regulation (EU) No 537/2014, the Additional Report for the Internal Control and Audit Committee, which did not reveal any significant shortcomings in the internal control system in relation to the financial reporting process which merit being brought to the attention of the Board of Statutory Auditors. Moreover, the Bank's initiatives currently under way to implement data quality controls, minimizing the risks of operational errors, are highlighted. KPMG also confirmed its independence.

These aspects were discussed with the Board of Statutory Auditors, also in relation to the preparation of its comments to be provided to the Board of Directors - in accordance with the provisions of Article 19, paragraph 1, letter a) of Legislative Decree no. 39/2010 - accompanying the Additional Report to be submitted to it.

6.2 Monitoring of the financial reporting process

According to Legislative Decree no. 254/2016, as amended, along with the related implementing regulations issued by Consob by resolution no. 20267 of 18 January 2018, the Company has voluntarily prepared and published a Consolidated Non-Financial Statement (hereafter "**NFS**" or the "**Declaration**") for the year 2020. According to Article 4 of the Decree, the NFS provides non-financial information concerning the Company and its subsidiaries "insofar as necessary in order to ensure an understanding of the Group's operations, its performance, its results and the impact of the product".

As provided for under Article 3(7) of the Decree, when carrying out its functions the Board of Statutory Auditors has monitored compliance with the provisions applicable to the preparation and publication of the Declaration.

On 10 March 2021 the Board of Directors approved the NFS, which was drawn up in accordance with the Decree, taking account also of the international reporting standards of the GRI-Global Reporting Initiative.

The Board has also acknowledged that, on 23 March 2021, the firm issued the report provided for under Article 3, paragraph 10, of the Decree. Within that report, KPMG certified that, based on the work carried out, it has not become aware of any circumstances to suggest that the NFS has not been drawn up, in all significant respects, in accordance with the requirements of Articles 3 and 4 of the Decree and the reporting standard referred to above.

The Board of Statutory Auditors notes in tern that, following the activities carried out, it has not become aware of any instances of non-compliance by the Declaration with the legislative provisions applicable to its preparation and publication.

6.3 Activities of the Board of Statutory Auditors in relation to non-audit services

During the course of 2020, in accordance with the provisions of Article 19, paragraph 1, letter e), of Legislative Decree no. 39/2010 and Article 5, paragraph 4 of Regulation EU no. 537/2014, acting in its capacity as the "Internal Control and Audit Committee, the Board of Statutory Auditors has previously examined proposals relating to the award of *non-audit services* to auditing firms or entities from the relevant network submitted to it for consideration.

As part of its assessments, the Board of Statutory Auditors has verified both the compatibility of those services with the prohibitions laid down by Article 5 of Regulation EU no. 537/2014, as well as the absence of any potential risks for the auditor's independence resulting from the conduct of those services in the light of the provisions contained in Legislative Decree no. 39/2010 (Articles 10 et seq), the Issuers' Regulation (Articles 149-bis et seq) and Auditing Principle no. 100. As the statutory prerequisites were met, the Board approved the appointment of KPMG or other entities from the network to perform the service.

The 2020 Financial Statements 2020 include an annex containing a statement of the fees on a consolidated basis for the year paid to KPMG:
- for the provision of auditing services: EUR 225 thousand;
- for the provision of non-audit services (mainly comfort letters for EMTN issue and opinions pursuant to Article 2441 of the Civil Code): EUR 304 thousand;
- for other services: EUR 24 thousand;
- for auditing services provided to companies included in the scope of consolidation: EUR 266.5 thousand.

7. 2020 Consolidated and Separate Financial Statements

The consolidated financial statements of the illimity Bank S.p.A. Group include the illimity Parent Company, the subsidiaries neprix, illimity SGR, IT Auction, ITA Gestione Immobili S.r.l., Mado S.r.l. and Core S.r.l., as well as the Special Purpose Vehicles (SPVs) consolidated in accordance with IAS/IFRS international accounting standards: Aporti S.r.l., Soperga RE S.r.l., Friuli SPV S.r.l., Friuli LeaseCo S.r.l., Doria SPV S.r.l., Doria LeaseCo S.r.l., River SPV S.r.l., River LeaseCo S.r.l., River Immobiliare S.r.l., Pitti SPV S.r.l. and Pitti LeaseCo S.r.l. The financial statements and packages of the consolidated entities have been prepared in accordance with the coordination guidelines provided to them by illimity Bank. As mentioned above, all companies were independently audited by KPMG.

In their Management Report, the Directors provide comprehensive information concerning the situations and events that characterised 2020: in particular concerning the Covid-19 pandemic and its effects on the general economic and financial situation, as well as on clients.

The Report also provides exhaustive information concerning the initiatives carried out by the Group in order to give effect to provisions issued by the Government and the terms of systemic agreements. Since illimity has adopted advanced technological solutions concerning the collection, management and transfer of information, the Company's operations have been fully ensured throughout 2020 according to the remote working model, which almost all employees have been required to use for large parts of the year. This has made it possible to avoid particular critical aspects within ordinary operations as well as more serious consequences in terms of business. However, the general economic climate has inevitably had an effect on the result for the year, as it has not enabled the Bank to achieve the targets previously set, without however preventing more than satisfactory operating and economic results from being achieved.

The Board of Statutory Auditors clarifies - also in relation to Consob "Warning notice no. 1/21 of 16 February 2021", which calls for careful consideration within the assessments made by the Board of Directors as to whether the assumption of business continuity is warranted, as well as the risks associated with the difficulties in carrying out checks in situ due to the restrictions associated with the Covid-19 pandemic - that:

- the operations of illimity and of Group companies have only reduced marginally as a result of the pandemic, from March 2020 onwards, mainly due to external factors (e.g.: block of judicial auctions). Having been established as a digital bank that uses advanced technological solutions, the Company's operations have been fully ensured throughout 2020 using the remote working model;
- considering the positive performance during the year, although illimity has been required to deal with some management difficulties experienced throughout the banking system, the Board takes the view that the assumption of business continuity is warranted for illimity Bank and the Group.

The Management Report, which has been drawn up by the directors according to statutory and regulatory requirements, as well as the Consob "Warning notice", clearly illustrates the strategies adopted and the results achieved by the Bank and the Group, and provides appropriate comparisons with those relating to the previous year as well as adequate indications concerning the anticipated development of management. As required, the Explanatory Notes contain full information about the possible risks (credit, market, operational, liquidity and others), the uncertainties faced by the Bank at this particular time and the related methods of control. The quali-quantitative information has been accompanied by the required administrative accounting schedules.

This Board of Statutory Auditors has exercised an overall summary control of the consolidated financial statements for 2020, as well as the interim reports for the period, verifying the correct preparation and adequate level of disclosure. This control related in particular to the application of the Accounting Standards and criteria used for the measurement of financial statement items. In this context, explicit consent is given to the recognition in the financial statements of intangible assets. No exemptions from the provisions of the Civil Code (Article 2423, paragraph 4) were sought.

Particular attention has been paid to the identification within the 2020 Financial Statements of the Cash Generating Unit (CGU), in accordance with IAS 36. This is due also to the increase and greater segmentation of the business of illimity. The Board endorses both the methodology and the results of the segmentation applied by the directors as well as the amount recognised as goodwill.

Another feature of the Financial Statements 2020 was the application of IFRS 3 to the business combination of illimity with IT Auction, the acquisition of which has been considered above. The Board of Statutory Auditors endorses the methodologies used by the Management and adopted by the directors both when quantifying the figures to be reported in the Financial Statements under the entries for assets and goodwill, as well as its allocation to the Cash Generating Unit DCI&S.

Finally, the Statutory Auditors have examined and endorsed the methodology used to carry out the impairment tests on both goodwill and deferred tax assets (DTA).

8. Conclusions

The supervisory activities carried out by the Board of Statutory Auditors did not reveal any reportable matters or conduct, omissions or irregularities to be outlined in this Report. As stressed above, from the information obtained through its supervisory activities, the Board of Statutory Auditors is not aware of any transactions carried out during the year that were not carried out in accordance with the principles of sound management nor any that were authorised and carried out in conflict with the law or company By-laws, nor any not in the interests of the Bank and Group, in contradiction to the resolutions adopted by the Shareholders' Meetings, nor any that were demonstrably imprudent or reckless, or that lacked the necessary information in the case of interests of company representatives, or such that would compromise the integrity of the company's assets.

Having considered the content of the Independent Auditor MPMG's reports, and acknowledging the statements issued jointly by the CEO and the Financial Reporting Officer, the Board of Statutory Auditors, acting within its scope of responsibility has not identified any obstacles to the approval by the Shareholders' Meeting of the draft individual financial statements for the year ended 31 December 2020 of illimity Bank S.p.A.

In the opinion of the Board of Statutory Auditors, there is no obstacle to the proposal made by the Board of Directors concerning the allocation of the profit for the year of EUR 32,561,450.27: (i) to allocate EUR 16,840,115.40 to cover retained losses from 2019; (ii) to allocate EUR 786,066,74 to the legal reserve; (iii) to carry forward EUR 14,935,268.13.

Milan, 25 March 2021

Ernesto Riva

Stefano Caringi

Nadia Fontana

Report of the Independent Auditors

illimity
BANCA OLTRE LA FORMA

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)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

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

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of illimity Bank S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2020, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of illimity Bank S.p.A. as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost" and paragraph A.2.15 "Other information - Purchased or originated impaired financial assets (POCI)"

Notes to the separate financial statements "Part B - Information on the statement of financial position": section 4 "Financial assets measured at amortised cost - item 40"

Notes to the separate financial statements "Part C - Information on the income statement": section 8 "Net losses/recoveries for credit risk - item 130"

Notes to the separate financial statements "Part E - Information on risks and related hedging policies": section 1 "Credit risk"

Key audit matter	**Audit procedures addressing the key audit matter**
Loans and receivables with customers recognised under financial assets at amortised cost totalled €2,425.4 million at 31 December 2020, accounting for 58.2% of total assets. Net impairment gains on loans and receivables with customers recognised during the year totalled €16.4 million (including gains of €13.8 million arising from positions closed out through transfer and "partial payment and write-off"). For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement or purchase. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the business plans and related regular	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein, as well as the adjustments made as a result of the effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
updates (especially in relation to the POCI exposures), the existence of any indicators of impairment, an assessment of any guarantees and the impact of macroeconomic variables and risks of the sectors in which the group's customers operate. The complexity of the directors' estimation process has increased in 2020 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios, requiring an adjustment to the valuation processes and methods. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	— selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls in relation to the regular updating of the business plans on which basis the POCI exposures are measured; — for a meaningful sample of POCI exposures, checking the underlying business plans and the cash flow backtesting by tracing the business plan figures to the actual collections; — analysing the significant changes in the categories of loans and receivables with customers and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets at amortised cost, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Measurement of goodwill

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"

Notes to the separate financial statements "Part B - Information on the statement of financial position": section 9 "Intangible assets - item 90"

Key audit matter	Audit procedures addressing the key audit matter
In past years, as a result of a business combination, the bank recognised goodwill, which amounts to €21.6 million at the reporting date. As disclosed in the notes, in accordance with IFRS 3, the directors allocated goodwill to the cash-generating units ("CGUs") they identified. The directors tested the reporting-date carrying amount of goodwill for impairment by comparing the carrying amount of the CGUs to which goodwill is allocated to their recoverable amount. They estimated the recoverable amount based on value in use calculated using the discounted cash flow model. Testing goodwill for impairment requires complex valuations and a high level of judgement, especially in relation to: — the CGUs' expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of bank's sector and the directors' forecasts about its future performance; — the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has increased in 2020 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the measurement of goodwill is a key audit matter.	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the bank's directors; — gaining an understanding of the process used to draft the bank's long-term plan approved by the directors; — analysing the criteria used to identify the CGUs and tracing the carrying amounts of the assets and liabilities allocated thereto to the separate financial statements; — assessing the key assumptions used by the directors to determine the CGUs' value in use. Our assessment included checking the consistency of the method adopted with that used in the previous year and comparing the key assumptions used to external information, where available, also in the light of the financial effects of the Covid-19 pandemic; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures about goodwill and the related impairment test, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Responsibilities of the bank's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 17 December 2018, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale, in its capacity as audit committee, prepared in accordance with* article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The bank's directors are responsible for the preparation of a directors' report and a report on corporate governance and ownership structure at 31 December 2020 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's separate financial statements at 31 December 2020 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's separate financial statements at 31 December 2020 and have been prepared in compliance with the applicable law.

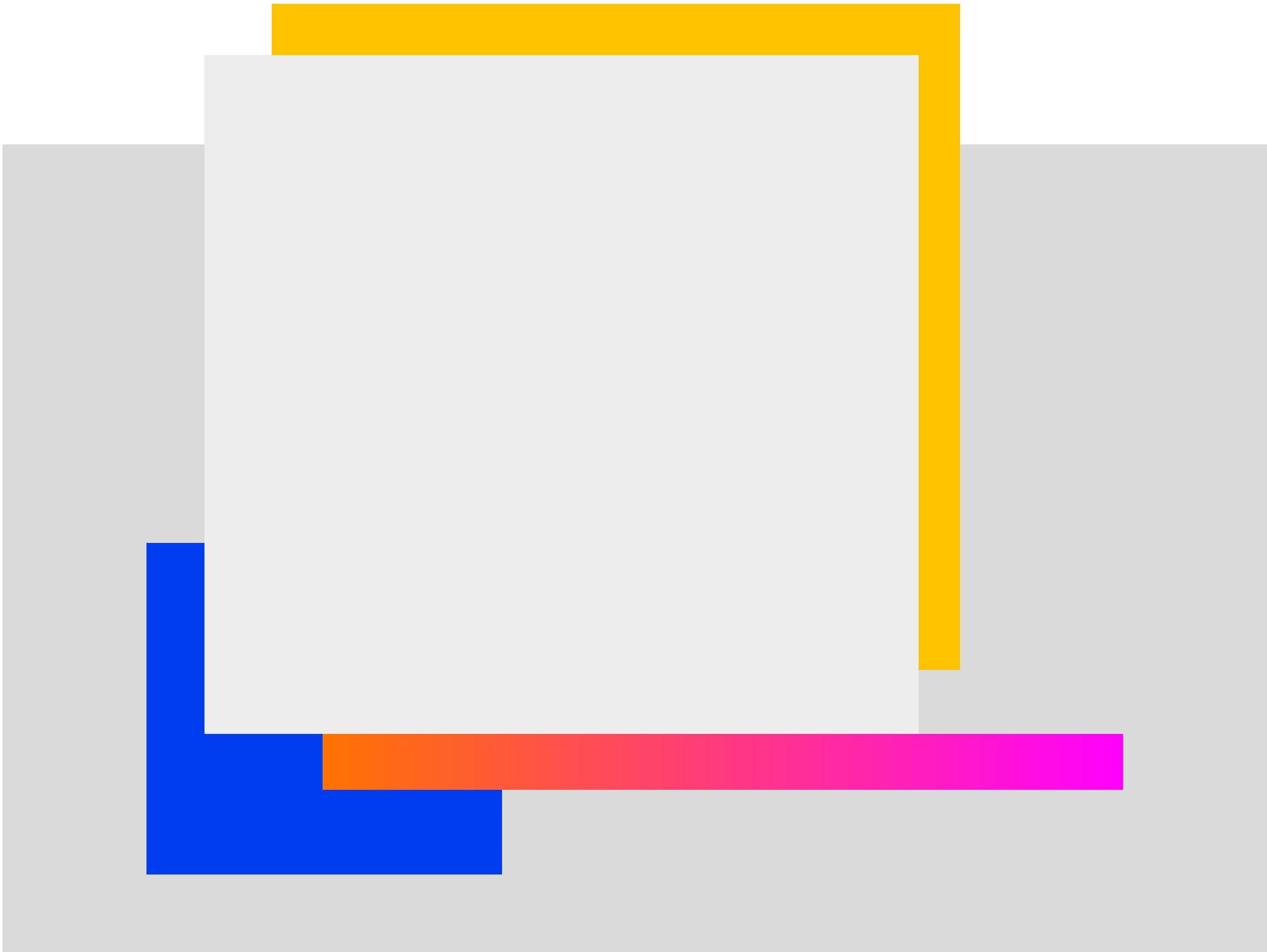
With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 23 March 2021

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit



Annex 1 – Reconciliation between reclassified statement of financial position and income statement and financial statements

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.

Reclassified statement of financial position

Assets	Values as of 31/12/2020
Treasury portfolio - Securities at FV	**91,427**
Item 20. a) Financial assets held for trading	52
Item 30. Financial assets measured at fair value through comprehensive income	91,375
Financial instruments mandatorily measured at fair value	**18,450**
Item 20. c) Other financial assets mandatorily measured at fair value	18,450
Due from banks	**528,508**
Item 40. a) Due from banks	528,508
Loans to financial entities	**109,993**
Receivables from financial entities	109,993
Loans to customers	**1,187,449**
Item 40. b) Loans to customers	2,425,358
To be deducted:	
Loans to financial entities	(109,993)
Loans to customers - Securities	(1,127,916)
Securities at amortised cost - SPV	**878,003**
Securities at amortised cost - SME	**4,154**
Securities at amortised cost – Senior Financing	**245,759**
Shareholdings – subsidiaries	**23,512**
Item 70. Equity investments	23,512
Property and equipment and intangible assets	**73,037**
Item 90. Property and equipment	21,287
Item 100. Intangible assets	51,750
Tax assets	**31,155**
Item 110. Tax assets	31,155
Other assets	**978,588**
Item 10. Cash and cash equivalents	944,821
Item 130. Other assets	33,767
Total assets	**4,170,035**

Liability and equity items	Values as of 31/12/2020
Amounts due to banks	**524,450**
Item 10. a) Due to banks	524,450
Amounts due to customers	**2,679,197**
Item 10. b) Due to customers	2,700,945
To be deducted:	
Lease Liability (IFRS 16)	(21,748)
Securities issued	**300,980**
Item 10. c) Securities issued	300,980
Tax liabilities	**3,037**
Item 60. Tax liabilities	3,037
Other liabilities	**77,665**
Item 80. Other Liabilities	50,135
Increase:	
Lease Liability (IFRS 16)	21,748
Item 90. Employee severance pay	1,682
Item 100. Allowances for risks and charges	4,100
Shareholders' equity	**584,706**
Capital and reserves	
Item 120. Valuation reserves	(278)
Item 150. Reserves	21,875
Item 160. Share premium reserves	487,373
Item 170. Share capital	44,007
Item 180. Treasury shares (-)	(832)
Item 200. Profit (loss) for the financial year	32,561
Total liabilities and shareholder's equity	**4,170,035**

Reclassified income statement

Income Statement items	Values as of 31/12/2020
Interest margin	**110,326**
Item 10. Interest income and similar income	149,942
Item 20. Interest expenses and similar charges	(41,131)
To be deducted:	
IFRS 16 interest expenses	*1,515*
Net fee and commission income	**7,491**
Item 40. Fee and commission income	10,454
Item 50. Fee and commission expense	(2,963)
Gains/losses on financial assets and liabilities	**8,486**
Item 80. Profits (losses) on trading	(389)
Item 100. Profits (losses) from disposal or repurchase	7,699
Item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	1,176
Net write-downs/write-backs on closed positions - HTC Clients - POCI	**13,840**
of which: Net write-downs/write-backs on closed positions - HTC Clients - POCI	*13,840*
Other operating expenses and income	**737**
Item 140. Profits (losses) on changes in contracts without derecognition	-
Item 230. Other operating income/expenses	4,179
To be deducted:	
Reclassification of recovery of other operating charges/income to Other administrative expenses	(2,919)
Reclassification of outsourcing services	(523)
Item 280. Profits (losses) from disposal of investments	-
Total net operating income	**140,880**
Personnel expenses	**(39,295)**
Item 190. Administrative expenses: a) Personnel expenses	(39,699)
To be deducted:	
Reclassification of outsourcing services	*523*
Reclassification of HR expenses from other administrative expenses	*(119)*
Other administrative expenses	**(52,707)**
Item 190. Administrative expenses: b) Other administrative expenses	(54,230)
Reclassification of IFRS 16 interest expenses	*(1,515)*
Reclassification of HR expenses to personnel expenses	*119*
Reclassification of recovery of other operating charges/income to Other administrative expenses	*2,919*
Net write-downs/write-backs on property and equipment and intangible assets	**(7,563)**
Item 210. Net adjustments/recoveries on property and equipment	(2,466)
Item 220. Net adjustments/recoveries on intangible assets	(5,097)
Operating expenses	**(99,565)**
Operating profit (loss)	**41,315**
Net write-downs/write-backs for credit risk - HTC Banks	**104**
Net write-downs/write-backs for credit risk - HTC Financial entities	**(115)**
Net write-downs/write-backs for credit risk - HTC Clients	**2,644**
Item 130. Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost	16,473
To be deducted:	
Net write-downs/write-backs for credit risk - HTC Banks	*(104)*
Net write-downs/write-backs for credit risk - HTC Financial entities	*115*
Net write-downs/write-backs on closed positions - HTC Clients	*(13,840)*
Net write-downs/write-backs for credit risk - HTCS	**82**
Item 130. Net losses/recoveries for credit risks associated with: b) financial assets measured at fair value through other comprehensive income	82
Net write-downs/write-backs for commitments and guarantees	**(981)**
Item 200. Net provisions for risks and charges: a) commitments and guarantees given	(981)
Total net write-downs/write-backs	**1,734**
Other net provisions	**(5)**
Item 200. Net provisions for risks and charges: b) other net provisions	(5)
Item 250. Profits (losses) on equity investments	(990)
Profit (loss) from operations before taxes	**42,054**
Income taxes for the financial year on continuing operations	**(9,493)**
Item 300. Income taxes for the financial year on continuing operations	(9,493)
Profit (loss) for the financial year	**32,561**