illimity

BANCA OLTRE LA FORMA

Consolidated interim report
as of 31 March 2020

Contents

Consolidated interim report as of 31 March 2020

COMPOSITION OF CORPORATE BODIES

BOARD OF DIRECTORS

Chairman
Rosalba Casiraghi

Chief Executive Officer
Corrado Passera

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

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

BOARD OF STATUTORY AUDITORS

Chairman
Ernesto Riva

Standing Auditors
Stefano Caringi
Nadia Fontana

Substitute Auditors
Riccardo Foglia Taverna
Michela Zeme

EXECUTIVE IN CHARGE OF FINANCIAL REPORTING

Sergio Fagioli

INDEPENDENT AUDITORS

KPMG S.p.A.

Consolidated interim report

as of 31 March 2020

CONSOLIDATED INTERIM REPORT AS OF 31 MARCH 2020

This interim report illustrates the performance and the related first quarter 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 "Group"). illimity exercises the management and coordination of the Group and has its registered office in Milan, at Via Soperga 9[1].

The Group includes the following entities:

i. Aporti S.r.l. ("Aporti"), established to undertake the securitisation of *Non-Performing Loans* (hereinafter "NPLs"), through the subscription by the Bank of the *notes* issued by the SPV established in accordance with Italian Law No. 130 of 30 April 1999;

ii. Friuli SPV S.r.l. ("Friuli SPV"), established to undertake the securitisation of NPL *leases*, through the subscription by the Bank of the *notes* issued by the SPV established in accordance with Italian Law No. 130 of 30 April 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 of 30 April 1999 on securitisation;

iv. Soperga RE S.r.l. (REOCO) ("Soperga RE") a wholly-owned subsidiary of the Bank, initially held through the vehicle Aporti, established to manage the real estate assets associated with the portfolios of acquired NPLs pursuant to Article 7.1 of Law No. 130 of 30 April 1999 on securitisations;

v. Lumen SPV S.r.l. ("Lumen"), formed to undertake the securitisation of factoring transactions, with the retention by the Bank of the notes issued by the special-purpose vehicle formed in accordance with Italian Law No. 130 of 30 April 1999; as at 31 March 2020 the vehicle was in the *run-off* phase;

vi. Doria SPV S.r.l. ("Doria SPV"), established to undertake the securitisation of NPL *leases*, through the subscription by the Bank of the *notes* issued by the SPV established in accordance with Italian Law No. 130 of 30 April 1999;

vii. Doria LeaseCo S.r.l. ("Doria LeaseCo"), a wholly-owned subsidiary of the Bank, established to service the *leasing* transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law No. 130 of 30 April 1999 on securitisation;

viii. River SPV S.r.l. ("River SPV"), established to undertake the securitisation of NPL *leases*, through the subscription by the Bank of the *notes* issued by the SPV established in accordance with Italian Law No. 130 of 30 April 1999;

ix. River LeaseCo S.r.l. ("River LeaseCo"), a wholly-owned subsidiary of the Bank, established to service the *leasing* transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law No. 130 of 30 April 1999 on securitisation;

x. Pitti SPV S.r.l. ("Pitti SPV"), established to undertake the securitisation of NPL *leases*, through the subscription by the Bank of the *notes* issued by the SPV established in accordance with Italian Law No. 130 of 30 April 1999;

xi. Pitti LeaseCo S.r.l. ("Pitti LeaseCo"), a wholly-owned subsidiary of the Bank, established to service the *leasing* transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law No. 130 of 30 April 1999 on securitisation;

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

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

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

xiv. IT Auction S.r.l. (“IT Auction”), an operator specialised in managing and selling moveable and immoveable property originating from insolvency and foreclosure proceedings, leasing and private sales through its own *network* of platforms/*online* auctions and a group of professionals operating nationwide. Neprix acquired a 70% interest in the company and its subsidiaries, set out below, on 9 January 2020;

xv. 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;

xvi. 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.

COMPOSITION AND ORGANISATIONAL STRUCTURE

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

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

Small Medium Enterprises Division

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

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

The SME Division is active in the following segments:

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

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

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

Distressed Credit Investment & Servicing Division

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

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

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

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

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

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

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

b) "*Special Situations – Real Estate*", aimed at investment opportunities in so-called "*single name*" credits, meaning exposures to a single debtor or, at most, a *cluster* of corporate counterparties, both *secured* and *unsecured*;

c) "*Special Situations – Energy*", recently launched and aimed at investment opportunities in *single name* loans involving corporate counterparties operating in the renewable energy sector.

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

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

In line with illimity's business model of internalising the entire value chain, the Bank avails itself of the support of Neprix (a fully-owned subsidiary of the Bank) and IT Auction (the acquisition of which was closed in the first quarter of 2020, as described in further detail in the dedicated paragraphs of the section "Significant events in the first quarter of 2020" of this Report) 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 NPL acquired by illimity, are centralised, relies on the services of professionals with specific experience and *know how* in *due diligence* and in managing *non-performing loans*.

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

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

Direct Banking & Digital Operations Division

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

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

Through its *Direct Banking & Digital Operations* Division, illimity offers digital banking products and services to retail and corporate customers. The Division is responsible for managing the Web and *app* channels, offering an innovative range of dedicated products. It is also responsible for designing the product range and its characteristics, commercial policies and pricing and for formulating the characteristics of the front-end and the overall user experience. In addition, it formulates Bank's communications plan and brand development strategy to ensure optimal customer acquisition and 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 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. Digital CFO dedicated to SME customers through credit monitoring, cash flow analysis and forecasting tools
5. Full range of other banking products for families (such as personal loans and insurance), made available to customers through partnerships with selected operators
6. Account aggregator, i.e. a function which makes it possible to aggregate all accounts held with other banks in the customer’s home banking area, enabling an overview of the customer’s financial situation in a single screen.

SIGNIFICANT EVENTS IN THE FIRST QUARTER OF 2020

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

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

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

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

In addition, in a further effort to assist banks, in its letter of 23 March 2020 the Bank of Italy granted deferrals of a series of processes (ICAAP, ILAAP, recovery plan and other reports), of which the Group availed itself in part, and also indicated that less significant banks (as the ECB had done for more significant intermediaries) could operate temporarily below the target levels assigned in the SREP process, capital conservation buffers and the liquidity coverage ratio. It should be noted, in this regard, that the Group's current and prospective capital adequacy and liquidity profiles are compliant with the minimum regulatory thresholds and the management limits set in the Risk Appetite Framework, even considering the current coronavirus scenarios.

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

- to protect the health of its staff, customers and suppliers, illimity has activated specific safety and monitoring protocols, and has used as a precautionary measure - graduating it in relation to the updates provided from time to time by the Public Authorities - the tool of full remote working (still in place). These actions also addressed the objective of ensuring the Group's business continuity, in order to mitigate potential strategic and business risks regarding the achievement of the 2020 budget targets;
- the offer of collection/employment services through the Digital Bank channel and the German digital platform "Raisin" has allowed illimity to continue to best serve its Retail and SME customers, even in the areas affected by the spread of the virus, without any interruption of business continuity;
- the possible impacts in terms of slowing down business processes as a result of endogenous and exogenous factors (e.g. the impact of the spread of the virus and the actions of public authorities on the operations of counterparties and courts and consequent repercussions on the effectiveness of recovery processes, or operational repercussions on the evaluation and origination processes of loans

to unrated or high-risk counterparties or UTPs), are constantly monitored by the Bank's Management Committees and Governing Bodies, in order to reactively adapt strategies and policies (including risk) to the changing context;

- capital adequacy (ICAAP) and liquidity (ILAAP) assessments will be conducted taking into account the economic and financial impacts associated with the spread of the virus, with the aim of incorporating the latest updates in terms of macro-economic and sectoral/geographical scenario into their risk models, as well as conducting assessments with the Business Divisions in order to factor the specific impacts (e.g. increase in the probability of default of SME counterparties, or reduction in the recovery rates of portfolios purchased by the DCIS Division).

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

Within the framework of the COVID-19 emergency, motivated by 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 Decree-Law No. 18 of 17 March 2020 (the "Decreto Cura Italia") introduces a legal suspension until 30 September 2020 for maturing loans and lines of credit contracted by SMEs, as an urgent measure to contain the effects of the business shutdowns ordered in response to the emergency;
- Italian Decree-Law No. 23 of 8 April 2020 (the "Decreto Liquidità") modifies the rules governing public guarantees, expanding the scope of application of the traditional subsidies provided through the SME Central Guarantee Fund (MCC) and introducing the government guarantee issued by SACE ("Italy Guarantee"), intended to secure loans of more than EUR 5 million or loans to companies too large to be eligible for the Central Guarantee Fund.

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

A large number of suspension/moratorium applications were finalised, for a total of approximately EUR 52 million; 79% of the moratorium applications finalised relate to suspensions pursuant to Article 56 of the Cure Italy Decree-Law, whereas approximately 19% of cases involved bilateral renegotiations, since the legal requirements for suspension had not been met; residual applications (approximately 2%) related to the Italian Banking Association moratorium programmes.

Most of the renegotiations involved the former BIP portfolio, in addition to several *Crossover & Acquisition Finance* positions and a *Senior Financing* position; in addition, it was recently decided to suspend instalments coming due for a company served by the *Turnaround* Area and several loans acquired in factoring business were subject to targeted deferral measures (mostly through bilateral solutions, since factoring is not among the cases contemplated by the Decree).

With regard to the government guaranteed loans provided for in the Liquidity Decree-Law, aspects relating to the pricing to be applied were settled, in the light of the specific provisions on the matter; around 60 financing applications are currently being evaluated, for a total amount of approximately EUR 5 million, mostly attributable to the former BIP portfolio (from a numerical standpoint, most of the applications relate to loans up to EUR 25,000 100% guaranteed by the SME Central Guarantee Fund governed by Article 13 of the Decree).

Finally, discussions are being held with *Crossover & Acquisition Finance* borrowers to verify any needs for new financing subject to public guarantees arising from the revision of business plans in connection with the current emergency situation, which for some of them has entailed the temporary closure of sales outlets and/or production facilities. Talks are also under way with the companies served by the *Turnaround* Area in order to assess the need for possible debt restructuring measures.

The PD models have been updated in order to reflect a possible deterioration of the risk level of the performing portfolio in connection with the current scenario, according to the forward-looking approach required by the standard IFRS 9.

Other events

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

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

IT Auction, founded in 2011, has more than 100 employees and is specialised in managing and marketing property and capital goods through an innovative business model that aims at the transparent enhancement of assets through online auctions on its network of portals. IT Auction works with over 110 Italian courts and numerous *leasing* companies, and in 2019 managed approximately 17.3 million visits on its own platforms and over 50,000 auctions, for a value of sold goods of approximately EUR 240 million, up about 25% compared to the previous year. 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 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 customizing, according to their needs and interests, the measures set forth by an extremely flexible system.

On 23 January 2020, illimity ammounced its partnership with two leading insurance market operators, the Aon Group (leading group in Italy and worldwide in risk management services and human resources consultancy, in insurance and reinsurance brokerage) and the Helvetia Group (leading Swiss insurance company present in Italy for over 70 years), to expand the offering of the direct digital bank, illimitybank.com, with added value services and non-life insurance products for its customers.

In particular, Tsunami, the digital platform of Aon, was integrated into illimitybank.com. This platform provides bank customers with insurance agreements and solutions based on their needs. Moreover, since that date, some of Helvetia Group products are also available on the Tsunami platform, which illimity has chosen as a priority partner for the digital distribution of non-life insurance products to its customers.

On 23 January 2020, illimity, was recognised as a quality working environment, obtaining 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.

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

On 19 March 2020 the Bank of Italy, 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 this subject, see the more detailed description provided in the Capital adequacy section.

Small Medium Enterprises Division

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

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

Volumes grew in the first quarter of 2020, albeit in a volatile market context conditioned by the new COVID-19 macroeconomic scenario.

Growth in the first quarter of 2020 was driven by the investments of the *Turnaround* Area, involving the closing of a transaction with an important food company (EUR 24.1 million) and two disbursements in the *Crossover & Acquisition Finance* business, mostly attributable to positions already approved and partially disbursed in 2019 of over EUR 37 million. The volume performance was of course conditioned by the COVID-19 emergency, which at the end of February had already given rise to a general slowdown in origination activity, owing in part to the restrictions on mobility.

Factoring continued to register a positive performance, with a turnover of approximately EUR 161 million and an exposure at the end of the quarter of approximately EUR 124 million.

Finally, the *run-off* performance of the former BIP portfolio continued, declining by approximately EUR 18 million (-9% on 31 December 2019) in the first quarter of 2020, due in part to the policy of actively containing exposures launched already in late 2019.

As a result of the changes briefly described above, at the end of March 2020, the SME portfolio gross exposures totalled EUR 680 million, up by approximately EUR 27 million (approximately +4%) on December 2019. Hence, the SME portfolio can be broken down as follows:

- former BIP portfolio, amounting to approximately EUR 188 million (28%);
- *Turnaround* amounting to approximately EUR 154 million (23%);
- *Crossover* and *Acquisition Finance* amounting to EUR 214 million (31%);
- *Factoring* amounting to approximately EUR 124 million (18%).

Distressed Credit Investment & Servicing Division

During the first quarter of 2020, the Bank completed, through securitisation vehicles established pursuant to and for the purposes of Italian Law No. 130 of 30 April1999, several agreements for the purchase of *distressed* loans for a total gross value of approximately EUR 174 million.

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

a) On 6 February 2020 the Bank signed an agreement with a major international bank for the purchase of a portfolio of distressed loans with a nominal value of approximately EUR 116 million, consisting of primarily secured exposures to corporate debtors. The purchase was concluded by the securitisation vehicle Aporti S.r.l. ("Aporti SPV"), pursuant to Italian Law No. 130 of 30 April 1999.

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

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

In the light of the above, the value in terms of GBV declared to assigning parties, acquired in total by the Bank, also considering investments made during 2018 and 2019, amounted to approximately EUR 5.5 billion as at 31 March 2020, against a consideration paid of approximately EUR 757 million. It is understood that,in relation to the portfolio of leasing receivables described above, the values of the overall portfolio only include the tranches purchased up to 31 March 2020.

The following table briefly summarises investments in loans made up to 31 March 2020.

(amounts in millions of euros)

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

Senior Financing

In the first quarter of 2020 a financing transaction with non-performing loans (i.e. senior financing) as its underlying was finalised for a total amount disbursed of approximately EUR 11 million.

In further detail, on 6 March 2020 the Bank concluded a financing agreement for the amount of approximately EUR 11 million with an investor specialised in the purchase of distressed loans, secured by a pledge of the single tranche bond issued by a securitisation vehicle pursuant to Italian Law No. 130 of 30 April 1999, formed by the investor for the purchase of *distressed secured corporate loans* classified as *unlikely-to-pay*.

In the light of the above, and also taking into account investments made by the *Senior Financing* area during 2018 and 2019, as well as the transaction finalised by *the Special Situations* area, as of 31 March 2020 the Bank had entered into 11 *asset-backed* loan agreements on distressed loans for a total amount of approximately EUR 401 million, as shown below.

(amounts in millions of euros)

Asset-backed financing on Distressed Loans	Amount paid
Investments as of 31/12/2018	51
Q1 2019	3
Total as of 31/03/2019	**54**
Q2 2019	192
Total as of 30/06/2019	**246**
Q3 2019	112
Total as of 30/09/2019	**358**
Q4 2019[2]	32
Total as of 31/12/2019	**390**
Q1 2020	11
Total[3] as of 31/03/2020	**401**

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

3 As of 31 March 2020, the accounting balance amounted to approximately EUR 333.7 million, of which EUR 282.5 million of notes and EUR 51.2 million of loans.

It should be noted that in the table set out above the total loans disbursed as at 31/03/2020 also include a loan transaction, with the support of the *Special Situations Real Estate* area, for the purchase of non-performing loans granted to a corporate borrower, in which illimity was involved in support of an entity attributable to the borrower in question. This transaction was carried out through the subscription by illimity of 100% of the senior notes and 5% of the total amount of the junior notes issued by a securitisation vehicle pursuant to Italian Law No. 130 of 30 April 1999 that acquired the non-performing loans. The remaining junior notes were subscribed by the entity attributable to the borrower.

Direct Banking & Digital Operations Division

Direct Banking

Direct Banking projects

In early 2020 the Division drew up a direct banking masterplan consistent with the business objectives laid out in the industrial plan, with a strong development focus:

- in January 2020 partnerships with two leading insurance companies were announced to the market: the AON Group (a leader in risk and human resources consultancy and in insurance and reinsurance brokerage) and the Helvetia Group (Switzerland's number-two insurance group) to expand the range with non-life insurance services and products;
- *illimity connect*, the *account aggregation* service that can be used to include accounts with other institutions in the *home banking* system, also became available via mobile devices starting in March 2020. In May customers will also be able to carry out transactions for the benefit of third parties from an aggregated account using illimity's *home banking* system. The Bank is thus developing its range of *account aggregation* services, an area in which illimity was the first mover in Italy;
- in March 2020 it also became possible, during the account-opening process, to complete the recognition phase by sending an incoming credit transfer from another institution, thereby further shortening the time required to finalise onboarding. New detailed views of account activity (including activity not yet posted) are available in the home banking system to customers with credit cards for advanced spending analysis. In addition, the project to enable the use of a specific digital signature process to apply for a change of credit card limits was concluded.

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

In the SME segment, customer activation activities continue on the new *front end*, designed in line with steps taken for the Retail segment.

Retail Business performance

As at 31 March 2020 the Bank's funding continued to receive important contributions from all available sources:

- the *partnership* with the German fintech platform Raisin, operational since May 2019, contributes EUR 387 million to funding thanks to its approximately 11,200 customers as at 31 March 2020;
- the strategic partnership with Azimut, a leading advisory and wealth management firm, contributes EUR 28 million (management figure) to the Bank's funding;

- the digital bank illimitybank.com, presented to the market on 12 September 2019, contributes EUR 790 million to funding (of which over EUR 715 million on a term basis, with an average term of 42 months). The funding raised by illimitybank.com increased by approximately EUR 70 million during the last quarter (management figure);
- the number of direct customers as at 31 March 2020 amounted to approximately 30,500, up by 25% on 2019, an increase of approximately 7,000 new customers in the first quarter of 2020.

Total direct customer funding, including former customers of Banca Interprovinciale, thus amounted to approximately EUR 1.65 billion at the end of the quarter.

Digital Operations

Thanks to its fully in-cloud architecture, illimity was able to respond to the outbreak of the COVID-19 pandemic in a timely manner. The platform built and organisational structure adopted allowed the Bank to implement remote working for all employees simply, quickly and pervasively, without any disruptions and without additional investments, as soon as the health emergency was declared. All personnel continued to work full time, with all company functions, partners and suppliers operating in fully remote mode.

The Contact Center also continued to provide its services during the usual hours, seven days a week, operating remotely and without disruptions from the start of COVID-19 pandemic.

IT platform projects

In infrastructure initiatives, projects relating to the Bank's IT architecture continue. In 2020 significant additional initiatives were planned, for example in business continuity and disaster recovery. In addition, IT Auction's IT systems are being integrated into illimity's infrastructure: the project is set to conclude at the end of the second quarter of 2020.

ICT security projects are moving forward with the goal of maintaining and reinforcing the required security standards. The main areas of investment are those relating to the reinforcement of perimeter defences, channels of interaction with third parties and fraud management processes.

To complete Digital Operations, Smart Care activities are proceeding according to plan, in view of increasing digitalisation of activities in support of Direct Banking and facilitating relations between customers and operators. In pursuit of this goal, various features enriching CRM were released already in the first quarter; other projects for 2020 have been planned to develop relations with customers (e.g. new contact channels) and the operators side (e.g., further improvement of case management tools).

Projects in support of the other divisions

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

- SME Division:
  - The project dedicated to new forms of financing is in the final phase. The goal is to round out the range of products available to the Division, improving the digitalisation of processes and monitoring of the main KPIs;
  - For the business of the Factoring Division, the development of new interfaces in support of users and customers and the implementation of new products have been launched and will be completed in the second quarter of the year.

- DCIS Division:
  - A simplified, standardisation application with a high level of automation that guides the user throughout the phases of the NPL process, from origination to management, minimising manual intervention, is in the implementation phase. The goals are to develop credit management according to an increasingly proactive approach, revising and digitalising the supporting processes and tools, optimising the management of credit risk and responding effectively to the authorities' requests.

The Division's planning framework is completed by IT initiatives in support of internal company functions, involving multiple important projects in the areas data/management control, treasury, accounting, risk management and compliance.

HIGHLIGHTS AND ALTERNATIVE PERFORMANCE MEASURES AS OF 31 March 2020

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

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

(amounts in thousands of euros)

ECONOMIC INDICATORS	31/03/2020	31/03/2019	Chg.	Chg. (%)
Total net operating income	36,794	8,996	27,798	>100%
Total net write-downs/write-backs	(582)	(240)	(342)	>100%
Net result of banking operations	36,212	8,756	27,456	>100%
Operating expenses	(29,015)	(16,864)	(12,151)	72%
Profit (loss) from operations before taxes	7,161	(8,322)	15,483	N.A.
Profit (loss) for the period	4,500	(5,940)	10,440	N.A.

(amounts in thousands of euros)

BALANCE SHEET RATIOS	31/03/2020	31/03/2019	Chg.	Chg. (%)
Net non-performing loans - organic[4]	**19,956**	**19,457**	**499**	**3%**
of which: Bad loans	5,935	5,232	703	13%
of which: Unlikely-to-pay positions	12,869	13,016	(147)	(1%)
of which: Past-due positions	1,152	1,209	(57)	(5%)
Net non-performing loans - inorganic (POCI)[5]	**736,572**	**705,422**	**31,150**	**4%**
of which: Bad loans	568,106	544,765	23,341	4%
of which: Unlikely-to-pay positions	168,466	160,657	7,809	5%
Net non-performing securities - inorganic (POCI)	**51,500**	**50,363**	**1,137**	**2%**
of which: Unlikely-to-pay positions	51,500	50,363	1,137	2%
HTC Securities	**282,502**	**299,390**	**(16,888)**	**(6%)**
of which: Senior Financing securities	282,502	299,390	(16,888)	(6%)
Net loans with customers (performing Loans)	**661,184**	**563,232**	**97,952**	**17%**
Securities (HTCS + Other)	**343,852**	**134,453**	**209,399**	**>100%**
Direct funding from customers	**1,911,259**	**1,978,589**	**(67,330)**	**(3%)**
Total Assets	**3,051,770**	**3,025,222**	**26,548**	**1%**
Shareholders' equity	**537,239**	**544,455**	**(7,216)**	**(1%)**

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

5 POCI = Purchased or Originated Credit Impaired

RISK RATIOS	31/03/2020	31/12/2019
Gross Organic NPE Ratio[6]	3.9%	4.2%
Net Organic NPE Ratio[7]	2.1%	2.2%
Coverage ratio for organic non-performing loans[8]	47.8%	48.4%
Coverage ratio for organic bad-debt positions[9]	68.2%	70.0%
Coverage ratio for performing loans[10]	1.18%	0.96%
Cost of organic credit risk (BPS)[11]	118	86

STRUCTURAL INDICATORS	31/03/2020	31/12/2019
Shareholders' equity/Total Liability	17.6%	18.0%
Interbank Funding/Total Funding	19.5%	15.8%
Liquidity coverage ratio	>1000%	>3000%
Net Stable Funding Ratio	>100%	>100%
Net loans with customers/Total assets	57.4%	54.1%
Customer funding/ Total Liability	62.6%	65.4%

(in thousands of euros)

CAPITAL RATIOS	31/03/2020	31/12/2019
Tier I capital ratio (Tier I capital/Total weighted assets)	18.70%	21.35%
Total capital ratio [(Regulatory capital + Tier II)/Total weighted assets]	18.70%	21.35%
Own Funds	438,963	461,699
of which: Tier I capital	438,963	461,699
Risk-weighted assets	2,347,523	2,162,485

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

RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS OF 31 MARCH 2020

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

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

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

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

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

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

Reclassified consolidated balance sheet

(amounts in thousands of euros)

Components of official items of the Balance Sheet	Assets	31/03/2020	31/12/2019	Chg.	Chg. (%)
20 a) + 30	Treasury portfolio - Securities at FV	335,249	125,851	209,398	>100%
20 c)	Financial assets mandatorily measured at fair value	7,505	8,602	(1,097)	(13%)
40 a)	Due from banks	566,799	344,858	221,941	64%
40 b)	Loans to customers	1,417,712	1,288,111	129,601	10%
40 b)	Securities at amortised cost – SME	51,500	50,363	1,137	2%
40 b)	Senior financing securities at amortised cost	282,502	299,390	(16,888)	(6%)
90 + 100	Property and equipment and intangible assets	83,583	66,199	17,384	26%
110	Tax assets	39,043	37,061	1,982	5%
10 + 130	Other assets	267,877	804,787	(536,910)	(67%)
	of which: Cash and cash equivalents	219,063	772,125	(553,062)	(72%)
	Total assets	**3,051,770**	**3,025,222**	**26,548**	**1%**

(amounts in thousands of euros)

Components of official items of the Balance Sheet	Liabilities	31/03/2020	31/12/2019	Chg.	Chg. (%)
10 a)	Amounts due to banks	468,190	376,747	91,443	24%
10 b)	Amounts due to customers	1,923,399	1,985,145	(61,746)	(3%)
10 c)	Securities issued	10,302	15,358	(5,056)	(33%)
30	Financial liabilities designated at fair value	7,719	-	7,719	N.A.
60	Tax liabilities	2,156	770	1,386	>100%
80 + 90 + 100	Other liabilities	102,765	102,747	18	0%
120 + 150 + 160 + 170 + 180 + 190 + 200	Shareholders' equity	537,239	544,455	(7,216)	(1%)
	Total liabilities and shareholders' equity	**3,051,770**	**3,025,222**	**26,548**	**1%**

Summary of consolidated financial statements data

The Group's total assets as at 31 March 2020 amounted to EUR 3,051.8 million, compared to EUR 3,025.2 million as of 31 December 2019, and primarily include financial assets arising from loans to customers for EUR 1,417.7 million, up from EUR 1,288.1 million as of 31 December 2019, mainly due to the new transactions of the SME Division and DCIS Division concluded during the quarter (as described above in this Report, in the section “Significant events in the first quarter of 2020”).

Financial assets arising from credit activity measured at amortised cost - amounts due from banks were up compared to 31 December 2019, by EUR 221.9 million. The cash and cash equivalents component decreased from EUR 772.1 million as at 31 December 2019 to EUR 219.1 million as at 31 March 2020.

Financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, primarily represented by government and bank securities, were up by approximately EUR 209.4 million compared with 31 December 2019. As at 31 March 2020 the Group had a negative valuation reserve of approximately EUR 11 million. Financial assets mandatorily measured at fair value through profit or loss amounted to EUR 7.5 million; the decrease on 31 December 2019 was due almost entirely to the write-downs of the Calvi hybrid equity instruments in the first quarter of 2020.

Intangible assets, up by approximately EUR 17.4 million on 31 December 2019, include the goodwill on the SPAX-Banca Interprovinciale business combination transaction, already described in financial year 2019, in the amount of EUR 21.6 million; the item also includes the measurement of the provisional goodwill recognised on the acquisition of IT Auction and its subsidiaries (amounting to EUR 14.6 million), in addition to the intangibles identified in the purchase price allocation (PPA) undertaken in accordance with the accounting standard IFRS 3.

Property and equipment remained essentially unchanged on 31 December 2019 and consisted primarily of rights of use of assets acquired on lease.

Consolidated total liabilities and shareholders' equity amounted to EUR 3,051.8 million, primarily including EUR 1,923.4 million relating to financial liabilities measured at amortised cost due to customers and EUR 468.2 million due to banks, up by EUR 91.4 million compared to 31 December 2019, primarily in connection with repurchase agreements entered into with banks, in addition to the group's shareholders' equity of EUR 537.2 million.

Reclassified consolidated income statement

(amounts in thousands of euros)

Components of official items of the Income Statement	Income Statement items	31/03/2020	31/03/2019	Chg.	Chg. (%)
10 + 20	Interest margin	21,434	7,183	14,251	>100%
40 + 50	Net fee and commission income	2,496	612	1,884	>100%
80 + 100 + 110	Gains/losses on financial assets and liabilities	3,696	924	2,772	>100%
130 a)	Net write-downs/write-backs on closed positions - HTC Clients	9,122	-	9,122	N.A.
140 + 230 + 280	Other operating expenses and income	46	277	(231)	(83%)
Total net operating income		**36,794**	**8,996**	**27,798**	**>100%**
130 a)	Net write-downs/write-backs for credit risk - HTC Banks	(133)	(84)	(49)	58%
130 a)	Net write-downs/write-backs for credit risk - HTC Clients	(53)	110	(163)	N.A.
130 b)	Net write-downs/write-backs for credit risk - HTCS	(537)	(237)	(300)	>100%
200 a)	Net write-downs/write-backs for commitments and guarantees	141	(29)	170	N.A.
Total net write-downs/write-backs		**(582)**	**(240)**	**(342)**	**>100%**
Net result of banking operations		**36,212**	**8,756**	**27,456**	**>100%**
190 a)	Personnel costs	(11,299)	(6,364)	(4,935)	78%
190 b)	Other administrative costs	(15,883)	(10,022)	(5,861)	58%
210 + 220	Net write-downs/write-backs on property and equipment and intangible assets	(1,833)	(478)	(1,355)	>100%
Operating expenses		**(29,015)**	**(16,864)**	**(12,151)**	**72%**
220 b)	Other net provisions	(36)	(214)	178	(83%)
Profit (loss) from operations before taxes		**7,161**	**(8,322)**	**15,483**	**N.A.**
300	Income taxes for the period on current operations	(2,661)	2,383	(5,044)	N.A.
Profit (loss) for the period		**4,500**	**(5,940)**	**10,440**	**N.A.**

Consolidated financial performance highlights

The group's net operating income for the period ended 31 March 2020 amounted to EUR 36.8 million, up sharply on the first quarter of the previous year, when it came to approximately EUR 9.0 million. The increase in total operating income is to be attributed to the introduction of various lines of business by the Bank in 2019, which contributed to the increase in interest margin from EUR 7.2 million to EUR 21.4 million. Net fee and commission income also increased as a result of "auction commissions" and associated services accrued due to the use of the real-estate portals attributable to IT Auction, a company acquired in the first quarter of 2020, and its subsidiaries.

Net write-downs on positions in portfolio amounted to EUR 0.6 million, whereas net write-backs on positions closed during the quarter amounted to EUR 9.1 million. In detail, net write-downs to HTC positions are primarily related to individual and collective assessments of loans to customers and banks and the effects of the revision of expected cash flows from the NPL portfolios acquired.

Operating expenses increased by approximately EUR 12.2 million on 31 March 2019. In particular, personnel costs were up by approximately EUR 4.9 million due to the hiring of new resources for the performance of the Group's activities and the inclusion of the companies attributable to IT Auction; other administrative expenses also increased by approximately EUR 5.9 million on the same period in the previous year owing to the increase in the Bank's operations.

The profit for the period ended 31 March 2020, before taxes, amounted to EUR 7.2 million. The consolidated net profit for the period was EUR 4.5 million.

The basic and diluted earnings per share in the first quarter of 2020, calculated by dividing the profit for the period by the weighted average number of ordinary shares issued, was EUR 0.07. See the section "Basic and diluted earnings per share" for details of the methodology to calculate earnings per share.

MAIN BALANCE SHEET ITEMS

Invested assets

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

(amounts in thousands of euros)

DETAILS OF FINANCING	31/03/2020		31/12/2019		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**219,063**	**7.61%**	**772,125**	**26.72%**	**(553,062)**	**(72%)**
Financial assets held for trading	**62**	**0.00%**	**63**	**0.00%**	**(1)**	**(2%)**
Financial assets mandatorily measured at fair value	**7,505**	**0.26%**	**8,602**	**0.30%**	**(1,097)**	**(13%)**
- DCIS Business	2,465	0.09%	2,341	0.08%	124	5%
- SME Business	4,941	0.17%	6,161	0.21%	(1,220)	(20%)
- Treasury portfolio	99	0.00%	100	0.00%	(1)	(1%)
HTCS Financial assets	**335,187**	**11.64%**	**125,788**	**4.35%**	**209,399**	**>100%**
- Treasury portfolio	335,187	11.64%	125,788	4.35%	209,399	>100%
Due from banks	**566,799**	**19.68%**	**344,858**	**11.94%**	**221,941**	**64%**
- of which: Repurchase agreements	366,471	12.72%	276,025	9.55%	90,446	33%
Loans to customers	**1,417,712**	**49.22%**	**1,288,111**	**44.58%**	**129,601**	**10%**
- Organic non-performing loans	19,956	0.69%	19,457	0.67%	499	3%
- Inorganic non-performing loans	736,572	25.57%	705,421	24.41%	31,151	4%
- Performing loans	661,184	22.96%	563,232	19.49%	97,952	17%
Loans to customers - Securities	**334,002**	**11.60%**	**349,753**	**12.11%**	**(15,751)**	**(5%)**
- DCIS Business (Senior Financing) - performing	282,502	9.81%	299,390	10.36%	(16,888)	(6%)
- SME Business - inorganic POCI	51,500	1.79%	50,363	1.74%	1,137	2%
Total invested assets	**2,880,330**	**100%**	**2,889,300**	**100%**	**(8,970)**	**0%**

Loans to customers amounted to approximately EUR 1,417.7 million, up from EUR 1,288.1 million at the end of the previous year, due to transactions undertaken by the DCIS Division and SME Division. The line item also includes NPLs of approximately EUR 736.6 million classified as POCI (Purchased or Originated Credit Impaired), up from EUR 705.4 million recorded as at 31 December 2019, due to the new transactions concluded by the SME Division and DCIS Division. Considering Securities, financing to customers amounted to EUR 1,752 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 335.2 million, and were represented mainly by government bonds and bank securities.

Financial assets subject to mandatory measurement at fair value through profit or loss amounted to EUR 7.5 million and mainly include an investment in an equity instrument of EUR 4.9 million attributable to a transaction concluded by the SME Division.

The remaining EUR 334.0 million of securities are measured at amortised cost (held-to-collect business model) and are mainly composed of EUR 282.5 million of Senior Financing securities and a POCI security of EUR 51.5 million attributable to a transaction concluded by the SME Division.

(amounts in thousands of euros)

FINANCING BY TECHNICAL FORM	31/03/2020		31/12/2019		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash	**219,063**	**7.61%**	**772,125**	**26.72%**	**(553,062)**	**(72%)**
Current accounts and deposits	200,328	6.96%	68,833	2.38%	131,495	>100%
Repurchase agreements - receivable	366,471	12.72%	276,025	9.55%	90,446	33%
Due from banks	**566,799**	**19.68%**	**344,858**	**11.94%**	**221,941**	**64%**
Current accounts held by customers	72,161	2.51%	57,120	1.98%	15,041	26%
Loans	1,345,551	46.72%	1,230,991	42.61%	114,560	9%
Loans to customers	**1,417,712**	**49.22%**	**1,288,111**	**44.58%**	**129,601**	**10%**
Debt securities	671,635	23.32%	477,868	16.54%	193,767	41%
- Government bonds	255,479	8.87%	10,736	0.37%	244,743	>100%
- Bank bonds	69,196	2.40%	73,624	2.55%	(4,428)	(6%)
- Others	346,960	12.05%	393,508	13.62%	(46,548)	(12%)
Equity instrument	4,941	0.17%	6,161	0.21%	(1,220)	(20%)
Equity securities	19	0.00%	15	0.00%	4	27%
Units of UCIs	161	0.01%	163	0.01%	(2)	(1%)
Securities	**676,756**	**23.50%**	**484,206**	**16.76%**	**192,550**	**40%**
Total	**2,880,330**	**100%**	**2,889,300**	**100%**	**(8,970)**	**0%**

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

Due from banks totalled EUR 566.8 million, up compared to 31 December 2019, mainly due to new deposits under administration and repurchase agreements during the period. Loans to customers also increased due to the constant operations of the DCIS Division and SME Division.

Finally, securities increased by EUR 193.4 million on 31 December 2019, mainly due to the new transactions of the Treasury Portfolio in financial assets measured at fair value through other comprehensive income. Some securities in this portfolio were disposed of in the first two months of the year, resulting in realised gains of EUR 4.9 million.

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

(amounts in millions of euros)

FINANCING BY BUSINESS DIVISION	31/03/2020	Amount %	31/12/2019	Amount %
DCIS Division	1,007	57.4%	1,008	61.5%
SME Division	487	27.8%	444	27.1%
Loans to ordinary former BIP customers (SMEs)[12]	168	9.6%	186	11.4%
Other loans to financial entities	90	5.2%	-	-
Total loans to customers measured at amortised cost	**1,752**	**100%**	**1,638**	**100%**

Financial assets designated at amortised cost

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

(amounts in thousands of euros)

FINANCIAL ASSETS AT AMORTISED COST[13]	31/03/2020						31/12/2019					
	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio
Due from banks	**567,217**	**24.2%**	**(418)**	**566,799**	**24.4%**	**0.07%**	**345,143**	**17.1%**	**(285)**	**344,858**	**17.4%**	**0.08%**
- Loans	567,217	24.2%	(418)	566,799	24.4%	0.07%	345,143	17.1%	(285)	344,858	17.4%	0.08%
- Stage 1/2	567,217	24.2%	(418)	566,799	24.4%	0.07%	345,143	17.1%	(285)	344,858	17.4%	0.08%
Loans to customers	**1,778,612**	**75.8%**	**(26,898)**	**1,751,714**	**75.6%**	**1.51%**	**1,670,092**	**82.9%**	**(32,229)**	**1,637,864**	**82.6%**	**1.93%**
- Securities	334,527	14.3%	(525)	334,002	14.4%	0.16%	350,116	17.4%	(363)	349,753	17.6%	0.10%
- Stage 1/2	283,027	12.1%	(525)	282,502	12.2%	0.19%	299,753	14.9%	(363)	299,390	15.1%	0.12%
- Stage 3	51,500	2.2%	-	51,500	2.2%	N.A.	50,363	2.5%	-	50,363	2.5%	N.A.
- Loans	1,444,085	61.6%	(26,373)	1,417,712	61.1%	1.83%	1,319,976	65.5%	(31,866)	1,288,111	65.0%	2.41%
- Stage 1/2	669,065	28.5%	(7,881)	661,184	28.5%	1.18%	568,673	28.2%	(5,441)	563,232	28.4%	0.96%
- Stage 3	775,020	33.0%	(18,492)	756,528	32.6%	N.A.	751,303	37.3%	(26,425)	724,879	36.6%	N.A.
TOTAL	**2,345,829**	**100.0%**	**(27,316)**	**2,318,513**	**100%**	**1.16%**	**2,015,235**	**100%**	**(32,514)**	**1,982,722**	**100%**	**1.61%**

As at 31 March 2020 amounts due from banks were 566.8 million euros, compared to EUR 344.9 million euros as at 31 December 2019 and consisted of current accounts, demand deposits and repurchase agreements.

12 The item includes loans to ordinary former BIP customers totalling 99 million euros and non-core former BIP loans of approximately 69 million euros.
13 The term "credit risk stage" means the classification of impaired exposures based on changes in their credit risk in accordance with Section 5.5 of IFRS 9.

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	31/03/2020						31/12/2019					
	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio (*)	Gross Exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio (*)
Non-performing loans - Organic	**38,259**	**2.2%**	**(18,303)**	**19,956**	**1.1%**	**47.84%**	**37,718**	**2.3%**	**(18,261)**	**19,457**	**1.2%**	**48.42%**
- bad loans	18,685	1.1%	(12,750)	5,935	0.3%	68.24%	17,429	1.0%	(12,197)	5,232	0.3%	69.98%
- Unlikely-to-pay positions	18,175	1.0%	(5,306)	12,869	0.7%	29.19%	18,880	1.1%	(5,864)	13,016	0.8%	31.06%
- Past-due positions	1,399	0.1%	(247)	1,152	0.1%	17.66%	1,410	0.1%	(200)	1,209	0.1%	14.18%
- Non-performin loans - Inorganic	**736,761**	**41.4%**	**(189)**	**736,572**	**42.0%**	**N.A.**	**713,585**	**42.7%**	**(8,163)**	**705,422**	**43.1%**	**N.A.**
- bad loans	568,106	31.9%	-	568,106	32.4%	N.A.	552,698	33.1%	(7,933)	544,765	33.3%	N.A.
- Unlikely-to-pay positions	168,655	9.5%	(189)	168,466	9.6%	N.A.	160,887	9.6%	(230)	160,657	9.8%	N.A.
Impaired Securities - Inorganic	**51,500**	**2.9%**	**-**	**51,500**	**2.9%**	**N.A.**	**50,363**	**3.0%**	**-**	**50,363**	**3.1%**	**N.A.**
- Unlikely-to-pay positions	51,500	2.9%	-	51,500	2.9%	N.A.	50,363	3.0%	-	50,363	3.1%	N.A.
Performing loans	**952,092**	**53.5%**	**(8,406)**	**943,686**	**53.9%**	**0.88%**	**868,426**	**52.0%**	**(5,804)**	**862,622**	**52.7%**	**0.67%**
- Securities	283,027	15.9%	(525)	282,502	16.1%	0.19%	299,753	17.9%	(363)	299,390	18.3%	0.12%
- Loans	669,065	37.6%	(7,881)	661,184	37.7%	1.18%	568,673	34.1%	(5,441)	563,232	34.4%	0.96%
Total	**1,778,612**	**100%**	**(26,898)**	**1,751,714**	**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 19.9 million, up slightly compared to EUR 19.5 million as at 31 December 2019, consisting mainly of unlikely-to-pay and bad loans.

The coverage ratio for organic non-performing loans as at 31 March 2020 of 47.8% is essentially in line with that as at 31 December 2019 of 48.4%, in view of the assessments of non-performing positions carried out in financial year 2019.

Inorganic non-performing loans amounted to EUR 736.6 million, of which:

- EUR 568.1 million relating to transactions concluded by the SME and DCIS Divisions classified as Bad loans, up from EUR 544.8 million as of 31 December 2019;
- EUR 168.5 million relating to transactions concluded by the SME and DCIS Divisions classified as unlikely-to-pay positions, up from EUR 160.7 million as at 31 December 2019.

Performing loans amounted to EUR 661.2 million, up compared to EUR 563.2 million as at 31 December 2019 as a result of the new transactions during the period.

The coverage ratio for performing loans as at 31 March 2020 was 1.18%, up from the value as at 31 December 2019 of 0.96%, as a result of the current macroeconomic scenario.

Performing securities amounted to EUR 282.5 million as at 31 March 2020 and were entirely attributable to Senior Financing and DCIS Division securities. Inorganic POCI securities include EUR 51.5 million attributable to a transaction concluded by the SME Division during the previous year.

Deposits

(amounts in thousands of euros)

DEPOSITS BY TECHNICAL FORM	31/03/2020		31/12/2019		Change	
	Book values	Inc. %	Book values	Inc. %	Absolute	Chg. (%)
Amounts due to customers (A)	**1,923,399**	**80.08%**	**1,985,145**	**83.51%**	**(61,746)**	**(3%)**
- of which: Liabilities for leasing (B)	22,442	0.93%	21,908	0.92%	534	2%
Securities issued (C)	**10,302**	**0.43%**	**15,358**	**0.65%**	**(5,056)**	**(33%)**
Amounts due to banks (D)	**468,190**	**19.49%**	**376,747**	**15.85%**	**91,443**	**24%**
Total direct deposits from customers (A) – (B) + (C)	**1,911,259**	**79.57%**	**1,978,595**	**83.23%**	**(67,336)**	**(3%)**
Total Debt (A) + (B) + (C)	**2,401,891**	**100%**	**2,377,250**	**100%**	**24,641**	**1%**

At the end of the reporting period, deposits amounted to approximately EUR 2,401.9 million, up on 31 December 2019 due to repurchases agreements entered into with banks.

Property and equipment and intangible assets

Property and equipment amounted to approximately EUR 25.8 million as at 31 March 2020, up from EUR 25.4 million as at 31 December 2019. In accordance with IFRS 16, the item includes the right of use of assets acquired on lease of approximately EUR 20 million, net of accumulated depreciation.

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

Intangible assets as at 31 March 2020 amounted to approximately EUR 57.8 million, up from EUR 40.8 million as at 31 December 2019, due to the recognition of the provisional goodwill on the acquisition of IT Auction and its subsidiaries. The item also consists of the goodwill arising from the SPAXS-Banca Interprovinciale business combination of EUR 21.6 million and IT investments.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 39 million as at 31 March 2020, up from the EUR 37 million recognised as at 31 December 2019. Details of the breakdown of tax assets are shown below.

(amounts in thousands of euros)

TAX ASSETS	31/03/2020	31/12/2019	Chg.	Chg. (%)
Current	3,152	5,127	(1,975)	(39%)
Deferred	35,891	31,934	3,957	12%
TOTAL	**39,043**	**37,061**	**1,982**	**5%**

Tax liabilities, relating to deferred tax liabilities, amounted to EUR 2.2 million as at 31 March 2020, compared to EUR 0.7 million as at 31 December 2019, due to the profit earned during the period.

FINANCIAL PERFORMANCE

Interest margin

(amounts in thousands of euros)

Items/Technical forms	Loans / Payables	Debt securities	Other transactions	31/03/2020	31/03/2019	Absolute changes	Change %
Interest and similar income							
1. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	N.A.
Held for trading	-	-	-	-	-	-	N.A.
Designated at FV	-	-	-	-	-	-	N.A.
Mandatorily measured at fair value	-	-	-	-	-	-	N.A.
2. Financial assets at FV through other comprehensive income	-	572		572	349	223	64%
3. Financial assets at amortised cost	26,326	5,107	-	31,433	8,270	23,163	>100%
Due from banks	158	1,094		1,252	189	1,063	>100%
Loans to customers	26,168	4,013		30,181	8,081	22,100	>100%
4. Hedging derivatives			-	-	-	-	N.A.
5. Other assets			-	-	-	-	N.A.
6. Financial liabilities				56	53	3	6%
Total interest income	**26,326**	**5,679**	**-**	**32,061**	**8,672**	**23,389**	**270%**
Interest expenses							
1. Financial liabilities at amortised cost	(9,368)	(428)		(9,796)	(1,451)	(8,345)	>100%
Amounts due to central banks	(7)			(7)	-	(7)	N.A.
Amounts due to banks	(1,386)			(1,386)	(82)	(1,304)	>100%
Amounts due to customers	(7,975)			(7,975)	(668)	(7,307)	>100%
of which: Leasing transactions	(399)			(399)	(257)	(142)	55%
Debt securities issued		(428)		(428)	(701)	273	(39%)
2. Financial liabilities held for trading	-	-	-	-	-	-	N.A.
3. Financial liabilities designated at FV	-	-	-	-	-	-	N.A.
4. Other liabilities and provisions			(5)	(5)	-	(5)	N.A.
5. Hedging derivatives			-	-	-	-	N.A.
6. Financial assets				(826)	(38)	(788)	>100%
Total interest expenses	**(9,368)**	**(428)**	**(5)**	**(10,627)**	**(1,489)**	**(9,138)**	**>100%**
Interest margin	**16,958**	**5,251**	**(5)**	**21,434**	**7,183**	**14,251**	**>100%**

As at 31 March 2020, the interest margin amounted to approximately EUR 21.4 million, up considerably on the same period of the previous year, when it amounted to approximately EUR 7.2 million.

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

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

Interest expense increased by approximately EUR 9.1 million on the period ended 31 March 2019; this increase was mainly due to the rise of EUR 7.9 million in interest expense paid to customers associated with the volumes of direct deposits, associated with the launch of Digital Banking in the second half of 2019. There was also an increase in interest expense paid to banks of approximately EUR 1.3 million as a result of the repurchase agreements entered into by the bank.

Net fee and commission income

(amounts in thousands of euros)

Items / Technical forms	31/03/2020	31/03/2019	Absolute changes	Change %
Fee and commission income				
a. guarantees given	21	52	(31)	(60%)
c. management, brokerage and advisory services	35	186	(151)	(81%)
d. collection and payment services	48	224	(176)	(79%)
f. factoring services	491	-	491	N.A.
i. maintenance and management of current accounts	86	704	(618)	(88%)
j. other services	3,181	345	2,836	822%
Total	**3,862**	**1,511**	**2,351**	**156%**
Fee and commission expense				
a. guarantees received	-	(6)	6	N.A.
c. management and brokerage services	(32)	(10)	(22)	>100%
d. collection and payment services	(541)	(837)	296	(35%)
e. other services	(793)	(44)	(749)	>100%
Total	**(1,366)**	**(898)**	**(468)**	**52%**
Net fee and commission income	**2,496**	**612**	**1,884**	**>100%**

Net fee and commission income amounted to EUR 2.5 million, up significantly compared to the period ended 31 March 2019.

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

Other operating costs and income

(amounts in thousands of euros)

Items / Technical forms	31/03/2020	31/03/2019	Absolute changes	Change %
Other operating costs				
Amortisation of expenses for improvements on third party assets	(21)	(10)	(11)	>100%
Other operating costs	(288)	(17)	(271)	>100%
Total	**(309)**	**(27)**	**(282)**	**>100%**
Other operating income				
Recoveries of expenses from other customers	186	97	89	92%
Other income	169	207	(38)	(18%)
Total	**355**	**304**	**51**	**17%**
Other operating income/expenses	**46**	**277**	**(231)**	**(83%)**

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)		31.03.2020 (1) + (2)
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three	
		Write-offs	Others			
A. Due from banks	**(133)**	**-**	**-**	**-**	**-**	**(133)**
- loans	(133)	-	-	-	-	(133)
- debt securities	-	-	-	-	-	-
of which: purchased or originated credit impaired	-	-	-	-	-	-
B. Loans to customers:	**(2,707)**	**-**	**(17,413)**	**130**	**29,059**	**9,069**
- loans	(2,545)	-	(17,413)	130	29,059	9,231
- debt securities	(162)	-	-	-	-	(162)
of which: purchased or originated credit impaired	-	-	(15,798)	-	27,482	11,684
Total	**(2,840)**	**-**	**(17,413)**	**130**	**29,059**	**8,936**

Net write-backs for credit risk relating to financial assets measured at amortised cost amounted to EUR 8.9 million. In particular, write-backs to POCI loans amounted to EUR 11.7 million, as shown in the table above. The sub-item "purchased or originated credit impaired" refers to the amount of write-downs/write-backs of loans classified as purchased or originated credit impaired as a result of collections or revisions of business plans.

Write-downs/write-backs to organic loans to customers and debt securities amounted to EUR 2.8 million.

The overall valuation of positions closed during the quarter yielded a net write-back of EUR 9.1 million.

Personnel expenses

(amounts in thousands of euros)

Items / Technical forms	31/03/2020	31/03/2019	Absolute changes	Change %
1. Employees	(10,085)	(5,561)	(4,524)	81%
2. Other personnel in service	(742)	(408)	(334)	82%
3. Directors and statutory auditors	(472)	(395)	(77)	19%
Personnel costs	**(11,299)**	**(6,364)**	**(4,935)**	**78%**

Personnel costs amounted to approximately EUR 11.3 million and consist mainly of employee wages and salaries and the related social security contributions.

The Group had a total of 486 employees as at 31 March 2020, up on 31 December 2019 (348) due to the new employees hired over the past 12 months and the inclusion in the illimity Group of IT Auction and its subsidiaries with effect from financial year 2020. The following table shows the number of employees as of 31 March 2020, broken down by classification, together with changes compared to 31 December 2019.

(amounts in thousands of euros)

Level	31/03/2020			31/12/2019			Changes	
	Average age	No. emp.	No. emp. %	Average age	No. emp.	No. emp. %	Ass.	%
Executives	47	47	10%	46	44	13%	3	7%
Middle managers	34	232	48%	37	191	55%	41	21%
White-collar	38	207	42%	32	113	32%	94	83%
Employees		**486**	**100%**		**348**	**100%**	**138**	**40%**

Other Administrative Costs

(amounts in thousands of euros)

Items / Technical forms	31/03/2020	31/03/2019	Absolute changes	Change %
Rental of premises	(104)	(167)	63	(38%)
Insurance	(442)	(61)	(381)	>100%
Various payments	(2,180)	(202)	(1,978)	>100%
Various consulting services	(3,833)	(3,168)	(665)	21%
Membership fees	(43)	(96)	53	(55%)
DGS, SRF contribution and voluntary scheme	(175)	(336)	161	(48%)
Cost of services	(1,065)	(2,491)	1,426	(57%)
Financial information	(166)	(140)	(26)	19%
Adverts and advertising	(978)	(200)	(778)	>100%
Recoveries of expenses	207	-	207	N.A.
Financial statement review	(108)	(32)	(76)	>100%
Maintenance and repair costs	(101)	(71)	(30)	42%
Business expenses	(4)	(48)	44	(92%)
IT and software expenses	(2,845)	(788)	(2,057)	>100%
Legal and notary's fees	(2,296)	(491)	(1,805)	>100%
Postal and stationery expenses	(98)	(79)	(19)	24%
Utilities and services	(555)	(429)	(126)	29%
Other indirect taxes and duties	(572)	(285)	(287)	>100%
Others	(525)	(938)	413	(44%)
Total other administrative expenses	**(15,883)**	**(10,022)**	**(5,861)**	**58%**

Other administrative costs amounted to approximately EUR 15.9 million, increasing by EUR 5.9 million compared to 31 March 2019, and consisted primarily of costs for professional and 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	31/03/2020	31/03/2019	Absolute changes	Change %
Net write-downs/write-backs on property and equipment				
Property and equipment with functional use	(660)	(391)	(269)	69%
of which: own Property and equipment	(107)	(91)	(16)	18%
of which: Lease rights of use	(553)	(300)	(253)	84%
Total	**(660)**	**(391)**	**(269)**	**69%**
Net write-downs /write-backs on intangible assets				
Finite useful life	(1,173)	(87)	(1,086)	>100%
Indefinite useful life	-	-	-	N.A.
Total	**(1,173)**	**(87)**	**(1,086)**	**>100%**
Net write-downs/write-backs on property and equipment and intangible assets	**(1,833)**	**(478)**	**(1,355)**	**>100%**

Net write-downs/write-backs on property and equipment and intangible assets amounted to approximately EUR 1.8 million, compared to EUR 0.5 thousand as of 31 March of the previous year. The increase was due to amortisation of right-of-use assets acquired through leasing transactions as lessee, in accordance with IFRS 16, and the amortisation of IT investments.

Income taxes for the period on continuing operations

(amounts in thousands of euros)

Items / Technical forms	31/03/2020	31/03/2019	Absolute changes	Change %
1. Current taxes	(827)	-	(827)	N.A.
2. Change in deferred tax assets (+/-)	(1,865)	2,383	(4,248)	N.A.
3. Change in deferred taxes (+/-)	31	-	31	N.A.
Income taxes for the period on current operations	**(2,661)**	**2,383**	**(5,044)**	**N.A.**

QUARTERLY TREND

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

Reclassified Balance Sheet

(amounts in thousands of euros)

Assets	31/03/2020	31/12/2019	30/09/2019	30/06/2019	31/03/2019
Treasury portfolio - Securities at FV	335,249	125,851	91,806	100,205	88,170
Treasury portfolio - Securities at amortised cost	-	-	103,259	102,760	117,095
Financial assets mandatorily measured at fair value	7,505	8,602	9,680	7,178	6,782
Due from banks	566,799	344,858	271,289	122,763	137,373
Loans to customers	1,751,714	1,637,864	1,255,037	774,696	512,916
Property and equipment and intangible assets	83,583	66,199	62,208	54,861	44,878
Tax assets	39,043	37,061	35,039	32,121	23,407
Other assets	267,877	804,787	128,151	58,509	189,333
Total assets	**3,051,770**	**3,025,222**	**1,956,470**	**1,253,093**	**1,119,953**

(amounts in thousands of euros)

Liabilities	31/03/2020	31/12/2019	30/09/2019	30/06/2019	31/03/2019
Amounts due to banks	468,190	376,747	397,005	238,779	71,361
Amounts due to customers	1,923,399	1,985,145	912,900	384,276	382,701
Debt securities issued	10,302	15,358	15,393	18,043	63,682
Financial liabilities designated at fair value	7,719	-	-	-	-
Tax liabilities	2,156	770	1,461	693	946
Other liabilities	102,765	102,747	86,368	62,486	49,013
Shareholders' equity	537,239	544,455	543,343	548,816	552,250
Total liabilities and shareholders' equity	**3,051,770**	**3,025,222**	**1,956,470**	**1,253,093**	**1,119,953**

Reclassified Income Statement

(amounts in thousands of euros)

Income Statement items	1Q2020	4Q2019	3Q2019	2Q2019	1Q2019
Interest margin	21,434	18,127	13,785	8,939	7,183
Net fee and commission income	2,496	1,513	2,562	1,933	612
Gains/losses on financial assets and liabilities	3,696	8,890	115	343	924
Net write-downs/write-backs on closed positions - HTC Clients	9,122	9,118	-	-	-
Other operating expenses and income	46	1,632	(75)	85	277
Total net operating income	**36,794**	**39,280**	**16,387**	**11,300**	**8,996**
Net write-downs/write-backs for credit risk - HTC Banks	(133)	8	(155)	42	(84)
Net write-downs/write-backs for credit risk - HTC Clients	(53)	(9,218)	(3,768)	(2,725)	110
Net write-downs/write-backs for credit risk - HTCS	(537)	55	25	161	(237)
Net write-downs/write-backs for commitments and guarantees	141	63	(116)	(398)	(29)
Total net write-downs/write-backs	**(582)**	**(9,092)**	**(4,014)**	**(2,920)**	**(240)**
Net result of banking operations	**36,212**	**30,188**	**12,373**	**8,380**	**8,756**
Personnel costs	(11,299)	(9,071)	(6,915)	(8,717)	(6,364)
Other administrative costs	(15,883)	(18,651)	(13,876)	(11,379)	(10,022)
Net write-downs/write-backs on property and equipment and intangible assets	(1,833)	(1,117)	(882)	(670)	(478)
Operating expenses	**(29,015)**	**(28,839)**	**(21,673)**	**(20,766)**	**(16,864)**
Other net provisions	(36)	61	(77)	168	(214)
Profit (loss) from operations before taxes	**7,161**	**1,409**	**(9,376)**	**(12,218)**	**(8,322)**
Income taxes for the period on current operations	(2,661)	645	2,541	6,798	2,383
Profit (loss) for the period	**4,500**	**2,054**	**(6,836)**	**(5,420)**	**(5,940)**

The interest margin amounted to EUR 21.4 million in the first quarter of 2020, up significantly on both the fourth quarter of 2019 (+18%) and the same period of the previous year. The business of the DCIS Division contributed significantly, recording collections on the portfolios acquired exceeding those called for in the relevant recovery plans, despite a market scenario that grew increasingly challenging in the course of the quarter.

Net operating income in the first quarter of 2020 totalled EUR 36.8 million, down on the previous quarter by approximately 6%, owing mainly to the lesser contribution of the net trading and hedging result and purchase/sale of financial assets. Revenues for the period also include net fee and commission income of EUR 2.5 million, up sharply on the fourth quarter of 2019 (+65%), primarily due to the effect of “auction commissions” and related services, accrued on the use of the real-estate portals attributable to IT Auction, a company acquired in the first quarter of 2020 and its subsidiaries.

Operating expenses of approximately EUR 29.0 million in the first quarter of 2020 were essentially in line with the fourth quarter of 2019 (+1%) and include personnel expenses of EUR 11.3 million, up by EUR 2.2 million on the previous quarter, primarily in relation to the inclusion in the Group of companies attributable to IT Auction and other administrative costs, down on the previous quarter, which had been characterised by non-recurring components attributable to the launch of the direct digital bank and other specific projects.

During the quarter illimity recognised net write-backs for credit risk to its held-to-collect portfolio in respect of customers on closed positions totalling EUR 9.1 million.

As a result of the foregoing trends, the first quarter of 2020 ended with a profit for the period, after taxes on continuing operations, of EUR 4.5 million.

CAPITAL ADEQUACY

On 1 January 2014, the new prudential requirements for banks and investment firms came into force, which are contained in Regulation (EU) no. 575/2013 (Capital Requirements Regulation, the so-called CRR) and in Directive 2013/36/EU (Capital Requirements Directive, the so-called CRD IV), which have transposed into the EU the standards set by the Basel Committee on Banking Supervision (Basel 3 Framework). The CRR entered into effect in the Member States directly, whereas the rules laid down in CRD IV were transposed into Italian law by Legislative Decree no. 72 of 12 May 2015, which entered into force on 27 June 2015. Following a public consultation process launched in November, on 17 December 2013 the Bank of Italy published Circular no. 285, "Prudential supervisory regulations for banks", implementing the new European rules within the areas within its purview, together with Circular 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, in conclusion of the Supervisory Review and Evaluation Process (SREP) performed on the illimity Banking Group, received notification from the Bank of Italy of the prudential requirements to be observed at the consolidated level with effect from 31 March 2020. To ensure compliance with the binding requirements even in the event of a deterioration in the economic and financial scenario (Pillar 2 Guidance - P2G), the Bank of Italy also identified the following capital levels, which the illimity Banking Group was invited to maintain on an ongoing basis:

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

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

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

(amounts in thousands of euros)

Capital ratios	31/03/2020	31/12/2019
Common Equity Tier 1 (CET1) capital	**438,963**	**461,699**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**438,963**	**461,699**
Credit risk	183,290	168,492
Credit valuation adjustment risk		-
Settlement risks		-
Market risks	70	65
Operational risk	4,442	4,442
Other calculation factors		-
Total minimum requirements	**187,802**	**172,999**
Risk-weighted assets	**2,347,523**	**2,162,485**
Common Equity Tier 1 ratio	**18.70%**	**21.35%**
(Common Equity Tier 1 capital after filters and deductions/ Risk-weighted assets)		
Tier 1 ratio	**18.70%**	**21.35%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**18.70%**	**21.35%**
(Total own funds/Risk-weighted assets)		

As at 31 March 2020 the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds, since it is awaiting receipt of authorisation to include it in Common Equity Tier 1 capital from the national and supranational authorities. If special shares had been included in CET1 capital, the CET1 ratio would have been 19.3%.

CHANGES IN SHAREHOLDERS' EQUITY

As at 31 March 2020, shareholders' equity, inclusive of the profit for the period, amounted to approximately EUR 537.2 million, down from EUR 544.5 million at the end of 2019, primarily due to the change in valuation reserves, partially offset by the profit for the period.

(amounts in thousands of euros)

Items/Technical forms	31/03/2020	31/12/2019
1. Share capital	43,408	43,408
2. Share premium	480,156	480,156
3. Reserves	20,217	36,188
4. Equity instruments		-
5. (Treasury shares)	(96)	(96)
6. Valuation reserves	(10,946)	939
7. Profit (Loss) for the period	4,500	(16,140)
Total shareholders' equity attributable to the Group	**537,239**	**544,455**
Shareholders' equity attributable to non-controlling interest	-	-
Total shareholders' equity	537,239	544,455

Share capital and ownership structure

As of 31 March 2020, the Bank's share capital amounted to EUR 44,904,333.15, of which EUR 43,407,661.81 subscribed and fully paid, divided into 65,164,434 ordinary shares and 1,440,000 special shares, without indication of the par value.

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

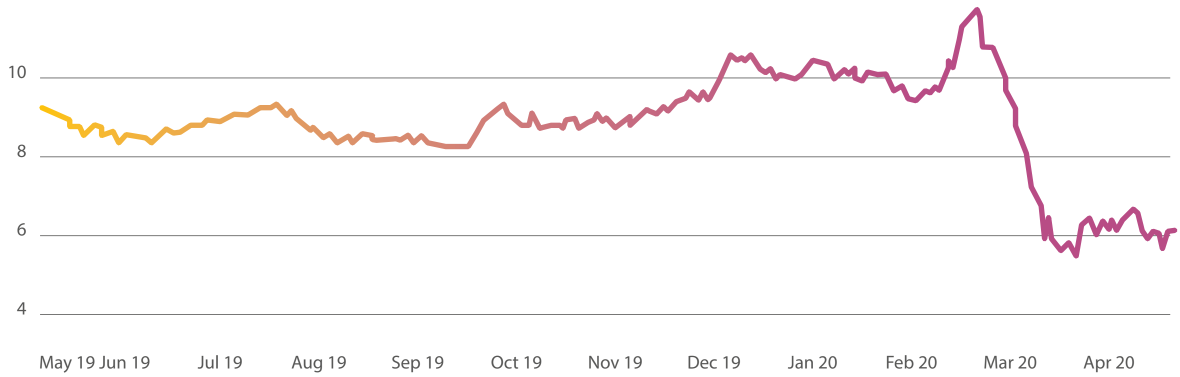
Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the Group's profit for the period by the weighted average number of ordinary shares in issue. Diluted earnings per share for the three months ended 31 March 2020 coincides with basic earnings per share.

Basic and diluted earnings per share	Profit/ (Loss) for the period (Thousands of euros)	Average number of shares	Basic and diluted earnings per share
Period ended 31 March 2020	4,500	65,153,880	0.07
Period ended 31 March 2019	(5,940)	59,384,961	(0.10)

illimity Bank shares

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



Based on available information, updated on 22 April 2020, the main shareholders of the Bank are as follows:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding % of the voting capital
SDP CAPITAL MANAGEMENT LTD	SDP CAPITAL MANAGEMENT LTD	Discretionary asset management	9.88%	9.88%
TENSILE CAPITAL MANAGEMENT LLC	TENSILE-METIS HOLDINGS SARL	Owned	8.52%	8.52%
Atlas Merchant Capital LLC	AMC METIS SARL	Owned	7.76%	7.76%

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

EVENTS AFTER THE REPORTING DATE

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

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

BUSINESS OUTLOOK

The upcoming months will continue to be dominated by the situation caused by the COVID-19 emergency. The growth of the business, which continued into April, will accordingly have to take into account the uncertainty caused by the macroeconomic scenario and by the application of the supporting and regulatory measures, yet to be fully established. Capital preservation will therefore remain the central focus of illimity's strategy in 2020, also as a means of seizing new business opportunities. In this respect it is believed that the size and the competitive dynamic of the markets in which the Bank operates will continue to be very attractive in the future, even beyond our initial forecasts, and possibly open up additional new opportunities.

Revenue growth is expected to continue over the following quarters, in line with the forecast increase in business volumes and as the already agreed volumes of 112 million euro in the DCIS Division (mainly leasing) gradually being finalised and booked.

Operating expenses are expected to experience a moderate rise in 2020 in a logic of managing the cost basis in line with the planned rise in revenue.

Given the conservative approach taken by the Bank in its collective loan loss adjustment policy in the first quarter of the year, and the resulting provisions, on the assumption of an economic pick-up in 2021, the loan adjustments made in the following quarters are not expected to exceed the amount recognised in the first quarter in annualised terms.

A positive evolution in Common Equity Tier 1 Capital is expected over the upcoming quarters arising from profit generation, the buy-out of the remaining 30% of IT Auction by means of a capital increase reserved to its existing shareholders and the introduction of a series of initiatives including strategies of reducing capital absorption for new and existing assets, also by using the measures recently issued by the Government in support of enterprises' liquidity (measures known as the "Decreto Cura Italia" and "Decreto Liquidità"). Alongside these there will be the inclusion of special shares following the completion by the EBA of its approval procedure.

As the result of the economic situation arising from the emergency caused by COVID-19, an impact is expected on the Bank's earnings targets for 2020 as the result of a likely temporary slowdown in gross business origination and by the above-mentioned prudent approach to loan loss provisions. The benefits arising from the recently introduced measures in support of the banking sector and all the other sectors of the economy will contribute to further mitigating the effects of the new scenario on the Bank's results.

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

(amounts in thousands of euros)

Assets		31/03/2020	31/12/2019
10.	Cash and cash equivalents	219,063	772,125
20.	Financial assets measured at fair value through profit or loss	7,567	8,665
	a) financial assets held for trading	62	63
	b) financial assets at fair value	-	-
	c) other financial assets mandatorily measured at fair value	7,505	8,602
30.	Financial assets measured at fair value through other comprehensive income	335,187	125,788
40.	Financial assets measured at amortised cost	2,318,513	1,982,722
	a) due from banks	566,799	344,858
	b) loans to customers	1,751,714	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	25,775	25,395
100.	Intangible assets	57,808	40,804
	of which:		
	- goodwill	36,224	21,643
110.	Tax assets	39,043	37,061
	a) current	3,152	5,127
	b) deferred	35,891	31,934
120.	Non-current assets held for sale and discontinued operations	-	-
130.	Other assets	48,814	32,662
	Total assets	**3,051,770**	**3,025,222**

(cont'd) CONSOLIDATED BALANCE SHEET

(amounts in thousands of euros)

Liability and equity items		31/03/2020	31/12/2019
10.	Financial liabilities measured at amortised cost	2,401,891	2,377,250
	a) due to banks	468,190	376,747
	b) due to customers	1,923,399	1,985,145
	c) Debt securities issued	10,302	15,358
20.	Financial liabilities held for trading	-	-
30.	Financial liabilities designated at fair value	7,719	-
40.	Hedging derivatives	-	-
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	-	-
60.	Tax liabilities	2,156	770
	a) current	1,125	53
	b) deferred	1,031	717
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	100,006	100,568
90.	Employee severance pay	1,712	1,097
100.	Allowances for risks and charges	1,047	1,082
	a) commitments and guarantees given	459	598
	b) post-employment benefits and similar obligations	3	-
	c) other provisions for risks and charges	585	484
110.	Technical reserves	-	-
120.	Valuation reserves	(10,946)	939
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	20,217	36,188
160.	Share premium reserve	480,156	480,156
170.	Share capital	43,408	43,408
180.	Treasury shares (-)	(96)	(96)
190.	Equity attributable to minority interests (+/-)	-	-
200.	Profit (loss) for the period (+/-)	4,500	(16,140)
	Total liabilities and shareholders' equity	**3,051,770**	**3,025,222**

CONSOLIDATED INCOME STATEMENT

(amounts in thousands of euros)

Items		31/03/2020	31/03/2019
10.	Interest income and similar income	32,061	8,584
	of which: interest income calculated according to the effective interest method	31,515	7,296
20.	Interest expenses and similar charges	(10,627)	(1,401)
30.	**Net interest margin**	**21,434**	**7,183**
40.	Fee and commission income	3,862	1,511
50.	Fee and commission expense	(1,366)	(899)
60.	**Net fee and commission income**	**2,496**	**612**
70.	Dividends and similar income	-	-
80.	Profits (losses) on trading	2	36
90.	Fair value adjustments in hedge accounting	-	-
100.	Profits (losses) on disposal or repurchase of	4,914	888
	a) financial assets measured at amortised cost	-	53
	b) financial assets measured at fair value through other comprehensive income	4,916	835
	c) financial liabilities	(2)	-
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	(1,220)	-
	a) financial liabilities measured at fair value	-	-
	b) other financial assets mandatorily measured at fair value	(1,220)	-
120.	**Net interest and other banking income**	**27,626**	**8,719**
130.	Net losses/recoveries for credit risks associated with:	8,399	(211)
	a) financial assets measured at amortised cost	8,936	26
	b) financial assets measured at fair value through other comprehensive income	(537)	(237)
140.	Profits (losses) on changes in contracts without derecognition	-	(1)
150.	**Net result from banking activities**	**36,025**	**8,507**
160.	Net premiums	-	-
170.	Balance of other income/charges from insurance management	-	-
180.	**Profits (losses) of banking and insurance management**	**36,025**	**8,507**
190.	Administrative expenses:	(27,389)	(16,386)
	a) personnel expenses	(11,260)	(6,364)
	b) other administrative expenses	(16,129)	(10,022)
200.	Net provisions for risks and charges	105	(243)
	a) commitments and guarantees given	141	(29)
	b) other net provisions	(36)	(214)
210.	Net adjustments/recoveries on property and equipment	(660)	(391)
220.	Net adjustments/recoveries on intangible assets	(1,173)	(87)
230.	Other operating income/expenses	253	277
240.	**Operating expenses**	**(28,864)**	**(16,830)**
250.	Profits (losses) on equity investments	-	-
260.	Profits (losses) of fair value valuation of Property and Equipment and intangible assets	-	-
270.	Goodwill impairment	-	-
280.	Profits (losses) on disposal of investments	-	-
290.	**Income (Loss) before tax from continuing operations**	**7,161**	**(8,323)**
300.	Income taxes for the period on current operations	(2,661)	2,383
310.	**Income (Loss) after tax from continuing operations**	**4,500**	**(5,940)**
320.	Net income (Loss) (+/-) from discontinued operations after taxes	-	-
330.	**Net profit (loss) (+/-) for the period**	**4,500**	**(5,940)**
340.	Profit (loss) for the period attributable to minority interests	-	-
350.	**Net profit (loss) (+/-) for the period attributable to the parent company**	**4,500**	**(5,940)**

STATEMENT OF THE CONSOLIDATED COMPREHENSIVE INCOME

(amounts in thousands of euros)

		31/03/2020	31/03/2019
10.	**Profit (loss) for the period**	**4,500**	**(5,940)**
	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	-	-
30.	Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	84	(14)
80.	Non-current assets and disposal groups	-	-
90.	Share of valuation reserves for equity investments measured at equity:	-	-
	Other comprehensive income, net of taxes, that may be reclassified to the income statement		
100.	Hedging of foreign investments	-	-
110.	Foreign exchange differences	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (undesignated elements)	-	-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	(11,969)	533
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)**	**(11,885)**	**547**
180.	**Comprehensive income (Item 10+170)**	**(7,385)**	**(5,393)**
190.	**Consolidated comprehensive income attributable to minority interests**	**-**	**-**
200.	**Consolidated comprehensive income attributable to the parent company**	**(7,385)**	**(5,393)**

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

(amounts in thousands of euros)

	Balance on 31 December 2019	Change in opening balances	Balance on 01 January 2020	Allocation of result for the previous year		Changes in the PERIOD									Shareholders' equity attributable to the Group at 31/03/2020	Equity attributable to minority interests at 31/03/2020
							Equity transactions									
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period		
Share capital:	43,408	-	43,408	-	-	-	-	-	-	-	-	-	-	-	43,408	-
a) ordinary shares	42,470	-	42,470	-	-	-	-	-	-	-	-	-	-	-	42,470	-
b) other shares	938	-	938	-	-	-	-	-	-	-	-	-	-	-	938	-
Share premium reserve	480,156	-	480,156	-	-	-	-	-	-	-	-	-		-	480,156	-
Reserves:	36,188	-	36,188	(16,140)	-	(5)	-	-	-	-	-	174	-	-	20,217	-
a) retained earnings	12,007	-	12,007	(16,140)	-	-	-	-	-	-	-	-	-	-	(4,133)	-
b) other	24,181	-	24,181	-	-	(5)	-	-	-	-	-	174	-	-	24,350	-
Valuation reserves	939	-	939	-	-	-	-	-	-	-	-	-	-	(11,885)	(10,946)	
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(96)	-	(96)	-	-	-	-	-	-	-	-	-	-	-	(96)	
Profit (loss) for the period	**(16,140)**	**-**	**(16,140)**	**16,140**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,500**	**4,500**	**-**
Shareholders' equity	**544,455**	**-**	**544,455**	**-**	**-**	**(5)**	**-**	**-**	**-**	**-**	**-**	**174**	**-**	**(7,385)**	**537,239**	**-**

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

(amounts in thousands of euros)

				Allocation of result for the previous year		Changes in the PERIOD										
							Equity transactions									
	Balance on 31 December 2018 (SPAXS consolidated financial statements)	Change in opening balances (effects of the merger of SPAXS into Banca Inerprovinciale)	Balance on 01 January 2019 (illimity consolidated financial statements	Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period	Shareholders' equity attributable to the Group at 31/03/2019	Equity attributable to minority interests at 31/03/2019
Share capital:	62,781	(19,404)	43,377	-	-	-	-	-	.	.	.	.	.	.	43,377	-
a) ordinary shares	61,341	(18,990)	42,351	-	-	-	-	-	-	-	-	-	-	-	42,351	-
b) other shares	1,440	(414)	1,026	-	-	-	-	-	-	-	-	-	-	-	1,026	-
Share premium reserve	517,827	-	517,827	-	(23,662)	(14,556)	-	-	-	-	-	-	-	-	479,609	-
Reserves:	285	19,404	19,689	-	-	15,010	-	-	-	-	-	41	-	-	34,740	-
a) retained earnings	-	-	-	-	-	12,007	-	-	-	-	-	-	-	-	12,007	-
b) other	285	19,404	19,689	-	-	3,003	-	-	-	-	-	41	-	-	22,733	-
Valuation reserves	13	-	13	-	-	-	-	-	-	-	-	-	-	547	560	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	(96)	-	-	-	-	-	-	(96)	-
Profit (loss) for the period	**(23,662)**	**-**	**(23,662)**	**-**	**23,662**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,940)**	**(5,940)**	**-**
Shareholders' equity	**557,244**	**-**	**557,244**	**-**	**-**	**454**	**-**	**(96)**	**-**	**-**	**-**	**41**	**-**	**(5,393)**	**552,250**	**-**

Accounting policies

as of 31 March 2020

illimity

ACCOUNTING POLICIES

GENERAL SECTION

illimity Bank S.p.A. is a company limited by shares with legal personality organised according to the laws of the Italian Republic having its registered office in Milan at Via Soperga 9.

It is registered in the Milan Companies Register, with taxpayer identification number 03192350365, Italian Banking Association Code 03395 and Register of Banks no. 5710.

Section 1 – Declaration of conformity with international financial reporting standards

The interim report has been prepared in accordance with paragraph 5 of Article 154-ter, of Italian Legislative Decree no. 58 of 24 February 1998. The line items presented in this document have been valued and measured on the basis of the international accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB) and include the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), as well as the guidance in Bank of Italy Circular no. 262 of 22 December 2005 (sixth revision of 30 November 2018), in accordance with the accounting policies adopted in preparing the consolidated financial statements of illimity Bank for the year ended 31 December 2019.

There were no derogations from the IAS/IFRS.

Section 2 – General basis of preparation

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

The Interim report has been prepared using euros as the Group's functional currency and consists of the consolidated balance sheet, consolidated income statement, statement of other comprehensive income, statement of changes in consolidated equity and the notes.

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

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

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

The Interim report for the period ended 31 March 2020 was submitted for the approval of the Board of Directors on 11 May 2020.

The formats provided in the instructions for preparing financial statements issued by the Bank of Italy in its order of 22 December 2005, concurrent Circular no. 262 and subsequent updates have been adopted.

Section 3 – Consolidation scope and methods

The consolidation policies and principles adopted in preparing the Interim report for the period ended 31 March 2020 are unchanged with respect to the consolidated financial statements for the year ended 31 December 2019.

The Interim report includes the accounting values of the Parent Company, illimity Bank, and of the companies over which it directly or indirectly exercises control as at 31 March 2020, encompassing within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements or reports of companies operating in business segments dissimilar to that of the Parent Company.

The scope of consolidation of the Interim financial report as at 31 March 2020 has changed with respect to the consolidated financial statements for the year ended 31 December 2019, following the inclusion of IT Auction, ITA Gestione and Mado, acquired by Neprix in the first quarter of 2020.

Details of the scope of consolidation of subsidiaries, registered with the Banking Group, as at 31 March 2020, and consolidated entities, are given below:

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

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

Section 4 - Events after the reporting date

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

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

Section 5 – Other aspects

5.1 – Accounting standards of reference for the provisional accounting treatment of the purchase price allocation (PPA) for the acquisition of IT Auction and its subsidiaries

Information on the provisional allocation process (according to IFRS 3, paragraph 45) for the acquisition cost of the equity interest in IT Auction and the accounting treatment of the resulting goodwill in the illimity Bank Group's Consolidated interim report as at 31 March 2020 is provided below. It should be noted that illimity used the full goodwill method to determine goodwill as at 31 March 2020.

With regard to the acquisition price, it should be recalled that:

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

b) according to the agreements reached, IT Auction thus approved, within 60 days of the execution date, a capital increase of EUR 2 million, 70% subscribed by Neprix and 30% by the sellers, through Core S.r.l. ("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. Since the capital increase was only completed after 22 April 2020, the Consolidated interim financial statements as at 31 March 2020 include both the entire interest in IT Auction and the put option liability. The completion of the capital increase resulted in the derecognition of this liability.

The PPA was accounted for according to the provisions of IFRS 3 – Business Combinations: according to IFRS 3, goodwill is the surplus cost paid for the acquisition compared to the fair value of the assets (including identifiable intangible assets) acquired and the liabilities and potential liabilities accepted. 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 at 31 December 2019 – the date of the situation of reference nearest to that relevant to the application of IFRS 3 (9 January 2020) – was therefore used to determine goodwill, as increased by the value of the share of the capital increase carried out by Core as already included in the value of the equity investment agreed with the sellers for the purposes of the extraordinary transaction.

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

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

(amounts in thousands of euros)

Description	as at 31 March 2020	
IFRS IT Auction sub-consolidated equity	A	2,982
IT Auction sellers capital increase	B	600
Total shareholders' equity	**C = A + B**	**3,582**
Acquisition price for 70% interest	D	11,895
Fair value attributed to 30% interest	E	7,719
IT auction acquisition price	**F = D + E**	**19,614**
Difference to be allocated	**G = F - C**	**16,032**
Identified intangible assets	H	2,013
Deferred tax liabilities	I	562
Provisional goodwill	**L = G - H + I**	**14,581**

5.2 – New documents issued by the IASB and endorsed by the EU, applicable to 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	(EU) no. 2020/34 15 January 2020

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

- Regulation no. 2075/2019: the Regulation of 29 November 2019 adopted several amendments to the IFRS Conceptual Framework. The amendments aim to update the references to the previous Framework, replacing them with references to the Conceptual Framework revised in March 2018. It should be noted that the Conceptual Framework is not an accounting standard and is therefore not itself subject to endorsement, whereas the document in question, because it amends several IASs/IFRSs, is subject to endorsement;

- Regulation no. 2104/2019: the Regulation of 29 November 2019 adopts several amendments to IAS 1 and IAS 8 to clarify the definition of "material information" and improve understanding of the concept. The Regulation emphasises that materiality depends on the nature and relevance of the information or both. An entity also verifies whether information, both individually and in combination with other information, is material in the overall context of the financial statements.

It should also be noted that Regulation no. 34/2020 (of 15 January 2020) was endorsed in the first quarter of 2020, adopting several amendments to IFRS 9, IAS 39 and IFRS 7, with particular regard to interest rate benchmark ("IBOR") reform. These amendments did not have any impacts on the Group.

5.3 – Use of estimates and assumptions in preparing the Interim report

According to the IFRS framework, the preparation of the Consolidated interim financial statements requires the use of estimates and assumptions that may influence the values stated in the balance sheet and income statement.

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

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

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

The main accounting issues relating to COVID-19

In view of its particular relevance to the preparation of the Interim report as at 31 March 2020, it will be appropriate to mention the publication by the IASB on 27 March 2020 of the document "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.

In view of the importance of the issue, ESMA also expressed a position on the accounting implications of the pandemic, publishing the following documents during the quarter on the impacts of COVID-19 on accounting representation and the disclosure to be made to the markets in terms of transparency:

- Statement published on 11 March 2020 on the information that Issuers should provided to the market on the impacts of COVID-19;

- *"Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9"*, published on 25 March 2020;
- *"Guidance on Financial Reporting Deadlines in light of COVID-19"*, published on 27 March 2020.

Furthermore, in a statement published on 25 March 2020, the EBA addressed the issue of management of loans subject to moratoria, with particular regard to aspects relating to (i) identification of default, (ii) forbearance measures and (iii) IFRS 9 staging. On these points, the EBA specifies:

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

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

Within this context, the Bank's Risk Management Function recalibrated the forward-looking probabilities of default on the basis of the macroeconomic scenario that includes an initial effect of the COVID-19 crisis.

Statement of the Financial Reporting Officer

STATEMENT OF THE FINANCIAL REPORTING OFFICER

The manager responsible for preparing the company's financial reports, Sergio Fagioli, declares, pursuant to paragraph 2, Article 154-bis of the Consolidated Finance Act, that the accounting information contained in this interim report for the period ended 31 March 2020 corresponds to the contents of accounting documents, books and records.

Signature of the Financial Reporting Officer

Sergio Fagioli
Signature

Consolidated interim report
as of 31 March 2020

Annexes

illimity

Annex 1 – Reconciliation between reclassified balance sheet and income statement and balance sheets

Below are the reconciliation schemes used for the preparation of the balance sheet and economic situation in reclassified form. Any discrepancies between the figures presented are due solely to rounding. For an explanation of the restatements of the period in comparison, see the previous sections.

Reclassified consolidated balance sheet

(amounts in thousands of euros)

Assets	Values at 31/03/2020
Treasury portfolio - Securities at FV	**335,249**
Item 20. a) Financial assets held for trading	62
Item 30. Financial assets measured at fair value through other comprehensive income	335,187
Financial assets mandatorily measured at fair value	**7,505**
Item 20. c) Other financial assets mandatorily measured at fair value	7,505
Due from banks	**566,799**
Item 40. a) Due from banks	566,799
Loans to customers	**1,417,712**
Item 40. b) Loans to customers	1,751,714
To be deducted:	
Loans to customers - Securities	(334,002)
Securities at amortised cost - SME	**51,500**
Item 40. b) Loans to customers	1,751,714
To be deducted:	
Loans to customers	(1,417,712)
DCIS Business senior financing instruments	(282,502)
Senior financing securities at amortised cost	**282,502**
Item 40. b) Loans to customers	1,751,714
To be deducted:	
Loans to customers	(1,417,712)
SME business instruments	(51,500)
Property and equipment and intangible assets	**83,583**
Item 90. Property and equipment	25,775
Item 100. Intangible assets	57,808
Tax assets	**39,043**
Item 110. Tax assets	39,043
Other assets	**267,877**
Item 10. Cash and cash equivalents	219,063
Item 130. Other assets	48,814
Total assets	**3,051,770**

(amounts in thousands of euros)

Liability and equity items	Values at 31/03/2020
Amounts due to banks	**468,190**
Item 10. a) Due to banks	468,190
Amounts due to customers	**1,923,399**
Item 10. b) Due to customers	1,923,399
Securities issued	**10,302**
Item 10. c) Debt securities issued	10,302
Financial liabilities designated at fair value	**7,719**
Item 30. Financial liabilities designated at fair value	7,719
Tax liabilities	**2,156**
Item 60. Tax liabilities	2,156
Other liabilities	**102,765**
Item 80. Other Liabilities	100,006
Item 90. Employee severance pay	1,712
Item 100. Allowances for risks and charges	1,047
Shareholders' equity	**537,239**
Capital and reserves	
Item 120. Valuation reserves	(10,946)
Item 150. Reserves	20,217
Item 160. Share premium reserves	480,156
Item 170. Share capital	43,408
Item 180. Treasury shares (-)	(96)
Item 200. Profit (loss) for the period	4,500
Total liabilities and shareholders' equity	**3,051,770**

illimity

Reclassified consolidated income statement

(amounts in thousands of euros)

Income Statement items	Values at 31/03/2020
Interest margin	**21,434**
Item 10. Interest income and similar income	32,061
Item 20. Interest expenses and similar charges	(10,627)
Net fee and commission income	**2,496**
Item 40. Fee and commission income	3,862
Item 50. Fee and commission expense	(1,366)
Gains/losses on financial assets and liabilities	**3,696**
Item 80. Profits (losses) on trading	2
Item 110. Profits (losses) from disposal or repurchase	4,914
Item 110. Profits (loss) on other financial assets and liabilities measured at fair value through profit or loss	(1,220)
Net write-downs/write-backs on closed positions - HTC Clients	**9,122**
of which: Net write-downs/write-backs on closed positions - HTC Clients	9,122
Other operating expenses and income	**46**
Item 140. Profits (losses) on changes in contracts without derecognition	-
Item 230. Other operating income/expenses	253
To be deducted:	
Reclassification of recovery of other operating charges/income to Other administrative expenses	(207)
Item 280. Profits (losses) from disposal of investments	-
Total net operating income	**36,794**
Net write-downs/write-backs for credit risk - HTC Banks	**(133)**
Net write-downs/write-backs for credit risk - HTC Clients	**(53)**
Item 130. Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost	8,936
of which: Net result of closed positions - HTC Clients	(9,122)
Net write-downs/write-backs for credit risk - HTCS	**(537)**
Item 130. Net losses/recoveries for credit risks associated with: b) financial assets measured at fair value through other comprehensive income	(537)
Net write-downs/write-backs for commitments and guarantees	**141**
Item 200. Net provisions for risks and charges: a) commitments and guarantees given	141
Total net write-downs/write-backs	**(582)**
Net result of banking operations	**36,212**
Personnel costs	**(11,299)**
Item 190. Administrative expenses: a) Personnel expenses	(11,260)
To be deducted:	
Reclassification of HR expenses from other administrative costs	(39)
Other administrative costs	**(15,883)**
Item 190. Administrative expenses: b) Other administrative expenses	(16,129)
Reclassification of HR expenses to personnel expenses	39
Reclassification of recovery of other operating charges/income to Other administrative expenses	207
Net write-downs/write-backs on property and equipment and intangible assets	**(1,833)**
Item 210. Net write-downs/write-backs on property and equipment	(660)
Item 220. Net write-downs /write-backs on intangible assets	(1,173)
Operating expenses	**(29,015)**
Other net provisions	**(36)**
Item 200. Net provisions for risks and charges: b) other net provisions	(36)
Profit (loss) from operations before taxes	**7,161**
Income taxes for the period on current operations	**(2,661)**
Item 300. Income taxes for the period on current operations	(2,661)
Profit (loss) for the period	**4,500**

Consolidated interim report
as of 31 March 2020

illimity Bank S.p.A.
Head office: Via Soperga, 9 – 20127 Milan
Share capital: EUR 44,904,333.15 (of which EUR 43,407,661.81 subscribed and paid in).

Registered in the Register of Companies of Milan
Tax code: 03192350365

ABI code 03395 – Member of the Interbank Deposit Protection Fund
Registered in the Register of Banks at no. 5710

www.illimity.com