illimity
BANCA OLTRE LA FORMA

ILLIMITY DOUBLES QUARTERLY PROFIT FROM 5 TO 10 MILLION EURO IN THE SECOND QUARTER 2020

PROFIT OF 15 MILLION EURO IN THE FIRST HALF OF 2020 FROM A LOSS OF 11 MILLION EURO IN THE FIRST HALF OF 2019

- ***In the first half, net loans to customers and investments increase to 1.8 billion euro (0.8 billion at 30 June 2019). Pro-forma growth of 9% in the second quarter of 2020 compared to the first quarter and robust prospective pipeline***

- ***Total assets reach 3.2 billion euro (1.3 billion euro at 30 June 2019) in a context of dynamic portfolio management***

- ***CET1 ratio of 18.3% (approximately 19.5% pro-forma) and liquidity of approximately 500 million euro***

- ***Outlook 2020: Management aims to achieve a net profit of around 30 million euro for the current year, corresponding to an ROE of more than 5%***

Milan, 4 August 2020 – The Board of Directors of illimity Bank S.p.A. ("**illimity**" or the "**Bank**"), which met yesterday under the chairmanship of Rosalba Casiraghi, approved the results at 30 June 2020.

Even in the context of the COVID-19 emergency, illimity reported solid results that confirm the growth trend steadily recorded since the beginning of its operation.

The half-year closed with a **net profit of 15 million euro** (-11.4 million euro in the first half of 2019), driven by the good performance in the **second quarter of the year when earnings of 10.3 million euro were achieved**, double the figure for the first three months (4.5 million euro).

Customer loans and investments posted a positive trend and rose to **1.8 billion euro** at 30 June 2020 (more than double the 0.8 billion euro at 30 June 2019). Specifically, the second quarter recorded an increase of **9%[1] pro-forma** over the previous three months. As part of this total the **SME Division's loans moved up by 10%** over 31 March 2020, driven by the Cross-over & Acquisition Finance business which had a very positive quarter as far as new lending is concerned, amongst other things concluding the first state-guaranteed loan operations introduced by the recent government decrees. After an initial slowdown due to the effects of COVID-19, the activity of the Turnaround and Factoring businesses has been showing signs of a pick-up since June, and this, together with the acquisition of new customers during the lockdown, supports a solid pipeline for the second half of this year.

Volumes in the **DCIS business** – up by **14% on pro-forma[1] figures** over 31 March 2020 – benefited from the booking of part of the business volumes already signed in previous quarters and from new investments made in the period, which doubled compared to the second quarter of 2019

[1] Including approximately 49 million euro of properties directly owned by the Bank which are now accounted for as tangible assets, as a result of the legal enforcement of the *datio in solutum* and other repossession transactions as part of recovery strategies.

and in the context of a dynamic management of the existing portfolio, which led, for the third consecutive quarter, to profits from closed positions, of approximately 7.9 million euros.

The good asset quality was also maintained with the ratio between gross doubtful organic loans and gross total organic loans to customers remaining unchanged at approximately 4%.

The Bank's **liquidity base** continued to be **robust** at 30 June 2020, **amounting to approximately 500 million euro** and consisting of cash, the net interbank position and high-quality liquid financial assets and other marketable securities.

Taken overall, illimity's **total assets** at 30 June 2020 **exceeded 3.2 billion euro** compared to 1.3 billion euro at 30 June 2019.

The Bank's retail and corporate **direct funding** reached **1.8 billion euro**, representing a constant rise since the launch of the direct bank, *illimitybank.com*, in September 2019.

In June, the Bank took part in the **TLTRO-III auction for an amount of 185 million euro,** refinancing the amount of 52.3 million euro arising from its participation at the previous TLTRO-II auction. As a whole, illimity's **total interest-bearing liabilities** had risen to **2.5 billion euro** by the end of June 2020, having well-balanced outstanding maturities and an essentially unchanged funding cost.

illimity's **CET1 ratio** continued to prove robust, amounting to **18.3%**. The pro-forma CET1 ratio, on unchanged assets, would amount to approximately 19.5% if two effects expected to arise by the end of the year are also included: the special shares of 14.4 million euro (following the completion of the approval process by the EBA) and the positive effect arising from the application of the measures included in the banking package recently approved by the European Union.

Corrado Passera, **illimity CEO**, commented: *"The last few months have proven to be a challenging test for everyone, and certainly also for illimity and its new strategic and operational paradigm. Our bank, now in the midpoint of its second year of life, has been able to continue its path of scale and income development. All three divisions have not only grown; have also demonstrated a strong entrepreneurial dynamism, also by rapidly detecting new opportunities and undertaking new strategic projects.*

Illimity's strategic and operational model therefore proves to be resilient and capable of generating growth while maintaining a very solid risk profile both in terms of portfolio quality and in terms of assets and liquidity.

We will continue to work on this direction to implement our strategic plan with responsibility also towards the community we feel an active part of, being close to our already more than 40,000 customers who honour us with their trust.".

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Key balance sheet figures

Amounts in million euro

Reclassified Balance sheet	30.06 2019	31.12 2019	31.03 2020	30.06 2020	Δ 30.06/ 31.03.2020
Cash and cash equivalent	42	772	219	311	42%
Due from banks and other financial institutions	123	345	657	643	(2%)
Customer loans	**775**	**1,638**	**1,662**	**1,766**	**6%**
- DCIS [1] investments	*158*	*667*	*674*	*724*	*8%*
- DCIS [1] senior financing	*241*	*341*	*334*	*337*	*1%*
- SME [2]	*247*	*527*	*556*	*613*	*10%*
- Cross-over & Acq. Finance [2]	*162*	*261*	*278*	*315*	*13%*
- High yield bond	*-*	*-*	*-*	*13*	*n.s.*
- Turnaround	*59*	*131*	*154*	*156*	*1%*
- Factoring	*26*	*135*	*123*	*129*	*5%*
- Non-core former Banca Interprovinciale	*129*	*103*	*99*	*92*	*(7%)*
Financial assets Held To Collect (HTC)	103	-	-	-	0%
Financial assets Held To Collect & Sell (HTCS)[3]	90	126	335	286	(15%)
Financial assets measured at FVTPL[4]	17	9	8	12	61%
Goodwill	22	22	36	36	-
Intangible assets	9	19	22	26	19%
Other assets (Incl. Tangible and tax assets)	72	95	114	158	39%
Total assets	**1,253**	**3,025**	**3,052**	**3,238**	**6%**
Due to banks	239	377	468	583	25%
Due to customers	381	1,979	1,911	1,915	0%
Shareholders' Equity	549	544	537	563	5%
Other liabilities	84	125	135	176	31%
Total liabilities	**1,253**	**3,025**	**3,052**	**3,238**	**6%**
Common Equity Tier 1 Capital	480	462	439	466	6%
Risk Weighted Assets	**995**	**2,162**	**2,347**	**2,548**	**9%**

1. *DCIS: Distressed Credit Investment & Servicing Division (previously named NPL I&S)*
2. *This figure includes part of the net loans to existing customers of Banca Interprovinciale, which due to their features are considered consistent with illimity's SME segment*
3. *HTCS: Financial assets measured at fair value through comprehensive income*
4. *FVTPL: other financial assets at fair value through profit or loss. This item includes equity financial instruments purchased as part of a turnaround transaction, junior tranches acquired as part of senior financing transactions and investments in distressed energy credit purchased as part of the DCIS division's activities.*

Any failure to reconcile the stated figures arise exclusively from rounding

1. SME Division

At 30 June 2020, the **SME Division's net customer loans** amounted to **613 million euro**, representing growth of 10% over 31 March 2020 and more than doubling the value reported at June 2019 of 247 million euro.

Following the slowdown in the overall volume growth in April and May caused by the COVID-19 health emergency, the month of June was marked by a substantial recovery in business origination, which continued in July.

The **Cross-over and Acquisition Finance** business made a significant contribution to the progress recorded in the quarter, and in spite of the renewed selective approach taken towards the numerous opportunities emerging in a market proving itself dynamic, generated **new volumes amounting to around 60 million euro** in the second quarter of 2020. Activity continued into July, both with new customers and through the first disbursements of loans secured by public guarantees, putting into practice the support measures for the economy introduced by the Italian government. The pipeline for the second half of the year is expected to be quite robust, centred on loans secured by state guarantees granted to new borrowers and/or the Bank's existing customers.

The '***high yield bond***' desk became operational in April 2020, set up to invest in corporate bonds traded on the secondary market, complementing and extending the Cross-over business's activities and exploiting its expertise in loan analysis and knowledge of the specific sectors involved. In addition to providing an interesting return *(Yield-to-Maturity* of around 10%), this new activity is based on the same creditworthiness approach as the SME loans, and contributes to a wider diversification across business sectors. At 30 June 2020 a total of **13 million euro had been invested in corporate bonds, followed by a further 10 million euro of investments made in July** and corresponding to a notional value of 27 million euro.

Conversely the Bank did not conclude any new transactions in the **Turnaround** business – UTP exposures with restructuring and return to performing status prospects – in the second quarter, partly because the market of single name UTPs was particularly inactive as a result of the uncertainty caused by COVID-19 on business restructuring processes, and partly due to the even more selective approach taken by illimity in the process of identifying the best transactions in terms of risk-return. New business generation took off again in July through transactions involving state guarantees. During the quarter the Turnaround team worked in collaboration and in an integrated manner with the DCIS Division on the project for building a platform for managing UTP portfolios, an emerging business in the distressed credit market, where illimity is setting its sights on becoming a leading operator, further developing the activity where it has already made its initial investments.

Following the strong momentum achieved in the first quarter of 2020, **Factoring** activities slowed down in April and May as a result of the decrease in the turnover of its corporate customers. Activity picked up again in June and the respective turnover of 65 and 59 million euro reported for June and July confirm the expectations of a recovery in the business in the second half of the year. Of significant importance has been the Bank's ability to acquire new customers during the lockdown by remotely managing the whole customer onboarding process and ensuring that it was fully operational. As a result, the Bank can currently boast over 100 clients – mainly represented by the leading corporates within their respective value chain or industrial districts – to which correspond around 500 debtors.

Taken as a whole, the **SME Division originated business worth approximately 760 million euro** between the start of operations in September 2018 and the end of July 2020.

Distressed Credit Investment & Servicing ("DCIS") Division

The **Distressed Credit Investment & Servicing Division** made further progress in the second quarter of 2020, regarding both investments in new distressed credit portfolios and the financing to sector operators for the purpose of purchasing distressed loan portfolios.

More specifically, illimity concluded distressed credit purchases of around 100 million euro in the second quarter of 2020, double the amount invested in the same period in 2019 (48 million euro).

Activities continued in July with the investment of a further 12 million euro, taking the total of **net customer loans and investments in the quarter to 724 million euro**, a rise of 8% over the quarter ended 31 March 2020, an almost fivefold increase compared to what reported at 30 June

2019. In the second quarter the Bank concluded transactions amounting to approximately 46 million euro for the repossession of properties by way of the legal instrument known as *datio in solutum*; including this figure, now booked as tangible assets, there was a rise of approximately 14% in the quarter in net loans to customers arising from the DCIS Division's investment activities.

Including also the investments made since 2018 (720 million euro) and those amounting to 37 million euro made in the first quarter of 2020, by the end of July the Bank had concluded transactions for investments in distressed loans amounting in total to approximately **869 million euro**. To this should be added investments of 44 million euro for which agreements have already been entered but which have yet to be booked, taking the total of **originated business**[2] from the start of operations to the end of July 2020 to **913 million euro**.

Neprix, the illimity Group's platform specialising in servicing distressed corporate loans, had **assets under management** at 30 June 2020, in terms of gross nominal value ("GBV") of loans, real estate and capital goods under management, amounting to approximately **8.6 billion euros**, up from the 8.5 billion euros reported in the previous quarter. It is recalled that, during 2019, Neprix undertook a strategic development journey with the aim of positioning itself as the first integrated end-to-end operator in the management of distressed corporate loans, from onboarding to servicing and remarketing services. To this purpose, in June 2019 Neprix signed an agreement for the purchase of a 70% stake in the capital of **IT Auction**, a company specialising in the management and remarketing of capital goods and real estate assets by way of online auctions on its portals network. This agreement was finalised in January 2020. On 27 May 2020, the deed was signed for the contribution of the remaining 30% of IT Auction to Neprix, by way of a capital increase reserved for IT Auction's minority shareholders.

Lastly, **Senior Financing** activities continued with the disbursement of 13 million euro in the second quarter and a further 11 million euro at the end of July, in support of leading investment funds and companies specialising in the purchase of non-performing loans. Senior financing disbursements totalling approximately **425 million euro** were made between the start of operations and the end of July 2020.

Taken as a whole, the **Distressed Credit Investment & Servicing Division originated business[3] of over 1.3 billion euro** between the start of operations and the end of July 2020.

Direct Bank Division

As already noted, total direct funding by the Bank's retail and corporate customers has reached 1.8 billion euro.

The digital direct bank ***illimitybank.com*** has made a significant and continuously increasing contribution to this figure since its launch in September 2019: at the end of June 2020 the direct funding generated by this channel's customers totalled approximately **869 million euro**, a rise of

[2] Distressed loans purchased, including transactions agreed but yet to be booked (thus not yet income-producing), owing to a settlement structure based on multiple tranches or to a time lag between the signing of the master agreement and the date of loan onboarding. Non accounting figures.

[3] Loans purchased or disbursed, including transactions agreed but yet to be booked (thus not yet income-producing), owing to a settlement structure based on multiple tranches or to a time lag between the signing of the master agreement and the date of loan disbursement/onboarding. Non accounting figures.

6% over the corresponding amount at the end of March 2020, divided between current accounts and deposits of which nearly 60% with maturities equal to or greater than 4 years.

The Bank continued to attract new customers, taking the total to around **36,000 by the end of July**. Approximately 83% of the customer base is active, and it is estimated that of these customers around 26% use *illimitybank.com* as their bank of reference. The growth of the digital direct bank in terms of funding is consistent with the financing targets set for this channel as part of illimity's wider funding structure as a whole, this being separated into numerous funding sources including the recent activation of the TLTRO-III facility.

Direct funding obtained from retail and corporate customers through illimity's offline channels rose slightly during the second quarter, while the contribution from the partnership with Raisin - the pan-European platform for the collection of retail deposits on the German market – remained steady. The more moderate growth recorded in the quarter on these financing sources is consistent with the Bank's strategy focused on the development of its own digital platform and the achievement of a balanced mix of financing sources, including wholesale funding, such as the use of the TLTRO-III programme.

The '**illimity Hubs'** platform was presented to the market in June 2020. This enables customers to access the apps of non-financial partners of excellence (MiMoto and Fitbit are the first partnerships announced) in an ecosystem evolved in terms of offer and user experience. illimity Hubs allows customers to use the functionalities provided by the partners by integrating these into *illimitybank.com*'s platform and to activate services synergic with banking operations. This innovative model has been developed as a means of fostering new and more informed spending and savings routines based on specific interests and objectives and will be in constant evolution in terms of both services and partnerships.

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The second quarter was characterised by dynamic management of the Bank's **securities portfolio**, concentrated mainly between May and June and aimed at mitigating the effects arising from significant market volatility: by the end of June 2020, illimity's securities portfolio had fallen to **286 million euro** compared to 335 million euro at the end of March 2020. This exercise, performed without incurring trading losses, and the gradual improvement in the market, enabled the **mark-to-market loss to be reduced to approximately 4.4 million euro** from the figure of approximately 11 million euro posted at the end of the first quarter of 2020 (both figures expressed after tax). Of the securities portfolio, all of which classified in the Hold to Collect and Sell strategy, 60.9% consists of Italian government bonds, 29.0% of senior corporate bonds and 10.1% of subordinated bonds.

At the end of June 2020, the Bank's **gross doubtful organic loans** (and therefore excluding purchased NPLs and UTPs) amounted to **39.9 million euro**, a slight increase (+1.6 million euro) over the figure at 31 March 2020 (38.3 million euro). The ratio between gross doubtful organic loans and gross total organic loans to customers at the same date remained constant at approximately 4.2%[4]. The stock of **net doubtful organic loans** amounted to **21.5 million euro** at the end of June

[4] This figure excludes amounts due from financial intermediaries other than banks. At 31 March 2020, adopting a homogeneous methodology, and therefore excluding loans due from financial intermediaries other than banks from the calculation, the ratio between gross non performing exposures and total gross loans would be 4.2% and the ratio between net doubtful organic loans and net total loans to customers would be approximately 2.3%.

2020, this too representing a slight increase over the previous quarter (+1.5 million euro) and corresponding to a ratio between net doubtful organic loans and net total loans to customers of approximately 2.3%, unchanged over the previous quarter.

At 30 June 2020 the Bank's CET1 capital had risen to **466 million euro** compared to the figure of 439 million euro reported at 31 March 2020 due mainly to the profit for the period, the capital increase of 7.8 million euro servicing the buyout of the remaining 30% of IT Auction's corporate capital and the reversal of the negative valuation reserve for the securities portfolio. The application of the IFRS 9 prudential filter introduced by the banking package recently approved by the European Union made a contribution of 3.6 million euro to the increase in the capital in the quarter.

Risk-weighted assets increased by 9% in the quarter to **2,548 million euro** driven by the rise in assets and partly also as the result of the increase in the risk-weighting coefficient for a number of items for which normalisation is expected in the second half of the year.

As the result of the above-mentioned changes, illimity's CET1 ratio confirmed its solid position and amounted to **18.3%**. Taking into account the inclusion of the special shares of 14.4 million euro in own funds once the EBA's approval process has been completed, and the positive effect of applying the measures contained in the banking package recently approved by the European Union, the Bank's pro-forma CET1 ratio (calculated using the figure for RWAs for the end of June) would amount to around 19.5%.

The **Liquidity Coverage Ratio** stood over 1,000% at the end of the second quarter of 2020, confirming a significant liquidity buffer, while the **Net Stable Funding Ratio (NSFR)** was considerably above the minimum regulatory requirements.

Key income statement figures

It is noted that the results of IT Auction have been consolidated in illimity since the first quarter of 2020.

Amounts in million of euro

Reclassified Profit & Loss	4Q19	1Q20	2Q20	Δ 2Q20/ 1Q20 %
Interest income	27.5	32.1	33.2	4%
Interest expenses	(9.0)	(10.2)	(8.9)	(13%)
Net interest income	**18.5**	**21.8**	**24.3**	**11%**
Net fees and commissions	1.5	2.5	2.1	(15%)
Net result from trading	8.9	3.7	(0.0)	n.s.
Net other income/expenses	1.6	0.0	0.2	n.s.
Gains from closed purchased distressed credit positions[1]	9.1	9.1	7.9	(13%)
Operating income	**39.7**	**37.2**	**34.5**	**(7%)**
Staff costs	(9.1)	(11.3)	(13.2)	17%
Other operating expenses	(19.0)	(16.3)	(12.9)	(21%)
Depreciation & Amortisation	(1.1)	(1.8)	(2.0)	11%
Operating costs	**(29.2)**	**(29.4)**	**(28.2)**	**(4%)**
Operating profit	**10.4**	**7.8**	**6.4**	**(18%)**
Loan loss provision charges	(1.0)	(2.7)	(1.2)	(55%)
Value adjustments on purchased distressed credit	(8.2)	2.8	4.6	64%
Value adjustments on HTC securities and loans to banks	0.0	(0.3)	0.2	n.s.
Other net provisions	0.1	(0.5)	0.2	n.s.
Provisions for risks and charges	0.1	0.1	(0.1)	n.s.
Profit (loss) before tax	**1.4**	**7.2**	**10.0**	**40%**
Income tax	0.6	(2.7)	0.3	n.s.
Net result	**2.1**	**4.5**	**10.3**	**130%**

1. *Gains from definitive closure of non-performing exposures either through disposal to third parties or through discounted payoff strategy (the so-called "saldo e stralcio") agreed with the debtor.*

Any failure of the stated figures to reconcile is due exclusively to rounding.

Despite the difficult environment, illimity progressed well as far as profits for the second quarter of the year are concerned.

Net interest income rose to **24.3 million euro** in the second quarter of 2020, representing an increase of 11% over the previous quarter. This positive dynamic is the effect of a further rise in interest income of 4% on a quarterly basis, which only partially benefited from the generation of new volumes in the last part of the quarter. Included for the first time in interest income for the quarter are profits of **0.8 million euro** earned from the revaluation of a loan in the Turnaround business, a key component in the revenue model of this segment.

Interest expense also made a contribution to the progress in net interest income, with a significant fall (-13%) arising mostly from a reduction in excess liquidity, gradually employed in interest-bearing assets, and a lower funding cost on deposits from retail customers. In order to provide a more detailed representation of the Bank's results, starting from this quarter interest expense on the lease liability (IFRS 16) is classified as a component of administrative expenses. For consistency of presentation, the results of previous quarters have been reclassified using the same approach.

Net fees and commissions for the second quarter of 2020 amounted to approximately **2.1 million euro**, a decrease of 15% over the previous quarter. This trend can mostly be attributed to the temporary closing of the Law courts, a factor that led to an effective halt in IT Auction's operations, a slowdown in the activities connected with the Factoring business in the first part of the quarter and more generally a limited number of new originated deals.

The Bank **did not benefit from any contribution from trading activities** in the second quarter of the year, while these conversely generated profits of 3.7 million euro in the first quarter.

It is recalled that, in order to provide a more effective representation of the Bank's performance, a reclassified presentation of the economic components of the DCIS Division was introduced in the first quarter of 2020. The gains earned on the definitive settlement of distressed credit positions through the use of payment recovery strategies agreed with the debtor ("discounted payoff" or "saldo e stralcio") and on the sale of positions – a structural and repeatable component of the DCIS Division's activity – are included as revenue. This income stream, which for accounting purposes is classified under line item 130 of the income statement ("Net write-downs/write-backs from credit risks"), is separated into the two items "Gains from closed purchased distressed credit positions" – classified as revenue – and "Value adjustments on purchased distressed credit" – which continue to be presented as value adjustments.

During the second quarter, the **DCIS Division** continued its dynamic portfolio management strategy, generating **income from closed positions,** based on the above-mentioned definition, earning approximately **7.9 million euro**.

Including this item, **operating income** closed at **34.5 million euro** in the second quarter of 2020, a fall of 7% compared to the figure of 37.2 million posted in the previous quarter; excluding the contribution of the trading income earned on the securities portfolio in the first quarter of the year, total revenue would be higher by 3% than that of the previous quarter.

Operating expenses in the second quarter of 2020 remained largely **stable** at approximately **28.2 million euro** and include 0.9 million euro of costs arising from the *Employee Stock Ownership Plan* ("ESOP"), an item that is fully expensed in the second quarter of each year.

As a result of the above movements, the **cost-income ratio** for the second quarter of 2020 reached **82%**, slightly higher than the figure for the previous quarter and substantially stable, excluding non-recurring items in the first quarter.

It is recalled that in the first quarter of 2020 the Bank decided to adopt a conservative approach consistent with the COVID-19 situation, which led to a write-down in customer loans of 2.7 million euro, bringing the coverage ratio of the Bank's performing loans, excluding the factoring business which is already covered to a large extent by credit insurance, to over 1.5%. As a result of this approach and backed by a rigorous monitoring of the existing portfolio that confirmed a negligible deterioration to date of existing positions, **loan adjustments for the quarter fell to 1.2 million euro**. The annualised cost of risk accordingly amounted to approximately **52bps**[5] in the second quarter, **corresponding to an annualised 85bps for the first half of 2020**. The coverage ratio of the Bank's performing loans at 30 June 2020 stood at 1.56%.

As a result of cash flow from distressed loan portfolios purchased by the DCIS Division exceeding those included in the relative recovery plans, the Bank was able to recognise **4.6 million euro of positive value adjustments**.

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[5] Calculated on the basis of net organic loans of 926.4 million euro at 30 June 2020.

The income tax charge for the period benefited from the positive effect of 3.7 million euro arising from goodwill realignment.

As a result of the above dynamics, the quarter ended with **net profit of 10.3 million euro**.

Business outlook

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

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

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

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

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

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

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

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

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

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

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

Pursuant to Article 154 bis, paragraph 2, of Legislative Decree no. 58/1998 (the Consolidated Law on Finance), the Financial Reporting Officer, Mr. Sergio Fagioli, declares that the accounting information contained in this press release corresponds to the documented results and the accounting books and records.

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illimity management will present the results for the second quarter of 2020 to the financial community today 4 August 2020 at 9:00 a.m. CET. The event can be followed by Live Audio Webcast using the following link: http://87399.choruscall.eu/links/illimity200804.html or by conference call on the following numbers.

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illimity Bank S.p.A.

illimity is the high-tech banking group founded and headed by Corrado Passera that was created with the aim of responding to specific market needs by way of an innovative and specialist business model. More specifically, illimity extends financing to high-potential SMEs, purchases distressed corporate loans and services these through its platform, neprix, provides digital direct banking services through *illimitybank.com* and, with illimity SGR, over the next few months will set up and manage the first Alternative Investment Fund for corporate loans. The story of illimity began in January 2018 with the launch of the special purpose acquisition company SPAXS S.p.A., which ended with a record 600 million euro being raised on the market. SPAXS subsequently acquired Banca Interprovinciale S.p.A., with the resulting merger between the two, giving rise to “illimity Bank S.p.A.” which began trading on Borsa Italiana’s MTA exchange on 5 March 2019 (ticker “ILTY”). The banking group, headquartered in Milan, can already count on 500 employees and closed its first year of activity with assets of 3 billion euro.

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The following provides a reclassification of the key quarterly income statement figures given that from this quarter interest expense on the lease liability (IFRS 16) is recognised as a component of other administrative expenses.

Amounts in million of euro

Reclassified Profit & Loss	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Interest income	8.6	10.1	16.5	27.5	32.1	33.2
Interest expenses	(1.1)	(0.8)	(2.4)	(9.0)	(10.2)	(8.9)
Net interest income	**7.4**	**9.2**	**14.1**	**18.5**	**21.8**	**24.3**
Net fees and commissions	0.6	1.9	2.6	1.5	2.5	2.1
Net result from trading	0.9	0.3	0.1	8.9	3.7	(0.0)
Net other income/expenses	0.3	0.1	(0.1)	1.6	0.0	0.2
Gains from closed purchased distressed credit positions[1]				9.1	9.1	7.9
Operating income	**9.3**	**11.6**	**16.7**	**39.7**	**37.2**	**34.5**
Staff costs	(6.4)	(8.7)	(6.9)	(9.1)	(11.3)	(13.2)
Other operating expenses	(10.3)	(11.6)	(14.2)	(19.0)	(16.3)	(12.9)
Depreciation & Amortisation	(0.5)	(0.7)	(0.9)	(1.1)	(1.8)	(2.0)
Operating costs	**(17.1)**	**(21.0)**	**(22.0)**	**(29.2)**	**(29.4)**	**(28.2)**
Operating profit	**(7.9)**	**(9.5)**	**(5.3)**	**10.4**	**7.8**	**6.4**
Loan loss provision charges	*(1.2)*	*(2.8)*	*(2.5)*	(1.0)	(2.7)	(1.2)
Value adjustments on purchased distressed credit	*1.4*	*0.1*	*(1.4)*	(8.2)	2.8	4.6
Value adjustments on HTC securities and loans to banks	*(0.1)*	*0.0*	*0.0*	0.0	(0.3)	0.2
Other net provisions	(0.2)	0.2	0.0	0.1	(0.5)	0.2
Provisions for risks and charges	(0.2)	(0.2)	(0.2)	0.1	0.1	(0.1)
Profit (loss) before tax	**(8.3)**	**(12.2)**	**(9.4)**	**1.4**	**7.2**	**10.0**
Income tax	2.4	6.8	2.5	0.6	(2.7)	0.3
Net result	**(5.9)**	**(5.4)**	**(6.8)**	**2.1**	**4.5**	**10.3**

CONSOLIDATED BALANCE SHEET

(values in thousands of euro)

		30.06.2019	31.12.2019	31.03.2020	30.06.2020
10	Cash and cash balances	42,405	772,125	219,063	311,387
20	Financial assets measured at fair value through profit or loss	17,421	8,665	7,567	12,184
	a) financial assets held for trading	*10,243*	63	62	52
	b) financial assets designated at fair value	-	-	-	-
	c) other financial assets mandatorily measured at fair value	*7,178*	8,602	7,505	12,132
30	Financial assets measured at fair value through other comprehensive income	89,962	125,788	335,187	285,679
40	Financial assets measured at amortised cost	1,000,219	1,982,722	2,318,513	2,408,726
	a) due from banks	*139,880*	344,858	566,799	502,844
	b) loans to customers	*860,339*	1,637,864	1,751,714	1,905,882
50	Hedging derivatives	-	-	-	-
60	Fair value change of financial assets in hedged portfolios (+/-)	-	-	-	-
70	Investments in associates and companies subject to joint control	-	-	-	-
80	Tangible Assets	24,238	25,395	25,775	72,058
90	Intangible assets	30,623	40,804	57,808	61,888
	of which goodwill	*21,643*	21,643	36,224	36,224
100	Tax assets	32,121	37,061	39,043	39,500
	a) current	*3,914*	5,127	3,152	2,433
	b) deferred	*28,207*	31,934	35,891	37,067
110	Non-current assets held for sale and discontinued operations	-	-	-	-
120	Other assets	16,104	32,662	48,814	46,434
	Total Assets	**1,253,093**	**3,025,222**	**3,051,770**	**3,237,856**

(values in thousands of euro)

		30.06.2019	31.12.2019	31.03.2020	30.06.2020
10	Financial liabilities measured at amortized cost	641,098	2,377,250	2,401,891	2,520,946
	a) due to banks	*238,779*	*376,747*	*468,190*	*582,970*
	b) due to customers	*384,276*	*1,985,145*	*1,923,399*	*1,935,722*
	c) debt securities issued	*18,043*	*15,358*	*10,302*	*2,254*
20	Financial liabilities held for trading	0	-	-	-
30	Financial liabilities designated at fair value	0	-	7,719	-
40	Hedging derivatives	0	-	-	-
50	Adjustments in value of generic hedging financial liabilities (+/-)	0	-	-	-
60	Tax liabilities	693	770	2,156	3,187
	a) current	*0*	*53*	*1,125*	*2,301*
	b) deferred	*693*	*717*	*1,031*	*886*
70	Liabilities associated with non-current assets held for sale and discontinued operations	0	-	-	-
80	Other liabilities	60,238	100,568	100,006	146,995
90	Employee termination indemnities	884	1,097	1,712	2,175
100	Provisions for risks and charges:	1,364	1,082	1,047	1,393
	a) commitments and guarantees issued	*552*	*598*	*459*	*326*
	b) pensions and similar obligations	*0*	-	*3*	*4*
	c) other provisions for risks and charges	*813*	*484*	*585*	*1,063*
110	Valuation reserves	1,204	939	(10,946)	(4,199)
120	Redeemable shares	0	-	-	-
130	Equity instruments	0	-	-	-
140	Reserves	35,502	36,188	20,217	21,237
150	Share premium reserves	480,156	480,156	480,156	487,373
160	Share capital	43,408	43,408	43,408	44,007
170	Treasury shares	(96)	(96)	(96)	(96)
180	Profit (loss) for the period attributable to the Group (+/-)	(11,358)	(16,140)	4,500	14,838
	Group equity	**548,816**	**544,455**	**537,239**	**563,160**
	Profit (loss) for the period attributable to minority interests (+/-)	0	-	-	-
	Equity of minority interests	**0**	**-**	**-**	**-**
	Total liabilities and equity	**1,253,093**	**3,025,222**	**3,051,770**	**3,237,856**

CONSOLIDATED INCOME STATEMENT

(Amounts in thousands of euro)

		4Q19	1Q20	2Q20
10	Interest income and similar income	27,543	32,061	33,212
20	Interest expenses and similar charges	(9,416)	(10,627)	(9,321)
30	**Net interest margin**	**18,127**	**21,434**	**23,891**
40	Commission receivable	3,662	3,862	2,734
50	Commission expense	(2,148)	(1,366)	(604)
60	**Net commission**	**1,514**	**2,496**	**2,130**
70	Dividends and similar income	-	-	-
80	Net trading result	41	2	(533)
90	Net hedging result	-	-	-
100	Gain (loss) from disposal and repurchase of:	9,363	4,914	505
	a) financial assets measured at amortized cost	*7,710*	*-*	*-*
	b) financial assets measured at fair value through other comprehensive income	*1,653*	*4,916*	*504*
	c) financial liabilities	*-*	*(2)*	*1*
110	Gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	(513)	(1,220)	-
	a) financial assets and liabilities designated at fair value	*(1)*	*-*	*-*
	b) other financial assets subject to mandatory fair-value valuation	*(512)*	*(1,220)*	*-*
120	**Net interest and other banking income**	**28,532**	**27,626**	**25,993**
130	Net write-downs/write-backs for credit risks relating to:	(38)	8,399	11,687
	a) financial assets measured at amortized cost	*(93)*	*8,936*	*11,503*
	b) financial assets measured at fair value through other comprehensive income	*55*	*(537)*	*184*
140	Gain/loss from contract amendments without cancellations	-	-	-
150	**Net result from banking activities**	**28,494**	**36,025**	**37,680**
160	Net insurance premiums	-	-	-
170	Other net insurance income/expenses	-	-	-
180	**Net result from banking and insurance activities**	**28,494**	**36,025**	**37,680**
190	Administrative expenses:	(28,180)	(27,389)	(26,706)
	a) staff costs	*(9,263)*	*(11,260)*	*(13,235)*
	b) other administrative expenses	*(18,917)*	*(16,129)*	*(13,471)*
200	Net provisions for risks and charges	124	105	(101)
	a) commitments and financial guarantees issued	*62*	*141*	*(137)*
	b) other net provisions	*62*	*(36)*	*36*
210	Net value adjustments to/recoveries on tangible assets	(539)	(660)	(663)
220	Net value adjustments to/recoveries on intangible assets	(578)	(1,173)	(1,364)
230	Other operating income/expenses	2,088	253	1,185
240	**Operating expenses**	**(27,085)**	**(28,864)**	**(27,649)**
250	Profit (loss) on investments in associates and companies subject to joint control	-	-	-
260	Valuation differences on tangible and intangible assets measured at fair value	-	-	-
270	Adjustments in value of goodwill	-	-	-
280	Gain (loss) from disposal of investments	-	-	-
290	**Pre-tax profit (loss) before tax from continuing operations**	**1,409**	**7,161**	**10,031**
300	Tax income (expenses) for the period on continuing operations	645	(2,661)	307
310	**Profit (loss) after tax from continuing operations**	**2,054**	**4,500**	**10,338**
320	Profit (loss) after tax from discontinued operations	-	-	-
330	**Profit (loss) for the period**	**2,054**	**4,500**	**10,338**
340	Profit (loss) for the period attributable to minority interests	-	-	-
350	**Profit (loss) for the period attributable to the Parent Company**	**2,054**	**4,500**	**10,338**