# Consolidated interim report as of 31 March 2021

illimity
BANCA OLTRE LA FORMA

# Contents

Consolidated interim report as of 31 March 2021 illimity

# Composition of Corporate Bodies

## BOARD OF DIRECTORS (*)

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

**Rosalba Casiraghi**
Chair

## BOARD OF STATUTORY AUDITORS

| Chair | Standing Auditors | Substitute Auditors |
|---|---|---|
| Ernesto Riva | Stefano Caringi | Riccardo Foglia Taverna |
| | Nadia Fontana | Michela Zeme |

**Chief Executive Officer**

Corrado Passera

**Directors**

Massimo Brambilla

Patrizia Canziani

Elena Cialliè

Paola Elisabetta Galbiati

Giovanni Majnoni d'Intignano

Martin Ngombwa

Marcello Valenti

## FINANCIAL REPORTING OFFICER

Sergio Fagioli

## INDEPENDENT AUDITORS

KPMG S.p.A.

(*) The Board of Directors of illimity has been in office since 22 April 2021.

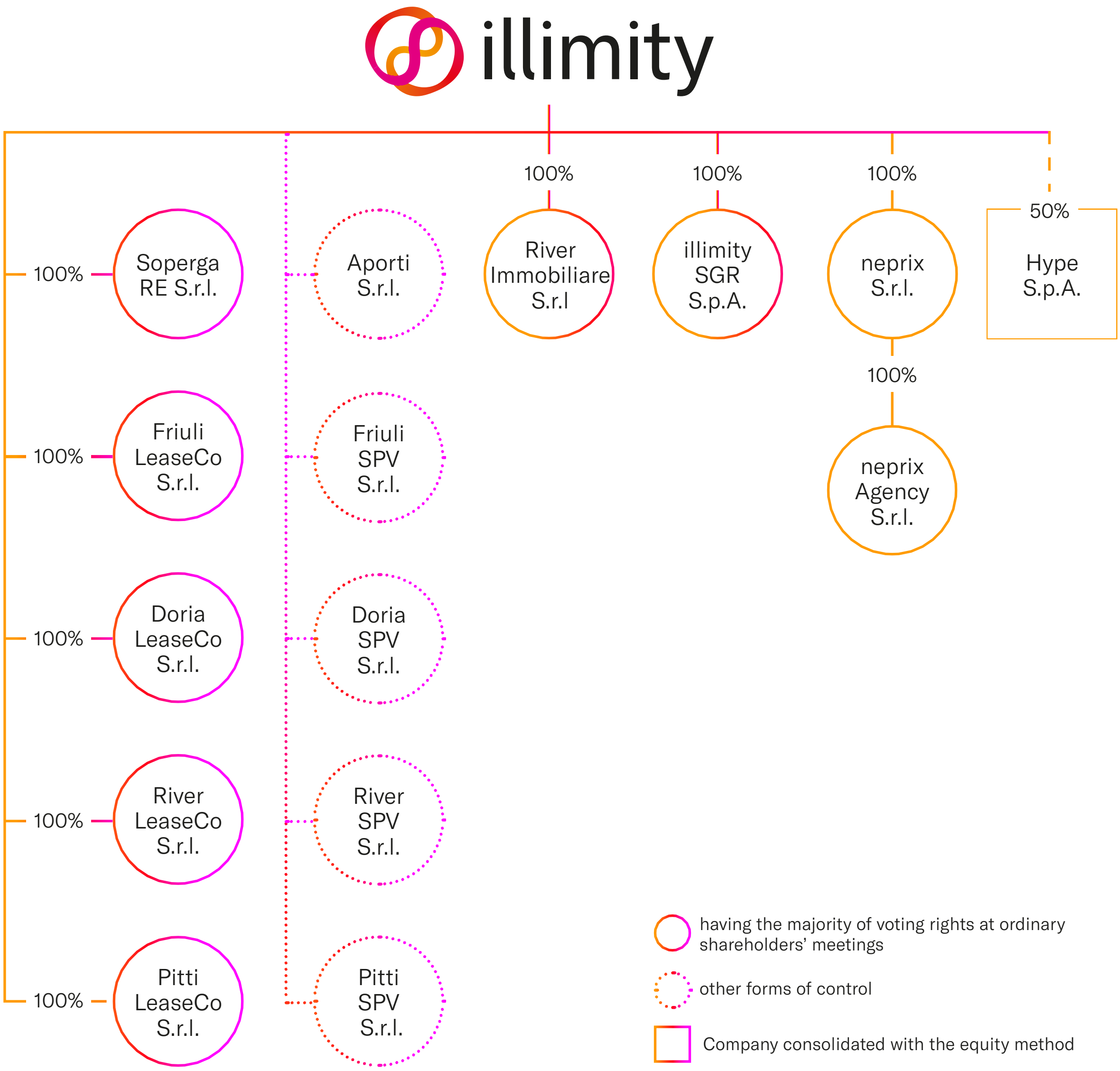
# Consolidated interim report

as of 31 March 2021

illimity
BANCA OLTRE LA FORMA

# The illimity Group

This Consolidated Interim Financial Report illustrates the performance and the related financial results for the first nine months of 2021 of illimity Bank S.p.A. ("illimity" or the "Bank") and of the entities included in the scope of consolidation (together with the Bank, the "illimity Group" or "Group"). illimity exercises the management and coordination of the Group and has its registered office in Milan, at Via Soperga 9[1].




As of 31 March 2021, the Group included the following entities:

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

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

ii. Friuli SPV S.r.l. (“Friuli SPV”), established to undertake the securitization of NPL leases, through the subscription by the Bank of the notes issued by the securitization vehicle established in accordance with Italian Law no. 130/1999;
iii. Friuli LeaseCo S.r.l. (“Friuli LeaseCo”), a wholly owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitization;
iv. Soperga RE S.r.l. (REOCO) (“Soperga RE”) a wholly owned subsidiary of the Bank, established to manage the real estate assets associated with the portfolios of acquired NPLs pursuant to Article 7.1 of Italian Law no. 130/1999 on securitizations;
v. Doria SPV S.r.l. (“Doria SPV”), established to undertake the securitization of NPL leases, through the subscription by the Bank of the notes issued by the securitization vehicle established in accordance with Italian Law no. 130/1999;
vi. Doria LeaseCo S.r.l. (“Doria LeaseCo”), a wholly owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitization;
vii. River SPV S.r.l. (“River SPV”), established to undertake the securitization of NPL leases, through the subscription by the Bank of the notes issued by the securitization vehicle established in accordance with Italian Law no. 130/1999;
viii. River LeaseCo S.r.l. (“River LeaseCo”), a wholly owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitization;
ix. Pitti SPV S.r.l. (“Pitti SPV”), established to undertake the securitization of NPL leases, through the subscription by the Bank of the notes issued by the securitization vehicle established in accordance with Italian Law no. 130/1999;
x. Pitti LeaseCo S.r.l. (“Pitti LeaseCo”), a wholly owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitization;
xi. neprix S.r.l. (“neprix”), a wholly owned subsidiary of the Bank mainly operating in the non-performing loan sector, relying on the services of professionals with specific experience and know how in assessing and managing non-performing loans;
xii. illimity SGR S.p.A. (“illimity SGR”) wholly owned by the Bank, which manages the assets of closed-end alternative investment funds (AIFs), established with own funds and the funds of third-party institutional investors;
xiii. neprix Agency S.r.l. (“neprix Agency”), wholly owned by neprix, a real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties;
xiv. River Immobiliare S.r.l. (“River Immobiliare”), held entirely by the Bank, set up for the purchase, sale and management - for disposal - of property owned by the company;
xv. Hype S.p.A. (“Hype”), held 50% by illimity through a joint venture with Fabrick (a company of the Sella group), that operates with a payment institute licence and is the digital solution for simple, efficient day-to-day money management. On the market since 2015, Hype has anticipated the response to the growing need of the public to access banking services in an entirely new way, offering other added value services.

# Alternative performance measures as of 31 March 2021

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

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

*(amounts in thousands of euros)*

| PERFORMANCE MEASURES | 31/03/2021 | 31/03/2020 | Chg. | Chg. (%) |
|---|---|---|---|---|
| Total net operating income | 55,671 | 37,002 | 18,669 | 50% |
| Operating expenses | (37,549) | (29,223) | (8,326) | 28% |
| Operating profit (loss) | 18,122 | 7,779 | 10,343 | >100% |
| Total net write-downs/write-backs | 3,128 | (582) | 3,710 | N/A |
| Profit (loss) from operations before taxes | 19,102 | 7,161 | 11,941 | >100% |
| Profit (loss) for the period | 12,556 | 4,500 | 8,056 | >100% |

*(amounts in thousands of euros)*

| BALANCE SHEET MEASURES | 31/03/2021 | 31/12/2020 | Chg. | Chg. (%) |
|---|---|---|---|---|
| **Net non-performing loans - organic[2]** | **17,983** | **19,055** | **(1,072)** | **(6%)** |
| *of which: Bad loans* | 5,987 | 6,108 | (121) | (2%) |
| *of which: Unlikely-to-pay positions* | 11,898 | 12,521 | (623) | (5%) |
| *of which: Past-due positions* | 98 | 426 | (328) | (77%) |
| **Net non-performing loans - inorganic (POCI)[3]** | **1,075,543** | **1,054,778** | **20,765** | **2%** |
| *of which: Bad loans* | 744,790 | 744,260 | 530 | 0% |
| *of which: Unlikely-to-pay positions* | 330,753 | 310,439 | 20,314 | 7% |
| *of which: Past-due positions* | - | 79 | (79) | (100%) |
| **Net performing HTC securities** | **233,147** | **249,913** | **(16,766)** | **(7%)** |
| *of which: SME securities – High-Yield* | 4,420 | 4,154 | 266 | 6% |
| *of which: DCIS securities - Senior Financing* | 228,727 | 245,759 | (17,032) | (7%) |
| **Loans to financial entities** | **139,943** | **109,993** | **29,950** | **27%** |
| **Net performing loans to customers** | **907,059** | **881,162** | **25,897** | **3%** |
| **Financial instruments (HTCS + FV)** | **360,936** | **109,877** | **251,059** | **>100%** |
| **Direct customer funding** | **2,870,160** | **2,853,141** | **17,019** | **1%** |
| **Total Assets** | **4,316,037** | **4,126,289** | **189,748** | **5%** |
| **Shareholders' equity** | **665,493** | **583,122** | **82,371** | **14%** |

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

3 POCI = Purchased or Originated Credit Impaired

| RISK RATIOS | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Gross Organic NPE Ratio[4] | 3.0% | 3.2% |
| Net Organic NPE Ratio[5] | 1.6% | 1.7% |
| Coverage ratio for organic non-performing loans[6] | 49.8% | 49.1% |
| Coverage ratio for organic bad loans[7] | 69.1% | 69.4% |
| Coverage ratio for performing loans[8] | 1.12% | 1.20% |
| Cost of organic credit risk (BPS)[9] | n.s. | 52 |

| STRUCTURAL RATIOS | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Shareholders' equity/Total Liability | 15.4% | 14.1% |
| Interbank Funding/Total Funding | 17.9% | 15.8% |
| Liquidity coverage ratio | >1100% | >700% |
| Net Stable Funding Ratio | >130% | >100% |
| Net loans with customers/Total assets[10] | 51.8% | 53.4% |
| Direct customer funding/Total Liability | 66.5% | 69.1% |

| CAPITAL RATIOS | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Tier I capital ratio (Tier I capital/Total weighted assets) | 17.55% | 17.86% |
| Total capital ratio [(Tier I + Tier II)/Total weighted assets] | 17.55% | 17.86% |
| Own Funds | 529,722 | 509,127 |
| of which: Tier I capital | 529,722 | 509,127 |
| Risk-weighted assets | 3,018,173 | 2,850,572 |

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

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

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

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

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

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

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

# Composition and organisational structure

illimity operates in the banking sector and is authorised to provide banking, investment and trading services. illimity currently has three Business Divisions:

- Small Medium Enterprises (“SME”);
- Distressed Credit Investment & Servicing (“DCIS”);
- Direct Banking (“DB”).

There is also the Asset Management Company (“SGR”), which manages the assets of closed-end alternative investment funds (AIFs), established with own funds and the funds of third-party institutional investors.

The Bank’s organisational structure also comprises other units supporting the Business and monitoring risks.

The Bank’s current organisation, which completes some organisational changes formalised on 1 May 2021, is presented below.

## Small Medium Enterprises Division

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

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

The SME Division is active in the following segments:

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

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

These areas, specialised by Business segment, are flanked by dedicated units, supporting business activities: the Legal SME area supports the business areas regarding legal and contractual aspects; the Business Operations & Credit Support area manages the annual reporting of the Division, monitors relations with tutors, manages the Modena branch and oversees the portfolio of the former Banca Interprovinciale regarding progressive divestment.

## Distressed Credit Investment & Servicing Division

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

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

The DCIS Division has the following structure:

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

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

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

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

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

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

In line with illimity's business model of internalising the entire value chain, the Bank is supported by neprix for the management of distressed loans, and forms commercial agreements with servicers selected from time to time on the basis of the characteristics of the assets acquired.

neprix, the company where servicing activities for NPLs acquired by illimity, are centralised, relies on the services of professionals with specific experience and know how in due diligence and in managing non-performing loans. Following the merger with IT Auction (the company acquired by the Group in 2020 and merged into neprix with effect from 1 February 2021), the neprix Sales Area was created, for managing and selling property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/online auctions and a network of professionals operating nationwide.

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

## Direct Banking Division

Through its Direct Banking Division ("DB"), illimity offers digital banking products and services to Retail and Corporate customers. The Division aims to develop a range of products and services that can fulfil the needs of the market and to manage the online and app channels. It is responsible for designing the value proposition and its relative commercial and pricing characteristics, and for formulating the characteristics of the front-end and the overall user experience for the customer. In addition, it formulates Bank's communications plan and brand development strategy to ensure positioning, customer acquisition results and optimal customer management. This is achieved through a platform supported by the most innovative technologies available. The optimisation of the service is also supported by the Contact Center, Back Office and design of processes, as well as by dedicated data management oversight.

The Direct Banking Value Proposition currently extends to the following products and services categories:

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

## Asset Management Company

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

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

To pursue its business objectives in an effective and consistent manner, the SGR has adopted a "traditional" governance model, which has a structure comprising a Board of Directors and a Board of Statutory Auditors. The structure, described below, has been set up for the best management possible of the operational model defined for the Company, in line with regulatory principles and guidelines, and also with guidance from the Parent Company. In accordance with the characteristics of its own operations, with future planned developments and with the guidelines of its long-term business plan and the Group it belongs to, the SGR has the following organisation:

- two "Business Areas" comprising:
  - the UTP & Turnaround Funds Area, with the activities previously managed by the former "Investments Area" of the original organisation. the UTP & Turnaround Funds Area, focussed on setting up and managing AIFs with investment strategies and policies centred on the turnaround market and on businesses in financial difficulty with prospects for relaunch;
  - the Private Capital Funds Area, newly established, with the aim of setting up and managing AIFs with investment strategies and policies targeting asset classes with underlying financial instruments issued by performing companies;
- two "Support Areas" comprising:
  - the Sales & Business Development Area, set up with the aim of steering, coordinating and monitoring the commercial promotion and distribution of all products and services provided by the SGR for its own customers, and organising and promoting new business activities within the SGR;

- the Operations & Administration Area, which groups the activities of the pre-existing Administration, Finance and Control Area, with a focus on operating areas and providing support for the Business Areas.

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

## Other functions - Corporate Center

The organisation also monitors risk management and support activities through functions directly reporting to the Chief Executive Officer:

- the Chief Financial Officer & Central Functions, responsible for coordinating the overall planning and control, finance and administration process, to optimise operating and procurement costs, and human resources management;
- the Chief Risk Officer, responsible for guaranteeing the strategic oversight and definition of risk management policies;
- the Chief Lending Officer, that monitors credit analysis and approval activities;
- the Chief Information Officer, responsible for IT infrastructure management;
- the Compliance & AML Department, responsible for compliance risk management and oversight of money laundering and terrorist financing risk;
- the Communication & Stakeholder Engagement Department, responsible for promoting and supporting the development of a single, shared identity of the Bank among various stakeholders.

## Bank branches and offices

The Bank's branches and offices are as follows:

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

## Human resources

As of 31 March 2021, the Bank's registered employees numbered 621 (587 as of 31 December 2020). A breakdown of the workforce is given below, divided by job level:

| Level | 31/03/2021 | | | 31/12/2020 | | | Changes | |
|---|---|---|---|---|---|---|---|---|
| | Number of employees | in % | Average age | Number of employees | in % | Average age | Number of employees | in % |
| Senior managers | 58 | 10% | 46 | 55 | 10% | 46 | 3 | 5% |
| Middle managers | 281 | 45% | 37 | 242 | 41% | 37 | 39 | 16% |
| Other employees | 282 | 45% | 33 | 290 | 49% | 34 | (8) | (3%) |
| Employees | 621 | 100% | | 587 | 100% | | | |

# Macroeconomic scenario

The recent intensification of the coronavirus (COVID-19) pandemic in the first quarter of 2021 has weakened the near-term outlook for euro area activity but not derailed the recovery. As reported by the European Central Bank ("ECB"), despite extended and more stringent containment measures, activity in the fourth quarter of 2020 declined by significantly less than expected in the December 2020 Eurosystem staff projections due to learning effects, strong manufacturing growth and a rebound in foreign demand. On the basis of data in the March 2021*Eurosystem Macroeconomic Projections*("the Projections") the near-term outlook for activity depends on the evolution of the pandemic and, in particular, on how fast and how much rising vaccination rates will allow an unwinding of containment measures. Containment measures are now assumed to be more stringent in the first half of 2021 than in the December 2020 projections, before concerted efforts to ramp up the production and distribution of vaccines allow a stronger relaxation of containment measures and a final resolution of the health crisis by early 2022, in line with the previous projections. This, together with substantial support from monetary and fiscal policy measures – including, in part, Next Generation EU (NGEU) funds – and a further recovery in foreign demand, should lead to a firm rebound as of the second half of 2021.

In view of the continued significant uncertainty regarding the evolution of the pandemic and the degree of economic scarring, two alternative scenarios have again been prepared by the ECB. The mild scenario envisages a more successful roll-out of the vaccines, allowing for a phasing out of containment measures by the end of 2021, while faster learning effects limit the economic costs. In contrast, the severe scenario envisages a strong intensification of the pandemic, with new variants of the virus also implying a reduction in the effectiveness of vaccines, leading governments to maintain some containment measures until mid-2023 with substantial and permanent losses to economic potential.

The analyses conducted by the Bank of Italy show how the vaccination campaigns taking place and support from economic policies have improved global prospects. In the United States, the budget expansion plan of Biden's administration has increased expectations of long-term growth and returns. In the near-term there are still uncertainties over the development of the pandemic and its impacts on the economy, due to delays in vaccination campaigns and the spread of new variants. Economic activity in the Euro area has been affected by a new increase in infections; despite a temporary increase in inflation, price prospects remain weak. The Executive Board of the European Central Bank has decided to increase the rate at which securities are purchased in the programme for the pandemic emergency, to avoid the rebound in returns observed on international markets from prematurely harshening financial conditions in the area, that would not be justified by the current economic prospects.

In Italy, the economy has held up, but the spread of COVID has had an impact. In the fourth quarter of 2020, the decline in output, although significant, was lower than expectations. Based on available indicators, economic activity in the first three months of the year would have remained more or less stable; the consolidation in industry was accompanied by a performance in services that was still weak. These estimates are still subject to considerable uncertainty, related to the impacts of the pandemic.

According to surveys conducted by the Bank of Italy, businesses are planning to resume investments in the remainder of the year. The households interviewed by the Bank of Italy reported a gradual recovery in spending intentions, but the tendency to save is still high. Most of the savings made in 2020, of households less impacted by the effects of the pandemic, would not be spent during this year. In the fourth quarter of 2020, Italian exports of goods increased in line with the world economy, coming to just below pre-pandemic levels, offsetting the fall in international tourist flows, dropping again after the recovery in the summer months. Foreign demand for Italian securities went up. Following the surplus of the current portion, Italy's net credit position with foreign parties increased.

With the social distancing measures decided in the autumn, the hours worked in the last quarter of 2020 fell again and the use of salary integration measures increased. However demand was far lower than during the first pandemic wave. The number of employed went up, but was far from the pre-health crisis level. In the first two months of the year, employee positions remained stable. Labour market conditions point to a salary trend that will remain muted over the next few months.

The change in consumer prices, negative in the last few months of 2020, stood at 0.6 per cent in March. This dynamic affected energy prices. Basic inflation returned to lower values, being affected by postponed seasonal sales in the first two months of the year. Price pressures at origin were modest. Households and businesses revised inflation rate expectations upwards, though rates stayed low.

Financial market conditions continued to be relaxed. Upward pressure on Italian government bonds from the US was offset by decisions taken by the Executive Board of the ECB and the reduction in the sovereign risk premium. Business credit is expanding at a robust pace, reflecting above all a still-high demand for guaranteed loans; loan conditions are accommodating.

With new actions to contain infection, the Government launched additional measures to support households and businesses. Additional resources were also allocated to consolidate the vaccination programme and other health-related actions to combat the pandemic. Official overall evaluations indicate a deficit for 2021 of nearly 32 billion compared to its tendential value. Other actions may be decided in light of the new authorisation to increase net debt which the Government has requested to Parliament.

The Government, in the context of the financial package for the EU's recovery (Next Generation EU) is preparing the National Recovery and Resilience Plan (PNRR). According to initial indications, available resources would amount to nearly EUR 192 billion, of which some EUR 123 billion as loans. An amount equal to 13% would be available as a pre-loan after the Plan has been approved by the European Council.

Production in the fourth quarter of 2020 was better than expectations, with a favourable impact on growth for the current year. According to main projections, expansion could be higher than 4% in 2021, with a considerable recovery in the second part of the year, facilitated by the global context. A return to sustained, long-lasting growth is plausible, although not risk-free. It requires economic support to continue, and the actions introduced in the PNRR to be effective.

Prospects are tied above all to progress in the vaccination campaign and to a favourable outcome for infections.

# Significant events in the first three months of 2021

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

In the current context, still affected by the COVID-19 epidemic and consequent economic/financial impacts at an international level, the illimity Group has maintained a number of actions to deal with the critical context and mitigate the related risks at operational level (smart working for all employees as a general rule), in terms of credit strategy and policy and credit risk management, the strategic management of the financial assets portfolio, as well as customer relationship management and the management of own business models.

The effectiveness of illimity's commercial and technological proposal has been a strength in understanding and meeting the increased demand for remote financial services, related to the logistics limitations caused by various government measures.

The Group's highly conservative approach to pricing investments and providing funding and its limited exposure to economic sectors or asset classes most affected by the pandemic, are all factors that demonstrate the resilience of the business model in a reference scenario still characterised by considerable risks.

The managerial committees and governing boards of the Group carry out assessments at regular intervals on the actual and potential economic, financial and operational impacts of the pandemic on the strategic and operational choices of the various business lines.

## Corporate transactions

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

On 13 January 2021, the deed was signed by which Core, IT Auction and Mado were merged into neprix. The merger became effective on 1 February 2021. The accounting and fiscal effects of the merger started from 1 January 2021. Following the merger, neprix holds 100% of the shares in the company neprix Agency (formerly ITA Gestione), previously held by IT Auction. This merger has no effects on the consolidated financial statements, as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

## Other significant information

On 29 January 2021, illimity obtained certification as a Great Place to Work® for the second year running. Great Place to Work® is an organisational consulting company in the HR field, leader in Italy in business climate studies and analysis.

On 10 March 2021, illimity was qualified by the Bank of Italy as a *Nomad* (Nominated Adviser), for companies that, through listing on the AIM Italy market, wish to raise capital to consolidate their competitive position and accelerate their growth.

# Reclassified consolidated financial statements of the Group as of 31 March 2021

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 expenses/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;
- the cost components related to Raisin operations are recognised, minus net interest;
- personnel expenses also include documented, itemised reimbursements of room, board and travel expenses incurred by employees on business trips and the costs of mandatory examinations;
- interest expense resulting from the lease liability (IFRS 16) is recognised under other administrative expenses;
- net credit exposure to customers on closed positions is shown separately from net value adjustments/write-backs for credit risk.

Some assets and liabilities in the statement of financial position were grouped together, concerning:

- the inclusion of cash and cash equivalents in the residual item other assets;
- the aggregation in a single item of property and equipment and intangible assets;
- the aggregation of financial assets designated at fair value through other comprehensive income and financial assets held for trading;
- the separate indication of loans to financial entities and securities at amortised cost;
- the separate indication of loans mandatorily measured at fair value;
- the reclassification of Leasing agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes;
- the inclusion of the Provision for Risks and Charges and employee severance pay in residual items of other liabilities;
- the aggregate indication and items comprising shareholders' equity.

### RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*(amounts in thousands of euros)*

| Components of official items of the Statement of Financial Position | Assets | 31/03/2021 | 31/12/2020 | Chg. | Chg. (%) |
|---|---|---|---|---|---|
| 20 a) + 30 | Treasury portfolio - Securities at FV | 342,635 | 91,427 | 251,208 | >100% |
| 20 c) | Financial instruments mandatorily measured at fair value | 17,789 | 18,450 | (661) | (4%) |
| 20 c) | Loans mandatorily measured at fair value | 512 | - | 512 | N/A |
| 40 a) | Due from banks | 536,023 | 530,922 | 5,101 | 1% |
| 40 b) | Loans to financial entities | 139,943 | 109,993 | 29,950 | 27% |
| 40 b) | Loans to customers | 2,000,585 | 1,954,995 | 45,590 | 2% |
| 40 b) | Securities at amortised cost – SME | 4,420 | 4,154 | 266 | 6% |
| 40 b) | Securities at amortised cost – Senior Financing | 228,727 | 245,759 | (17,032) | (7%) |
| 70 | Investments in equity | 85,564 | - | 85,564 | N/A |
| 90 + 100 | Property and equipment and intangible assets | 147,191 | 147,816 | (625) | (0%) |
| | *of which: Goodwill* | *36,224* | *36,224* | *-* | *0%* |
| 110 | Tax assets | 31,088 | 35,403 | (4,315) | (12%) |
| 10 + 130 | Other assets | 781,560 | 987,370 | (205,810) | (21%) |
| | *of which: Cash and cash equivalents* | *732,759* | *944,832* | *(212,073)* | *(22%)* |
| | **Total assets** | **4,316,037** | **4,126,289** | **189,748** | **5%** |

*(amounts in thousands of euros)*

| Components of official items of the Statement of Financial Position | Liabilities | 31/03/2021 | 31/12/2020 | Chg. | Chg. (%) |
|---|---|---|---|---|---|
| 10 a) | Amounts due to banks | 626,660 | 534,345 | 92,315 | 17% |
| 10 b) | Amounts due to customers | 2,567,758 | 2,552,161 | 15,597 | 1% |
| 10 c) | Securities issued | 302,402 | 300,980 | 1,422 | 0% |
| 60 | Tax liabilities | 6,859 | 4,207 | 2,652 | 63% |
| 80 + 90 + 100 | Other liabilities | 146,865 | 151,474 | (4,609) | (3%) |
| (*) | Shareholders' equity | 665,493 | 583,122 | 82,371 | 14% |
| | **Total liabilities and shareholders' equity** | **4,316,037** | **4,126,289** | **189,748** | **5%** |

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

## Summary of consolidated financial data

The Group's total assets amounted to EUR 4,316 million as of 31 March 2021, up on the figure of EUR 4,126.3 million as of 31 December 2020 - mainly due to the increase in financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model.

The Group's assets as of 31 March 2021 mainly included financial assets arising from loans to customers of EUR 2,000.6 million (up compared to EUR 1,955 million recorded as of 31 December 2020). The increase is this component in the period under review is primarily attributable to new transactions undertaken by the DCIS Division in the quarter (net of portfolio disposals in the period), and the SME Division. For further information, refer to the section "Contribution from operating segments to the Group's results".

With reference to the Group's liquidity profile, the cash and cash equivalents component came to EUR 732.8 million as of 31 March 2021, down on EUR 944.8 million as of 31 December 2020, due to greater uses in the SME Division, DCIS Division and own portfolio.

Financial assets at amortised cost - due from banks - amounted to EUR 536 million as of 31 March 2021, basically in line with 31 December 2020, and chiefly consist of reverse repurchase agreements. Taking loans to financial entities into account, as of 31 March 2021, total net exposure to banks and financial entities was EUR 676 million.

With reference to securities, financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, primarily represented by government bonds and instruments with other banks and financial institutions and high-yield corporate bonds, amounted to approximately EUR 310.5 million, up significantly, by approximately EUR 219.1 million, compared to 31 December 2020. As of 31 March 2021, the Group had a negative net valuation reserve regarding financial assets measured at fair value through other comprehensive income of approximately EUR 1.6 million, net of the Expected credit loss on debt securities component (equal to EUR 1.1. million), mainly due to the performance of the markets.

Financial assets held for trading amounted to EUR 32.2 million as of 31 March 2021, up on the figure as of 31 December 2020, due to new investments in Exchange Traded Funds.

Financial instruments mandatorily measured at fair value through profit or loss amounted to EUR 17.8 million as of 31 March 2021, and include two investments in equity instruments for EUR 7.2 million, attributable to the SME Division, as well as an energy transaction and junior and mezzanine investments in securitization vehicles related to the DCIS Division for EUR 10.6 million.

As of 31 March 2021, property and equipment and intangible assets amounted to EUR 147.2 million, decreasing by approximately EUR 0.6 million compared to 31 December 2020. The Group's intangible assets refer to the goodwill from the business combination of SPAXS with Banca Interprovinciale (equal to EUR 21.6 million), and the goodwill recognised on the acquisition of IT Auction (now merged into neprix) and its subsidiaries (equal to EUR 14.6 million), in addition to the intangible assets identified pursuant to IFRS 3 and intangible assets held by Group companies. Group property and equipment mainly consist of assets covered by IAS 2, namely *datio in solutum* real estate involved in the lending business and items for functional use arising from the recognition of the right of use of assets acquired through lease agreements (IFRS 16).

Total consolidated liabilities and shareholders' equity as of 31 March 2021 amounted to EUR 4,316 million. Amounts due to customers, net of the lease liability referred to IFRS 16, amounted to EUR 2,567.8 million and were in line with the value as of 31 December 2020. Amounts due to Banks - including the central banks component - stood at EUR 626.7 million, increasing by EUR 92.3 million compared to 31 December 2020, mainly following new subscriptions to repurchase agreements. Securities issued were equal to EUR 302.4 million, basically in line with the 2020 year-end value, and mainly include the EMTN transaction in the fourth quarter of 2020.

Group shareholders' equity amounted to EUR 665.5 million, up on 2020, mainly due to profit realised in the first quarter of 2021 and the joint venture in Hype S.p.A, realised through a capital increase.

## RECLASSIFIED CONSOLIDATED INCOME STATEMENT

*(amounts in thousands of euros)*

| Components of official items of the Income Statement | Income Statement items | 31/03/2021 | 31/03/2020 | Chg. | Chg. (%) |
|---|---|---|---|---|---|
| 10 + 20 | Interest margin | 31,207 | 21,398 | 9,809 | 46% |
| 40 + 50 | Net fee and commission income | 4,944 | 2,740 | 2,204 | 80% |
| 80 + 100 + 110 | Gains/losses on financial assets and liabilities | 3,833 | 3,696 | 137 | 4% |
| 130 a) | Net write-downs/write-backs on closed positions - HTC Clients - POCI | 11,406 | 9,122 | 2,284 | 25% |
| 280 | Other profits (losses) from the disposal of investments | 2,278 | - | 2,278 | N/A |
| 140 + 230 | Other operating expenses and income (excluding taxes) | 2,003 | 46 | 1,957 | >100% |
| **Total net operating income** | | **55,671** | **37,002** | **18,669** | **50%** |
| 190 a) | Personnel expenses | (16,638) | (11,299) | (5,339) | 47% |
| 190 b) | Other administrative expenses | (17,941) | (16,091) | (1,850) | 11% |
| 210 + 220 | Net adjustments/recoveries on property and equipment and intangible assets | (2,970) | (1,833) | (1,137) | 62% |
| **Operating expenses** | | **(37,549)** | **(29,223)** | **(8,326)** | **28%** |
| **Operating profit (loss)** | | **18,122** | **7,779** | **10,343** | **>100%** |
| 130 a) | Net write-downs/write-backs for credit risk - HTC Banks | (15) | (133) | 118 | (89%) |
| 130 a) | Net write-downs/write-backs for credit risk - HTC financial entities | (31) | (126) | 95 | (75%) |
| 130 a) | Net write-downs/write-backs for credit risk - HTC Clients | 6,185 | 73 | 6,112 | >100% |
| 130 b) | Net write-downs/write-backs for credit risk - HTCS | (1,504) | (537) | (967) | >100% |
| 200 a) | Net write-downs/write-backs for commitments and guarantees | (1,507) | 141 | (1,648) | N/A |
| **Total net write-downs/write-backs** | | **3,128** | **(582)** | **3,710** | **N/A** |
| 200 b) | Other net provisions | (25) | (36) | 11 | (31%) |
| 250 | Other income (expenses) on investments | (2,123) | - | (2,123) | N/A |
| **Profit (loss) from operations before taxes** | | **19,102** | **7,161** | **11,941** | **>100%** |
| 300 | Income tax for the period on continuing operations | (6,546) | (2,661) | (3,885) | >100% |
| **Profit (loss) for the period** | | **12,556** | **4,500** | **8,056** | **>100%** |

## Consolidated income statement highlights

The Group's total net operating income for the period ended 31 March 2021 amounted to EUR 55.7 million, up sharply on the same period of the previous year, when it came to approximately EUR 37.0 million.

The increase in total operating income is to be attributed to the introduction and expansion of various lines of business by the Bank in 2020 and the first few months of 2021, which contributed to the increase in the interest margin of the Group from EUR 21.4 million as of 31 March 2020 to EUR 31.2 million as of 31 March 2021. Net fee and commission income, which amounted to EUR 4.9 million in the first few months of 2021, also increased compared to March 2020, due on the one hand to increased operations of the Bank Divisions, and on the other as a consequence of the operations in the first quarter of 2021, of neprix and its subsidiary neprix Agency, which contribute to the item through the "auction commissions" earned on the use of proprietary real-estate portals.

Total net operating income also includes net write-backs on customer HTC positions closed in the first quarter of 2021 for a total of EUR 11.4 million (9.1 million as of 31 March 2020), and income from disposals of investments for EUR 2.3 million, related to the sale of the business unit Fluid, as part of the joint venture for 50% control of Hype.

Overall net write-downs on portfolio positions were positive for EUR 3.1 million. In detail, net write-downs on HTC positions are primarily related to individual and collective assessments of loans to customers and the effects of the revision of expected cash flows from the NPL portfolios for existing positions. In the third quarter, net losses/recoveries for credit risk - HTCS were also recorded, due to an increase in investments in securities classified under this category at the end of the period.

Operating expenses of EUR 37.5 million for the period ended 31 March 2021 were up by approximately EUR 8.3 million compared to the same period of the previous year. In detail, personnel expenses went up by approximately EUR 5.3 million over the previous year, mainly as a result of new resources being employed, to support the increased activities of the Bank's Divisions, and also due to the operating activities of neprix. Another factor that increased personnel costs is the MBO portion used to consolidate individual incentive systems for employees. Other administrative expenses also increased, by approximately EUR 1.9 million compared to the same period of the previous year, due to the increase in Bank operations. Finally, the item includes net write-downs/write-backs for property and equipment and intangible assets totalling around EUR 3 million, up by EUR 1.1 million compared to 31 March 2020, primarily due to the amortisation of IT investments and depreciation of materials managed in application of IFRS 16.

Based on the above, profit for the period ended 31 March 2021, before taxes, amounted to EUR 19.1 million. Net of income tax for the period on continuing operations, equal to approximately EUR 6.5 million, consolidated net profit as of 31 March 2021 stood at EUR 12.6 million, compared to a profit of EUR 4.5 million as of 31 March 2020.

Basic and diluted earnings per share as of 31 March 2021, calculated by dividing the result for the period by the weighted average number of ordinary shares issued, was equal to EUR 0.17. See the section "Basic and diluted earnings per share" for details of the methodology to calculate earnings per share.

# Key data on capital

## 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 INVESTED ASSETS | 31/03/2021 | | 31/12/2020 | | Change | |
|---|---|---|---|---|---|---|
| | Book value | Inc. % | Book value | Inc. % | Absolute | Chg. (%) |
| **Cash and cash equivalents** | **732,759** | **18.3%** | **944,832** | **24.2%** | **(212,073)** | **(22%)** |
| **Financial assets held for trading** | **32,174** | **0.8%** | **52** | **0.0%** | **32,122** | **>100%** |
| **Financial assets mandatorily measured at fair value** | **18,301** | **0.5%** | **18,450** | **0.5%** | **(149)** | **(1%)** |
| *- DCIS Business* | 10,502 | 0.3% | 11,167 | 0.3% | (665) | (6%) |
| *- SME Business* | 7,680 | 0.2% | 7,167 | 0.2% | 513 | 7% |
| *- Treasury portfolio* | 119 | 0.0% | 116 | 0.0% | 3 | 3% |
| **HTCS Financial assets** | **310,461** | **7.8%** | **91,375** | **2.3%** | **219,086** | **>100%** |
| *- Treasury portfolio* | 310,461 | 7.8% | 91,375 | 2.3% | 219,086 | >100% |
| **Due from banks** | **536,023** | **13.4%** | **530,922** | **13.6%** | **5,101** | **1%** |
| *- of which: Repurchase agreements* | 441,789 | 11.0% | 395,167 | 10.1% | 46,622 | 12% |
| **Loans to financial entities** | **139,943** | **3.5%** | **109,993** | **2.8%** | **29,950** | **27%** |
| **Loans to customers** | **2,000,585** | **50.0%** | **1,954,995** | **50.1%** | **45,590** | **2%** |
| *- Organic non-performing loans* | 17,983 | 0.4% | 19,055 | 0.5% | (1,072) | (6%) |
| *- Inorganic non-performing loans* | 1,075,543 | 26.9% | 1,054,778 | 27.0% | 20,765 | 2% |
| *- Performing loans* | 907,059 | 22.7% | 881,162 | 22.6% | 25,897 | 3% |
| **Loans to customers - Securities** | **233,147** | **5.8%** | **249,913** | **6.4%** | **(16,766)** | **(7%)** |
| *- DCIS Business (Senior Financing) - performing* | 228,727 | 5.7% | 245,759 | 6.3% | (17,032) | (7%) |
| *- SME Business - performing* | 4,420 | 0.1% | 4,154 | 0.1% | 266 | 6% |
| **Total invested assets** | **4,003,393** | **100%** | **3,900,532** | **100%** | **102,861** | **3%** |

Loans to customers amounted to approximately EUR 2,000.6 million, up from EUR 1,955 million at the end of the previous year, mainly due to new transactions completed in the quarter by the DCIS Division (net of portfolio disposals in the period), and the SME Division. The line item also includes NPLs of approximately EUR 1,075.5 million classified as POCI (Purchased or Originated Credit Impaired), up from EUR 1,054.8 million recorded as of 31 December 2020, due to the new transactions concluded by the business divisions. Considering Securities, financing to customers amounted to EUR 2,233.7 million.

Financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, amounted to approximately EUR 310.5 million, and refer to government bonds and instruments with other banks and financial institutions and high-yield corporate bonds.

Financial instruments mandatorily measured at fair value through profit or loss amounted to EUR 18.3 million and include two investments in equity instruments/earnouts for EUR 7.2 million and a loan in currency for EUR 0.5 million, relating to the SME Division, as well as an energy transaction and junior and mezzanine investments in securitization vehicles related to the DCIS Division for EUR 10.6 million.

The remaining EUR 233.1 million of securities was measured at amortised cost (held-to-collect business model) and mainly comprises EUR 228.7 million of Senior Financing securities and EUR 4.4 million from high-yield securities of the SME Division.

*(amounts in thousands of euros)*

| INVESTED ASSETS BY TECHNICAL FORM | 31/03/2021 | | 31/12/2020 | | Change | |
|---|---|---|---|---|---|---|
| | Book value | Inc. % | Book value | Inc. % | Absolute | Chg. (%) |
| **Cash and cash equivalents** | **732,759** | **18.3%** | **944,832** | **24.2%** | **(212,073)** | **(22%)** |
| Current accounts and deposits | 94,234 | 2.4% | 135,755 | 3.5% | (41,521) | (31%) |
| Repurchase agreements | 441,789 | 11.0% | 395,167 | 10.1% | 46,622 | 12% |
| **Due from banks** | **536,023** | **13.4%** | **530,922** | **13.6%** | **5,101** | **1%** |
| **Loans to financial entities** | **139,943** | **3.5%** | **109,993** | **2.8%** | **29,950** | **27%** |
| Current accounts held by customers | 284,626 | 7.1% | 273,971 | 7.0% | 10,655 | 4% |
| Loans | 1,715,959 | 42.9% | 1,681,024 | 43.1% | 34,935 | 2% |
| **Loans to customers** | **2,000,585** | **50.0%** | **1,954,995** | **50.1%** | **45,590** | **2%** |
| **Loans mandatorily measured at fair value** | **512** | **0.0%** | **-** | **0.0%** | **512** | **n.a** |
| Debt securities | 557,166 | 13.9% | 352,454 | 9.0% | 204,712 | 58% |
| – *Government bonds* | 174,463 | 4.4% | - | 0.0% | 174,463 | n.a |
| - *Bank bonds* | 84,909 | 2.1% | 79,464 | 2.0% | 5,445 | 7% |
| - *Others* | 297,794 | 7.4% | 272,990 | 7.0% | 24,804 | 9% |
| Financial instruments/earnouts | 7,167 | 0.2% | 7,167 | 0.2% | - | 0% |
| Equity securities | 29,087 | 0.7% | 18 | 0.0% | 29,069 | >100% |
| Units of UCIs | 151 | 0.0% | 151 | 0.0% | - | 0% |
| **Securities** | **593,571** | **14.8%** | **359,790** | **9.2%** | **233,781** | **65%** |
| **Total** | **4,003,393** | **100%** | **3,900,532** | **100%** | **102,861** | **3%** |

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

Loans due from banks amounted to EUR 536 million as of 31 March 2021, basically in line with 31 December 2020, and chiefly consist of reverse repurchase agreements.

Instead, loans to customers increased due to the constant operations of the Bank's Divisions.

Finally, debt securities were equal to EUR 557.2 million and mainly attributable to the transactions of the Treasury Portfolio in financial assets measured at fair value through other comprehensive income.

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

*(amounts in thousands of euros)*

| FINANCING BY BUSINESS DIVISION | 31/03/2021 | Inc. % | 31/12/2020 | Inc. % | Chg. | Chg. (%) |
|---|---|---|---|---|---|---|
| DCIS Division | 1,289 | 54.3% | 1,308 | 56.5% | (19) | (1%) |
| SME Division | 818 | 34.5% | 763 | 33.0% | 55 | 7% |
| Loans to ordinary former BIP customers (SMEs) | 127 | 5.3% | 134 | 5.8% | (7) | (5%) |
| **Total due from customers (Loans and Securities)** | **2,234** | **94.1%** | **2,205** | **95.2%** | **29** | **1%** |
| Loans to financial entities | 140 | 5.9% | 110 | 4.8% | 30 | 27% |
| **Total loans to customers measured at amortised cost** | **2,374** | **100%** | **2,315** | **100%** | **59** | **3%** |

## Financial assets measured at amortised cost

The table below provides an overview of the Group's main financing at amortised cost, compared with the relevant values as of 31 December 2020.

*(amounts in thousands of euros)*

| FINANCIAL ASSETS AT AMORTISED COST | 31/03/2021 | | | | | | 31/12/2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross Exposure | Inc. % | Write-downs/ write-backs | Book value | Inc. % | Coverage ratio (*) | Gross Exposure | Inc. % | Write-downs/ write-backs | Book value | Inc. % | Coverage ratio (*) |
| **Due from banks** | **536,219** | **18.2%** | **(196)** | **536,023** | **18.4%** | **0.04%** | **531,103** | **18.5%** | **(181)** | **530,922** | **18.7%** | **0.03%** |
| - Loans | 536,219 | 18.2% | (196) | 536,023 | 18.4% | 0.04% | 531,103 | 18.5% | (181) | 530,922 | 18.7% | 0.03% |
| *- Stage 1/2* | *536,219* | *18.2%* | *(196)* | *536,023* | *18.4%* | *0.04%* | *531,103* | *18.5%* | *(181)* | *530,922* | *18.7%* | *0.03%* |
| **Loans to financial entities** | **140,089** | **4.8%** | **(146)** | **139,943** | **4.8%** | **0.10%** | **110,108** | **3.8%** | **(115)** | **109,993** | **3.9%** | **0.10%** |
| - Loans | 140,089 | 4.8% | (146) | 139,943 | 4.8% | 0.10% | 110,108 | 3.8% | (115) | 109,993 | 3.9% | 0.10% |
| *- Stage 1/2* | *140,089* | *4.8%* | *(146)* | *139,943* | *4.8%* | *0.10%* | *110,108* | *3.8%* | *(115)* | *109,993* | *3.9%* | *0.10%* |
| **Loans to customers** | **2,262,184** | **77.0%** | **(28,452)** | **2,233,732** | **76.8%** | **1.26%** | **2,234,313** | **77.7%** | **(29,405)** | **2,204,908** | **77.5%** | **1.32%** |
| - Securities | 233,500 | 7.9% | (353) | 233,147 | 8.0% | 0.15% | 250,281 | 8.7% | (368) | 249,913 | 8.8% | 0.15% |
| *- Stage 1/2* | *233,500* | *7.9%* | *(353)* | *233,147* | *8.0%* | *0.15%* | *250,281* | *8.7%* | *(368)* | *249,913* | *8.8%* | *0.15%* |
| - Loans | 2,028,684 | 69.0% | (28,099) | 2,000,585 | 68.8% | 1.39% | 1,984,032 | 69.0% | (29,037) | 1,954,995 | 68.7% | 1.46% |
| *- Stage 1/2* | *917,289* | *31.2%* | *(10,230)* | *907,059* | *31.2%* | *1.12%* | *891,852* | *31.0%* | *(10,690)* | *881,162* | *31.0%* | *1.20%* |
| - Stage 3 | 1,111,395 | 37.8% | (17,869) | 1,093,526 | 37.6% | N/A | 1,092,180 | 38.0% | (18,347) | 1,073,833 | 37.7% | N/A |
| **Total** | **2,938,492** | **100%** | **(28,794)** | **2,909,698** | **100%** | **N/A** | **2,875,524** | **100%** | **(29,701)** | **2,845,823** | **100%** | **N/A** |

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

As of 31 March 2021, the item due from banks amounted to EUR 536 million, compared to EUR 530.9 million as of 31 December 2020, and consisted primarily of current accounts, on demand deposits and repurchase agreements.

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

*(amounts in thousands of euros)*

| LOANS TO CUSTOMERS | 31/03/2021 | | | | | | 31/12/2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross Exposure | Inc. % | Write-downs/ write-backs | Book value | Inc. % | Coverage ratio (*) | Gross Exposure | Inc. % | Write-downs/ write-backs | Book value | Inc. % | Coverage ratio (*) |
| **- Non-performing loans – organic** | **35,852** | **1.6%** | **(17,869)** | **17,983** | **0.8%** | **49.84%** | **37,402** | **1.7%** | **(18,347)** | **19,055** | **0.9%** | **49.05%** |
| - Bad loans | 19,378 | 0.9% | (13,391) | 5,987 | 0.3% | 69.10% | 19,988 | 0.9% | (13,880) | 6,108 | 0.3% | 69.44% |
| - Unlikely-to-pay positions | 16,354 | 0.7% | (4,456) | 11,898 | 0.5% | 27.25% | 16,961 | 0.8% | (4,440) | 12,521 | 0.6% | 26.18% |
| - Past-due positions | 120 | 0.0% | (22) | 98 | 0.0% | 18.30% | 453 | 0.0% | (27) | 426 | 0.0% | 5.96% |
| **- Non-performing loans - inorganic** | **1,075,543** | **47.5%** | **-** | **1,075,543** | **48.2%** | **N/A** | **1,054,778** | **47.2%** | **-** | **1,054,778** | **47.8%** | **N/A** |
| - Bad loans | 744,790 | 32.9% | - | 744,790 | 33.3% | N/A | 744,260 | 33.3% | - | 744,260 | 33.8% | N/A |
| - Unlikely-to-pay positions | 330,753 | 14.6% | - | 330,753 | 14.8% | N/A | 310,439 | 13.9% | - | 310,439 | 14.1% | N/A |
| - Past-due positions | - | 0.0% | - | - | 0.0% | N/A | 79 | 0.0% | - | 79 | 0.0% | N/A |
| **Performing loans** | **1,150,789** | **50.9%** | **(10,583)** | **1,140,206** | **51.0%** | **0.92%** | **1,142,133** | **51.1%** | **(11,058)** | **1,131,075** | **51.3%** | **0.97%** |
| - Securities | 233,500 | 10.3% | (353) | 233,147 | 10.4% | 0.15% | 250,281 | 11.2% | (368) | 249,913 | 11.3% | 0.15% |
| - Loans | 917,289 | 40.5% | (10,230) | 907,059 | 40.6% | 1.12% | 891,852 | 39.9% | (10,690) | 881,162 | 40.0% | 1.20% |
| **Total** | **2,262,184** | **100%** | **(28,452)** | **2,233,732** | **100%** | **N/A** | **2,234,313** | **100%** | **(29,405)** | **2,204,908** | **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 18 million, down slightly compared to EUR 19.1 million as of 31 December 2020, due to collection activities overseen by the bank with its borrowers. The coverage ratio for organic non-performing loans as of 31 March 2021, was equal to 49.8%, essentially in line with 31 December 2020.

Inorganic non-performing loans amounted to EUR 1,075.5 million, of which:

- EUR 744.8 million relating to purchase transactions concluded by the SME and DCIS Divisions classified as bad loans, basically in line with the figure of EUR 744.3 million as of 31 December 2020;
- EUR 330.8 million relating to purchase transactions concluded by the SME and DCIS Divisions classified as unlikely-to-pay positions, registering an increase compared to EUR 310.4 million as of 31 December 2020.

Performing loans amounted to EUR 907.1 million, up compared to EUR 881.2 million as of 31 December 2020, as a result of new transactions during the first half of 2021. Performing securities amounted to EUR 233.1 million as of 31 March 2021, a decrease compared to 31 December 2020.

The coverage ratio for performing loans of the Bank as of 31 March 2021 was equal to 1.12%, down slightly on 31 December 2020, due to the provision of loans with state guarantee (SACE).

# Funding

*(amounts in thousands of euros)*

| CUSTOMER FUNDING BY TECHNICAL FORM | 31/03/2021 | | 31/12/2020 | | Change | |
|---|---|---|---|---|---|---|
| | Book values | Inc. % | Book values | Inc. % | Absolute | Chg. (%) |
| Amounts due to customers (A) | 2,567,758 | 73.4% | 2,552,161 | 75.3% | 15,597 | 1% |
| Securities issued (B) | 302,402 | 8.6% | 300,980 | 8.9% | 1,422 | 0% |
| **Total direct customer funding (A) + (B)** | **2,870,160** | **82.1%** | **2,853,141** | **84.2%** | **17,019** | **1%** |
| Due to banks (C) | 626,660 | 17.9% | 534,345 | 15.8% | 92,315 | 17% |
| **Total debt (A) + (B) + (C)** | **3,496,820** | **100%** | **3,387,486** | **100%** | **109,334** | **3%** |

At the end of the reporting period, funding amounted to approximately EUR 3,496.8 million, up compared to 31 December 2020, primarily due to new subscriptions of repurchase agreements with banks, and to the positive trend of customer savings deposits.

# Property and equipment and intangible assets

Property and equipment totalled approximately EUR 77.6 million as of 31 March 2021, compared to EUR 78.4 million as of 31 December 2020. In accordance with IFRS 16, the item includes the right of use of assets acquired through lease agreements, of approximately EUR 19.5 million, net of accumulated depreciation. The item also includes the value of an owned property for functional purposes, as well as real-estate investments acquired through enforcement, by auction, as part of NPL transactions.

Intangible assets as of 31 March 2021 totalled approximately EUR 69.6 million, compared to EUR 69.4 million as of 31 December 2020, and mainly include goodwill from the acquisition of the Company IT Auction (now merged into neprix), and its subsidiaries in the first quarter of 2020 (for EUR 14.6 million), as well as the goodwill recognised following the business combination of SPAXS with Banca Interprovinciale (equal to EUR 21.6 million), and IT investments made by Group companies.

# Tax assets and tax liabilities

Tax assets amounted to approximately EUR 31.1 million as of 31 March 2021, down from the EUR 35.4 million recognised as of 31 March 2020. Details of the breakdown of tax assets are shown below.

*(amounts in thousands of euros)*

| TAX ASSETS | 31/03/2021 | 31/12/2020 | Chg. | Chg. (%) |
|---|---|---|---|---|
| Current | 3,175 | 3,206 | (31) | (1%) |
| Deferred | 27,913 | 32,197 | (4,284) | (13%) |
| **Total** | **31,088** | **35,403** | **(4,315)** | **(12%)** |

Deferred tax assets other than those convertible into tax credits (Article 2, paragraphs 55 and following, of Italian Legislative Decree no. 225/2010) are recognised on the basis of the likelihood of earning taxable income in future years able to reabsorb the temporary differences. Deferred tax assets include the benefits from the tax exemption of the goodwill arising from the merger of SPAXS into Banca Interprovinciale and the exemption, by neprix, of the goodwill and other intangible assets arising on consolidation, following the acquisition of 70% of the stake in IT Auction, as well as the residual amount of tax losses and previous ACE (Economic Growth Subsidies) excesses.

The reduction in deferred tax assets is mainly due to the use in the quarter of tax losses and ACE (Economic Growth Subsidies) from previous years, offsetting taxable income (IRES - Corporate income tax).

## 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 EU rules to the extent of its competency, together with Circular no. 286, "Instructions for completing prudential reports for banks and securities brokerage firms" and the update to Circular no. 154 "Supervisory reports by credit and financial institutions. Reporting formats and instructions for submitting data streams" (the above set of rules has been updated on several occasions).

On 19 March 2020 illimity Bank, following the Supervisory Review and Evaluation Process (SREP) performed on the illimity Banking Group, received notification from the Bank of Italy of the prudential requirements to be observed at a 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 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.

On 29 March 2021, the Bank of Italy, considering the complex evaluation aspects available to the regulatory authorities concerning the corporate situation of the illimity Group, confirmed the outcome of the SREP 2020.

Considering the result for the period, net of any foreseeable charges and dividends pursuant to Article 26, paragraph 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 | 31/03/2021 | 31/12/2020 |
|---|---|---|
| **Common Equity Tier 1 (CET1) capital** | **529,722** | **509,127** |
| **Additional Tier 1 (AT1) capital** | **–** | **–** |
| **Tier 2 (T2) capital** | **–** | **–** |
| **Total own funds** | **529,722** | **509,127** |
| *Credit risk* | *226,782* | *218,290* |
| *Credit valuation adjustment risk* | *–* | *–* |
| *Settlement risks* | *–* | *–* |
| *Market risks* | *4,933* | *17* |
| *Operational risk* | *9,739* | *9,739* |
| *Other calculation factors* | *–* | *–* |
| **Total minimum requirements** | **241,454** | **228,046** |
| **Risk-weighted assets** | **3,018,173** | **2,850,572** |
| **Common Equity Tier 1 ratio** | **17.55%** | **17.86%** |
| *(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)* | | |
| **Tier 1 ratio** | **17.55%** | **17.86%** |
| *(Tier 1 capital after filters and deductions/Risk-weighted assets)* | | |
| **Total capital ratio** | **17.55%** | **17.86%** |
| *(Total own funds/Risk-weighted assets)* | | |

As of 31 March 2021, the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds. If special shares had been included in CET1 capital, the CET1 ratio would have been 18.03%.

## Changes in shareholders’ equity

As of 31 March 2021, shareholders' equity, including the result for the period, amounted to EUR 665.5 million, increasing over 2020, mainly due to profit of the first quarter of 2021 and the joint venture in Hype, realised through a capital increase.

*(amounts in thousands of euros)*

| Items/Technical forms | 31/03/2021 | 31/12/2020 |
|---|---|---|
| 1. Share capital | 48,792 | 44,007 |
| 2. Share premium reserve | 543,803 | 487,373 |
| 3. Reserves | 61,733 | 21,766 |
| 4. Equity instruments | - | - |
| 5. (Treasury shares) | (832) | (832) |
| 6. Valuation reserves | (559) | (278) |
| 7. Profit (loss) for the period | 12,556 | 31,086 |
| **Total shareholders’ equity attributable to the Group** | **665,493** | **583,122** |
| Shareholders’ equity attributable to minority interests | – | – |
| Total shareholders’ equity | 665,493 | 583,122 |

## Share capital and ownership structure

As of 31 March 2021, the Bank's share capital amounted to EUR 50,288,411.49, of which EUR 48,791,740.15 was subscribed and paid up, divided into 73,426,019 ordinary shares and 1,440,000 special shares without par value.

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

The Bank's Special Shares are not traded.

# Treasury shares

Following the purchases made in previous years, as of 31 March 2021, the Bank held 98,505 treasury shares for a value of EUR 832 thousand, in line with figures as of 31 December 2020. The Bank's subsidiaries do not hold any shares in it.

# Parent company reconciliation - consolidated

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 31 March 2021:

*(amounts in thousands of euros)*

| | Shareholders' equity | Result |
|---|---|---|
| **illimity Bank S.p.A.** | **668,848** | **14,376** |
| Effect of consolidation of subsidiaries | (7,441) | - |
| Results of the consolidated companies | 124 | 124 |
| Consolidation adjustments | 6,094 | 179 |
| Dividends | - | - |
| Effect of measuring associates and joint ventures using the equity method | (2,132) | (2,123) |
| **Group** | **665,493** | **12,556** |

# Financial performance

## Interest margin

*(amounts in thousands of euros)*

| Items/Technical forms | Loans/Payables | Debt securities | Other transactions | 31/03/2021 | 31/03/2020 | Absolute changes | Change % |
|---|---|---|---|---|---|---|---|
| **Interest and similar income** | | | | | | | |
| 1. Financial assets measured at fair value through profit or loss | 4 | 148 | - | **152** | - | 152 | N/A |
| *Held for trading* | - | 78 | - | **78** | - | 78 | N/A |
| *Carried at FV* | - | - | - | **-** | - | - | N/A |
| *Mandatorily measured at fair value* | 4 | 70 | - | **74** | - | 74 | N/A |
| 2. Financial assets at FV through other comprehensive income | - | 876 | - | **876** | 572 | 304 | 53% |
| 3. Financial assets at amortised cost | 41,834 | 2,774 | - | **44,608** | 31,433 | 13,175 | 42% |
| *Due from banks* | *236* | - | - | ***236*** | *1,252* | *(1,016)* | *(81%)* |
| *Loans to customers* | *41,598* | *2,774* | - | ***44,372*** | *30,181* | *14,191* | *47%* |
| 4. Hedging derivatives | - | - | - | **-** | - | - | N/A |
| 5. Other assets | - | - | 14 | **14** | - | 14 | N/A |
| 6. Financial liabilities | - | - | - | **318** | 56 | 262 | >100% |
| **Total interest income** | **41,838** | **3,798** | **14** | **45,968** | **32,061** | **13,907** | **43%** |
| **Interest expenses** | | | | | | | |
| 1. Financial liabilities at amortised cost | (10,536) | (2,657) | - | **(13,193)** | (9,397) | (3,796) | 40% |
| *Amounts due to central banks* | *(6)* | - | - | ***(6)*** | *(7)* | *1* | *(14%)* |
| *Amounts due to banks* | *(1,389)* | - | - | ***(1,389)*** | *(1,386)* | *(3)* | *0%* |
| *Amounts due to customers* | *(9,141)* | - | - | ***(9,141)*** | *(7,576)* | *(1,565)* | *21%* |
| *Securities issued* | - | *(2,657)* | - | ***(2,657)*** | *(428)* | *(2,229)* | *>100%* |
| 2. Financial liabilities held for trading | - | - | - | **-** | - | - | N/A |
| 3. Financial liabilities carried at FV | - | - | - | **-** | - | - | N/A |
| 4. Other liabilities and provisions | - | - | (453) | **(453)** | (440) | (13) | 3% |
| 5. Hedging derivatives | - | - | - | **-** | - | - | N/A |
| 6. Financial assets | - | - | - | **(1,115)** | (826) | (289) | 35% |
| **Total interest expenses** | **(10,536)** | **(2,657)** | **(453)** | **(14,761)** | **(10,663)** | **(4,098)** | **38%** |
| **Interest margin** | **31,302** | **1,141** | **(439)** | **31,207** | **21,398** | **9,809** | **46%** |

As of 31 March 2021, the interest margin amounted to approximately EUR 31.2 million, up considerably on the same period of the previous year, when it amounted to approximately EUR 21.3 million.

The change described above is mainly due to the increase in interest income accrued on financial assets at amortised cost: in particular, interest on loans to customers increased by EUR 14.2 million compared to the same period of the previous year. This increase is due to greater loan activity in the first few months of 2021.

Interest income also increased on financial assets measured at fair value through other comprehensive income due to the purchase, in the first few months of 2021, of securities assigned to this property portfolio.

Interest expense increased by approximately EUR 4.1 million compared to 31 March 2020, mainly due to the rise of EUR 2.2 million in interest expense on securities issued - following the EMTN transaction, and the increase in income expense on amounts due to customers, for approximately EUR 1.6 million, directly related to the increase in volumes of direct funding.

## Net fee and commission income

*(amounts in thousands of euros)*

| Items / Technical forms | 31/03/2021 | 31/03/2020 | Absolute changes | Change % |
|---|---|---|---|---|
| **Fee and commission income** | | | | - |
| a. guarantees given | 24 | 21 | 3 | 14% |
| c. management, brokerage and advisory services | 43 | 35 | 8 | 23% |
| d. collection and payment services | 82 | 48 | 34 | 71% |
| f. factoring services | 634 | 491 | 143 | 29% |
| i. maintenance and management of current accounts | 93 | 86 | 7 | 8% |
| j. other services | 5,118 | 3,181 | 1,937 | 61% |
| **Total** | **5,994** | **3,862** | **2,132** | **55%** |
| **Fee and commission expense** | | | | |
| a. guarantees received | (1) | - | (1) | N/A |
| c. management and brokerage services | (95) | (32) | (63) | >100% |
| d. collection and payment services | (219) | (541) | 322 | (60%) |
| e. other services | (735) | (549) | (186) | 34% |
| **Total** | **(1,050)** | **(1,122)** | **72** | **(6%)** |
| **Net fee and commission income** | **4,944** | **2,740** | **2,204** | **80%** |

Net fee and commission income amounted to EUR 4.9 million, up significantly compared to the period ended 31 March 2020, when they amounted to EUR 2.7 million.

The “other services” sub-item of fee and commission income mainly includes commissions from the specific business of Group companies referred to neprix and neprix Agency - and in particular commissions from auctions and related services, accrued for the use of the companies’ property portals - for approximately EUR 2.4 million, as well as commissions on the operations of the DCIS and SME Divisions of the Bank, for approximately EUR 1.8 million.

## Other operating expenses and income

*(amounts in thousands of euros)*

| Items / Technical forms | 31/03/2021 | 31/03/2020 | Absolute changes | Change % |
|---|---|---|---|---|
| **Other operating expenses** | | | | |
| Amortisation of expenses for improvements on third party assets | (18) | (21) | 3 | (14%) |
| Other operating expenses | (293) | (288) | (5) | 2% |
| **Total** | **(311)** | **(309)** | **(2)** | **1%** |
| **Other operating income** | | | | |
| Recoveries of expenses from other customers | 307 | 186 | 121 | 65% |
| Other income | 981 | 169 | 812 | >100% |
| Rental income | 1,026 | - | 1,026 | N/A |
| **Total** | **2,314** | **355** | **1,959** | **>100%** |
| **Other operating income/expenses** | **2,003** | **46** | **1,957** | **>100%** |

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

## Personnel expenses

*(amounts in thousands of euros)*

| Items / Technical forms | 31/03/2021 | 31/03/2020 | Absolute changes | Change % |
|---|---|---|---|---|
| 1. Employees | (15,643) | (10,085) | (5,558) | 55% |
| 2. Other personnel in service | (469) | (742) | 273 | (37%) |
| 3. Directors and statutory auditors | (526) | (472) | (54) | 11% |
| **Personnel expenses** | **(16,638)** | **(11,299)** | **(5,339)** | **47%** |

Personnel expenses amounted to approximately EUR 16.6 million and consist mainly of employee wages and salaries and the related social security contributions. This item went up compared to the same period of the previous year due to personnel being employed to support the Group's new, increased operations. Another factor that increased costs is the MBO portion used to consolidate individual incentive systems for employees.

The Group had a total of 621 employees as of 31 March 2021, up on 31 December 2020 (546). The following table shows the number of employees as of 31 March 2021, broken down by job level, together with changes compared to 31 December 2020.

| Level | 31/03/2021 | | | 31/12/2020 | | | Changes | |
|---|---|---|---|---|---|---|---|---|
| | Number of employees | in % | Average age | Number of employees | in % | Average age | Number of employees | in % |
| Senior managers | 58 | 10% | 46 | 55 | 9% | 46 | 3 | 5% |
| Middle managers | 281 | 45% | 37 | 242 | 41% | 37 | 39 | 16% |
| Other employees | 282 | 45% | 33 | 290 | 49% | 34 | (8) | (3%) |
| **Employees** | **621** | **100%** | | **587** | **100%** | | | |

## Other Administrative expenses

*(amounts in thousands of euros)*

| Items / Technical forms | 31/03/2021 | 31/03/2020 | Absolute changes | Change % |
|---|---|---|---|---|
| Insurance | (742) | (434) | (308) | 71% |
| Various consulting services | (1,649) | (1,965) | 316 | (16%) |
| Sundry contributions | (1,403) | (218) | (1,185) | >100% |
| Cost of services | (1,024) | (924) | (100) | 11% |
| Financial information | (589) | (192) | (397) | >100% |
| Adverts and advertising | (683) | (925) | 242 | (26%) |
| Financial statement audit | (137) | (109) | (28) | 26% |
| IT and software expenses | (4,975) | (4,839) | (136) | 3% |
| Legal and notary's fees | (1,422) | (1,281) | (141) | 11% |
| Property management expenses | (1,001) | (762) | (239) | 31% |
| Expenses for professional services | (1,566) | (2,460) | 894 | (36%) |
| Utilities and services | (410) | (559) | 149 | (27%) |
| Other indirect taxes and duties | (1,981) | (742) | (1,239) | >100% |
| Others | (359) | (681) | 322 | (47%) |
| **Total other administrative expenses** | **(17,941)** | **(16,091)** | **(1,850)** | **11%** |

Other administrative expenses amounted to approximately EUR 17.9 million, increasing by EUR 1.9 million compared to the same period of the previous year, and refer primarily to IT and software expenses other indirect duties and taxes and legal and notary's fees.

## Net adjustments/recoveries on property and equipment and intangible assets

*(amounts in thousands of euros)*

| Items / Technical forms | 31/03/2021 | 31/03/2020 | Absolute changes | Change % |
|---|---|---|---|---|
| **Net adjustments/recoveries on property and equipment** | | | | |
| Property and equipment with functional use | (1,030) | (660) | (370) | 56% |
| of which: own Property and equipment | (458) | (107) | (351) | >100% |
| of which: Rights of use acquired through lease agreements | (572) | (553) | (19) | 3% |
| **Net write-downs /write-backs on intangible assets** | | | | |
| Finite useful life | (1,940) | (1,173) | (767) | 65% |
| Indefinite useful life | - | - | - | N/A |
| **Net adjustments/recoveries on property and equipment and intangible assets** | **(2,970)** | **(1,833)** | **(1,137)** | **62%** |

Net adjustments/recoveries on property and equipment and intangible assets amounted to approximately EUR 3 million, compared to EUR 1.8 thousand as of 31 March of the previous year. The increase was due to the amortisation of considerable IT investments made by the Bank, as well as greater depreciation for right of use assets, acquired through lease agreements, as indicated in IFRS 16, and the amortisation of intangible assets recognised in accordance with IFRS 3.

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

*(amounts in thousands of euros)*

| Transaction/Income item | Write-downs/write-backs (1) | | | Write-backs (2) | | 31/03/2021 |
|---|---|---|---|---|---|---|
| | Stage one and Stage two | Stage three | | Stage one and Stage two | Stage three | |
| | | Write-offs | Others | | | |
| **A. Due from banks** | **(17)** | **-** | **-** | **2** | **-** | **(15)** |
| - loans | (17) | - | - | 2 | - | (15) |
| – debt securities | - | - | - | - | - | - |
| of which: purchased or originated credit impaired | - | - | - | - | - | - |
| **B. Loans and receivables with customers** | **(14)** | **-** | **(38,125)** | **462** | **55,237** | **17,560** |
| - loans | (14) | - | (38,125) | 447 | 55,237 | 17,545 |
| – debt securities | - | - | - | 15 | - | 15 |
| of which: purchased or originated credit impaired | - | - | (37,308) | - | 54,139 | 16,831 |
| **Total** | **(31)** | **-** | **(38,125)** | **464** | **55,237** | **17,545** |

Net write-backs to assets measured at amortised cost amounted to EUR 17.5 million. In particular, net write-backs to POCI loans amounted to EUR 16.8 million, as shown in the table above. The sub-item "purchased or originated credit impaired" refers to the amount of write-downs/write-backs of loans classified as purchased or originated credit impaired as a result of collections or revisions of business plans. The overall valuation of POCI Client HTC closed positions during the period yielded a net result of EUR 11.4 million.

## Basic and diluted earnings (losses) per share

Basic earnings (loss) per share are calculated by dividing the Group's profit for the period by the weighted average number of ordinary shares in issue. The diluted profit per share as of 31 March 2021 coincides with the basic profit per share.

*(amounts in thousands of euros)*

| Basic and diluted earnings per share | Profit/(Loss) for the period | Average number of shares | Basic and diluted earnings per share |
|---|---|---|---|
| Period ended 31 March 2021 | 12,556 | 73,096,014 | 0.17 |
| Period ended 31 March 2020 | 4,500 | 65,153,880 | 0.07 |

# Quarterly trend

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

## Reclassified Statement of Financial Position

*(amounts in thousands of euros)*

| Assets | 31/03/2021 | 31/12/2020 | 30/09/2020 | 30/06/2020 | 31/03/2020 |
|---|---|---|---|---|---|
| Treasury portfolio - Securities at FV | 342,635 | 91,427 | 139,861 | 285,731 | 335,249 |
| Financial instruments mandatorily measured at fair value | 17,789 | 18,450 | 13,962 | 7,710 | 7,505 |
| Loans mandatorily measured at fair value | 512 | - | - | 4,422 | - |
| Due from banks | 536,023 | 530,922 | 504,806 | 502,844 | 566,799 |
| Loans to financial entities | 139,943 | 109,993 | 139,974 | 139,959 | - |
| Loans to customers | 2,233,732 | 2,204,908 | 1,830,969 | 1,765,923 | 1,751,714 |
| Investments in equity | 85,564 | - | - | - | - |
| Property and equipment and intangible assets | 147,191 | 147,816 | 137,264 | 133,946 | 83,583 |
| Tax assets | 31,088 | 35,403 | 35,368 | 39,500 | 39,043 |
| Other assets | 781,560 | 987,370 | 589,854 | 357,821 | 267,877 |
| **Total assets** | **4,316,037** | **4,126,289** | **3,392,058** | **3,237,856** | **3,051,770** |

*(amounts in thousands of euros)*

| Liabilities | 31/03/2021 | 31/12/2020 | 30/09/2020 | 30/06/2020 | 31/03/2020 |
|---|---|---|---|---|---|
| Amounts due to banks | 626,660 | 534,345 | 540,953 | 582,970 | 468,190 |
| Amounts due to customers | 2,567,758 | 2,552,161 | 2,123,218 | 1,912,996 | 1,900,957 |
| Securities issued | 302,402 | 300,980 | 2,256 | 2,254 | 10,302 |
| Financial liabilities designated at fair value | - | - | - | - | 7,719 |
| Tax liabilities | 6,859 | 4,207 | 4,627 | 3,187 | 2,156 |
| Other liabilities | 146,865 | 151,474 | 146,489 | 173,289 | 125,207 |
| **Shareholders' equity** | **665,493** | **583,122** | **574,515** | **563,160** | **537,239** |
| **Total liabilities and shareholders' equity** | **4,316,037** | **4,126,289** | **3,392,058** | **3,237,856** | **3,051,770** |

## RECLASSIFIED INCOME STATEMENT

*(amounts in thousands of euros)*

| Income Statement items | 1Q2021 | 4Q2020 | 3Q2020 | 2Q2020 | 1Q2020 |
|---|---|---|---|---|---|
| Interest margin | 31,207 | 30,801 | 27,226 | 23,878 | 21,398 |
| Net fee and commission income | 4,944 | 6,548 | 3,176 | 2,359 | 2,740 |
| Gains/losses on financial assets and liabilities | 3,833 | 2,747 | 2,071 | (28) | 3,696 |
| Net write-downs/write-backs on closed positions - HTC Clients - POCI | 11,406 | 13,995 | 11,596 | 7,924 | 9,122 |
| Other profits (losses) from the disposal of investments | 2,278 | - | - | - | - |
| Other operating expenses and income | 2,003 | 4,112 | 461 | 227 | 46 |
| **Total net operating income** | **55,671** | **58,203** | **44,530** | **34,360** | **37,002** |
| Personnel expenses | (16,638) | (16,023) | (11,495) | (13,246) | (11,299) |
| Other administrative expenses | (17,941) | (25,244) | (16,851) | (12,718) | (16,091) |
| Net adjustments/recoveries on property and equipment and intangible assets | (2,970) | (2,456) | (2,298) | (2,027) | (1,833) |
| **Operating expenses** | **(37,549)** | **(43,723)** | **(30,644)** | **(27,991)** | **(29,223)** |
| **Operating profit (loss)** | **18,122** | **14,480** | **13,886** | **6,369** | **7,779** |
| Net write-downs/write-backs for credit risk - HTC Banks | (15) | 57 | (72) | 252 | (133) |
| Net write-downs/write-backs for credit risk - HTC financial entities | (31) | 25 | 11 | (25) | (126) |
| Net write-downs/write-backs for credit risk - HTC Clients | 6,185 | (5,108) | (761) | 3,352 | 73 |
| Net write-downs/write-backs for credit risk - HTCS | (1,504) | 82 | 353 | 184 | (537) |
| Net write-downs/write-backs for commitments and guarantees | (1,507) | (785) | (200) | (137) | 141 |
| **Total net write-downs/write-backs** | **3,128** | **(5,729)** | **(669)** | **3,626** | **(582)** |
| Other net provisions | (25) | (428) | (40) | 36 | (36) |
| Other income (expenses) on investments | (2,123) | - | - | - | - |
| **Profit (loss) from operations before taxes** | **19,102** | **8,323** | **13,177** | **10,031** | **7,161** |
| Income tax for the period on continuing operations | (6,546) | (1,558) | (3,694) | 307 | (2,661) |
| **Profit (loss) for the period** | **12,556** | **6,765** | **9,483** | **10,338** | **4,500** |

The interest margin in the first quarter of 2021 amounted to EUR 31.2 million, in line with the previous quarter and up strongly on the same period of 2020, following the significant purchases of NPL portfolios in 2020. The DCIS Division was able to make a significant contribution to the result of the first quarter of 2021, in spite of the challenging market conditions caused by the COVID-19 pandemic.

Total net operating income for the first quarter of 2021 amounted to EUR 55.7 million. Besides net interest, revenues for the quarter included net commission for EUR 4.9 million and a positive net result on customer HTC positions closed in the first quarter for approximately EUR 11.4 million and income from disposals of investments for EUR 2.3 million, related to the sale of the business unit Fluid, as part of the joint venture for 50% control of Hype.

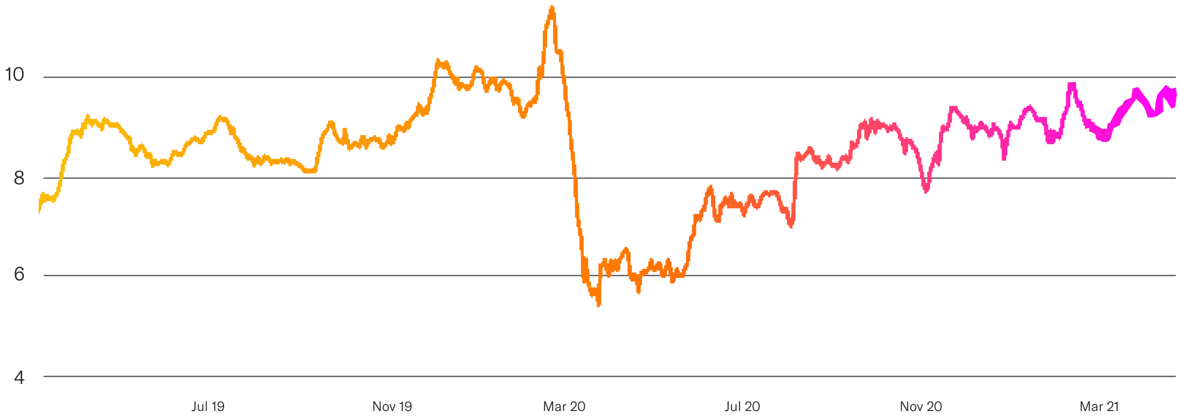
Operating expenses in the first quarter of 2021, equal to EUR 37.5 million, improved over the previous quarter. Personnel costs increased as a result of new hires related to the increased operations of the Group, while other administrative expenses benefitted from a focus on costs and seasonal aspects of some business lines.

Net write-downs, relating mainly to the valuation of the HTC Clients portfolio, were positive in the quarter, equal to approximately EUR 3.1 million. Costs on investments, related to the result for the period of the joint venture in Hype, were also recorded, for EUR 2.1 million.

As a result of the above dynamics, the first quarter of 2021 ended with a profit for the period, before taxes on continuing operations, equal to EUR 19.1 million and a net profit for the quarter of EUR 12.6 million.

# illimity Bank share performance

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




Significant shareholders with a stake of at least 5% in the share capital with voting rights in illimity, with the percentages calculated by the Bank based on the number of shares resulting from the most recent information available and number of ordinary shares issued, updated at 26 April 2021, are reported below:

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

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

# Contribution of operating segments to the Group's results

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

a) Distressed Credit Investment & Servicing;
b) Small Medium Enterprises;
c) Digital bank;
d) Asset Management Company.

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

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

The next table shows the main data summarising developments in the operating segments of the illimity Group in the first quarter of 2021.

*(amounts in millions of euros)*

| Economic performance | DCIS | SME | Digital Bank | SGR | Corporate Center (*) | 31/03/2021 |
|---|---|---|---|---|---|---|
| Interest margin | 26.6 | 3.8 | 0.7 | – | 0.1 | 31.2 |
| Net fee and commission income | 2.1 | 3.0 | - | – | (0.2) | 4.9 |
| Other economic components | 13.9 | 2.9 | 2.3 | – | 0.4 | 19.5 |
| **Total net operating income** | **42.6** | **9.7** | **3.0** | **–** | **0.3** | **55.7** |
| Personnel expenses | (5.9) | (2.7) | (1.5) | (0.5) | (6.0) | (16.6) |
| Other administrative expenses and Net adjustments/recoveries on property and equipment and intangible assets | (8.1) | (2.6) | (2.9) | (0.1) | (7.2) | (20.9) |
| **Operating expenses** | **(14.0)** | **(5.3)** | **(4.4)** | **(0.6)** | **(13.2)** | **(37.5)** |
| **Operating profit (loss)** | **28.6** | **4.4** | **(1.4)** | **(0.6)** | **(12.9)** | **18.1** |
| Total net write-downs/write-backs and other provisions | 2.8 | 0.3 | – | – | – | 3.1 |
| Other income (expenses) on investments | – | – | (2.1) | – | – | (2.1) |
| **Profit (loss) from operations before taxes** | **31.4** | **4.7** | **(3.5)** | **(0.6)** | **(12.9)** | **19.1** |

*(amounts in millions of euros)*

| Financial data | DCIS | SME | Digital Bank | SGR | Corporate Center (*) | 31/03/2021 |
|---|---|---|---|---|---|---|
| Loans to customers | 1,060.4 | 940.2 | – | – | - | **2,000.6** |
| Securities at amortised cost | 228.7 | 4.4 | – | – | - | **233.1** |
| Property and Equipment | 56.0 | – | – | – | 21.6 | **77.6** |
| Amounts due to customers and Securities issued | – | – | 2,381.6 | – | 511.2 | **2,892.8** |
| RWAs | 1,995.6 | 827.3 | 30.0 | n.s. | 165.3 | **3,018.2** |

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

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

The DCIS Division posted approximately EUR 42.6 million of revenues in the first quarter of 2021, equal to approximately 76% of the Bank's total net operating income, and EUR 31.4 million of profit before taxes. The cost/income ratio of the Division was well below 35% in the first quarter, benefitting from lower diligence and onboarding costs related to seasonal aspects of investments.

The SME Division, with operations and a receivables/investments portfolio that have been established more gradually, closed the first quarter posting revenues of EUR 9.7 million, equal to 17% of the net operating income, and profit before taxes of EUR 4.7 million, up considerably on EUR 5.5 million recognised for all of 2020. The heighted pace in business volumes in the last period of the quarter, along with the scalability of its own operating platform, will drive operating benefits in the immediate future.

For the first time, the economic contribution arising from the finalisation of the joint venture in Hype, consolidated with the equity method, was reflected in the result of the Direct Bank Division. In the quarter, the economic effects of the 50% investment in the share capital of Hype were basically recognised as a negative economic result of EUR 2.1 million, corresponding to the pro-rata value of the result for the period of the company, as previously indicated, in addition to a capital gain of EUR 2.3 million arising from the valuation of illimity's open banking operations transferred to Hype under the partnership agreement. The Division ended the first quarter posting a loss before taxes of EUR 3.5 million. The joint venture in Hype is expected to produce benefits from a significant cost sharing, as well as revenues from cross selling opportunities in future years.

Lastly, the central functions of the Corporate Center reported net costs of EUR 12.9 million, mainly due to expenses necessary to develop a scalable platform for the future evolution of the business.

## Distressed Credit Investment & Servicing

### Division operations

As of 31 December 2020, the DCIS Division had purchased NPLs of 7.6 billion euros, in terms of gross book value, for the price of approximately 1,120 million euros.

During the first quarter of 2021, the Investments area finalised transactions for an invested amount of approximately EUR 47 million. These opportunities, mainly related to acquisitions in the primary market, were finalised through two different structural types:

- acquisitions completed through securitization vehicles pursuant to Law 130/1999: these transactions were concluded by subscribing 100% of the notes issued by the securitization vehicles, which in turn receive from illimity the funding necessary for the acquisition of the credits. In this case, the purchase always concerns positions classified as bad loans, or in any case revoked credit lines;
- acquisitions executed directly by illimity: credits are purchased directly by illimity and accounted for in the Bank's financial statements; this case is necessary, for example, for the purchase of still-active positions, usually classified as UTPs, for which the transfer of both the credit right and the associated banking relationship is required.

Taking also into account investments made by the Investments area in previous years, as of 31 March 2021 the Bank had finalised investment transactions in distressed loans, both on its own and through controlled securitization vehicles, for a total amount of approximately EUR 1,167 million, as shown below.

*(Amounts in millions of euros)*

| Investment transactions in Distressed Loans | Price | GBV |
|---|---|---|
| **Acquisitions as of 31/12/2019** | **720** | **5,301** |
| Acquisitions Q1 2020 | 37 | 174 |
| **Total as of 31/03/2020** | **757** | **5,475** |
| Acquisitions Q2 2020 | 100 | 282 |
| **Total as of 30/06/2020** | **857** | **5,757** |
| Acquisitions Q3 2020 | 12 | 485 |
| **Total as of 30/09/2020** | **869** | **6,242** |
| Acquisitions Q4 2020 | 251 | 1,325 |
| **Total as of 31/12/2020** | **1,120** | **7,567** |
| Acquisitions Q1 2021 | 47 | 245 |
| **Total as of 31/03/2021** | **1,167** | **7,812** |

In the first quarter of 2021, the Senior Financing area finalised a transaction for a total of EUR 2 million. In general terms, these Senior Financing opportunities, concluded mainly in support of primary investment funds and companies specialised in the purchase of non-performing loans, were finalised through two different structural types:

- the subscription of senior notes issued by securitization vehicles pursuant to Law 130/1999 that have purchased non-performing loans. In some limited cases, illimity also acted as sponsor of the securitization, and also subscribed to part of the junior notes issued by the securitization vehicles pursuant to Law 130/1999;
- the provision of an asset-backed loan to a corporate entity.

In addition to the above, during the first quarter of 2021, the DCIS Division finalised, specifically with the support of the Special Situations Real Estate area, a further transaction, subscribing 100% of the senior notes and 5% of the total junior notes issued by a newly established securitization vehicle set up to purchase distressed credit. During this transaction, illimity assisted a professional investor acting on behalf of borrower companies, that subscribed the remaining junior notes issued by the vehicle.

Considering the investments made by the Senior Financing area in previous years, as well as the two transactions undertaken with the support of the Special Situations Real Estate area through illimity's subscription of senior notes and any minority portion of junior notes issued by securitization vehicles pursuant to Italian Law no. 130/1999, as of 31 March 2021, the Bank had entered into 20 asset-backed loan agreements on distressed loans for a total amount of approximately EUR 486 million, as shown below.

*(Amounts in millions of euros)*

| Asset-backed financing on Distressed Loans | Amount paid |
|---|---|
| **Investments up to 31/12/2019** | **390** |
| Investments Q1 2020 | 11 |
| **Total as of 31/03/2020** | **401** |
| Investments Q2 2020 | 13 |
| **Total as of 30/06/2020** | **414** |
| Investments Q3 2020 | 27 |
| **Total as of 30/09/2020** | **441** |
| Investments Q4 2020 | 33 |
| **Total as of 31/12/2020** | **474** |
| Investments Q1 2021 | 12 |
| **Total as of 31/03/2021**[11] | **486** |

# SME Division

## Division operations

As of 31 December 2020, gross loan exposures in the SME portfolio totalled EUR 926 million, with the SME portfolio breaking down as follows:

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

In the first quarter of 2021, receivables of the SME Division went up considerably, by approximately EUR 46 million. The new loans primarily concerned operations secured by public loans.

In brief, the main trends observed in the first quarter of 2021 are as follows:

- new loans secured by public guarantees were disbursed for a total of approximately EUR 51 million, referring nearly entirely to the Crossover and Acquisition Finance Area;
- unsecured loans were disbursed for approximately EUR 8 million, allocated between the Turnaround Area and the Crossover and Acquisition Finance Area;
- the last portions of a credit portfolio were purchased, of which the SME component went up by approximately EUR 7 million, net of disposals in the first few months following the purchase for approximately EUR 2 million.

Factoring recorded a turnover of nearly EUR 200 million in the first quarter of 2021, with a specific exposure as of 31 March 2021 equal to EUR 158 million, stable compared to the year-end figure.

11 As of 31 March 2021, the outstanding accounting balance (paid) amounted to approximately EUR 318.5 million, of which EUR 231.2 million of notes and EUR 87.3 million of loans.

The constant and gradual reduction in former BPI portfolio exposures continued, with a decrease of around EUR 8 million in the first quarter of 2021.

As of 31 March 2021, gross exposures in the SME portfolio totalled EUR 972 million; the SME portfolio was therefore composed as follows:

- former BIP portfolio, amounting to EUR 146 million (15%);
- Turnaround amounting to approximately EUR 261 million (27%);
- Crossover and Acquisition Finance amounting to EUR 407 million (42%);
- Factoring, amounting to EUR 158 million (16%).

In addition, during the first quarter of 2021, corporate bond transactions increased, extending the investment strategy also to the HTCS business model, in order to expand the range of possible investments, in relation to a portfolio (HTC) retention strategy, so that instruments with a more moderate return in a market phase with narrower spreads, could also be included. The HTCS corporate bond portfolio as of 31 March 2021 amounted to approximately EUR 42 million.

## Measures related to the COVID-19 emergency

The positions subject to suspensions and/or moratoria in general (pursuant to law or promoted by industry associations), or which are bilateral, the latter usually granted to support counterparties that do not meet the formal requirements to access government measures or the ABI moratorium, are reported below.

At the reporting date, suspensions and moratoria were finalised for nearly 200 positions, for a total amount of approximately EUR 93 million; 56% of initial exposures in a moratorium were attributable to suspensions for companies provided for in Article 56 of the Cura Italia Decree Law, with a further 38% referring to bilateral interventions, since the conditions required by law to activate legal suspensions had not been met; the remainder were ABI moratoria and those with individuals pursuant to Article 54 of the Cura Italia Decree Law.

The aggregate is monitored continuously, with specific contact activity targeting customers affected by the suspension or moratoria measures, in order to verify, also based on supporting documentation, whether problems with resuming payments could arise in future, so as to take prompt management measures (e.g., the preparation of forbearance measures, classification as higher risk, etc.). These control activities extend to all moratoria implemented, whether legislative or bilateral, and are monitored by the Operations, Credit Monitoring & NPE Area of the CLO Department.

On 23 April 2021, the aggregate of residual suspensions and moratoria amounted to approximately EUR 49 million, mainly following refinancing, often with public guarantees, with a view to a permanent redefinition of the financial commitments of businesses that had made use of suspension measures in order to prepare updated plans in view of the pandemic emergency, based on which broader-ranging financial measures could be configured, consistent with the changed scenario. In conjunction with the Operations, Credit Monitoring & NPE Area, an assessment of the risk of outstanding moratoria positions was set up.

Loans to businesses, secured by the public guarantee of the Central Guarantee Fund and by SACE, pursuant to the Liquidity Decree Law, stood at approximately EUR 250 million as of 31 March 2021, of which approximately EUR 50 million during the first quarter of 2021.

# Digital Bank

## Direct Banking projects

The first quarter enabled the Direct Bank Division to consolidate its offering developed during 2020, and set out the master plan for the year.

In the first quarter of 2021, illimity continued to partner American Express to offer Direct Bank (illimity and Azimut) customers a range of Amex credit cards with special conditions, directly from the private area of illimity home banking. It is now possible to apply for different types of cards according to needs, and access pricing conditions that vary depending on the card selected.

In addition, American Express runs commercial promotions, for illimity customers, at regular intervals. During 2021, various promotions took place, including a promotion enabling customers to activate credit cards with zero fees in the first year, as well as cash-back programmes based on the number of card transactions.

Since March, the Domination Insurance campaign has been active, launched by illimity with the aim of narrating insurance products to Customers and prospects. The message behind the entire campaign (Protect your wellbeing), encompasses the concept of offering customers a proposition that can provide peace of mind and security, for example through insurance products dedicated to personal finances, as well as travel insurance and insurance cover for pets. The campaign will hone in on all of illimity's touch points, starting from a landing showcase with complete overview of its offering, to narration recounted week by week to the customer base, with a vertical focus dedicated to individual products. At the same time, a campaign was launched on social channels, based on a fully digital strategy and smart, data-driven communication models.

In mid-March, the Out-Of-Home campaign "Mai come oggi" (Seize the day), was launched with a maxi-billboard campaign in Europe's largest advertising space, in a central, symbolic part of Milan, representing all the potential of the city. The aim of the campaign is to underscore illimity's closeness to Italian households and businesses, through a message of renewal and revival for Italy, at a historic time when emotional and financial security are sought after - faced with a general uncertainty and with consumer habits and needs overturned by the pandemic.

This campaign was consolidated by a communication plan, on the Group's official channels. The billboards went live for two weeks at the end of the first quarter.

As regards ongoing works for Open Banking, the partnership between illimity and Hype started from January, to all effects. This joint venture, disclosed to the market in September 2020 with numerous technological as well as strategic objectives, produced the first results from the early months of the year. These included the commercial rebranding of Fintech - which exceeded 1.4 million customers in the first quarter - as well as the start of some projects to optimise functions and management processes, which are expected to have a positive impact on related operating costs. The first activities in this joint venture are taking place, above all in the IT sector, and in market analyses of Hype customers in order to start customised initiatives (e.g. Brand Health initiatives).

Lastly, the Direct Bank Division took action in the first quarter to improve data management oversight (modelling customer behaviour and use of products, in order to support consequent business decisions), as well as commercial opportunities of Open Banking, developing business areas connected through commercial partnerships with financial and non-financial counterparts.

### Retail Business performance

As of 31 March 2021, Bank funding was broken down as follows:

- the partnership with the German fintech platform Raisin, operational since May 2019, contributed EUR 491 million to funding thanks to its approximately 13,500 customers. Funding was up +22% compared to the previous quarter, and up +27% compared to the end of the first quarter of 2020;
- the strategic partnership with Azimut, a leading advisory and wealth management firm, contributed EUR 58 million to the Bank's funding. Azimut funding saw two-digit growth compared to the same period in 2020, and was stable compared to the previous quarter;
- the digital bank illimitybank.com, presented to the market on 12 September 2019, contributed EUR 1,100 million to funding. The funding raised by illimitybank.com increased by approximately EUR 70 million during the last quarter. Compared to the same period of 2020, funding volumes were higher by over EUR 300 million.
- The Direct Bank customer base (including the Azimut channel) currently comprises some 46,500 customers (+50% compared to the end of the first quarter of 2020, and some 5,000 customers more acquired in the first quarter of 2021).

Total customer funding, including former customers of Banca Interprovinciale, amounted to approximately EUR 2.4 billion at the end of the quarter.

Lastly, as regards the main KPIs that measure customer experience, activities and loyalty, the following is reported:

- The Net Promoter Score (NPS) confirms customers' considerable appreciation of the direct bank. In Q1 2021, the score stood at 44 (with a Promoters level equal to 56), and a value in line with Q4 2020, up significantly over the levels of 12 months ago (Q1 2020=35);
- Brand Awareness stood at 28% in March, and at 31% considering the aggregate on Q1 2021, increasing by 2 points compared to Q4 2020. In particular, thanks to the billboard campaign in Milan, illimity reached a brand awareness level of 35% in the city, up by 7 points compared to January-February 2021 and by 10 points compared to Q4 2020.
- The number of active customers, i.e. customers who use the Bank's services, is stable, currently amounting to 86%, reflecting a customer base that is satisfied with and engaged by the value proposition;
- The number of loyal customers, that use the products and services of the Bank daily, which currently stands at 30%.
- The number of customers that access the platform at least once a month stands at 75%, with approximately 13 visits a month, mainly from smartphones.

## Asset Management Company ("SGR")

After obtaining necessary authorisation from competent authorities in 2020 to provide collective asset management services, illimity SGR worked in the first quarter of 2021 to set up and market its first Alternative Investment Fund ("Fund" or "AIF") called *illimity Credit & Corporate Turnaround*.

As explained in more detail in the section "Subsequent events" (to which reference is made), on 1 April 2021, illimity SGR announced it had completed the first closing of the Fund, dedicated to investments in Unlikely To Pay ("UTP") positions of SMEs, with prospects for them to recover and relaunch.

The initial portfolio includes receivables for a total gross amount of over EUR 200 million with 33 companies operating in highly diversified sectors. The Fund will support the financial restructuring of companies with the aim not only of overcoming the crisis, but also of valuing their potential and pursuing a concrete prospect of being relaunched.

## Corporate Center

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

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

### Digital Operations

As in previous quarters, the Division's operations continued according to plan without slowdowns due to the ongoing COVID-19 pandemic. All illimiters work at the company and remotely, facilitated by the IT architecture (e.g. booking workstations in the office when necessary), which is constantly evolving. The plan for working at offices was defined in accordance with measures decided by authorities to contain the spread of infection.

### IT platform projects

As part of IT4IT initiatives, dedicated projects were launched for the platform's technological evolution, that will provide a number of benefits, both in qualitative terms (e.g. a general improvement in the performance of IT systems involved), and in quantitative terms (e.g. a reduction in the times necessary for development and related costs). These include the project for the development of the Front-End (web/mobile) architecture - released during the second quarter, and Data Quality works, started in the first quarter, that will be rolled out by the end of 2021.

### 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*

- During the quarter, developments for the Ecobonus Module started, an application for illimity to manage the purchase of tax credits accrued by third parties, which features an engine to calculate the interest to recognise in financial statements;
- a tool was developed to manage proceedings brought against the Division. The purpose is to set up a system to manage and monitor various proceedings other than credit collection, also allowing for regular updates to information available;

#### *DCIS Division*

- Activities prior to completing the COMS (the Credit Origination Management System) continued. This vertical application will guide users during all stages of the NPL process, from origination to management. Some developments were completed as early on as the first quarter of the year, while numerous other IT initiatives are planned for the next few months, for processes, modules and functions that will enhance the platform, making it a complete, standout asset on the market;
- To consolidate the Bank's strategy, and in line with the size and dynamics of the markets in which illimity operates, analysis design activities to set up a digital, fully-dedicated platform to manage UTPs were completed in January. The project has been carried out levering the competitive edge provided by the combination of experience and competency of the DCIS and SME Divisions, and is scheduled for completion in 2021.

As regards main projects underway and dedicated to internal company Functions, activities focussed on Corporate Performance Management systems used to guarantee the correct monitoring of the company's economic performance and financial data (and related decision-making KPIs), as well as the project to revise the TIT calculation model, with expected benefits that will include a better understanding and measurement of business income, and the active management of interest rate risk.

Lastly, in the Data sector, the creation of a single credit data warehouse, with the participation of the SME Division, was requested, containing the current content of various illimity systems. The project was started in January and the first releases will be in the last quarter of 2021.

## Subsequent events

On 1 April 2021, illimity SGR announced it had completed the first closing of the illimity Credit & Corporate Turnaround fund (the "Fund" or "iCCT"), dedicated to investments in Unlikely To Pay ("UTP") positions of SMEs, with prospects for them to recover and relaunch.

The initial portfolio includes receivables for a total gross amount of over EUR 200 million with 33 companies operating in highly diversified sectors. These receivables were sold by 7 banks and banking groups, that became holders of units in the Fund. Initial funding - subscribed by professional investors, including illimity Bank - amounted to EUR 25 million, that will be used in managing purchased receivables and to support the turnaround of companies in which the Fund assets have invested. The Fund will support the financial restructuring of companies with the aim not only of overcoming the crisis, but also of valuing their potential and pursuing a concrete prospect of being relaunched.

On 7 April 2021, viafintech and illimity announced a partnership enabling customers of illimitybank.com – the direct digital bank of the illimity Group – to use the viacash function in the mobile banking app. The service, provided by viafintech, allows customers to deposit cash in a smart, efficient way, while they shop.

On 22 April 2021, the Ordinary Shareholders' Meeting of illimity was held, which - as indicated in the related press release - approved, among others, the Financial Statements as of 31 December 2020 and appointed the new Board of Directors of the Bank, with the following composition: Rosalba Casiraghi (Chair), Corrado Passera (CEO), Massimo Brambilla, Patrizia Canziani, Elena Cialliè, Paola Elisabetta Galbiati, Giovanni Majnoni d'Intignano, Martin Ngombwa and Marcello Valenti.

# Business outlook

Despite the continuing uncertainty related to the pandemic, illimity reported robust results in the first quarter of 2021, in line with the Bank's good business performance, already visible from the second half of 2020 onwards. All sectors in which illimity operates are buoyant and the prospects for future growth for some areas - non-performing loans for example - could be higher than initially expected.

In the next few months, a further growth in the business volumes of the SME Division is expected, also based on a pipeline of approximately EUR 180 million available in April 2021, in line with the dynamics of all business segments in the last few quarters. Loans secured by a public guarantee will continue to have an important role in contributing to new loans, also considering the extension expected for 2021.

Based on the typical seasonal trends of the non-performing loans market, a gradual acceleration in investments of the DCIS Division is expected, from as early on as the next quarter and for the remainder of 2021, also considering a mid-term pipeline that can be quantified as being over EUR 260 million.

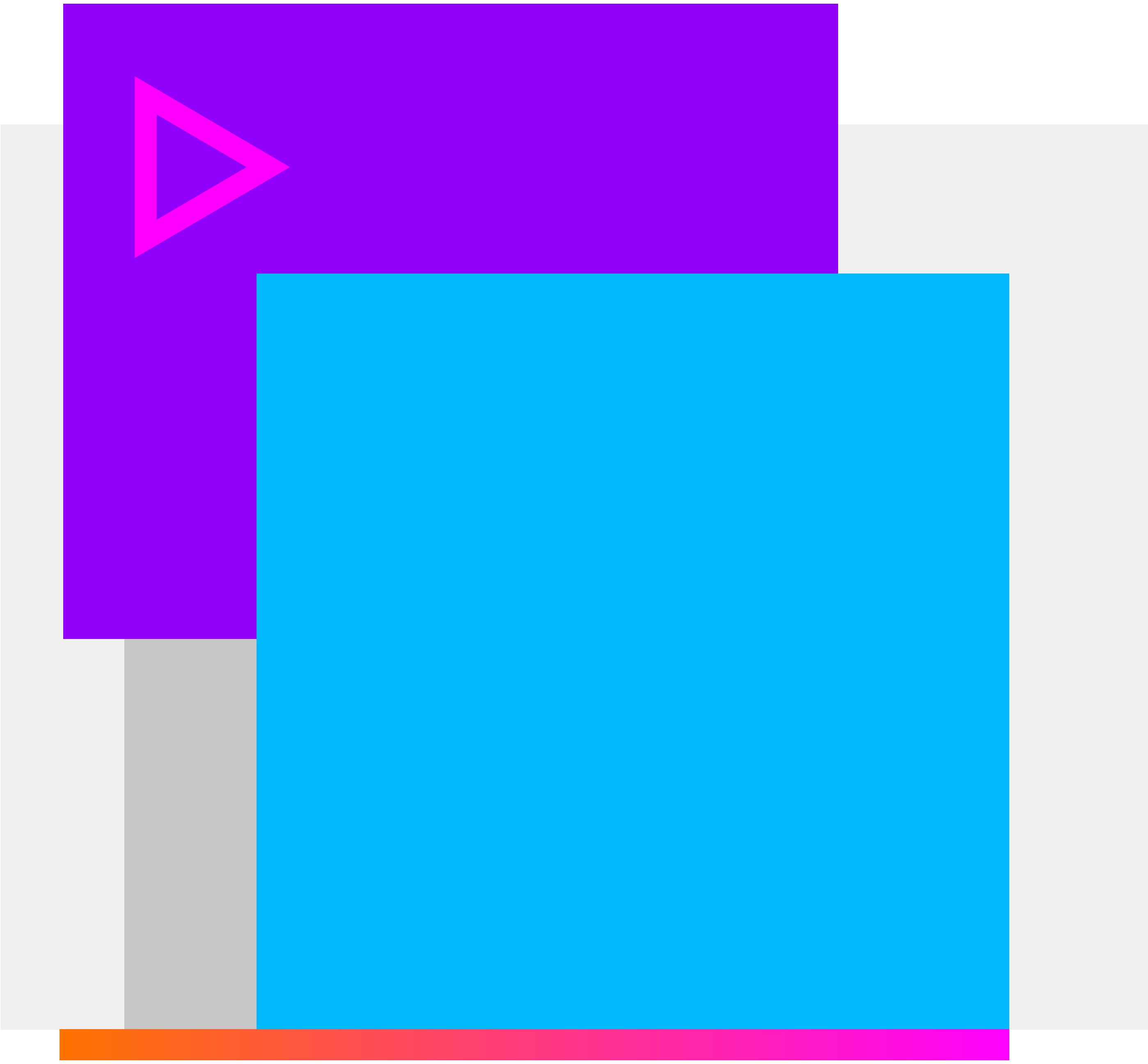
The expected acceleration in the generation of business volumes will be the main driver of growth in revenues during the year, along with a positive contribution from the constant dynamic management net of portfolios investing in non-performing loans.

From as early on as the last part of 2020, the Bank had recognised costs and investments in strategic initiatives supporting mid/long-term growth prospects. Investments in new strategic projects, with results that will be seen in future years, will also continue in 2021, stepping up in the next few quarters, to further consolidate the market positioning of all the Bank's activities.

Considering the quality of the companies' portfolio, the contribution of loans with public guarantee, in which a large part of the new business generated by the SME division will be channelled, the cost of credit in 2021 is expected to stay at moderate levels, also in the next few quarters.

Overall, management expects further significant growth in the Bank's profits for 2021, despite costs incurred for new strategic initiatives that will be presented to the market before the end of the first half of the year, when illimity's long-term strategic plan is revised.

The positive dynamics in own funds, through the generation of profits, despite a considerable growth in weighted risk assets due to increasing volumes, will ensure a common equity tier 1 ratio above capital requirements.



# Consolidated financial statements

as of 31 March 2021

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Assets | | 31/03/2021 | 31/12/2020 |
|---|---|---|---|
| 10. | Cash and cash equivalents | 732,759 | 944,832 |
| 20. | Financial assets measured at fair value through profit or loss | 50,475 | 18,502 |
| | a) financial assets held for trading | 32,174 | 52 |
| | b) financial assets designated at fair value | - | - |
| | c) other financial assets mandatorily measured at fair value | 18,301 | 18,450 |
| 30. | Financial assets measured at fair value through other comprehensive income | 310,461 | 91,375 |
| 40. | Financial assets measured at amortised cost | 2,909,698 | 2,845,823 |
| | a) due from banks | 536,023 | 530,922 |
| | b) loans to customers | 2,373,675 | 2,314,901 |
| 50. | Hedging derivatives | - | - |
| 60. | Fair value change of financial assets in hedged portfolios (+/-) | - | - |
| 70. | Equity investments | 85,564 | - |
| 80. | Technical reinsurance reserves | - | - |
| 90. | Property and equipment | 77,585 | 78,434 |
| 100. | Intangible assets | 69,606 | 69,382 |
| | of which: | | |
| | - goodwill | 36,224 | 36,224 |
| 110. | Tax assets | 31,088 | 35,403 |
| | a) current | 3,175 | 3,206 |
| | b) deferred | 27,913 | 32,197 |
| 120. | Non-current assets held for sale and discontinued operations | - | - |
| 130. | Other assets | 48,801 | 42,538 |
| | **Total assets** | **4,316,037** | **4,126,289** |

| | Liabilities and shareholders' equity | 31/03/2021 | 31/12/2020 |
|---|---|---|---|
| 10. | Financial liabilities measured at amortised cost | 3,519,411 | 3,410,034 |
| | a) due to banks | 626,660 | 534,345 |
| | b) due to customers | 2,590,349 | 2,574,709 |
| | c) Securities issued | 302,402 | 300,980 |
| 20. | Financial liabilities held for trading | - | - |
| 30. | Financial liabilities designated at fair value | - | - |
| 40. | Hedging derivatives | - | - |
| 50. | Fair value change of financial liabilities in hedged portfolio (+/-) | - | - |
| 60. | Tax liabilities | 6,859 | 4,207 |
| | a) current | 5,512 | 3,460 |
| | b) deferred | 1,347 | 747 |
| 70. | Liabilities associated with non-current assets held for sale and discontinued operations | - | - |
| 80. | Other liabilities | 115,632 | 121,789 |
| 90. | Employee severance pay | 2,680 | 2,656 |
| 100. | Allowances for risks and charges | 5,962 | 4,481 |
| | a) commitments and guarantees given | 4,602 | 3,296 |
| | b) post-employment benefits | 8 | 7 |
| | c) other allowances for risks and charges | 1,352 | 1,178 |
| 110. | Technical reserves | - | - |
| 120. | Valuation reserves | (559) | (278) |
| 130. | Redeemable shares | - | - |
| 140. | Equity instruments | - | - |
| 150. | Reserves | 61,733 | 21,766 |
| 160. | Share premium reserve | 543,803 | 487,373 |
| 170. | Share capital | 48,792 | 44,007 |
| 180. | Treasury shares (-) | (832) | (832) |
| 190. | Equity attributable to minority interests (+/-) | - | - |
| 200. | Profit (loss) for the period (+/-) | 12,556 | 31,086 |
| | **Total liabilities and shareholders' equity** | **4,316,037** | **4,126,289** |

## CONSOLIDATED INCOME STATEMENT

| Items | | 31/03/2021 | 31/03/2020 |
|---|---|---|---|
| 10. | Interest income and similar income | 45,968 | 32,061 |
| | of which: interest income calculated according to the effective interest method | 44,667 | 31,515 |
| 20. | Interest expenses and similar charges | (14,687) | (10,627) |
| **30.** | **Net interest margin** | **31,281** | **21,434** |
| 40. | Fee and commission income | 5,994 | 3,862 |
| 50. | Fee and commission expense | (1,274) | (1,366) |
| **60.** | **Net fee and commission income** | **4,720** | **2,496** |
| 70. | Dividends and similar income | - | - |
| 80. | Profits (losses) on trading | 347 | 2 |
| 90. | Fair value adjustments in hedge accounting | - | - |
| 100. | Profits (losses) on disposal or repurchase of | 2,814 | 4,914 |
| | a) financial assets measured at amortised cost | 302 | - |
| | b) financial assets measured at fair value through other comprehensive income | 2,512 | 4,916 |
| | c) financial liabilities | - | (2) |
| 110. | Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss | 672 | (1,220) |
| | a) financial assets and liabilities designated at fair value | - | - |
| | b) other financial assets mandatorily measured at fair value | 672 | (1,220) |
| **120.** | **Net interest and other banking income** | **39,834** | **27,626** |
| 130. | Net losses/recoveries for credit risks associated with: | 16,041 | 8,399 |
| | a) financial assets measured at amortised cost | 17,545 | 8,936 |
| | b) financial assets measured at fair value through other comprehensive income | (1,504) | (537) |
| 140. | Profits/(losses) on changes in contracts without derecognition | - | - |
| **150.** | **Net result from banking activities** | **55,875** | **36,025** |
| 160. | Net premiums | - | - |
| 170. | Other net insurance income (expense) | - | - |
| **180.** | **Profits (losses) of banking and insurance management** | **55,875** | **36,025** |
| 190. | Administrative expenses: | (35,134) | (27,389) |
| | a) personnel expenses | (16,614) | (11,260) |
| | b) other administrative expenses | (18,520) | (16,129) |
| 200. | Net provisions for risks and changes | (1,532) | 105 |
| | a) commitments and guarantees given | (1,507) | 141 |
| | b) other net provisions | (25) | (36) |
| 210. | Net adjustments/recoveries on property and equipment | (1,030) | (660) |
| 220. | Net adjustments/recoveries on intangible assets | (1,940) | (1,173) |
| 230. | Other operating income/expenses | 2,708 | 253 |
| **240.** | **Operating expenses** | **(36,928)** | **(28,864)** |
| 250. | Profits (losses) on equity investments | (2,123) | - |
| 260. | Profits (losses) of fair value valuation of property and equipment and intangible assets | - | - |
| 270. | Goodwill impairment | - | - |
| 280. | Profits (losses) on disposal of investments | 2,278 | - |
| **290.** | **Profit (loss) before tax from continuing operations** | **19,102** | **7,161** |
| 300. | Income tax for the period on continuing operations | (6,546) | (2,661) |
| **310.** | **Profit (loss) after tax from continuing operations** | **12,556** | **4,500** |
| 320. | Net income (Loss) (+/-) from discontinued operations after taxes | - | - |
| **330.** | **Profit (loss) for the period** | **12,556** | **4,500** |
| 340. | Profit (loss) (+/-) for the period attributable to minority interests | - | - |
| **350.** | **Profit (loss) for the period attributable to the Parent Company** | **12,556** | **4,500** |

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| | | 31/03/2021 | 31/03/2020 |
|---|---|---|---|
| **10.** | **Profit (loss) for the period** | **12,556** | **4,500** |
| | **Other comprehensive income, net of tax, that may not be reclassified to the income statement** | | |
| 20. | Equity instruments designated at fair value through other comprehensive income | - | - |
| 30. | Financial liabilities designated at fair value through profit or loss (changes in creditworthiness) | - | - |
| 40. | Hedging of equity instruments designated at fair value through other comprehensive income | - | - |
| 50. | Property and equipment | - | - |
| 60. | Intangible assets | - | - |
| 70. | Defined-benefit plans | 115 | 84 |
| 80. | Non-current assets held for sale and discontinued operations | - | - |
| 90. | Share of valuation reserves for equity investments measured at equity | - | - |
| | **Other comprehensive income, net of tax, 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 | (396) | (11,969) |
| 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)** | **(281)** | **(11,885)** |
| **180.** | **Other comprehensive income (Item 10+170)** | **12,275** | **(7,385)** |
| 190. | Consolidated comprehensive income attributable to minority interests | - | - |
| **200.** | **Consolidated comprehensive income attributable to the Parent Company** | **12,275** | **(7,385)** |

## STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 31 MARCH 2021

| | Balance as of 31 December 2020 | Change in opening balances | Balance as of 1 January 2021 | Allocation of result for the previous year | |
|---|---|---|---|---|---|
| | | | | Reserves | Dividends and other allocations |
| **Share capital:** | | | | | |
| a) ordinary shares | 43,069 | – | 43,069 | – | – |
| b) other shares | 938 | – | 938 | – | – |
| Share premium reserve | 487,373 | – | 487,373 | – | – |
| **Reserves:** | | | | | |
| a) retained earnings | (4,229) | – | (4,229) | 31,086 | – |
| b) other | 25,995 | – | 25,995 | – | – |
| Valuation reserves | (278) | – | (278) | – | – |
| Equity instruments | – | – | – | – | – |
| Treasury shares | (832) | – | (832) | – | – |
| **Profit (loss) for the period** | **31,086** | **–** | **31,086** | **(31,086)** | **–** |
| **Shareholders' equity** | **583,122** | **–** | **583,122** | **–** | **–** |

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

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

| | Changes in the period | | | | | | | | | Shareholders' equity attributable to the Group as of 31/03/2021 | Shareholders' equity attributable to minority interests as of 31/03/2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Change in reserves | Equity transactions | | | | | | | | | |
| | | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Change in equity instruments | Derivatives on treasury shares | Stock options | Changes in equity interests | Comprehensive income for the period | | |
| | | | | | | | | | | | |
| | – | 4,785 | – | – | – | – | – | – | – | 47,854 | - |
| | – | – | – | – | – | – | – | – | – | 938 | - |
| | – | 56,430 | – | – | – | – | – | – | – | 543,803 | - |
| | | | | | | | | | | | |
| | – | – | – | – | – | – | – | – | – | 26,857 | - |
| | – | 8,608 | – | – | – | – | 273 | – | – | 34,876 | - |
| | – | – | – | – | – | – | – | – | (281) | (559) | - |
| | – | – | – | – | – | – | – | – | – | – | - |
| | – | – | – | – | – | – | – | – | – | (832) | - |
| | – | – | – | – | – | – | – | – | 12,556 | 12,556 | - |
| | – | 69,823 | – | – | – | – | 273 | – | 12,275 | 665,493 | - |

| | Changes in the period | | | | | | | | | Shareholders' equity attributable to the Group as of 31 March 2020 | Shareholders' equity attributable to minority interests as of 31 March 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Change in reserves | Equity transactions | | | | | | | | | |
| | | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Change in equity instruments | Derivatives on treasury shares | Stock options | Changes in equity interests | Comprehensive income for the period | | |
| | | | | | | | | | | | |
| | – | – | – | – | – | – | – | – | – | 42,470 | – |
| | – | – | – | – | – | – | – | – | – | 938 | – |
| | – | – | – | – | – | – | – | – | – | 480,156 | – |
| | | | | | | | | | | | |
| | – | – | – | – | – | – | – | – | – | (4,133) | – |
| | (5) | – | – | – | – | – | 174 | – | – | 24,350 | – |
| | – | – | – | – | – | – | – | – | (11,885) | (10,946) | - |
| | – | – | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – | – | – | (96) | - |
| | – | – | – | – | – | – | – | – | 4,500 | 4,500 | – |
| | (5) | – | – | – | – | – | 174 | – | (7,385) | 537,239 | – |

# 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 compliance with International Financial Reporting Standards

The consolidated interim report has been prepared in accordance with Article 154-ter, paragraph 5, of 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), and in the Communication of 15 December 2020 - with particular reference to the impacts of COVID-19 and measures to support the economy - in accordance with the accounting policies adopted in preparing the consolidated financial statements of illimity Bank for the year ended 31 December 2020.

There were no departures from IAS/IFRS.

### Section 2 – Preparation Principles

The consolidated 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 consolidated interim report has been prepared using euros as the Group's functional currency and consists of the consolidated statement of financial position, consolidated income statement, statement of other comprehensive income, statement of changes in consolidated shareholders' equity and the accounting policies.

The amounts presented in the consolidated financial statements and notes are stated in thousands of EUR, unless otherwise indicated. Any discrepancies between the figures presented are due solely to rounding.

The consolidated interim report as of 31 March 2021 has been prepared according to principles and policies consistent with those adopted in the consolidated financial statements of illimity Bank S.p.A. as of 31 December 2020, 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 as from 1 January 2021, 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 2021".

The consolidated interim report for the period ended 31 March 2021 was submitted for the approval of the Board of Directors on 10 May 2021.

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

## Section 3 – Consolidation scope and methods

The consolidation policies and principles adopted in preparing the consolidated interim report for the period ended 31 March 2021 are unchanged with respect to the consolidated financial statements for the year ended 31 December 2020.

The consolidated interim report includes the accounting values of illimity and of the companies over which it directly or indirectly exercises control as of 31 March 2021, encompassing within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements or reports of companies operating in business segments dissimilar to that of the Parent Company.

The scope of consolidation adopted in the consolidated interim report for the period ended 31 March 2021 has changed with respect to the consolidated financial statements for the year ended 31 December 2020 due to the following events:

a) Acquisition of an investment with joint venture characteristics, consolidated according to the equity method, in Hype;
b) Merger of Core, IT Auction and Mado into neprix.

On 7 January 2021, ITA Gestione changed its company name to neprix Agency S.r.l.

For further information on changes in the scope of consolidation during 2021, reference is made to Section 5 - Other aspects.

Details of the scope of consolidation of subsidiaries as of 31 March 2021, and consolidated entities, are given below:

| Name | Operational headquarters | Registered office | Type of relationship (*) | Ownership relationship | |
|---|---|---|---|---|---|
| | | | | Held by | Holding % (**) |
| **Parent Company** | | | | | |
| A.0 illimity Bank S.p.A. | Milan | Milan | | | |
| **Companies consolidated on a line-by-line basis** | | | | | |
| A.1 Aporti S.r.l. (Securitization vehicle) | Milan | Milan | 4 | A.0 | |
| A.2 Soperga RE S.r.l. | Milan | Milan | 1 | A.0 | 100.0% |
| A.3 Friuli LeaseCo. S.r.l. | Milan | Milan | 1 | A.0 | 100.0% |
| A.4 Friuli SPV S.r.l. (Securitization vehicle) | Milan | Milan | 4 | A.0 | |
| A.5 Doria Leasco S.r.l. | Milan | Milan | 1 | A.0 | 100.0% |
| A.6 Doria SPV S.r.l. (Securitization vehicle) | Milan | Milan | 4 | A.0 | |
| A.7 River Leasco S.r.l. | Milan | Milan | 1 | A.0 | 100.0% |
| A.8 River SPV S.r.l. (Securitization vehicle) | Milan | Milan | 4 | A.0 | |
| A.9 Neprix | Milan | Milan | 1 | A.0 | 100.0% |
| A.10 illimity SGR | Milan | Milan | 1 | A.0 | 100.0% |
| A.11 Pitti Leasco S.r.l. | Milan | Milan | 1 | A.0 | 100.0% |
| A.12 Pitti SPV S.r.l. (Securitization vehicle) | Milan | Milan | 4 | A.0 | |
| A.13 neprix Agency S.r.l. | Faenza | Faenza | 1 | A.9 | 100.0% |
| A.14 River Immobiliare S.r.l. | Milan | Milan | 1 | A.0 | 100.0% |
| **Companies consolidated on an equity basis** | | | | | |
| A.15 Hype | Biella | Biella | 5 | A.0 | 50.0% |

(*) 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
5 = joint control

(**) Availability of votes in the ordinary shareholders' meeting: the participation quota represents voting rights in the shareholders' meeting.

## Section 4 - Subsequent events

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

## Section 5 – Other aspects

### *5.1 – Acquisition of the Joint Venture Hype*

On 22 September 2020, the Boards of Directors of illimity, Banca Sella Holding S.p.A. ("Banca Sella Holding"), Fabrick S.p.A. ("Fabrick") and Hype, approved the agreement for investment by illimity in Hype, giving rise to a 50-50 joint venture between illimity and Fabrick (until then 100% owner of Hype, and in turn owned by Banca Sella Holding S.p.A.). The purpose of the industrial transaction is to increase the project's ambitions and also to accelerate the growth of Hype.

On 22 December 2020, the Shareholders' Meeting of illimity, in an extraordinary session, following relative authorisations received from the Supervisory Authorities, unanimously approved the increase in share capital to serve agreements made with the Sella Group for the establishment of a joint venture in Hype. illimity therefore signed a deed of assignment, effective from 1 January 2021, for the acquisition by Fabrick S.p.A. of 37.66% of the share capital of Hype; illimity subscribed in cash the capital increase in Hype and a deed was signed to assign the direct banking business unit to Hype, resulting in illimity holding 50% of Hype with effect from 1 January 2021.

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

Following the above events, the participation in Hype and its consolidation were disclosed in the consolidated interim report according to the equity method, based on IFRS 11. According to IFRS, post-acquisition profits and losses are recognised in the Income Statement under the line item Gains (losses) from investments. Any distribution of dividends is also recognised minus the goodwill of the investment.

### *5.2 - Merger of Core, IT Auction and Mado into neprix*

On 13 January 2021, the deed was signed by which Core, IT Auction and Mado were merged into neprix. The merger became effective on 1 February 2021. The accounting and fiscal effects of the Merger started from 1 January 2021. On 7 January 2021, the subsidiary ITA Gestione changed its company name to "neprix Agency S.r.l" ("neprix Agency").

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

### *5.3 - New documents issued by the IASB and endorsed by the EU, adoption of which is mandatory with effect from financial statements for years beginning on or after 1 January 2021.*

| Document title | Issue date | Effective date | Date endorsed | EU regulation and publication date |
|---|---|---|---|---|
| Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4 Insurance Contracts) | June 2020 | 1 January 2021 | 15 December 2020 | (EU) 2020/2097 16 December 2020 |
| Interest Rate Benchmark Reform - phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | August 2020 | 1 January 2021 | 13 January 2021 | (EU) no. 2021/25 14 January 2021 |

As shown in the above table, the adoption of several amendments to accounting standards endorsed by the European Commission in 2020 and January 2021 is mandatory with effect from 2021. These amendments are not particularly relevant to the Group. In further detail:

- Commission Regulation (EU) 2020/2097: The amendments to IFRS 4 aim to remedy the temporary accounting consequences of the mismatch between the date when IFRS 9 Financial Instruments comes into force and the date when IFRS 17 Insurance contracts will come into force. In particular, amendments to IFRS 4 extend the temporary exemption from adopting IFRS 9 until 2023, in order to align the date of entry into force of IFRS 9 with the new IFRS 17;
- Regulation (EU) No 2021/25: The amendment to take account of the consequences of the actual replacement of benchmarks to determine existing interest rates with alternative benchmark rates. These amendments require specific accounting treatment to allocate, over time, changes in the value of financial instruments or lease agreements due to the replacement of the benchmark to determine interest rates, thus avoiding immediate repercussions on profit (loss) for the period and pointless suspensions in hedging following the replacement of the benchmark to determine interest rates.

### *5.4 – Use of estimates and assumptions in preparing the consolidated interim report*

According to the IFRS framework, the preparation of the consolidated interim report requires the use of estimates and assumptions that may influence the values stated in the statement of financial position and income statement.

The use of reasonable estimates is thus an essential part of preparing this Interim financial report. The financial statement 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 allowances for risks and charges;
- determination of the amount of deferred taxation;
- assessments regarding the recoverability of goodwill;
- definition of the depreciation and amortisation of property and equipment and intangible assets with finite useful lives.

It should also be noted that an estimate may also be adjusted due to changes in the circumstances on which it was based, new information or greater experience. By 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.

# Statement of the Financial Reporting Officer

The manager responsible for preparing the company's financial reports, Sergio Fagioli, declares, pursuant to Article 154-bis, paragraph 2, of the Consolidated Finance Act, that the accounting information contained in this interim report for the period ended 31 March 2021 corresponds to the contents of accounting documents, books and records.

Signature of the Financial Reporting Officer

Sergio Fagioli

Signature

# Annex 1 – Reconciliation between the reclassified statement of financial position and income statement and the financial statements

Below are the reconciliation schemes used for the preparation of the reclassified statement of financial position and income statement. Any discrepancies between the figures presented are due solely to rounding.

## Reclassified Consolidated Statement of Financial Position

| Assets | Values as of 31/03/2021 |
|---|---|
| **Treasury portfolio - Securities at FV** | **342,635** |
| Item 20. a) Financial assets held for trading | 32,174 |
| Item 30. Financial assets measured at fair value through comprehensive income | 310,461 |
| **Financial instruments mandatorily measured at fair value** | **17,789** |
| Item 20. c) Other financial assets mandatorily measured at fair value | 18,301 |
| *To be deducted:* | |
| *Loans mandatorily measured at fair value* | (512) |
| **Financial instruments mandatorily measured at fair value** | **512** |
| **Due from banks** | **536,023** |
| Item 40. a) Due from banks | 536,023 |
| **Loans to financial entities** | **139,943** |
| *Loans to financial entities* | 139,943 |
| **Loans to customers** | **2,000,585** |
| Item 40. b) Loans to customers | 2,373,675 |
| *To be deducted:* | |
| *Loans to financial entities* | (139,943) |
| *Loans to customers - Securities* | (233,147) |
| **Securities at amortised cost – SME** | **4,420** |
| Item 40. b) Loans to customers | 2,373,675 |
| *To be deducted:* | |
| *Loans to customers* | (2,000,585) |
| *Loans to financial entities* | (139,943) |
| *DCIS Business senior financing instruments* | (228,727) |
| **Senior financing securities at amortised cost** | **228,727** |
| Item 40. b) Loans to customers | 2,373,675 |
| *To be deducted:* | |
| *Loans to customers* | (2,000,585) |
| *Loans to financial entities* | (139,943) |
| *SME business instruments* | (4,420) |
| **Investments in equity** | **85,564** |
| Item 70. Equity investments | 85,564 |
| **Property and equipment and intangible assets** | **147,191** |
| Item 90. Property and equipment | 77,585 |
| Item 100. Intangible assets | 69,606 |
| **Tax assets** | **31,088** |
| Item 110. Tax assets | 31,088 |
| **Other assets** | **781,560** |
| Item 10. Cash and cash equivalents | 732,759 |
| Item 130. Other assets | 48,801 |
| **Total assets** | **4,316,037** |

| Liabilities and shareholders’ equity | Values as of 31/03/2021 |
| --- | --- |
| **Amounts due to banks** | **626,660** |
| Item 10. a) Due to banks | 626,660 |
| **Amounts due to customers** | **2,567,758** |
| Item 10. b) Due to customers | 2,590,349 |
| *To be deducted:* | |
| *Lease Liability (IFRS 16)* | (22,591) |
| **Securities issued** | **302,402** |
| Item 10. c) Securities issued | 302,402 |
| **Tax liabilities** | **6,859** |
| Item 60. Tax liabilities | 6,859 |
| **Other liabilities** | **146,865** |
| Item 80. Other Liabilities | 115,632 |
| *Increase:* | |
| *Lease Liability (IFRS 16)* | 22,591 |
| Item 90. Employee severance pay | 2,680 |
| Item 100. Allowances for risks and charges | 5,962 |
| **Shareholders’ equity** | **665,493** |
| *Capital and reserves* | |
| Item 120. Valuation reserves | (559) |
| Item 150. Reserves | 61,733 |
| Item 160. Share premium reserves | 543,803 |
| Item 170. Share capital | 48,792 |
| Item 180. Treasury shares (-) | (832) |
| Item 200. Profit (loss) for the period | 12,556 |
| **Total liabilities and shareholders’ equity** | **4,316,037** |

## Reclassified consolidated income statement

| Income Statement items | Values as of 31/03/2021 |
|---|---|
| **Interest margin** | **31,207** |
| Item 10. Interest income and similar income | 45,968 |
| Item 20. Interest expenses and similar charges | (14,687) |
| *Reclassification of components of Raisin operations* | *(453)* |
| *To be deducted:* | |
| *IFRS 16 interest expenses* | *379* |
| **Net fee and commission income** | **4,944** |
| Item 40. Fee and commission income | 5,994 |
| Item 50. Fee and commission expense | (1,274) |
| *To be deducted:* | |
| *components of Raisin operations* | *224* |
| **Gains/losses on financial assets and liabilities** | **3,833** |
| Item 80. Profits (losses) on trading | 347 |
| Item 100. Profits (losses) from disposal or repurchase | 2,814 |
| Item 110. Profits (loss) on other financial assets and liabilities measured at fair value through profit or loss | 672 |
| **Net write-downs/write-backs on closed positions - HTC Clients - POCI** | **11,406** |
| of which: Net write-downs/write-backs on closed positions - HTC Clients - POCI | 11,406 |
| **Other profits (losses) from the disposal of investments** | **2,278** |
| Item 280. Profits (losses) on disposal of investments | 2,278 |
| **Other operating expenses and income** | **2,003** |
| Item 140. Profits/losses on changes in contracts without derecognition | - |
| Item 230. Other operating income/expenses | 2,708 |
| *To be deducted:* | |
| *Reclassification of recovery of other operating charges/income to Other administrative expenses* | *(705)* |
| **Total net operating income** | **55,671** |
| **Personnel expenses** | **(16,638)** |
| Item 190. Administrative expenses: a) Personnel expenses | (16,614) |
| *To be deducted:* | |
| *Reclassification of HR expenses from other administrative expenses* | *(24)* |
| **Other administrative expenses** | **(17,941)** |
| Item 190. Administrative expenses: b) Other administrative expenses | (18,520) |
| *Reclassification of IFRS 16 interest expenses* | *(379)* |
| *Reclassification of HR expenses to personnel expenses* | *24* |
| *Reclassification of recovery of other operating charges/income to Other administrative expenses* | *705* |
| *components of Raisin operations* | *229* |
| **Net adjustments/recoveries on property and equipment and intangible assets** | **(2,970)** |
| Item 210. Net adjustments/recoveries on property and equipment | (1,030) |
| Item 220. Net write-downs /write-backs on intangible assets | (1,940) |
| **Operating expenses** | **(37,549)** |
| **Operating profit (loss)** | **18,122** |
| **Net write-downs/write-backs for credit risk - HTC Banks** | **(15)** |
| **Net write-downs/write-backs for credit risk - HTC financial entities** | **(31)** |
| **Net write-downs/write-backs for credit risk - HTC Clients** | **6,185** |
| Item 130. Net losses/recoveries for credit risks associated with: a) financial assets measured at amortised cost | 17,545 |
| *To be deducted:* | |
| *Net write-downs/write-backs for credit risk - HTC Banks* | *15* |
| *Net write-downs/write-backs for credit risk - HTC financial entities* | *31* |
| *Net write-downs/write-backs on closed positions - HTC Clients* | *(11,406)* |

| Income Statement items | Values as of 31/03/2021 |
|---|---|
| **Net write-downs/write-backs for credit risk - HTCS** | **(1,504)** |
| Item 130. Net losses/recoveries for credit risks associated with: b) financial assets measured at fair value through comprehensive income | (1,504) |
| **Net write-downs/write-backs for commitments and guarantees** | **(1,507)** |
| Item 200. Net allowances for risks and charges: a) commitments and guarantees given | (1,507) |
| **Total net write-downs/write-backs** | **3,128** |
| **Other net provisions** | **(25)** |
| Item 200. Net allowances for risks and charges: b) other net allowances | (25) |
| **Other income (expenses) on investments** | **(2,123)** |
| Item 250. Profits (losses) on equity investments | (2,123) |
| **Profit (loss) from operations before taxes** | **19,102** |
| **Income tax for the period on continuing operations** | **(6,546)** |
| Item 300. Income tax for the period on continuing operations | (6,546) |
| **Profit (loss) for the period** | **12,556** |