illimity

BANCA OLTRE LA FORMA

# Interim report
at 31 March 2019

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## Interim report at 31 March 2019

# BOARD COMPOSITION

## BOARD OF DIRECTORS

**Chairman**
Rosalba Casiraghi

**Chief Executive Officer**
Corrado Passera

**Directors**
Giancarlo Bruno
Maurizia Squinzi
Massimo Brambilla
Elena Cialliè
Robert Edward Diamond
Sigieri Diaz della Vittoria Pallavicini
Alessandro Gennari

## BOARD OF STATUTORY AUDITORS

**Chairman**
Ernesto Riva

**Statutory Auditors**
Stefano Caringi
Nadia Fontana

**Substitute Auditors**
Riccardo Foglia Taverna
Michela Zeme

## EXECUTIVE IN CHARGE OF FINANCIAL REPORTING

Sergio Fagioli

## INDEPENDENT AUDITORS

KPMG S.p.A.

# Interim report

at 31 March 2019

# INTERIM REPORT
# AT 31 MARCH 2019

This interim report refers to illimity S.p.A. ("illimity" or "the Bank") and the entities that it consolidates and/or controls (together with the Bank, the "Group") in the first quarter of 2019.

illimity was created through the reverse merger of SPAXS S.p.A. ("SPAXS") into Banca Interprovinciale S.p.A. ("Banca Interprovinciale"), undertaken with legal effect from 5 March 2019 and with tax and accounting effect from 1 January 2019. illimity has its registered office in Milan, Italy, at Via Soperga 9.

The Group includes the following entities:

i. Aporti S.r.l., formed to undertake the securitisation of non-performing loans (hereinafter "NPLs"), with the retention by the Bank of the notes issued by the special-purpose vehicle formed in accordance with Law No. 130/1999;

ii. Friuli S.r.l., formed to undertake the securitisation of non-performing leases with the retention by the Bank of the notes issued by the special-purpose vehicle formed in accordance with Law No. 130/1999;

iii. Friuli LeaseCo S.r.l., a fully-owned subsidiary of the Bank formed on 12 December 2018 to service the *leasing* transactions included in the portfolios of NPLs acquired, operating in accordance with Art. 7.1 of Law No. 130/1999 on securitisation;

iv. Soperga RE S.r.l. (REOCO), a fully-owned subsidiary of the Bank, initially held through the vehicle Aporti S.r.l., formed to manage the real estate associated with the portfolios of NPLs acquired pursuant to Law No. 130/1999 and sold to the Bank on 6 March 2019; and

v. Lumen S.r.l., formed to undertake the securitisation of factoring transactions, with the retention by the Bank of the notes issued by the special-purpose vehicle formed in accordance with Law No. 130/1999.

## COMPOSITION AND ORGANISATIONAL STRUCTURE

illimity Bank S.p.A. operates in the banking sector and has been authorised to private banking, investment and trading services.

illimity Bank S.p.A. is currently organised into two operating divisions, the SME Division and the NPL Division. There are also plans to launch a Direct Banking Division and a Digital Operations Division (for which design of the product offerings, along with the relevant commercial characteristics, has been completed).

### SME Division

The **SME Division** lends to high-potential businesses with a sub-optimal financial structure and with low ratings or no rating (crossover lending); it offers short- and medium-term credit products to corporate investors and financial sponsors in various forms to finance business combinations, acquisitions and non-organic growth projects more generally (acquisition financing); it provides turnaround services, involving the purchase of loans to SMEs classified as unlikely-to-pay, 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; and, finally, it offers a wide range of factoring products through a digital channel, with the aim of fully exploiting the potential of the instrument to optimise the way in which the supply chains of Italy's businesses and industrial districts are financed.

With reference to such business area, at 31 March 2019 there is an agreement between illimity and Credimi, a European digital factoring company, laying down the guidelines for the partnership between the two companies, which involves the use by illimity of the services, processes and systems of Credimi's platforms in illimity's factoring operations, by integrating them into its IT platform.

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 customers. Each area is tasked with analysing the customers and sector within its portfolio to design the optimal financing solution, define product pricing and transaction specifications, assess the risk level of each position, interface with customers to monitor the situation and intervene promptly, where necessary, in the event of problems, in coordination with the unit responsible for monitoring loans, and, finally, manage the back-office processes peculiar to the area yielding the greatest value added.

The specialised business areas are accompanied by business support units, placed within the Reporting & Management Control Area, charged with managing the Division's operational reporting and monitoring relations with tutors, with which it interfaces with regard to performance matters. The Credit Machine Area is responsible for assessing the credit transactions proposed by the business areas and performing data analysis activities in service of lending processes. Finally, the Division includes the Organic NPE & Credit Monitoring area, which is responsible for credit monitoring processes and managing positions classified as non-performing.

## NPL Division

The NPL Investment & Servicing Division periodically purchases portfolios of secured and unsecured corporate NPLs in competitive processes or off-market purchases, on both the primary and secondary markets; it services corporate NPL portfolios, both on the Bank's own account and on account of third parties, through a specialised servicing structure developed internally or under commercial agreements with specialised operators; it also provides financing services, mainly in the form of senior financing, to non-banking NPL investors.

The structure of the NPL Investment & Servicing Division is as follows:

1. Portfolios, Single Names and Senior Financing Areas, responsible for all origination of NPL portfolio investment opportunities, in single names or SPV financing, as well as for the coordination of the entire negotiation and bidding process, until the final closing phase;

2. the Operations & Recovery Area, responsible for performing due diligence and adapting, implementing and monitoring recovery strategies through the coordination of internal and external servicers. The Servicing Unit, which will be tasked with debt recovery and consist of a fully-owned subsidiary of Banca Interprovinciale, currently illimity, following the conclusion of the authorisation procedure, will report to the Operations & Recovery Area;

3. the Pricing Area: it is responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models for portfolios, single names and SPV financing, together with the capital structure of all investments;

4. the PMO & Boosters Area and Strategy & Performance Management Areas are responsible for coordinating and monitoring the activities and performance of the Division's businesses.

The Division's activity was enabled by the selection of the information technology package, the implementation of the IT system for managing the NPL portfolios and the engagement of the master servicer in the second half of 2018.

In addition, aligned with illimity's business model, which involves insourcing the entire value chain in the management of NPL portfolios and entering into commercial agreements with servicers selected from time to time as a function of the specific nature of the assets acquired, there is a consulting agreement between illimity and Neprix S.r.l. governing the provision by Neprix of consulting services in connection with investments in NPL portfolios and the related due diligence for the purposes of illimity's investment activity.

Neprix S.r.l. is a company that operates, inter alia, in the non-performing loan sector and that relies on the services of professionals with specific experience and know-how in assessing and managing non-performing loans. On 30 October 2018 the Bank's Board of Directors approved the purchase of a 100% interest in Neprix S.r.l., within which the servicing of the NPLs purchased by illimity will be centralised, and which was granted a licence pursuant to Art. 115 of the Consolidated Public Security Act on 16 January 2019.

illimity relies on the vehicles Aporti S.r.l. and Friuli S.r.l. and the company Friuli Leaseco S.r.l. in conducting its NPL business.

Following the approval by the BoD, the contract governing the purchase by the Bank of a 100% interest in Neprix S.r.l. was concluded on 21 March 2019.

The closing of the purchase agreement for Neprix S.r.l. relies on the successful completion of the procedure, without rejection by the Bank of Italy, and constitutes a purchase of equity investments in an instrumental company. Accordingly, the procedure for the authorisation of the formation of a banking group has also been initiated.

## Digital Operations & Direct Banking Division

The Digital Operations & Direct Banking Division will offer digital banking services to retail and corporate customers. illimity Bank S.p.A. intends to offer families and individuals household budget management tools through a platform supported by the most innovative technologies available, built to respond effectively to the new regulations, such as the consolidation of accounts required under PSD2. A range of digital CFO services will also be developed for businesses.

In further detail, this range will focus on four categories of products:

1. deposits: with competitive rates and a simple, customisable product structure;
2. payment services: through a platform that combines the most innovative tools available on the market, illimity Bank S.p.A. will offer payment and advisory services for household budget management;
3. digital CFO dedicated to SME customers: reporting services, cash flow analysis and forecasting tools;
4. advice on a full range of other banking products for families (such as mortgages, personal loans and insurance), which will be made available to customers through partnerships with selected operators.

In late 2018 the Division finished designing its product range, complete with commercial characteristics and pricing, set up the product architecture, front end and user experience and structured the relationship-opening process for new customers.

The communications plan and development strategy for the illimity brand were drawn up.

On 20 December 2018 Banca Interprovinciale (now illimity) informed Consorzio Servizi Bancari ("CSE") of the early termination of the contract due to the need, for strictly business-related reasons, for migration to a new outsourcer. The IT migration process from CSE to the new provider, Sella Technology Solutions (STS), was initiated in 2019 and completed in May.

## SIGNIFICANT EVENTS IN THE FIRST QUARTER OF 2019

In the first quarter of 2019, securities classified as designated at fair value through other comprehensive income (held within a hold-to-collect-and-sell business model) were sold, resulting in a gain before taxes of approximately EUR 835 thousand, and the securities de-risking process initiated by the management in the period following the business combination continued. On the whole, the government bond de-risking operation lowered the interest-rate risk and credit risk on the portfolio of securities designated at fair value through other comprehensive income to negligible levels.

On 18 January 2019, extraordinary sessions of the Shareholders' Meetings of SPAXS S.p.A. and Banca Interprovinciale S.p.A., unanimously approved the reverse merger of SPAXS into Banca Interprovinciale and the amendments to the by-laws required to implement the merger and the concurrent listing of the company resulting from the merger (illimity Bank S.p.A.) on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A.

On 25 February 2019 Borsa Italiana issued order no. 8537 authorising the admission to listing on the Mercato Telematico Azionario (MTA) of the Bank's ordinary shares and assignment rights, as resulting from the reverse merger of SPAXS into Banca Interprovinciale S.p.A. On 28 February 2019 the National Commission for Companies and the Securities Exchange (Consob) granted authorisation for the publication of the Prospectus, which took place on 1 March 2019.

In the process of consummating the merger, all shares of Banca Interprovinciale S.p.A. were cancelled and replaced with newly issued shares of illimity. Concurrently, the SPAXS ordinary and special shares were cancelled and replaced by new illimity ordinary and special shares with the same characteristics as the SPAXS ordinary and special shares, at the ratio of one illimity ordinary share assigned in exchange for every SPAXS ordinary share and one illimity special share assigned in exchange for every SPAXS special share. The holders of the SPAXS assignment rights, which were also cancelled upon the consummation of the merger, were assigned one illimity assignment right in exchange for every one SPAXS assignment right. In addition, the shareholders of Banca Interprovinciale other than SPAXS were assigned illimity ordinary shares at the assignment ratio of one illimity ordinary share in exchange for every 137.0726 Banca Interprovinciale ordinary shares.

The merger, authorised by the Bank of Italy on 12 December 2018, entered into effect on 5 March 2019, resulting in full corporate integration with the aim of developing an Italian operator in the banking sector, primarily operating in:

a) the provision of banking and/or financial services to business customers, above all in the mid-corporate category (including those with low ratings/no ratings), classified as both performing and unlikely-to-pay, including invoice lending, crossover lending and turnarounds;

b) the NPL market, through (i) the purchase of secured and unsecured NPLs, (ii) the disbursement of loans to third investors who purchase NPLs and (iii) following the closing of the acquisition of Neprix, the recovery and development of NPLs, including through third parties (financial intermediaries or other operators on the NPL market);

c) the offering to retail investors of banking and/or financial services of a highly digitalised nature.

In the first quarter of 2019 the Group adopted a remuneration policy for its management and all its employees strongly focused on achieving the objectives laid out in the 2018-2023 strategic plan, according to a vision consistent with that of the shareholders, on the assumption that remuneration represents one of the most important factors for attracting and retaining individuals with the professional expertise and skills appropriate to the company's medium- and long-term needs.

In particular, the remuneration policy approved by the Bank's Shareholders' Meeting calls for the following incentive plans to be provided:

1. the Stock Option Plan ("SOP") involving ordinary shares of illimity Bank S.p.A., reserved for employees of illimity Bank S.p.A. and its direct and/or indirect subsidiaries, is intended to align the interests of its management and of its employees generally with those of its long-term shareholders, while also rewarding the achievement of the goal of the listing on the MTA of the financial instruments of the Group created through the merger and supporting the Group's long-term growth. In service of this Plan, the Shareholders' Meeting approved a divisible paid share capital increase of a maximum nominal amount of EUR 1,496,671.34, without options, pursuant to Article 2441, paragraph 8, of the Italian Civil Code, through the issuance of a maximum of 2,100,000 new ordinary shares of illimity Bank S.p.A. to be reserved for subscription by employees of illimity S.p.A. and its direct and/or indirect subsidiaries as beneficiaries of the aforementioned Stock Option Plan.
2. The plan designated the "Employee Stock Option Plan" ("ESOP"), reserved for all employees of the Group and/or its subsidiaries who have an indefinite-term contract or a definite-term contract that has been in effect for at least six months and has a residual term of at least six months, is intended to allow all employees to participate in the success of the listing on the MTA and to motivate and engage all employees by giving them the opportunity to become shareholders of illimity Bank S.p.A. The ESOP provides for the assignment, in each cycle, of a number of shares equal to the value of EUR 2,000 for each non-executive employee, and of EUR 100 for executive staff. In service of this plan, the Shareholders' Meeting of Banca Interprovinciale approved a free, divisible share capital increase up to a nominal maximum amount of EUR 498,890.45 through the issue of a maximum number of 700,000 new ordinary shares of illimity Bank S.p.A., pursuant to Article 2349 of the Italian Civil Code, to be assigned free of charge, in annual assignments, to employees of illimity Bank S.p.A. and its direct and/or indirect subsidiaries as beneficiaries of the employee stock ownership plan.
3. The aim of the 2019 annual management by objectives system designated the "2019 MBO Plan", intended for material risk takers and other managers of business functions, is to recognise the progress made in achieving the Industrial Plan targets, to incentivise the adoption of behaviours that reflect the long-term planning, and to support the diffusion of a value creation culture, in line with the risk management objectives set out in the Group’s Risk Appetite Framework. This plan involves, in part, the assignment of ordinary shares of illimity Bank S.p.A. Accordingly, the Shareholders' Meeting authorised the Board of Directors, pursuant to Art. 2443 of the Italian Civil Code, to increase share capital, free of charge and on a divisible basis, up to a maximum nominal amount of EUR 85,524.08, through the issue of a maximum of 120,000 new ordinary shares of illimity Bank S.p.A. pursuant to Article 2349 of the Italian Civil Code, to be assigned free of charge to the employees of illimity Bank S.p.A. and of its direct and/or indirect subsidiaries, as beneficiaries (i) of the annual incentive system for 2019, (ii) of any compensation paid upon early termination of employment and (iii) of the remuneration policies approved from time to time by illimity Bank S.p.A. during the period of maximum duration of the authorisation, in accordance with the relevant regulations in effect from time to time.

illimity

## SME Division

At 31 December 2018 the loans within the SME Division's portfolio amounted to approximately EUR 346 million, attributable to the following business areas:

- the former Banca Interprovinciale (BIP) portfolio, in the amount of approximately EUR 312 million (90% of the total);
- the turnaround business area, in the amount of approximately EUR 34 million (10% of the total), relating to two transactions disbursed in December.

In the first quarter there was a progressive decline in the exposures in the former BIP run-off portfolio, which decreased by approximately EUR 38.5 million, largely due to the amortisation of the instalment lines. In the SME Division's new business areas, total loans of approximately EUR 51 million were disbursed and purchased, of which:

- EUR 37 million[1] relating to a Turnaround Area transaction, classified as UTP and accounted for as POCI (Purchased or Originated Credit Impaired);
- EUR 14.7 million relating to the Crossover Area, of which EUR 10.1 million relating to two Acquisition Finance transactions.

In addition, factoring business in partnership with Credimi became operational during the quarter: at 31 March 2019, the Factoring Area had an exposure (GBV) of EUR 8.5 million, against total turnover of EUR 13.7 million.

In the light of the changes summarised above, at 31 March 2019 SME loans totalled approximately EUR 357.7 million, broken down as follows:

- former BIP portfolio, amounting to nearly EUR 274.2 million (76%);
- *Turnaround* amounting to EUR 60.4 million (17%);
- *Crossover* and *Acquisition Finance* amounting to EUR 14.6 million (4%);
- loans acquired in factoring business of EUR 8.5 million (3%).

## NPL Division

At 31 December 2018 the NPL Division had purchased NPLs of EUR 1.15 billion for the price of approximately EUR 90 million. In the first quarter of 2019, the Bank closed purchases of new NPL portfolios and single-name NPLs with a total nominal value of approximately EUR 80 million. Specifically:

- on 22 February 2019 the Bank purchased an NPL portfolio with a nominal value of EUR 31.5 million, consisting of 60% secured loans, from a local bank based in northern Italy through the Art. 130/1999 securitisation vehicle Aporti S.r.l. ("the Aporti SPV"). The purchase was closed concurrently with the subscription by the Bank of the notes issued by the Aporti SPV.

1 Of which approximately EUR 7 million of financial instruments classified to item 20. Financial assets designated at fair value through profit or loss (c).

- Two additional transactions with a total nominal value of EUR 63 million were closed on 6 March 2019, the first through the Aporti SPV and the second through a new Art. 130/1999 securitisation vehicle, Friuli S.r.l. ("the Friuli SPV") and a company operating in accordance with Art. 7.1 of Law No. 130/1999 on securitisation, Friuli LeaseCo. Friuli LeaseCo, a fully-owned subsidiary of the Bank, was formed on 12 December 2018. The Bank's interest in Friuli LeaseCo is strictly functional to the securitisation of leasing receivables undertaken on 6 March 2019 and will cease in accordance with applicable legislation once the entire securitisation programme has been concluded. In particular:
  - the first transaction involves the purchase of a single-name NPL from a local bank based in northern Italy with a nominal value of approximately EUR 24 million, secured by two hospitality facilities. The purchase was closed concurrently with the subscription by the Bank of the notes issued by the Aporti SPV.
  - the second transaction involves an agreement reached with a bank based primarily in northern Italy for the purchase, in tranches, of an NPL portfolio with a nominal value of approximately EUR 40 million, consisting of leasing receivables claimed from corporate debtors secured primarily by commercial and industrial assets. The purchase of the first tranche for a nominal value of approximately EUR 15 million was closed on 6 March.
- On 29 March 2019 the Bank closed another single-name transaction, purchasing UTP positions with a nominal value of approximately EUR 9 million from one of Italy's main banking groups. The portfolio consists of five positions involving corporate debtors secured by five hospitality facilities. The purchase was closed concurrently with the subscription by the Bank of the notes issued by the Aporti SPV.

At 31 March 2019 the total nominal amount of the positions purchased by the Bank was approximately EUR 1.2 billion, against consideration paid of EUR 111.4 million. It is understood that the value of the total portfolio of leasing receivables, the master purchase agreement for which was signed on 6 March 2019, consists solely of receivables purchased on that date (first tranche).

Two transactions were closed in the Senior Financing Area in the first quarter of 2019:

- on 13 March 2019 the Bank signed a loan agreement with a company specialised in purchasing NPL portfolios in the amount of approximately EUR 3 million. The loan was disbursed on 15 March 2019.
- On 20 March 2019 the Bank signed another loan agreement with a major investment fund in the amount of approximately EUR 82 million. The loan was disbursed on 12 April 2019.

These loan agreements are secured by loan portfolios, primarily consisting of non-performing secured corporate loans classified as bad debts or UTP, with a nominal value of over EUR 600 million.

Accordingly, at 31 March 2019 three loan agreements had been entered into for a total amount of EUR 136 million (including the Romeo transaction of EUR 52 million in 2018).

**Digital Operations & Direct Banking Division**

illimity conducted research activity with a focus on technological innovation involving products and distribution channels for its new customer service models.

Specifically, preliminary research was completed in view of developing processes and services for SMEs, corporate NPLs and the Direct Bank.

In marketing and commercial communication, research activities were conducted on various customer segments relating to the Direct Bank's commercial offerings and multi-channel strategy. In particular, in the first quarter a public online platform was launched, creating a community of approximately 36,000 users, who contribute feedback and ideas to building the Direct Bank, in order to ensure that it meets its customers' needs through innovative, top-quality services.

Starting in the second quarter, specific research activities are planned to measure the main brand, image and advertising indicators over time, together with measurement activities involving evaluations of applications by private clients.

At the level of new technology development, steps were taken in view of the launch in the second quarter of the new core banking systems and cloud infrastructure for the modular, open-architecture platform on which the Bank's vertical applications have been developed and will evolve.

In particular, the following were developed in the first quarter of 2019: (i) new multichannel vertical applications for the Direct Bank's private and SME customers, which will be launched in the second quarter; (ii) systems based on artificial intelligence and machine learning to provide private clients with a new approach to engagement and interaction on digital channels; (iii) big data processing models to optimise SME and NPL credit management processes; and (iv) technological solutions in support of the acquisition and management of corporate NPL and leasing NPL portfolios.

## HIGHLIGHTS AND ALTERNATIVE PERFORMANCE MEASURES AT 31 MARCH 2019

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

The illimity Group was formed on 20 September 2018 following the closing of the acquisition of the controlling interest in Banca Interprovinciale by SPAXS (the "Business Combination"). Accordingly, the comparative figures used to prepare the performance measures for the first quarter of 2018 set out below are based on the figures for Banca Interprovinciale. The comparative balance sheet figures used in preparing the measures at 31 December 2018 set out below refer to the consolidated financial statements of SPAXS S.p.A.

(Amounts in thousands of euro)

| PERFORMANCE MEASURES | 31/03/19 | 31/03/18 | Chg. | Chg. (%) |
|---|---|---|---|---|
| Net interest income | 7,183 | 2,708 | 4,475 | >100% |
| Net commission | 612 | 988 | (375) | -38% |
| Net trading and hedging result | 924 | 477 | 447 | 94% |
| Net operating income | 8,891 | 1,010 | 7,881 | >100% |
| Operating costs | (16,761) | (3,330) | (13,431) | >100% |
| Operating profit/loss | (7,870) | 819 | (8,689) | <100% |
| Net write-downs/write-backs on loans (customers) | 110 | (651) | 761 | >100% |
| Net write-downs/write-backs on loans (banks) | (84) | 8 | (92) | <100% |
| Net write-downs/write-backs on other assets and liabilities | (266) | 19 | (285) | <100% |
| Net provisions for risks and charges | (214) | (44) | (169) | >100% |
| Net profit/loss | (5,940) | 149 | (6,089) | <100% |

| FINANCIAL POSITION MEASURES | 31/03/19 | 31/12/18 | Chg. | Chg. (%) |
|---|---|---|---|---|
| Net loans to customers, including inorganic positions (excluding securities) | 512,916 | 483,713 | 29,203 | 6% |
| Net loans to customers, excluding inorganic positions (excluding securities) | 376,843 | 397,263 | (20,420) | -5% |
| Net non-performing loans - organic | 17,721 | 17,278 | 443 | 3% |
| *Of which: bad-debt positions* | 5,270 | 7,621 | (2,351) | -31% |
| *Of which: unlikely-to-pay positions* | 11,066 | 9,453 | 1,613 | 17% |
| *Of which: past-due positions* | 1,385 | 205 | 1,180 | >100% |
| Net non-performing loans - inorganic | 136,073 | 86,449 | 49,625 | 57% |
| *Of which: bad-debt positions* | 108,573 | 86,449 | 22,125 | 26% |
| *Of which: unlikely-to-pay positions* | 27,500 | - | 27,500 | 100% |
| Securities (HTC) | 117,095 | 113,688 | 3,407 | 3% |
| Securities (HTCS + *Other*) | 94,952 | 137,263 | (42,311) | -31% |
| Direct funding from customers | 446,383 | 535,134 | (88,751) | -17% |
| Total assets | 1,119,953 | 1,235,441 | (115,488) | -9% |
| Equity | 552,250 | 557,245 | (4,995) | -1% |

| RISK MEASURES | 31/03/19 | 31/12/18 |
|---|---|---|
| Bad-debt positions net of organic non-performing loans / Net loans to customers excluding inorganic positions (excluding securities) | 1.4% | 1.9% |
| Bad-debt positions gross of organic non-performing loans / Gross loans to customers excluding inorganic positions (excluding securities) | 3.8% | 2.7% |
| Gross organic NPE ratio | 8.2% | 7.4% |
| Net organic NPE ratio | 4.7% | 4.3% |
| Coverage ratio for organic non-performing loans | 45.2% | 44.0% |
| Coverage ratio for performing loans to customer (excluding securities) | 1.0% | 1.0% |
| Coverage ratio for organic bad-debt positions | 64.5% | 54.1% |

| STRUCTURAL MEASURES | 31/03/19 | 31/12/18 |
|---|---|---|
| Net loans to customers, including inorganic positions (excluding securities) / Total assets | 45.8% | 39.2% |
| Direct customer funding / Total liabilities | 39.9% | 43.3% |
| Equity / Total liabilities | 49.3% | 45.1% |
| Interbank funding / Total funding | 13.8% | 16.9% |
| *Liquidity coverage ratio* | 813% | 491% |

| CAPITAL RATIOS | 31/03/19 | 31/12/18 |
|---|---|---|
| *Tier I capital ratio* (Tier I capital / Total weighted assets) | 82.6% | 89.6% |
| *Total capital ratio* [(Tier I + Tier II) / Total weighted assets] | 82.6% | 89.6% |
| Own funds | 494,072 | 526,538 |
| *Of which: Tier I capital* | 494,072 | 526,538 |
| Risk-weighted assets | 598,009 | 587,398 |

# RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AT 31 MARCH 2019

These interim financial statements have been prepared on the basis of Bank of Italy Circular No. 262 of 22 December 2005, and the following updates.

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

In accordance with Communication No. DEM/6064293 of 28 July 2006, this interim report 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 interim report. Additional details useful to this end are provided below:

- recoveries of taxes recognised among other operating costs/income are deducted directly from the indirect taxes included among other administrative expenses and therefore their amount has been set off against the relevant item of the mandatory financial statements;
- personnel costs also include documented, itemised reimbursements of room, board and travel expenses incurred by employees on business trips and the costs of mandatory examinations;
- Net write-downs/write-backs on tangible and intangible assets include items 180 and 190 of the balance sheet, together with the depreciation of leasehold improvements classified to item 200;
- the expedited review fee has been reclassified from other operating income to net commissions in the reclassified presentation.

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

- the inclusion of cash and cash equivalents in the residual item other assets;
- the inclusion of demand deposits with the central Bank in the item loans to banks;
- the aggregation in a single item of property and equipment and intangible assets, also including leasehold improvements;
- the aggregation into a single item of amounts due to customers and debt securities issued;
- the consolidation into a single item of provisions for specific purposes (employee severance indemnity and part of provisions for risks and charges);
- the statement of reserves on an aggregate basis, net of any treasury shares.

The illimity Group was formed on 20 September 2018 following the closing of the acquisition of the controlling interest in Banca Interprovinciale by SPAXS.

Accordingly, the comparative figures used to prepare the reclassified income statement for the first quarter of 2018 are based on the figures for Banca Interprovinciale. The comparative figures used in preparing the reclassified balance sheet at 31 December 2018 refer to the official consolidated financial statements of SPAXS S.p.A.

**Reclassified consolidated balance sheet**

*(Amounts in thousands of euro)*

| Assets | Illimity consolidated financial statements at 31 March 2019 | SPAXS consolidated financial statements at 31 December 2018 | Changes | |
|---|---|---|---|---|
| | | | Absolute | Percentage |
| Financial assets (other than loans) | 212,047 | 250,951 | (38,904) | -16% |
| Loans to banks | 307,606 | 439,431 | (131,824) | -30% |
| Loans to customers | 512,916 | 483,713 | 29,203 | 6% |
| Property and equipment and intangible assets | 45,405 | 24,924 | 20,481 | 82% |
| Tax assets | 23,407 | 19,462 | 3,945 | 20% |
| Other assets | 18,572 | 16,962 | 1,610 | 9% |
| **Total assets** | **1,119,953** | **1,235,441** | **(115,488)** | **-9%** |

| Liabilities | Illimity consolidated financial statements at 31 March 2019 | SPAXS consolidated financial statements at 31 December 2018 | Changes | |
|---|---|---|---|---|
| | | | Absolute | Percentage |
| Amounts due to banks | 71,361 | 108,842 | (37,481) | -34% |
| Direct funding from customers | 446,383 | 535,134 | (88,751) | -17% |
| Deferred tax liabilities | 945 | 280 | 665 | >100% |
| Other liabilities | 47,542 | 30,629 | 16,913 | 55% |
| Provisions for specific purposes | 1,473 | 3,311 | (1,838) | -56% |
| Equity | 552,250 | 557,245 | (4,995) | -1% |
| **Total liabilities and equity** | **1,119,953** | **1,235,441** | **(115,488)** | **-9%** |

## Consolidated balance sheet highlights

The Group's total assets at 31 March 2019 amounted to EUR 1,120 million, compared to EUR 1,235 million at 31 December 2018, and primarily include loans to customers of EUR 513 million, up from EUR 484 million on the books at 31 December 2018 due to the new transactions relating to the new business concluded during the reporting quarter (as described above in the sections of this report "Composition and organisational structure" and "Significant events in the first quarter of 2019").

Financial assets other than loans primarily consist of securities at amortised cost, held within a hold-to-collect business model, amounting to EUR 117 million, and securities designated at fair value through other comprehensive income, held within a hold-to-collect-and-sell business model, amounting to EUR 78 million. The remaining securities designated at fair value through profit or loss amount to approximately EUR 17 million.

The decrease in financial assets other than loans was primarily due to the effects of the de-risking of government bonds undertaken by the management following the business combination.

Intangible assets include goodwill of EUR 21.6 million arising from the purchase price allocation process for the net assets acquired, completed during the preparation of the consolidated financial statements at 31 December 2018[2].

The increase in property and equipment was due to the recognition of right-of-use assets acquired under leases amounting to EUR 14.9 million, in accordance with IFRS 16, which entered into force on 1 January 2019.

Total consolidated equity and liabilities amounted to EUR 1,120 million, consisting primarily of total equity of EUR 552 million, amounts due to customers of EUR 446 million and amounts due to banks of EUR 71 million.

2 For further details, see the section "Accounting policies applied to the accounting treatment of the reverse merger of SPAXS into Banca Interprovinciale".

illimity

## Reclassified consolidated income statement

*(Amounts in thousands of euro)*

| Income statement | Illimity consolidated financial statements at 31 March 2019 | Banca Interprovinciale stand-alone financial statements at 31 March 2018 | Changes | |
|---|---|---|---|---|
| | | | Absolute | (%) |
| Interest margin | 7,183 | 2,708 | 4,475 | >100% |
| Net commission | 612 | 988 | (375) | -38% |
| Net trading and hedging result | 924 | 477 | 447 | 94% |
| Other operating costs/income | 172 | (23) | 196 | >100% |
| **Intermediation margin** | **8,891** | **4,149** | **4,742** | **>100%** |
| Personnel costs | (6,498) | (1,461) | (5,037) | >100% |
| Administrative costs | (9,775) | (1,802) | (7,973) | >100% |
| Net write-downs/write-backs on tangible and intangible assets | (488) | (67) | (421) | >100% |
| **Operating costs** | **(16,761)** | **(3,330)** | **(13,431)** | **>100%** |
| **Net operating profit/loss** | **(7,870)** | **819** | **(8,689)** | **<100%** |
| Net write-downs/write-backs on loans | 26 | (643) | 669 | >100% |
| Net write-downs/write-backs on other financial assets | (265) | 19 | (285) | <100% |
| Net provisions for risks and charges | (214) | (44) | (170) | >100% |
| **Pre-tax profit (loss) from operations** | **(8,323)** | **150** | **(8,474)** | **<100%** |
| Income taxes for the period on current operations | 2,383 | (0) | 2,383 | >100% |
| **Profit (loss) for the period** | **(5,940)** | **149** | **(6,089)** | **<100%** |

## Consolidated income statement highlights

The intermediation margin amounted to approximately EUR 9 million, due to an increase in the interest margin as a result of the new businesses described in this report.

Operating costs included approximately EUR 6.5 million of personnel costs as a result of new hiring, whereas general and administrative costs amounted to approximately EUR 9.8 million and refer primarily to one-off charges relating to the launch of the new businesses and to consultancy and advisory costs.

Net write-downs/write backs of EUR 26 thousand include individual and portfolio impairment losses on loans to customers and the effects of the review of such impairment losses on the expected cash flows from the new NPL portfolios acquired.

The loss for the period ended 31 March 2019, gross of taxes, amounted to EUR 8.3 million.

The tax benefit of EUR 2.3 million was due to the calculation of deferred tax assets arising from the tax loss for the period.

The consolidated net loss reported in the first quarter of 2019 was EUR 5.9 million.

The basic and diluted loss per share in the first quarter of 2019, calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue, was EUR 0.10.

## KEY BALANCE SHEET FIGURES

### Invested assets

The following table presents invested assets, broken down into loans to customers and securities, net of loans to banks:

*(Amounts in thousands of euro)*

| INVESTED ASSETS BY TECHNICAL FORM | 31/03/2019 | | 31/12/2018 | | Change | |
|---|---|---|---|---|---|---|
| | Book value | Inc. (%) | Book value | Inc. (%) | Absolute | Chg. (%) |
| Current accounts held by customers | 84,604 | 11.7% | 112,395 | 15.3% | (27,792) | -25% |
| Mortgages/loans | 342,076 | 47.2% | 311,191 | 42.4% | 30,885 | 10% |
| Personal loans | 1,229 | 0.2% | 1,390 | 0.2% | (161) | -12% |
| Other transactions | 85,007 | 11.1% | 58,736 | 8.0% | 26,271 | 45% |
| **Loans to customers** | **512,916** | **70.8%** | **483,712** | **65.8%** | **29,204** | **6%** |
| Debt securities | 194,967 | 26.9% | 221,587 | 30.2% | (26,621) | -12% |
| - Government bonds | 140,274 | 19.3% | 194,381 | 26.5% | (54,108) | -28% |
| - Bank bonds | 36,344 | 5.0% | 27,084 | 3.7% | 9,260 | 34% |
| - Other bonds | 18,349 | 2.5% | 123 | 0.0% | 18,228 | >100% |
| Equity instrument | 6,684 | 0.9% | - | - | 6,684 | 100% |
| Equity securities | 13 | 0.0% | 13 | 0.0% | 0 | 0% |
| Units of UCIs | 10,383 | 1.4% | 29,350 | 4.0% | (18,967) | -65% |
| **Securities** | **212,047** | **29.2%** | **250,950** | **34.2%** | **(38,904)** | **-16%** |
| **Total invested assets** | **724,963** | **100.0%** | **734,664** | **100.0%** | **(9,700)** | **12%** |

At 31 March 2019, securities and loans to customers amounted to EUR 725 million, down from EUR 735 million at 31 December 2018.

Loans to customers amounted to approximately EUR 513 million, up from EUR 484 million at the end of the previous year, due to the new transactions relating to the new businesses.

The line item also includes NPLs of approximately EUR 109 million classified as POCI (Purchased or Originated Credit Impaired), up from EUR 86.4 million recorded at 31 December 2018, following the purchase transactions concluded by the NPL Division during the quarter.

In accordance with document no. 2011/226, issued by the European Securities and Markets Authority (ESMA) on 28 July 2011, the table below shows the incidence of the various technical forms of assets on total invested assets. In particular, government bonds (almost exclusively Italian government bonds) accounted for 19% of invested assets (without considering loans to banks), down significantly compared to the previous year as a result of the de-risking process that was undertaken by the Bank in the second half of 2018 and that continued in the first quarter of 2019. In the light of this activity, financial assets designated at fair value through other comprehensive income held within a hold-to-collect-and-sell business model, amounted to approximately EUR 78 million, and were represented mainly by government and bank securities. This item includes equity instruments of EUR 13 million representing equity interests in entities other than subsidiaries, associates or joint ventures.

Financial assets designated at fair value through profit or loss amounted to EUR 17 million. In particular, financial assets held for trading consist almost exclusively of an investment in an UCI of approximately EUR 10 million, which was partially sold in early 2019, whereas financial assets mandatorily at fair value include an investment in an equity investment of EUR 6.7 million attributable to a transaction concluded by the SME division.

The remaining securities of EUR 117 million are measured at amortised cost (hold-to-collect business model) and consist primarily of government bonds and EUR 3 million of senior financing notes.

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

*(Amounts in thousands of euro)*

| INVESTED ASSETS BY BUSINESS DIVISION | 31/03/19 | Incidence | 31/12/18 | Incidence |
|---|---|---|---|---|
| *NPL Division* | 159 | 25.2% | 138 | 23.1% |
| *SME Division* | 83 | 13.2% | 34 | 5.7% |
| *Loans to ordinary former BIP customers* | 274 | 43.5% | 312 | 52.3% |
| *Portfolio of securities at amortised cost* | 114 | 18.1% | 114 | 19.1% |
| **Total loans to customers at amortised cost** | **630** | **100.0%** | **597** | **100.0%** |

## Financial assets at amortised cost

The following table provides an overview of the Bank's main invested assets at amortised cost, compared with the relevant figures at 31 December 2018.

*(Amounts in thousands of euro)*

| Financial assets at amortised cost | 31/03/19 | | | | | | 31/12/18 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure | | Write-downs/ write-backs | Book value | | Coverage ratio | Gross exposure | | Write-downs/ write-backs | Book value | | Coverage ratio |
| **Loans to banks** | **137,553** | **17.5%** | **(180)** | **137,373** | **17.9%** | **0.13%** | **372,254** | **37.7%** | **(96)** | **372,158** | **38.4%** | **0.03%** |
| - Loans | 137,553 | 17.5% | (180) | 137,373 | 17.9% | 0.13% | 372,254 | 37.7% | (96) | 372,158 | 38.4% | 0.03% |
| Stage 1/2 | 137,553 | 17.5% | (180) | 137,373 | 17.9% | 0.13% | 372,254 | 37.7% | (96) | 372,158 | 38.4% | 0.03% |
| **Loans to customers** | **646,916** | **82.5%** | **(16,906)** | **630,010** | **82.1%** | **2.61%** | **613,617** | **62.3%** | **(16,217)** | **597,400** | **61.6%** | **2.64%** |
| - Securities | 117,208 | 14.9% | (113) | 117,095 | 15.3% | 0.10% | 113,920 | 11.5% | (232) | 113,688 | 11.7% | 0.20% |
| Stage 1/2 | 117,208 | 14.9% | (113) | 117,095 | 15.3% | 0.10% | 113,920 | 11.5% | (232) | 113,688 | 11.7% | 0.20% |
| - Loans | 529,708 | 67.5% | (16,792) | 512,915 | 66.8% | 3.17% | 499,698 | 50.8% | (15,985) | 483,713 | 49.9% | 3.20% |
| Stage 1/2 | 362,601 | 46.2% | (3,480) | 359,121 | 46.8% | 0.96% | 383,708 | 38.9% | (3,722) | 379,986 | 39.2% | 0.97% |
| Stage 3 | 167,107 | 21.3% | (13,312) | 153,794 | 20.0% | 7.97% | 114,677 | 11.9% | (12,263) | 103,727 | 10.7% | 10.69% |
| **Total financial assets at amortised cost** | **784,469** | **100.0%** | **(17,086)** | **767,383** | **100.0%** | **2.18%** | **985,871** | **100.0%** | **(16,312)** | **969,559** | **100.0%** | **1.65%** |

At 31 March 2019 loans to banks amounted to EUR 137 million, compared to EUR 372 million at 31 December 2018, and consisted primarily of current accounts and demand deposits. Such loans are classified as Stage 1 and 2.

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

*(Amounts in thousands of euro)*

| Loans to customers | 31/03/19 | | | | | | 31/12/18 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure | | Write-downs/ write-backs | Book value | | Coverage ratio | Gross exposure | | Write-downs/ write-backs | Book value | | Coverage ratio |
| **Non-performing loans - organic** | **32,363** | **5.0%** | **(14,641)** | **17,721** | **2.8%** | **45.24%** | **30,854** | **5.0%** | **(13,576)** | **17,278** | **2.9%** | **44.00%** |
| - Bad-debt positions | 14,854 | 2.3% | (9,584) | 5,270 | 0.8% | 64.52% | 16,587 | 2.7% | (8,966) | 7,621 | 1.3% | 54.05% |
| - Unlikely-to-pay positions | 15,864 | 2.5% | (4,797) | 11,066 | 1.8% | 30.24% | 13,948 | 2.3% | (4,495) | 9,453 | 1.6% | 32.23% |
| - Past-due positions | 1,644 | 0.2% | (260) | 1,385 | 0.2% | 15.79% | 319 | 0.1% | (114) | 205 | 0.0% | 35.86% |
| **Non-performing loans - inorganic** | **134,744** | **20.8%** | **1,329** | **136,073** | **21.6%** | **n.a.** | **85,136** | **13.9%** | **1,313** | **86,449** | **14.5%** | **n.a.** |
| - Bad-debt positions | 107,216 | 16.6% | 1,357 | 108,573 | 17.2% | n.a. | 85,136 | 13.9% | 1,313 | 86,449 | 14.5% | n.a. |
| - Unlikely-to-pay positions | 27,528 | 4.2% | (28) | 27,500 | 4.4% | 0.10% | - | - | - | - | - | - |
| **Performing loans** | **479,810** | **74.2%** | **(3,593)** | **476,217** | **75.6%** | **0.75%** | **497,627** | **81.1%** | **(3,954)** | **493,673** | **82.6%** | **0.79%** |
| - Securities | 117,208 | 18.1% | (113) | 117,095 | 18.6% | 0.10% | 113,920 | 18.6% | (232) | 113,688 | 19.0% | 0.20% |
| - Loans | 362,602 | 56.1% | (3,480) | 359,122 | 57.0% | 0.96% | 383,707 | 62.5% | (3,722) | 379,985 | 63.6% | 0.97% |
| **Total loans to customers** | **646,917** | **100.0%** | **(16,906)** | **630,011** | **100.0%** | **2.61%** | **613,617** | **100.0%** | **(16,217)** | **597,400** | **100.0%** | **2.64%** |

Organic non-performing loans amounted to approximately EUR 17.7 million, in line with EUR 17.3 million at 31 December 2018. Organic bad-debt positions decreased from EUR 7.6 million to EUR 5.2 million.

Inorganic non-performing loans amounted to EUR 136.1 million, of which:

- EUR 108.6 million relating to transactions concluded by the NPL Division classified as bad-debt positions, up from EUR 86.5 million at 31 December 2018;
- EUR 27.5 million relating to transactions concluded by the SME Division, classified as UTP.

Performing loans amounted to EUR 359 million.

All loans measured at amortised cost and thus held within a hold-to-collect business model have been classified as performing.

## Funding

*(Amounts in thousands of euro)*

| DIRECT CUSTOMER FUNDING BY TYPE | 31/03/19 | | 31/12/18 | | Change | |
|---|---|---|---|---|---|---|
| | Book value | Inc. (%) | Book value | Inc. (%) | Absolute | Chg. (%) |
| Current accounts | 341,420 | 76.5% | 398,695 | 74.5% | (57,275) | -14% |
| Time deposits | 29,211 | 6.5% | 41,692 | 7.8% | (12,482) | -30% |
| Certificates of deposit | 45,613 | 10.2% | 58,915 | 11.0% | (13,302) | -23% |
| Bonds | 18,069 | 4.0% | 22,498 | 4.2% | (4,429) | -20% |
| Loans | 10,034 | 2.2% | 9,802 | 1.8% | 231 | 2% |
| Other | 2,037 | 0.5% | 3,532 | 0.7% | (1,495) | -42% |
| **Total direct funding** | **446,383** | **100.0%** | **535,134** | **100.0%** | **(88,751)** | **-17%** |

At the end of the reporting period, direct customer funding amounted to EUR 446.4 million, down by EUR 89 million. The decrease was primarily due to the decline in current accounts (approximately EUR 57.3 million), time deposits (EUR 12.4 million) and certificates of deposit (EUR 13.3 million) due to the repositioning of banking operations in the new businesses.

## Property and equipment and intangible assets

Property and equipment amounted to approximately EUR 17.6 million at 31 March 2019, up from EUR 2.5 million at 31 December 2018.

The increase was mainly due to the recognition of right-of-use assets acquired under leases in accordance with IFRS 16 of EUR 14.8 million.

The item also includes the value of an owned property.

Intangible assets amounted to approximately EUR 27.2 million at 31 March 2019, up from EUR 21.9 million at 31 December 2018. The item consists primarily of the goodwill arising from the business combination of EUR 21.6 million. The conclusions reached in the impairment test conducted at 31 December 2018 remain confirmed at 31 March 2019.

## Tax assets and tax liabilities

Tax assets amounted to approximately EUR 23.4 million at 31 March 2019, up from EUR 19.5 million carried at 31 December 2018.

Deferred-tax assets stood at EUR 21.4 million at 31 March 2019. Deferred-tax assets had amounted to EUR 17.5 million at 31 December 2018.

Current tax assets amounted to approximately EUR 1.9 million at 31 March 2019, consisting primarily of prepayments to the tax authorities, compared with EUR 1.9 million carried at 31 December 2018.

Deferred-tax liabilities stood at EUR 945 thousand at 31 March 2019. Deferred-tax liabilities had amounted to EUR 280 thousand at 31 December 2018.

Deferred-tax assets other than those convertible into tax credits pursuant to Art. 2, paragraphs 55 *et seq.* of Decree-Law No. 225/2010 are recognised on the basis of the probability of earning sufficient taxable income in future years to absorb the aforementioned temporary differences.

The probability test was performed in support of the reasonable certainty of the future recovery of the deferred-tax assets that justifies their recognition in accordance with IAS 12.

The test consists of simulating the ability to recover the deductible temporary differences and tax losses accrued at the reporting date using future taxable income. The probability test conducted on the basis of the Bank's business plan yielded positive results, indicating that deferred-tax assets would be recovered by 2020.

For the purposes of preparation of the interim report for the period ended 31 March 2019, SPAXS, merged into Banca Interprovinciale, did not recognise deferred tax assets relating to its tax losses and the economic growth aid (ACE) tax relief for 2018, instead deferring the assessment of the recoverability of the DTAs in question until receipt of the response to the request for an advance tax ruling on the disapplication of the anti-avoidance rules governing the carry-forward of tax losses following the reverse merger of SPAXS into Banca Interprovinciale, which will be filed following the merger of the two companies. The deferred tax assets relating to the tax benefit arising from the use of the tax losses and the economic growth aid not recognised in the financial statements for the year ended 31 December 2018 amounted to EUR 3.2 million.

Interim report
at 31 March 2019

# Financial performance

at 31 March 2019

## FINANCIAL PERFORMANCE

### Interest margin

*(Amounts in thousands of euro)*

| Items/Technical forms | Debt securities | Loans | Other transactions | 31/03/19 | 31/03/18 | Chg. | Chg. (%) |
|---|---|---|---|---|---|---|---|
| Interest income | | | | | | | |
| 2 Financial assets designated at fair value through other comprehensive income | 349 | - | - | 349 | 826 | (477) | -58% |
| 3 Financial assets at amortised cost | 631 | 7,638 | - | 8,270 | 2,538 | 5,731 | >100% |
| Of which: Loans to banks | - | 189 | - | 189 | 86 | 103 | >100% |
| Of which: Loans to customers | 631 | 7,450 | - | 8,081 | 2,453 | 5,628 | >100% |
| 6 Financial liabilities | - | - | 53 | 53 | 336 | (283) | -84% |
| **Total interest income** | **980** | **7,638** | **53** | **8,672** | **3,701** | **4,971** | **>100%** |
| Interest expense | | | | | | | |
| 1 Financial liabilities at amortised cost | (701) | (493) | (257) | (1,451) | (941) | (511) | 54% |
| Of which: Amounts due to central banks | - | - | - | - | (24) | 24 | -100% |
| Of which: Amounts due to banks | - | (82) | - | (82) | (31) | (52) | >100% |
| Of which: Amounts due to customers | - | (411) | - | (411) | (372) | (39) | 10% |
| Of which: Debt securities issued | (701) | - | - | (701) | (514) | (187) | 36% |
| Of which: Leasing transactions | - | - | (257) | (257) | - | (257) | 100% |
| 6 Financial assets | - | - | (38) | (38) | (52) | 14 | -27% |
| **Total interest expense** | **(701)** | **(493)** | **(295)** | **(1,489)** | **(993)** | **(496)** | **50%** |
| **Interest margin** | **279** | **7,145** | **(242)** | **7,183** | **2,708** | **4,475** | **>100%** |

At 31 March 2019 the interest margin amounted to EUR 7.2 million, up on the end of the first quarter of 2018 due to the new businesses launched by the Group.

## Commission margin

*(Amounts in thousands of euro)*

| Items/Technical forms | 31/03/19 | 31/03/18 | Chg. | Chg. (%) |
|---|---|---|---|---|
| **Commission receivable** | | | | |
| a. guarantees given | 52 | 68 | (16) | -23% |
| c. management, brokerage and advisory services | 186 | 89 | 96 | >100% |
| d. collection and payment services | 224 | 212 | 12 | 6% |
| i. current account keeping and management | 704 | 742 | (37) | -5% |
| j. other services | 345 | 3 | 342 | >100% |
| **Total commission income** | **1,511** | **1,113** | **397** | **36%** |
| **Commission expense** | | | | |
| a. guarantees received | (6) | (10) | 3 | -34% |
| c. management and brokerage services | (10) | (7) | (3) | 39% |
| d. collection and payment services | (837) | (44) | (793) | >100% |
| e. other services | (44) | (64) | 19 | -30% |
| **Total commission expense** | **(898)** | **(125)** | **(773)** | **>100%** |
| **Net commission** | **612** | **988** | **(375)** | **-38%** |

Net commissions amounted to EUR 612 thousand, down on the amount recognised by Banca Interprovinciale at the end of the first quarter of 2018.

Commission income includes in particular the commission income associated with traditional banking business, which contributed approximately EUR 900 thousand.

## Net trading result

*(Amounts in thousands of euro)*

| Items/Technical forms | realised | unrealised | 31/03/19 | 31/03/18 | Chg. | Chg. (%) |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Securities | 839 | 25 | 865 | 471 | 394 | 84% |
| Loans to customers | 50 | - | 50 | - | 50 | 100% |
| **Total** | **889** | **25** | **915** | **471** | **444** | **94%** |
| **Financial liabilities** | | | | | | |
| Foreign exchange differences | - | - | 9 | 6 | 3 | 57% |
| **Net trading result** | **889** | **25** | **924** | **477** | **447** | **94%** |

Net trading result for the period ended 31 March 2019 amounted to approximately EUR 924 thousand, up on the result recorded by the Bank for the first quarter of 2018.

It mainly includes the gain of approximately EUR 840 thousand on the sale of financial assets designated at fair value through other comprehensive income, and in particular government bonds as part of the de-risking process.

### Other operating costs and income

*(Amounts in thousands of euro)*

| Items/Technical forms | 31/03/19 | 31/03/18 | Chg. | Chg. (%) |
|---|---|---|---|---|
| **Other operating costs** | | | | |
| Theft and robbery charges | | (15) | 15 | 100% |
| Other operating costs | (8) | (54) | 45 | -85% |
| **Total** | **(8)** | **(69)** | **61** | **-88%** |
| **Other operating income** | | | | |
| Sundry out-of-period income | 3 | - | 3 | 100% |
| Rental income | 59 | - | 59 | 100% |
| Recoveries of sundry customer expenses on deposits and current accounts | 31 | 44 | (13) | -30% |
| Other income | 88 | 1 | 87 | >100% |
| **Total** | **182** | **45** | **136** | **>100%** |
| **Other operating costs/income** | **172** | **(23)** | **196** | **>100%** |

Other operating costs/income of EUR 172 thousand include expense recoveries and other costs not associated with the core business with an immaterial impact on operations.

### Personnel cost

*(Amounts in thousands of euro)*

| Items/Technical forms | 31/12/18 | 31/12/17 | Chg. | Chg. (%) |
|---|---|---|---|---|
| 1. Employees | (5,688) | (875) | (4,814) | >100% |
| 2. Other personnel in service | (410) | (412) | 2 | 0% |
| 3. Directors and statutory auditors | (399) | (174) | (225) | >100% |
| **Personnel costs** | **(6,498)** | **(1,461)** | **(5,037)** | **>100%** |

Personnel costs amounted to approximately EUR 6.4 million and consist mainly of employee wages and salaries and the related social-security contributions.

The Group's had a total of 210 employees at 31 March 2019, up on 31 December 2018 (138). The following table shows the number of employees at 31 March 2019, broken down by classification, together with changes compared to 31 December 2018.

| | 31/03/19 | | | 31/12/18 | | | Changes | |
|---|---|---|---|---|---|---|---|---|
| **Level** | **Average age** | **No. emp.** | **No. emp. (%)** | **Average age** | **No. emp.** | **No. emp. (%)** | **Abs. chg.** | **Chg. (%)** |
| Executives | 45.62 | 39 | 19% | 45.7 | 34 | 25% | 5 | 15% |
| Middle managers | 39.47 | 112 | 53% | 41.5 | 60 | 43% | 52 | 87% |
| White-collar | 32.71 | 59 | 28% | 34.0 | 44 | 32% | 15 | 34% |
| **Total** | | **210** | **100%** | | **138** | **100%** | **72** | **52%** |

## Administrative costs

*(Amounts in thousands of euro)*

| **Items/Technical forms** | **31/03/19** | **31/03/18** | **Chg.** | **Chg. (%)** |
|---|---|---|---|---|
| Property rent | (97) | (96) | (1) | 1% |
| Maintenance of property, hardware/software and other assets | (787) | (26) | (761) | >100% |
| Property management | (322) | (51) | (271) | >100% |
| Postal, telephone and data transmission | (445) | (63) | (382) | >100% |
| Machine and software leases | (59) | (4) | (55) | >100% |
| Third-party data-processing services | (2,130) | (151) | (1,980) | >100% |
| Outsourced services | (89) | (75) | (14) | >100% |
| Advertising, promotion and gifts | (217) | (86) | (131) | >100% |
| Certification fees | (32) | (16) | (16) | 97% |
| Professional services and consultancy | (4,304) | (581) | (3,723) | >100% |
| Debt recovery expenses | (17) | (32) | 14 | -45% |
| Transport | (11) | (14) | 3 | -20% |
| Information and certificates | (165) | (95) | (70) | 74% |
| Insurance premiums | (61) | (21) | (40) | >100% |
| Motor vehicle use expenses | (89) | (18) | (71) | >100% |
| Printing and stationery | (38) | (4) | (34) | >100% |
| Sundry contributions | (153) | (32) | (121) | >100% |
| Sundry expenses | (243) | (6) | (237) | >100% |
| Indirect taxes and duties | (516) | (432) | (84) | 19% |
| *- of which, contributions to resolution funds* | (335) | (424) | 90 | -21% |
| *- of which, other* | (181) | (8) | (173) | >100% |
| **Other administrative costs** | **(9,775)** | **(1,802)** | **(7,973)** | **>100%** |

Other administrative costs amounted to EUR 9.7 million, up on the figure reported by the Bank at the end of the first quarter of the previous year, and consisted primarily of the costs of professional and advisory services and contributions paid to resolution funds.

It has to be pointed out that administrative costs include non-recurring charges of EUR 2.6 million due to the migration of the IT systems to a new outsourcer and the listing on the Mercato Telematico Azionario (MTA).

### Net write-downs/write-backs on tangible and intangible assets

*(Amounts in thousands of euro)*

| Items/Technical forms | 31/03/19 | 31/03/18 | Chg. | Chg. (%) |
|---|---|---|---|---|
| **Net write-downs/write-backs on tangible assets** | | | | |
| Buildings | (13) | (13) | - | 0% |
| Furnishings | (30) | (14) | (16) | >100% |
| Electronic installations | (13) | (7) | (6) | 78% |
| Other | (36) | (19) | (17) | 89% |
| Leasehold improvements | (10) | (13) | 4 | -27% |
| *Lease rights of use* | (300) | - | (300) | 100% |
| **Total net write-downs/write-backs on tangible assets** | **(401)** | **(66)** | **(335)** | **>100%** |
| **Net write-downs/write-backs on intangible assets** | | | | |
| Other: finite term | (87) | (1) | (86) | >100% |
| **Total net write-downs/write-backs on intangible assets** | **(87)** | **(1)** | **(86)** | **>100%** |
| **Net write-downs/write-backs on tangible and intangible assets** | **(488)** | **(67)** | **(421)** | **>100%** |

Net write-downs/write-backs on tangible and intangible assets amounted to EUR 488 thousand, up from EUR 67 thousand in the first quarter of the previous year. The increase was due to amortisation of right-of-use assets acquired through leasing transactions as lessee, in accordance with IFRS 16, which account for the majority of total adjustments.

### Taxes

*(Amounts in thousands of euro)*

| Amount | 31/03/19 | 31/03/18 | Chg. | Chg. (%) |
|---|---|---|---|---|
| 1. Current taxes | - | 109 | (109) | -100.0% |
| 2. Change in deferred tax assets (+/-) | 2,383 | (109) | 2,492 | >100% |
| **Income taxes for the period on current operations** | **2,383** | **(0)** | **2,383** | **>100%** |

Income taxes amounted to EUR 2.4 million and were due solely to the change in deferred tax assets.

## Non-recurring charges

The following version of the income statement shows financial performance for the year net of the main events that occurred in the first quarter of 2019, which generally are not expected to recur in future years.

Net of non-recurring expenses, the loss before taxes would amount to EUR 5.6 million.

*(Amounts in thousands of euro)*

| | Income statement Q1 2019 | IT system migration costs | Operational risk charges | MTA listing costs | Adjusted income statement Q1 2019 |
|---|---|---|---|---|---|
| Interest margin | 7,183 | | | | 7,183 |
| Net commission | 612 | | | | 612 |
| Net trading and hedging result | 924 | | | | 924 |
| Other operating costs/income | 172 | | | | 172 |
| **Intermediation margin** | **8,891** | | | | **8,891** |
| Personnel costs | (6,498) | | | | (6,498) |
| Administrative costs | (9,775) | 1,999 | | 582 | (7,195) |
| Net write-downs/write-backs on tangible and intangible assets | (488) | | | | (488) |
| **Operating costs** | **(16,761)** | **1,999** | | **582** | **(14,181)** |
| **Net operating profit/loss** | **(7,870)** | **1,999** | | **582** | **(5,289)** |
| Net write-downs on loans | 26 | | | | 26 |
| Net write-downs on other assets/liabilities | (266) | | | | (266) |
| Net provisions for risks and charges | (214) | | 170 | | (44) |
| **Profit (loss) from operations gross of taxes** | **(8,323)** | **1,999** | **170** | **582** | **(5,573)** |

## QUARTERLY TREND

### Consolidated balance sheet

*(Amounts in thousands of euro)*

| | Assets | 31/03/19 | 31/12/18* |
|---|---|---|---|
| 10 | Cash and cash equivalents | 170,668 | 68,088 |
| 20 | Financial assets valued at fair value through profit or loss | 17,066 | 29,350 |
| | a) financial assets held for trading | 10,284 | 29,251 |
| | b) financial assets at fair value | - | - |
| | c) other financial assets subject to mandatory fair-value valuation | 6,782 | 99 |
| 30 | Financial assets at fair value through other comprehensive income | 77,886 | 107,913 |
| 40 | Financial assets valued at amortized cost | 767,383 | 969,559 |
| | a) loans and receivables with banks | 137,373 | 372,158 |
| | b) loans and receivables with customers | 630,010 | 597,401 |
| 50 | Hedging derivatives | - | - |
| 60 | Adjustments in value of generic hedging financial assets (+/-) | - | - |
| 70 | Equity investments | - | - |
| 80 | Technical reinsurance reserves | | - |
| 90 | Tangible assets | 17,581 | 2,495 |
| 100 | Intangible assets | 27,297 | 21,913 |
| | Of which goodwill | 21,643 | 21,643 |
| 110 | Tax assets | 23,407 | 19,462 |
| | a) current | 1,989 | 1,972 |
| | b) advance | 21,418 | 17,490 |
| 120 | Non-current assets and groups of assets held for disposal | - | - |
| 130 | Other assets | 18,665 | 16,661 |
| | **Total assets** | **1,119,953** | **1,235,441** |

*The comparative figures at 31 December 2018 refer to the group controlled by SPAXS, the company merged into the Bank.

*(Amounts in thousands of euro)*

| Liabilities | | 31/03/19 | 31/12/18* |
|---|---|---|---|
| 10 | Financial liabilities valued at amortized cost | 517,744 | 643,976 |
| | a) due to banks | 71,361 | 108,842 |
| | b) due to customers | 382,701 | 453,721 |
| | c) debt securities issued | 63,682 | 81,413 |
| 20 | Financial liabilities held for trading | - | - |
| 30 | Financial liabilities carried at fair value | - | - |
| 40 | Hedging derivatives | - | - |
| 50 | Adjustments in value of generic hedging financial liabilities (+/-) | - | - |
| 60 | Tax liabilities | 946 | 280 |
| | a) current | 1 | - |
| | b) deferred | 945 | 280 |
| 70 | Liabilities linked to assets held for sale | - | - |
| 80 | Other liabilities | 47,394 | 30,510 |
| 90 | Post-employment benefits | 608 | 575 |
| 100 | Provisions for risks and charges: | 1,011 | 2,855 |
| | a) commitments and guarantees issued | 148 | 119 |
| | b) pensions and similar obligations | - | - |
| | c) other provisions for risks and charges | 863 | 2,736 |
| 110 | Valuation reserves | 560 | 26 |
| 120 | Redeemable shares | - | - |
| 130 | Equity instruments | - | - |
| 140 | Reserves | 34,740 | - |
| 150 | Share premium reserves | 479,609 | 517,827 |
| 160 | Share capital | 43,377 | 62,781 |
| 170 | Treasury shares | (96) | |
| 180 | Profit (loss) for the period attributable to the Group (+/-) | (5,940) | (23,542) |
| | **Group equity** | **552,250** | **557,092** |
| | Profit (loss) for the period attributable to minority interests (+/-) | | (120) |
| | **Equity of minority interests** | **-** | **153** |
| | **Total liabilities and equity** | **1,119,953** | **1,235,441** |

*The comparative figures at 31 December 2018 refer to the group controlled by SPAXS, the company merged into the Bank.

## CONSOLIDATED INCOME STATEMENT

*(Amounts in thousands of euro)*

| | | Q1 2019 | Q4 2018* |
|---|---|---|---|
| 10 | Interest and similar income | 8,584 | 5,839 |
| | of which interest income calculated according to the effective interest method | 7,296 | 4,949 |
| 20 | Interest payable and similar costs | (1,401) | (1,149) |
| **30** | **Interest margin** | **7,183** | **4,690** |
| 40 | Commission receivable | 1,511 | 1,230 |
| 50 | Commission expense | (899) | (1,143) |
| **60** | **Net commission** | **612** | **87** |
| 70 | Dividends and similar income | - | - |
| 80 | Net trading result | 36 | (30) |
| 90 | Net hedging result | - | - |
| 100 | Profit (loss) from sale or repurchase of: | 888 | (1,952) |
| | a) financial assets valued at amortized cost | 53 | - |
| | b) financial assets valued at fair value affecting overall profitability | 835 | (1,952) |
| | c) financial liabilities | - | - |
| 110 | Net result of other financial assets and liabilities valued at fair value through profit or loss | - | (104) |
| | a) financial liabilities carried at fair value | - | - |
| | b) other financial assets subject to mandatory fair-value valuation | - | (104) |
| **120** | **Intermediation margin** | **8,719** | **2,691** |
| 130 | Net write-downs/write-backs for credit risk of: | (211) | (3,412) |
| | a) financial assets valued at amortized cost | 26 | (3,296) |
| | b) financial assets valued at fair value affecting overall profitability | (237) | (116) |
| 140 | Gains/losses from contract amendments without cancellations | (1) | - |
| **150** | **Net result of financial management** | **8,507** | **(721)** |
| 160 | Net premiums | - | - |
| 170 | Balance of other income/costs from insurance management | - | - |
| 180 | Net result of financial and insurance management | - | - |
| 190 | Administrative costs: | (16,386) | (17,365) |
| | a) personnel cost | (6,364) | (3,799) |
| | b) other administrative costs | (10,022) | (13,567) |
| 200 | Net provisions for risks and charges | (243) | (2,411) |
| | a) commitments and guarantees issued | (29) | (33) |
| | b) other net provisions | (214) | (2,378) |
| 210 | Net write-downs/write-backs on tangible assets | (391) | (77) |
| 220 | Net write-downs/write-backs on intangible assets | (87) | (3) |
| 230 | Other operating costs/income | 277 | (83) |
| **240** | **Operating costs** | **(16,830)** | **(19,940)** |
| 250 | Gains (losses) from equity investments | - | - |
| 260 | Net result of fair-value valuation of tangible and intangible assets | - | - |
| 270 | Adjustments in value of goodwill | - | - |
| 280 | Gains (losses) from disposal of investments | - | - |
| **290** | **Pre-tax profit (loss) from current operations** | **(8,323)** | **(20,660)** |
| 300 | Income taxes for the period on current operations | 2,383 | 4,844 |
| **310** | **Profit (loss) from current operations net of taxes** | **(5,940)** | **(15,816)** |
| 320 | Profit (loss) from disposed operations net of taxes | - | - |
| **330** | **Profit (loss) for the period** | **(5,940)** | **(15,816)** |
| 340 | Profit (loss) for the period attributable to minority interests | - | (120) |
| **350** | **Profit (loss) for the period attributable to the Parent Company** | **(5,940)** | **(15,697)** |

*The comparative figures for the fourth quarter of 2018 refer to the group controlled by SPAXS, the company merged into the Bank.

## CAPITAL ADEQUACY

The new prudential rules for banks and investment firms laid down in Regulation (EU) No 575/2013 (the Capital Requirements Regulation or CRR) and Directive 2013/36/EU (the Capital Requirements Directive or CRD), transposing into the European Union the standards set by the Basel Commission for Banking Supervision (the Basel 3 Framework), entered into effect on 1 January 2014. 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 the conclusion of a public consultation process launched in November, on 17 December 2013 the Bank of Italy published Circular No. 285, "Prudential supervisory regulations for banks", implementing the new European rules within the areas within its purview, together with Circular 286, "Instructions for completing prudential reports for banks and securities brokerage firms" and the update to Circular 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).

The introduction of the Basel 3 rules is subject to a transitional scheme in which the new rules will be applied – in most cases – in increasing proportions until 2019, when they will be fully applied. Non-compliant equity instruments will gradually be excluded from regulatory capital over a period ending in 2021.

Considering the loss for the period, net of any foreseeable charges and dividends pursuant to Article 26(2)(b) 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 euro)*

| Capital ratios of illimity Bank | 31/03/19 | 31/12/18 |
|---|---|---|
| **Common Equity Tier 1 (CET1) capital** | **494,072** | **526,538** |
| **Additional Tier 1 (AT1) capital** | **-** | **-** |
| **Tier 2 (T2) capital** | **-** | **-** |
| **Total own funds** | **494,072** | **526,538** |
| *Credit risk* | *44,930* | *43,293* |
| *Credit valuation adjustment risk* | - | *7* |
| *Settlement risks* | - | - |
| *Market risks* | *541* | *1,322* |
| *Operational risk* | *2,370* | *2,370* |
| *Other calculation factors* | - | - |
| **Total minimum requirements** | **47,841** | **46,992** |
| **Risk-weighted assets** | **598,009** | **587,398** |
| ***Common Equity Tier 1 ratio*** | ***82.62%*** | ***89.64%*** |
| *(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)* | | |
| ***Tier 1 ratio*** | ***82.62%*** | ***89.64%*** |
| *(Tier 1 capital after filters and deductions/Risk-weighted assets)* | | |
| ***Total capital ratio*** | ***82.62%*** | ***89.64%*** |
| *(Total own funds/Risk-weighted assets)* | | |

Upon the conclusion of the periodic prudential review process (SREP), the Bank of Italy announced the new additional capital requirements based on the findings of the SREP. Following the change in the capital conservation buffer, the target thresholds (the most recent currently available) in effect are a CET1 ratio of 6.78% and a TCR of 10.63%.

It should be noted that the regulations call for full application of the capital conservation buffer (of 2.5%) in 2020. Accordingly, the other additional requirements being equal, the overall capital requirement ("OCR") ratios are expected to increase by 0.625% in 2019, resulting in a target CET1 ratio of 7.4% and a total capital ratio (TCR) of 11.25%.

## EQUITY

At 31 March 2019, equity, inclusive of the loss for the period, amounted to approximately EUR 552.3 million, down from EUR 557.3 million at the end of 2018, primarily due to the net loss for the period.

### Equity attributable to the Group

*(Amounts in thousands of euro)*

| Items/values | 31/03/19 | 31/03/18 |
|---|---|---|
| 1. Share capital | 43,377 | 62,781 |
| 2. Share premium reserves | 479,609 | 517,827 |
| 3. Reserves | 34,740 | - |
| 4. Equity instruments | - | - |
| 5. (Treasury shares) | (96) | - |
| 6. Valuation reserves | 560 | 26 |
| 7. Profit (loss) for the period | (5,940) | (23,542) |
| **Total equity attributable to the Group** | **552,250** | **557,092** |
| **Equity attributable to minorities** | **-** | **153** |
| **Total equity** | **552,250** | **557,245** |

### Share capital and ownership structure

At 31 March 2019 the Company's share capital amounted to EUR 44,873,671.34, of which EUR 43,377,000 had been subscribed and paid in, divided into 59,422,861 ordinary shares and 1,440,000 special shares, without par value.

At the same date there were 28,492,827 Assignment Rights in issue.

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

In accordance with the Terms and Conditions of the Assignment Rights, the Assignment Rights entitle their holders to receive one conversion share, having the same characteristics as the Ordinary Shares, per every five Assignment Rights. Assignment will take place on 20 September 2019, the first anniversary of the effective date of the Business Combination.

## EVENTS AFTER THE REPORTING DATE

On 16 April 2019, illimity Bank announced that it had reached an agreement with a major Italian banking group regarding the purchase of a portfolio of leasing NPLs with a gross book value ("GBV") of approximately EUR 650 million.

The portfolio consists primarily of leasing NPLs in respect of corporate debtors secured by industrial and commercial assets and, to a residual extent, operating assets.

Following the closing of the transaction, set to occur in steps starting from 30 June 2019, the total value of illimity's NPL portfolios will reach a GBV of approximately EUR 1.9 billion.

The IT systems were migrated to a new outsourcer on 5 May 2019.

Partnerships were struck with Raisin, a fintech platform, for the distribution of deposits to German retail customers, intended as an important source of diversification of funding, and with IT Auction S.r.l., a leading player specialised in managing and marketing real property and business assets through its network of online and professional platforms and auctions, which will allow the Bank to cover the entire value chain of the corporate NPL servicing market.

## CONSOLIDATED BALANCE SHEET

*(Amounts in thousands of euro)*

| Assets | | 31/03/19 | 31/12/18* |
|---|---|---|---|
| 10 | Cash and cash equivalents | 170,668 | 68,088 |
| 20 | Financial assets valued at fair value through profit or loss | 17,066 | 29,350 |
| | a) financial assets held for trading | 10,284 | 29,251 |
| | b) financial assets at fair value | - | - |
| | c) other financial assets subject to mandatory fair-value valuation | 6,782 | 99 |
| 30 | Financial assets valued at fair value affecting overall profitability | 77,886 | 107,913 |
| 40 | Financial assets valued at amortized cost | 767,383 | 969,559 |
| | a) loans and receivables with banks | 137,373 | 372,158 |
| | b) loans and receivables with customers | 630,010 | 597,401 |
| 50 | Hedging derivatives | - | - |
| 60 | Adjustments in value of generic hedging financial assets (+/-) | - | - |
| 70 | Equity investments | - | - |
| 80 | Technical reinsurance reserves | | - |
| 90 | Tangible assets | 17,581 | 2,495 |
| 100 | Intangible assets | 27,297 | 21,913 |
| | Of which goodwill | 21,643 | 21,643 |
| 110 | Tax assets | 23,407 | 19,462 |
| | a) current | 1,989 | 1,972 |
| | b) advance | 21,418 | 17,490 |
| 120 | Non-current assets and groups of assets held for disposal | - | - |
| 130 | Other assets | 18,665 | 16,661 |
| | **Total assets** | **1,119,953** | **1,235,441** |

*The comparative figures at 31 December 2018 refer to the group controlled by SPAXS, the company merged into the Bank.

*(Amounts in thousands of euro)*

| | Liabilities | 31/03/19 | 31/12/18* |
|---|---|---|---|
| 10 | Financial liabilities valued at amortized cost | 517,744 | 643,976 |
| | a) due to banks | 71,361 | 108,842 |
| | b) due to customers | 382,701 | 453,721 |
| | c) debt securities issued | 63,682 | 81,413 |
| 20 | Financial liabilities held for trading | - | - |
| 30 | Financial liabilities carried at fair value | - | - |
| 40 | Hedging derivatives | - | - |
| 50 | Adjustments in value of generic hedging financial liabilities (+/-) | - | - |
| 60 | Tax liabilities | 946 | 280 |
| | a) current | 1 | - |
| | b) deferred | 945 | 280 |
| 70 | Liabilities linked to assets held for sale | - | - |
| 80 | Other liabilities | 47,394 | 30,510 |
| 90 | Post-employment benefits | 608 | 575 |
| 100 | Provisions for risks and charges: | 1,011 | 2,855 |
| | a) commitments and guarantees issued | 148 | 119 |
| | b) pensions and similar obligations | - | - |
| | c) other provisions for risks and charges | 863 | 2,736 |
| 110 | Valuation reserves | 560 | 26 |
| 120 | Redeemable shares | - | - |
| 130 | Equity instruments | - | - |
| 140 | Reserves | 34,740 | - |
| 150 | Share premium reserves | 479,609 | 517,827 |
| 160 | Share capital | 43,377 | 62,781 |
| 170 | Treasury shares | (96) | |
| 180 | Profit (loss) for the period attributable to the Group (+/-) | (5,940) | (23,542) |
| | **Group equity** | **552,250** | **557,092** |
| | Profit (loss) for the period attributable to minority interests (+/-) | | (120) |
| | **Equity of minority interests** | **-** | **153** |
| | **Total liabilities and equity** | **1,119,953** | **1,235,441** |

*The comparative figures at 31 December 2018 refer to the group controlled by SPAXS, the company merged into the Bank.

illimity

## CONSOLIDATED INCOME STATEMENT

*(Amounts in thousands of euro)*

| | | 31/03/19 |
|---|---|---|
| 10 | Interest and similar income | 8,584 |
| | *of which interest income calculated according to the effective interest method* | *7,296* |
| 20 | Interest payable and similar costs | (1,401) |
| **30** | **Interest margin** | **7,183** |
| 40 | Commission receivable | 1,511 |
| 50 | Commission expense | (899) |
| **60** | **Net commission** | **612** |
| 70 | Dividends and similar income | - |
| 80 | Net trading result | 36 |
| 90 | Net hedging result | - |
| 100 | Profit (loss) from sale or repurchase of: | 888 |
| | *a) financial assets valued at amortized cost* | *53* |
| | *b) financial assets valued at fair value affecting overall profitability* | *835* |
| | *c) financial liabilities* | - |
| 110 | Net result of other financial assets and liabilities valued at fair value through profit or loss | - |
| | *a) financial liabilities carried at fair value* | - |
| | *b) other financial assets subject to mandatory fair-value valuation* | - |
| **120** | **Intermediation margin** | **8,719** |
| 130 | Net write-downs/write-backs for credit risk of: | (211) |
| | *a) financial assets valued at amortized cost* | *26* |
| | *b) financial assets valued at fair value affecting overall profitability* | *(237)* |
| 140 | Gains/losses from contract amendments without cancellations | (1) |
| **150** | **Net result of financial management** | **8,507** |
| 160 | Net premiums | - |
| 170 | Balance of other income/costs from insurance management | - |
| **180** | **Net result of financial and insurance management** | **-** |
| 190 | Administrative costs: | (16,386) |
| | *a) personnel cost* | *(6,364)* |
| | *b) other administrative costs* | *(10,022)* |
| 200 | Net provisions for risks and charges | (243) |
| | *a) commitments and guarantees issued* | *(29)* |
| | *b) other net provisions* | *(214)* |
| 210 | Net write-downs/write-backs on tangible assets | (391) |
| 220 | Net write-downs/write-backs on intangible assets | (87) |
| 230 | Other operating costs/income | 277 |
| **240** | **Operating costs** | **(16,830)** |
| 250 | Gains (losses) from equity investments | - |
| 260 | Net result of fair-value valuation of tangible and intangible assets | - |
| 270 | Adjustments in value of goodwill | - |
| 280 | Gains (losses) from disposal of investments | - |
| **290** | **Pre-tax profit (loss) from current operations** | **(8,323)** |
| 300 | Income taxes for the period on current operations | 2,383 |
| **310** | **Profit (loss) from current operations net of taxes** | **(5,940)** |
| 320 | Profit (loss) from disposed operations net of taxes | - |
| 330 | Profit (loss) for the period | (5,940) |
| 340 | Profit (loss) for the period attributable to minority interests | - |
| **350** | **Profit (loss) for the period attributable to the Parent Company** | **(5,940)** |
| | Base loss per share *(in Euro)* | (0.10) |
| | Diluted loss per share *(in Euro)* | (0.10) |

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

*(Amounts in thousands of euro)*

| | | 31/03/19 |
|---|---|---|
| **10.** | **Profit (loss) for the period** | **(5,940)** |
| | **Other income components, net of taxes, without recycling 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. | Tangible assets | - |
| 60. | Intangible assets | - |
| 70. | Defined-benefit plans | 14 |
| 80. | Non-current assets and disposal groups | - |
| 90. | Share of valuation reserves for equity investments measured at equity: | - |
| | **Other income components, net of taxes, with recycling to the income statement** | |
| 100. | Hedging of foreign investments | - |
| 110. | Foreign exchange differences | - |
| 120. | Cash flow hedges | - |
| 130. | Hedging instruments (undesignated elements) | - |
| 140. | Financial assets (other than equity instruments) at fair value through other comprehensive income | 533 |
| 150. | Non-current assets and disposal groups | - |
| 160. | Share of valuation reserves for equity investments measured at equity | - |
| **170** | **Total other income components, net of taxes** | **547** |
| **180** | **Other comprehensive income (Item 10+170)** | **(5,393)** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(Amounts in thousands of euro)*

| | Balances at 31 December 2018 (SPAXS consolidated financial statements) | Change to opening balances (effects of the merger of SPAXS into Banca Interprovinciale) | Balances at 1 January 2019 (illimity consolidated financial statements) | Allocation of profit/loss for the previous period | | Changes during the PERIOD Equity transactions | | | | | | | | | | Equity attributable to the Group at 31/03/2019 | Equity attributable to minority interests at 31/03/2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Reserves | Dividends and other allocations | Change in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Change in equity instruments | Derivatives on treasury shares | Stock options | Changes in equity interests | Other comprehensive income for the period | | | |
| Share capital: | 62,781 | (19,404) | 43,377 | | - | - | - | - | - | - | - | - | - | - | 43,377 | |
| a) ordinary shares | 61,341 | (19,404) | 41,937 | - | - | - | - | - | - | - | - | - | - | - | - | |
| b) other shares | 1,440 | | 1,440 | - | - | - | - | - | - | - | - | - | - | - | - | |
| Share premium reserves | 517,827 | - | 517,827 | - | (23,662) | (14,556) | | | | | | | | | 479,609 | - |
| Reserves: | 285 | 19,404 | 19,689 | - | - | 15,010 | - | - | - | - | - | 41 | - | - | 34,740 | |
| a) earnings | - | | - | - | - | 12,007 | | | | | | | | | 12,007 | - |
| b) other | 285 | 19,404 | 19,689 | - | - | 3,003 | | | | | | 41 | | | 22,733 | - |
| Valuation reserves | 13 | - | 13 | | - | | | | | | | | | 547 | 560 | |
| Equity instruments | - | | - | - | - | | | | | | | | | | - | - |
| Interim dividends | - | | - | - | - | | | | | | | | | | - | - |
| Treasury shares | - | | - | - | - | | | (96) | | | | | | | (96) | |
| **Profit (loss) for the period** | **(23,662)** | **-** | **(23,662)** | **-** | **23,662** | | | | | | | | | **(5,940)** | **(5,940)** | **-** |
| **Equity** | **557,244** | **-** | **557,244** | **-** | **-** | **454** | **-** | **(96)** | **-** | **-** | **-** | **41** | **-** | **(5,393)** | **552,250** | **-** |

# Accounting policies

at 31 March 2019

# 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.

### General basis of preparation

The interim report has been prepared in accordance with paragraph 5 of Article 154-*ter* of Legislative Decree No. 58 of 24 February 1998, in application of Legislative Decree No. 38 of 28 February 2005. The line items presented in this interim report have been valued and measured on the basis of the international accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission, in addition to the guidelines laid down in Bank of Italy Circular No. 262 of 22 December 2005 (fifth update of 22 December 2017), in accordance with the accounting policies adopted in preparing the consolidated financial statements of SPAXS for the year ended 31 December 2018.

This interim report for the period ended 31 March 2019 is the first interim report prepared by the Group, since the illimity Group was created on 20 September 2018 following the closing of the Business Combination. Accordingly, no comparative figures are presented with regard to financial performance and cash flows. The comparative balance sheet figures at 31 December 2018 refer to the group controlled at that same date by SPAXS, the company merged into the Bank.

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

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

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

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

The interim report for the period ended 31 March 2019 has been prepared according to principles and policies consistent with those adopted in the consolidated financial statements of SPAXS for the year ended 31 December 2018, to which the reader is referred for a complete description of the principles and policies adopted, with the exception of the application of the new standards that entered into force with effect from 1 January 2019, 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 2019".

The interim report for the period ended 31 March 2019 was submitted for the approval of the Board of Directors on 10 May 2019.

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.

**Accounting policies applied to the accounting treatment of the reverse merger of SPAXS into Banca Interprovinciale**

The IFRS financial reporting standards do not prescribe a specific method of accounting for mergers between parent companies and subsidiaries. As a common control transaction, this type of transaction does not fall within the scope of application of the financial reporting standard IFRS 3. Accordingly, an accounting policy must be developed based on the hierarchy of sources laid down in the accounting standard IAS 8, paragraph 10(b)(ii) of which states that the selected accounting policy must reflect the economic substance of the transaction rather than the mere legal form.

In a reverse merger such as that described herein, nothing changes from the group's perspective, except the destination of the parent company's assets and liabilities, which are assumed by the subsidiary as the entity that survives the reverse merger. Accordingly, the "pooling of interest method" may be identified as the method most appropriate to account for a reverse merger between a parent company and its subsidiary. According to this method, all intra-Group transactions must be eliminated, as also required by paragraph 21 of the accounting standard IAS 27.

Under the above method, the carrying amounts of the assets and liabilities in the consolidated financial statements (of the parent company) remain unchanged following the reverse merger and are reflected in the stand-alone financial statements of the entity that survives the merger. Accordingly, in keeping with accounting theory[3] and practice, the stand-alone financial statements reflect BIP's post-merger assets retrospectively from 1 January 2019 in accordance with the principle of continuity of values with the consolidated financial statements of SPAXS for the year ended 31 December 2018. In any event, in view of future acquisitions, the post-merger consolidated financial statements of illimity (former BIP) for 2019 will also be prepared in full continuity with the 2018 consolidated financial statements[4].

In short, the reverse merger of SPAXS into illimity gave rise to the application in the merger situation at 1 January 2019 of values consistent with the pre-merger consolidated financial statements of SPAXS, which for SPAXS are represented by figures presented in accordance with IFRSs, which differ from the Italian GAAP according to which SPAXS prepared its stand-alone financial statements at 31 December 2018, valid for legal and tax purposes. The main differences relate to the accounting treatment of the costs associated with the capital increase and the acquisition of BIP.

In addition, the accounting treatment of the acquisition of BIP at 30 September 2018 entailed, at the level of BIP's financial statements, the adjustments described above with regard to the measurement date of securities designated at fair value through other comprehensive income (hold-to-collect-and-sell business model) and measured at amortised cost (hold-to-collect business model) of 20 September 2018. These adjustments result in differences between the merger values and those recognised in BIP's stand-alone financial statements, valid for legal and tax purposes.

3 See Assirevi OPI Document 2R: in the event of a reverse merger, the accounting effects must be the same as those of a direct merger. Accordingly, the cancellation difference will be allocated to the stand-alone financial statements of the subsidiary/surviving company, up to the limits of the values of the values of the subsidiary presented in the consolidated financial statements.

4 BIP's post-merger equity includes various reclassifications to present the share capital of BIP and the reserves of SPAXS.

The assumption of the accounting values presented in the consolidated financial statements is not relevant to the determination of the tax values of the assets and liabilities carried in illimity's post-merger financial statements. Regardless of the accounting treatment adopted, the provisions of Art. 172 of the Consolidated Income Tax Act apply, requiring that the merger not constitute realisation of the greater/ lesser values of the assets of the merged/merging company or assumption of the rights and obligations of the merged companies relating to income taxes. Accordingly, the tax values remain unchanged and the temporary differences arising are managed according to the two-track principle and recognition of deferred tax liabilities according to the accounting standard IAS 12.

However, in consideration of the foregoing, a discrepancy was also identified between the measurement at fair value of the item "40 - Financial assets at amortised cost, b) Loans to customers" recognised in the consolidated financial statements, and the tax and accounting values recognised in BIP's stand-alone financial statements. The provisions of the tax code concerning loans to customers, laid down in Article 106, paragraph 3, of the Consolidated Income Tax Act and Article 6, paragraph 1, letter c-bis), of Legislative Decree No. 446 of 1997, require that their value for the purposes of IRES (corporate income tax) and IRAP (regional production tax) correspond to their carrying amounts in the financial statements. This entails the need for credit institutions to have consistent tax and accounting values of loans to customers. Accordingly, in the case in question, the neutrality principle is not sufficient to justify the ongoing misalignment, in the presence of specific provisions of the system aimed at governing the alignment in question. In the final analysis, given the need to align the tax and accounting values of loans, and considering that this alignment cannot occur during the merger process, this misalignment must be realigned at the end of the year in progress on 31 December 2019, applying the tax deductibility rules governing impairment losses and losses on loans, for the purposes of IRES (corporate income tax), set out in Article 106, paragraph 3, of the Consolidated Income Tax Act, and, for the purposes of IRAP, in Article 6, paragraph 1, letter c-bis) of Legislative Decree No. 446 of 1997.

### Use of estimates and assumptions in preparing the interim report

The preparation of the interim report requires the use of estimates and assumptions that may influence the values stated in the balance sheet and income statement and on the disclosures regarding contingent assets and liabilities presented in this document.

The estimates and related assumptions are based on the use of available management information and subjective assessments, also founded on historical experience.

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

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

It should also be noted that an estimate may also be adjusted due to changes in the circumstances on which it was based, new information or greater experience. By nature, the estimates and assumptions used may change from one period to the next. Accordingly, the values presented in the 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.

### 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 2019.

| Document title | Issue date | Effective date | Date endorsed | EU regulation and publication date |
|---|---|---|---|---|
| IFRS 16 - *Leasing* | January 2016 | 1 January 2019 | 31 October 2017 | (EU) No 2017/1986 9 November 2017 |
| Prepayment Features with Negative Compensation (Amendments to IFRS 9) | October 2017 | 1 January 2019 | 22 March 2018 | (EU) No 2018/498 26 March 2018 |
| Interpretation IFRIC 23 – Uncertainty over Income Tax Treatments | June 2017 | 1 January 2019 | 23 October 2018 | (EU) No 2018/1595 24 October 2018 |

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On the basis of the analyses conducted, the Bank believes that the introduction of the amendments to the accounting standard IFRS 9 and the interpretation IFRIC 23 will not result in impacts on the date of first-time adoption, 1 January 2019.

The leasing contracts in effect at 31 December 2018 were analysed for the purposes of implementation of IFRS 16. These contracts may be classified to the three following categories:

1. Business and personal use properties;
2. Motor vehicles;
3. Other business assets (PCs, printers and hardware).

A lease is defined as a contract the fulfilment of which depends on the use of an identified asset and that conveys the right to control the use of the asset for a period of time in exchange for consideration.

The international accounting standard IFRS 16 applies to all transactions that provide for a right to use an asset, regardless of the contractual form, i.e. finance or operating leases and rentals. The scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

IFRS 16 requires the initial recognition of an asset representing the right of use ("ROU") of the leased asset, together with a liability represented by the present value of the future lease payments under the lease contract (the "lease liability").

In accordance with paragraph C3 of the Standard's transitional provisions, upon first-time adoption the Group decided to apply the Modified B approach, which allows the cumulative effect of the initial application of the Standard to be recognised on the date of initial application and the comparative figures not to be restated in the financial statements of first-time adoption of IFRS 16.

The Group has decided to avail itself of independent experts well versed in the practical expedients required by IFRS 16 in adopting the modified approach, i.e. not to apply the provisions of the Standard to leases with a term that ends within 12 months of the date of first-time adoption, and therefore to account for such leases as short-term leases. This category primarily includes real properties the contract for which is expected to be terminated in 2019.

Finally, in accordance with paragraph 5 of IFRS 16, the Group has decided not to recognise ROU assets and lease liabilities for leases of low-value assets.

With regard to measurements following the initial recognition of lease contracts:

a) the right of use has been amortised over the term of the contract or the useful life of the asset (on the basis of IAS 16);
b) the liability has been progressively reduced due to the effect of the lease payments and the relevant interest expenses have been recognised and taken separately to the income statement.

In the light of these considerations, no significant impacts on equity have been recognised. First-time adoption of the standard according to the selected approach resulted in an increase:

1. in financial liabilities, following the recognition of the amount payable to the lessor, of EUR 14.4 million;
2. of assets, following the recognition of the right to use the assets, of EUR 14.4 million.

The impact of the application of IFRS 16 did not have an appreciable impact on the Group's regulatory capital adequacy.

### Content of the financial statements

1. **Consolidated balance sheet and income statement**
   The consolidated balance sheet and consolidated income statement consist of items, sub-items and additional details. In the consolidated income statement, revenues have been presented without sign, whereas costs have been stated in parentheses.
2. **Consolidated statement of other comprehensive income**
   In addition to the profit (loss) for the year, the consolidated statement of other comprehensive income indicates income components taken to valuation reserves, net of the relevant tax effect, in accordance with international accounting standards.
   Consolidated other comprehensive income is presented by separately stating income components that will not be reversed to the income statement in the future and those that instead may subsequently be reclassified to profit (loss) for the year in the year in which certain conditions are met. The statement also distinguishes the share of profit attributable to the Parent Company from that attributable to minority-interest shareholders. Negative amounts have been stated in parentheses.
3. **Consolidated statement of changes in equity**
   The consolidated statement of changes in equity is presented by inverting the rows and columns with respect to the same statement provided for in the update of Bank of Italy Circular No. 262/2005. The statement shows the composition of and changes in equity accounts during the year of the interim report, broken down into share capital (ordinary and savings shares), capital reserves, earnings reserves and reserves from the valuation of assets or liabilities and profit or loss. The treasury shares in portfolio are deducted from equity.

### Consolidation scope and methods

The consolidation policies and principles adopted in preparing the interim report for the period ended 31 March 2019 are unchanged with respect to the consolidated financial statements for the year ended 31 December 2018.

The interim report includes the accounting values of illimity and of the companies over which it directly or indirectly exercises control for the quarter ended 31 March 2019, encompassing within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements and reports of companies operating in business segments dissimilar to that of the Parent Company.

The scope of consolidation adopted in the interim report for the period ended 31 March 2019 is unchanged with respect to the consolidated financial statements for the year ended 31 December 2018.

# DECLARATION BY THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

The manager responsible for preparing the company's financial reports, Sergio Fagioli, declares, pursuant to paragraph 2, Article 154-*bis* of the Consolidated Finance Act, that the accounting information contained in this interim report for the period ended 31 March 2019 corresponds to the contents of accounting documents, books and records.

Milan, 10 May 2019

Sergio Fagioli

Manager responsible for preparing

the company's financial reports

Interim report
at 31 March 2019