illimity

BANCA OLTRE LA FORMA

Consolidated interim report
as at 30 September 2019

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BOARD COMPOSITION

BOARD OF DIRECTORS

Chairman
Rosalba Casiraghi

Chief Executive Officer
Corrado Passera

Directors
Giancarlo Bruno
Maurizia Squinzi
Massimo Brambilla
Elena Cialliè
Martin Ngombwa*
Sigieri Diaz della Vittoria Pallavicini
Alessandro Gennari

* Board Director appointed by the Shareholders' Meeting of 10 September 2019 replacing Robert Edward Diamond who had notified his resignation on 29 July 2019.

BOARD OF STATUTORY AUDITORS

Chairman
Ernesto Riva

Standing Auditors
Stefano Caringi
Nadia Fontana

Substitute Auditors
Riccardo Foglia Taverna
Michela Zeme

EXECUTIVE IN CHARGE OF FINANCIAL REPORTING

Sergio Fagioli

INDEPENDENT AUDITORS

KPMG S.p.A.

Consolidated interim report

as at 30 September 2019

CONSOLIDATED INTERIM REPORT AS AT 30 SEPTEMBER 2019

This consolidated interim report refers to the first nine months of 2019 of illimity Bank S.p.A. (“illimity” or the “Bank”) and entities included in the scope of consolidation (together with the Bank, the “Group”).

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. The registered office of illimity is in Milan, in Via Soperga 9[1].

The Group includes the following entities:

i. Aporti S.r.l. (“Aporti”), formed to undertake the securitisation of non-performing loans (hereinafter "NPL"), 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 SPV S.r.l. (“Friuli SPV”), 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. (“Friuli LeaseCo”), a wholly-owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of NPLs acquired, operating in accordance with Article 7.1 of Law No. 130/1999 on securitisation;

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

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

vi. Doria SPV S.r.l. (“Doria SPV”), 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;

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

viii. River SPV S.r.l. (“River SPV”), 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;

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

1 The Bank operates through a secondary office located in Modena, Via Emilia Est, 107.

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

xi. illimity SGR S.p.A. (“illimity SGR”), wholly-owned by the Bank, that will start operations after obtaining authorisation from the competent authorities, and will deal with asset management for closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.

COMPOSITION AND ORGANISATIONAL STRUCTURE

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

illimity is currently organised into operating divisions comprising the *Small/Medium Enterprises (“SME”)*, NPL *Investment & Servicing* (“NPL”) and *Direct Banking & Digital Operations (“DDO”) Divisions*.

SME Division

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

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

The SME Division is active in the following segments:

- *factoring:* offering 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;
- *crossover lending:* to high-potential businesses with a suboptimal financial structure and/or with a low rating or no rating; The segment also offers financing solutions for acquisitions (acquisition finance);
- *turnaround services:* involving the purchase of loans classified as *unlikely-to-pay (UTP)*, with the aim of recovering and restoring them to performing status by identifying optimal financial solutions, which may include new loans or the purchase of existing loans.

Up to 30 June 2019, factoring took place through a partnership with an operator active in the digital factoring sector; since 1 July factoring has been carried out directly by the Bank.

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, assess the risk level of each position, define product pricing or transaction specifications, interface with customers to monitor the risk profiles of counterparties and intervene promptly, where necessary, in the event of problems, in coordination with the unit responsible for monitoring loans, and, finally, manage the back-office processes with the greatest added value of the loan chain.

These areas specialised by business segment are flanked by oversight supporting business activities: the Credit Machine area, responsible for screening the credit operations proposed by business areas and for analysing the data used in credit allocation processes; the Organic NPE & Credit Monitoring area, which is responsible for credit monitoring processes and managing positions classified as non-performing; the Legal SME area, which supports the business areas regarding legal and contractual aspects; the Business Operations & Credit Support area, which manages the annual reporting of the Division, monitors relations with Tutors, overseeing aspects concerning performance, and manages the planning dimension of the Division. The latter area covers management of the digital branch and Modena branch.

NPL Division

The NPL *Investment & Servicing* Division is the business area operating in the following segments:

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

To optimise and streamline activities in the NPL Investment & Servicing Division, some organisational changes were adopted in the third quarter of 2019; the Division now *has the following structure*:

1. Portfolios, Special Situations Real Estate, Energy and Senior Financing Areas, responsible for all origination of NPL portfolio investment and senior financing opportunities, and the coordination of the entire negotiation and bidding process, until the final closing phase;
2. The Servicing Area, responsible for performing due diligence and for adapting, implementing and monitoring recovery strategies through the coordination of internal and external servicers. The Servicing Unit Neprix, tasked with debt recovery, reports to the structure;

3. The Pricing Area, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models of portfolios/single name senior financing and the capital structure of all investments;
4. The Business Operations Area, tasked with coordinating and monitoring the Division's activities, overseeing relations with other Bank units and decision-making bodies, providing legal advice related to individual investment opportunities and initiatives, monitoring the Division's performance, the development of Research and Development initiatives together with other Bank units.

Moreover, in line with illimity's business model, which provides for the in-sourcing of the entire value chain, the Bank mainly works with the companies Neprix (wholly-owned by the Bank) and IT Auction S.r.l. ("IT Auction") (in partnership and in relation to which a preliminary agreement was signed for the acquisition of a 70% stake to manage NPL) and performs business agreements with servicers selected based on the specific aspects of the acquired assets.

Neprix, the company where servicing activities for NPL acquired by illimity, are centralised, relies on the services of professionals with specific experience and know-how in assessing and managing non-performing loans. The company was granted a licence pursuant to Article 115 of the Consolidated Public Security Act on 16 January 2019.

On 21 March 2019, following the approval by the Board of Directors of the Bank of 30 October 2018, the contract for the purchase of a 100% interest in Neprix was signed.

On 29 July 2019, following notification of the approval from the Bank of Italy dated 17 July 2019 of the acquisition of Neprix, illimity completed the acquisition of Neprix, which is therefore a part of the Group.

IT Auction is an operator specialised in managing and selling property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/online auctions and a group of professionals operating nationwide. The agreement finalising the acquisition of a majority interest in the share capital of IT Auction was signed on 25 June 2019. The closing of the agreement to purchase IT Auction depends 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. Once the acquisition process has been completed, illimity will establish the first operator specialised in corporate NPL, with an end-to-end logic, with a stand-out profile thanks to the ability to cover the entire value change in managing NPL, from acquisition to management and sale on the market of goods connected with these loans, thanks to the systematic support of the IT Auction.

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

Direct Banking & Digital Operations Division

The *Direct Banking & Digital Operations* Division offers digital banking services to retail and corporate customers. illimity will offer families and individuals 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 the payment services directive 2 (PSD2). A range of digital CFO services will also be developed for businesses.

More specifically, this range will also focus on the following categories of products:

1. deposits: with competitive rates and a simple, customisable product structure;
2. current accounts: proposals for an innovative and digital experience;
3. payment services: through a platform that combines the most innovative tools available on the market, illimity will offer payment and advisory services for household budget management;
4. Digital CFO dedicated to SME customers, with reporting services, cash flow analysis and forecasting tools;
5. distribution of 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;
6. *account aggregator*: which enables illimity to aggregate, as a first for Italian banks, all active accounts held with other banks, in the customer's personal area (home banking), enabling an overview of the customer's financial situation in a single screen.

The Division comprises *Digital Operations*, tasked with managing the Bank's ICT services, and responsible for managing organisational oversight and coordination activities for the Bank, and Direct Banking, which manages planned product offerings and relative commercial characteristics, as well as the communication plan and development strategy for the Bank brand, in order to maximise customer acquisition and optimal customer management.

SIGNIFICANT EVENTS IN THE FIRST NINE MONTHS OF 2019

On 18 January 2019, extraordinary sessions of the Shareholders' Meetings of SPAXS and Banca Interprovinciale 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 on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. of the company resulting from the merger, renamed illimity.

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 conditional share 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, on 1 March 2019.

In the process of completing the merger, all shares of Banca Interprovinciale 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 SPAXS conditional share rights, which were also cancelled upon completion of the merger, were granted one illimity conditional share right in exchange for every one SPAXS conditional share 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 factoring, crossover lending - acquisition finance 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) the recovery and development of NPLs;

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

In the first nine months 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. 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") (hereinafter also “SOP”) involving ordinary shares of illimity, reserved for employees of illimity 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 financial instruments of the Group created through the merger and supporting the Group's long-term growth.

The SOP Regulation provides that the Option Rights will be allocated to each recipient after a vesting period between the MTA Trading Start day and 31 December 2023, in line with the Industrial Plan and subject to the conditions in the SOP Regulation. To service 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 issue of a maximum of 2,100,000 new ordinary shares of illimity to be reserved for subscription by employees of illimity and its direct and/or indirect subsidiaries as beneficiaries of the aforementioned Stock Option Plan.

2. The plan designated the "Employee Stock Option Plan" (also referred to as the "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.
   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. To service 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 up to 700,000 new ordinary shares of illimity, pursuant to Article 2349 of the Italian Civil Code, to be assigned free of charge, in annual assignments, to employees of illimity and its direct and/or indirect subsidiaries as beneficiaries of the employee stock ownership plan. On 7 June 2019, illimity disclosed the new composition of share capital, following registration with the Milan Companies' Register, of the resolution of the Board of Directors dated 10 May 2019, partially adopting the share capital increase pursuant to Article 2443 of the Italian Civil Code, assigned to it by the Shareholders' Meeting of Banca Interprovinciale (currently illimity) on 18 January 2019 to serve the Employee Stock Option Plan (ESOP) - with an increase in share capital of EUR 30,661.81 through the issue of 43,022 new ordinary shares - alsofollowing certification as indicated in Article 2444, paragraph 1 of the Italian civil code.

3. The aim of the 2019 annual management by objectives system (hereinafter also “MBO”) designated the*"2019 MBO Plan"*, intended for all employees, with the exception of top management, that is not a recipient of any incentive system, is to recognise the progress made in achieving the Industrial Plan targets, to encourage the adoption of behaviour in line with long-term planning and support the diffusion of a “value creation” culture, in keeping 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. Accordingly, the Shareholders' Meeting authorised the Board of Directors, pursuant to Article 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 pursuant to Article 2349 of the Italian civil code, to be assigned free of charge to the employees of illimity 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 during the period of maximum duration of the authorisation, in accordance with the relevant regulations in effect from time to time.

In May 2019, the IT migration process from the outsourcer Consorzio Servizi Bancari (hereinafter “CSE”) to the new provider, Sella Technology Solutions S.p.A. (“STS”), recently renamed Centrico, was completed. Consequently, the agreement with CSE was terminated in advance.

On 25 June 2019, illimity signed an agreement for the acquisition of a majority interest in the share capital of IT Auction, with the acquisition of 70% of its share capital for a value of EUR 10.5 million. The closing of the operation, planned before the end of 2019, is subject, inter alia, to prior authorisation from the Supervisory Authorities, and to other suspension conditions being met, which are standard for this type of operation, and provided for in the agreement. The remaining 30% of IT Auction will still be held by current shareholders, including top management, who will remain with the company to implement the industrial plan. illimity may acquire a further interest if specific circumstances occur according to mechanisms agreed between the parties with a view to aligning interests to achieving the plan’s objectives and maximising value.

On 17 July 2019, illimity received a notice from the Bank of Italy concerning its “Registration with Register of Banking Groups and amendments to by-laws”. The Bank of Italy notified that it had registered the illimity Bank Group in the Register of Banking Groups, with effect from 24 June 2019.

On 30 August 2019, illimity announced it had started the process to request authorisation to establish and start up an asset management company - illimity SGR, wholly-owned by the Bank, that will deal with asset management for closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.

On 20 September 2019, holders of Conditional Share Rights were assigned 5,698,551 new-issue illimity conversion shares, having the same characteristics as the Ordinary Shares, for every five Conditional Share Rights held; at the same time, 28,492,827 Conditional Share Rights were cancelled.

On 27 September 2019, illimity completed a “Euro Medium Term Note” (EMTN) issue programme for a maximum of 3 billion euros, exclusively for qualified investors and listed on the Dublin Stock Exchange (Ireland). illimity may issue debt instruments reserved for institutional customers, with this programme.

SME Division

As 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 nine months of 2019, a change in the loans portfolio was registered, with a decrease in exposures in the former BIP *run-off* portfolio of approximately EUR 97 million, an increase in the *turnaround* area of EUR 27 million and the start of operations in the *Crossover, Acquisition Finance and Factoring areas* for EUR 160 million. In the first ten days of July, direct factoring activities began, through the dedicated application integrated in the company's core banking systems, and operations undertaken through Credimi were run-off.

In view of the above, at the end of September, SME portfolio use totalled EUR 434 million (up by approximately 26% compared to December) broken down as follows:

- the former Banca Interprovinciale (BIP) portfolio, for approximately EUR 215 million (50% of the total);
- the *Turnaround* segment, for approximately EUR 61 million (14% of the total);
- the *Crossover* and *Acquisition Finance* segment, for approximately EUR 118 million (27% of the total);
- loans acquired in the *factoring* segment for approximately EUR 40 million (9% of the total).

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 half of 2019, illimity had completed, through securitisation vehicles established pursuant to and for the purposes of Law 130/1999, various agreements for the purchase of loans classified as (i) non-performing (NPL) and (ii) unlikely-to-pay (UTP) for a Gross Book Value (GBV) of approximately EUR 1.4 billion.

During the third quarter of 2019, the Bank completed, through securitisation vehicles established pursuant to and for the purposes of Law 130/1999, further agreements for the purchase of NPLs and UTP loans, for a total GBV of approximately EUR 1.8 billion. Specifically:

- On 15 July 2019, a transaction concerning the acquisition of an NPL portfolio with a GBV of EUR 23 million was completed. This portfolio includes loans to a corporate borrower and is guaranteed by industrial-use assets. The acquisition was completed by the vehicle Aporti SPV, subject to the issue of *notes* retained by the Bank.
- On 18 July 2019, the Bank signed a further agreement for the purchase, in several tranches, of an NPL portfolio with a nominal value of approximately EUR 82 million, consisting of leasing receivables claimed from corporate borrowers and secured mainly by industrial assets. The transfer of the first tranche of the portfolio took place on 18 July for a GBV of approximately 18 million. The purchase took place through the securitisation vehicle River - established on 30 May 2019 (pursuant to Law 130/1999), and by the company Rive LeaseCo, also established on 30 May 2019 - pursuant to Article 7.1 of Law No. 130/1999, which is wholly owned by the Bank. The Bank's interest in the share capital of River LeaseCo is strictly functional to an additional securitisation operation for *leasing* receivables, and will cease in accordance with applicable legislation once the entire securitisation programme has ended.
- On 23 July 2019, the Bank acquired from Unicredit S.p.A. an NPL portfolio with a GBV of approximately EUR 243 million, comprising unsecured loans to corporate borrowers. The acquisition was completed through the vehicle Aporti SPV.
- On 29 July 2019, in accordance with the framework agreement signed on 28 June 2019, the second *tranche* of the Ace *Leasing* portfolio, for a nominal value of EUR 171 million was transferred to Doria SPV. The loans were purchased by Doria SPV at the same time as the Bank retained the notes issued by the vehicle. Assumption of the contracts underlying the loans was completed at the same time by Doria LeaseCo.
- On 29 July 2019, the Bank signed an agreement for the purchase of a portfolio from Banca Monte dei Paschi di Siena S.p.A. with a GBV of EUR 243 million. The portfolio consists of NPLs which the assigning party disbursed to borrowers operating in the agricultural sector, secured by property and an ISMEA guarantee; this is an additional guarantee which contributes to writing off the losses that banks would register after enforcement of the primary guarantees. This guarantee is issued by the public economic entity ISMEA (Institute for Services for the Agrifood Market), and may only be activated after prior enforcement of the primary guarantees. The portfolio was directly purchased by the Bank without using securitisation vehicles pursuant to Article 130/1999, considering the presence of loans with an ISMEA guarantee, which - otherwise - could not be activated in the case of the portfolio being acquired by a securitisation vehicle pursuant to Article 130/1999. This operation became legally effective, after payment of the price, on 4 September 2019.

- On 30 July 2019, the Bank signed an agreement for the purchase of a loans portfolio from Banca Monte dei Paschi di Siena S.p.A. for a nominal value of approximately 450 million, concerning the purchase of loans, contracts and banking and financial legal relations classified as UTP. Based on the technical requirements of the operation, the acquisition was overseen directly by the Bank, without securitisation vehicles pursuant to Law 130/1999. This operation became legally effective, after payment of the price, on 2 August 2019. As regards specific positions (with an overall nominal value of approximately EUR 120 million), the contract included some suspension conditions effective on disposal. The positions not subject to suspension conditions, immediately acquired on 2 August 2019, have an overall GBV of approximately EUR 328 million, of which EUR 311 million managed by the NPL Division. The remaining EUR 17 million are managed by the SME Division.
- On 7 August 2019, the Bank completed the sale with Banca Monte dei Paschi di Siena S.p.A. of a portfolio with a GBV of approximately EUR 34 million comprising loans classified as UTP secured mainly by industrial *assets* . In this case as well, the operation concerned the purchase of loans, contracts and banking and financial legal relations, and therefore the operation was overseen directly by illimity without using securitisation vehicles.
- On 8 August 2019, la Banca signed an agreement for the purchase, on the secondary market, of an NPL portfolio with a GBV of EUR 50 million, mainly comprising loans to corporate borrowers secured by retail and industrial assets. The acquisition was completed through the vehicle Aporti SPV.
- On 19 September 2019, the Bank completed an additional operation to purchase NPLs with an overall GBV of approximately EUR 713 million. The portfolio was acquired from Unicredit S.p.A. and consists of loans to corporate borrowers mainly secured by industrial and commercial assets. The acquisition was finalised through Aporti SPV, subject to the Bank retaining the notes.
- On 23 September 2019, an additional contract was signed for the acquisition of an NPL portfolio with a GBV of approximately EUR 70 million. The acquisition was effective from October onwards, as it was subject to payment of the price, on 3 October 2019.

In conclusion, up to 30 September 2019, the value in terms of GBV declared to assigning parties, acquired in total by the Bank, also considering investments made during 2018, amounted to approximately EUR 3.2 billion, against a consideration paid of approximately EUR 500 million. In relation to the portfolio of leasing receivables described above, the values of the overall portfolio only include the tranches purchased up to 30 September 2019.

The following table briefly summarises investments in NPL and UTP portfolios made by the NPL Division up to 30 September 2019.

(Amounts in millions of Euro)

NPL INVESTMENTS DIVISION	Price	GBV
Acquisitions as at 31/12/2018	90	1,147
Acquisitions Q1 2019	21	79
Total as at 31/03/2019	**111**	**1,226**
Acquisitions Q2 2019	48	143
Total as at 30/06/2019	**159**	**1,369**
Acquisitions Q3 2019	346	1,806
Total as at 30/09/2019	**505**	**3,175**

As regards Senior Financing, five operations were finalised during the first nine months of 2019. Specifically:

- On 13 March 2019 the Bank signed a loan agreement with a company specialised in purchasing NPL portfolios, for the amount of approximately EUR 3 million. The loan was disbursed on 15 March 2019.
- On 20 March 2019, the Bank signed a loan agreement with a major investment fund for the amount of EUR 82 million. The loan was disbursed on 12 April 2019.
- On 28 June, the Bank finalised another loan operation with a major investment fund for approximately EUR 110 million. The loan was disbursed on 28 June 2019.
- On 8 August 2019, a contract was signed for the provision of a loan to Cerberus Capital Management for approximately EUR 108 million. This loan, disbursed on 21 August 2019, was used by the investor for the purchase of a loan portfolio, with a GBV of approximately EUR 455 million, classified as UTP by the assigning bank (Monte dei Paschi di Siena S.p.A.).
- On 25 September 2019, an additional loan for approximately EUR 3 million was granted to Cerberus Capital Management for the purchase of two loans sold by UBI Banca S.p.A. with a GBV equal to approximately EUR 16 million.

In conclusion, also considering investments made during 2018, as at 30 September 2019, 6 loan agreements had been signed for a GBV of EUR 357 million.

The following table summarises the loans granted by the Senior Financing segment up to 30 September 2019.

(Amounts in millions of Euro)

Senior Financing	Amount funded
Credit lines up to 31/12/2018	51
Credit lines Q1 2019	3
Total as at 31/03/2019	**54**
Credit lines Q2 2019	192
Total as at 30/06/2019	**246**
Credit lines Q3 2019	111
Total as at 30/09/2019[2]	**357**

Direct Banking & Digital Operations Division

The IT migration of core banking, which took place in May 2019, enabled the completion of illimity's cloud platform. The partnership with the new Core Banking outsourcer enabled illimity and will increasingly allow it to achieve the objectives of its strategic plan, through a technological evolution based on continual innovation. In fact, the integration of Core Banking with illimity's cloud platform will enable full use of the open banking model, offering third-party, technological and business products.

In the first nine months of 2019, the process to configure and integrate the IT cloud platforms necessary to carry out activities of the NPL and SME Divisions, which are fully enabled in IT and operational terms on the market, with the Bank's information system, was completed.

Moreover, after the opening of the Direct Bank to ambassadors of the "Vai oltre la forma" community, on 27 June 2019, the last of illimity's three business references - illimitybank.com - was presented to the market on 12 September 2019. The launch was backed up by targeted online and offline communication and marketing campaigns.

illimitybank.com is a PSD2 native, latest-generation, fully digital, online bank, based on an open IT architecture. An innovative bank that goes beyond traditional banking products, and offers a range of services based on the use of the latest technologies, such as artificial intelligence, machine learning and data analytics. Conceived with and for customers, illimitybank.com brings together integrated savings and payment instruments in single ecosystem, to assist customers with solutions tailor made to their needs. illimitybank.com guarantees a simple, bespoke digital user experience - a real partner for customers, that does more than traditional banking.

As at 30 September 2019, less than one month from starting up, the illimitybank.com platform had obtained funding of EUR 80 million, while at the end of October 2019, the Direct Bank had over EUR 250 million in funds, comprising deposit and current accounts, thanks to a customer base of nearly 11,000 clients. Additional investments supporting the launch are scheduled for the end of 2019.

2 As at 30 September 2019, the outstanding value of the accounting balance (paid) amounted to approximately 333 million, of which EUR 298 million of securities and EUR 35 million of *term loans*.

The Bank provides Smart Care for clients and prospects - a team of experts operating from illimity's head office, with over 40 staff, providing assistance through free phone, chat, conference call or email formats, for customers who prefer direct contact. Since its launch in October 2019, Smart Care has managed the opening of all current accounts for the active customer base and has handled over 47,000 requests for assistance through its care channels, with an overall service level close to 95%.

The partnership with Raisin, a pan-European FinTech open banking platform, signed in May 2019, to raise funds through the opening of deposit accounts, signed is now fully operational. By the end of October 2019, an additional 360 million euros of funding had been obtained through over 10,500 customers mainly on a forward basis.

During September, illimity was one of the first Italian banks to launch the account aggregator service. In line with the directive PSD2, **illimity connect** makes it possible to aggregate all active accounts held with other banks, in the customer's personal area (home banking), enabling an overview of the customer's financial situation in a single screen.

By the end of 2019, additional business partnerships will be launched, concerning personal loans and insurance products, to complete the offering and increase volumes in the retail segment.

As regards SMEs, the new SME Front-End was activated in Family&Friends mode, and will be available to all new customers starting from November 2019.

HIGHLIGHTS AND ALTERNATIVE PERFORMANCE MEASURES AS AT 30 SEPTEMBER 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 "Material Transaction"). Accordingly, the comparative figures used to prepare the performance measures as at 30 September 2018 for management analysis purposes, set out below, are based on the figures for Banca Interprovinciale. The comparative balance sheet figures used in preparing the measures as at 31 December 2018 set out below, refer to the consolidated financial statements of SPAXS. These measures, although not required by IFRS/IAS, are provided to align with the disclosure provided in previous interim financial reporting.

(Amounts in thousands of euro)

PERFORMANCE MEASURES	30/09/2019	30/09/2018	Chg.	Chg. (%)
Operational total income	36,683	1,574	35,109	>100%
Total net write-downs/write-backs	(7,173)	(2,831)	(4,342)	>100%
Net result of banking operations	29,510	(1,257)	30,767	<100%
Operating expenses	(59,303)	(15,562)	(43,741)	>100%
Profit (loss) from operations before taxes	(29,916)	(17,033)	(12,883)	76%
Profit (loss) for the period	(18,194)	(12,464)	(5,730)	46%

(Amounts in thousands of euro)

ASSET RATIOS	30/09/2019	31/12/2018	Chg.	Chg. (%)
Net impaired loans – organic*	**20,153**	**17,278**	**2,874**	**17%**
of which: non-performing loans	4,201	7,621	(3,420)	(45%)
of which: unlikely-to-pay positions	14,492	9,453	5,039	53%
of which: past-due positions	1,460	205	1,256	>100%
Net impaired loans - inorganic (POCI)**	**518,187**	**86,449**	**431,738**	**>100%**
of which: non-performing loans	375,908	86,449	289,460	>100%
of which: unlikely-to-pay positions	142,279	-	142,279	N.A.
Securities (HTC)	**401,212**	**113,688**	**287,524**	**>100%**
of which: Government bonds	103,259	113,688	(10,429)	(9%)
of which: Performing SPV securities	297,953	-	297,953	N.A.
Net performing loans	**418,744**	**379,985**	**38,759**	**10%**
Securities (HTCS + Other)	**101,486**	**137,263**	**(35,777)**	**(26%)**
Direct deposits from customers	**906,425**	**535,134**	**371,291**	**69%**
Total assets	**1,956,470**	**1,235,441**	**721,029**	**58%**
Shareholders' equity	**543,343**	**557,245**	**(13,902)**	**(2%)**

* These are loans to customers in the crossover and acquisition finance and factoring segments, the provision of new finance in the Business turnaround area, and provision of NPL senior financing and includes the stock of loans to customers of the former Banca Interprovinciale.

** POCI = Purchased or Originated Credit Impaired.

RISK INDICATORS	30/09/2019	31/12/2018
Gross Organic NPE Ratio[3]	5.0%	7.4%
Net Organic NPE Ratio[4]	2.7%	4.3%
Coverage ratio for organic non-performing loans[5]	47.1%	44.0%
Coverage ratio for organic bad-debt positions[6]	72.8%	54.1%
Coverage ratio for performing loans[7]	1.06%	0.97%
Cost of organic credit risk (BPS)[8]	118	190

STRUCTURAL MEASURES	30/09/2019	31/12/2018
Shareholders' equity / Total liabilities	27.8%	45.1%
Interbank funding / Total funding	30.0%	16.9%
Liquidity coverage ratio	>1000%	491.0%
Net loans to customers / Total assets	69.4%	48.4%
Direct deposits / Total liabilities	46.3%	43.3%

CAPITAL RATIOS	30/09/2019	31/12/2018
Tier I capital ratio (Tier I capital / Total weighted assets)	28.9%	89.6%
Total capital ratio [(Tier I + Tier II) / Total weighted assets]	28.9%	89.6%
Own funds	466,359	526,538
of which: Tier I capital	466,359	526,538
Risk-weighted assets	1,612,907	587,398

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

RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT 30 SEPTEMBER 2019

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

In this document, the mandatory financial statements have been reclassified according to a management approach better suited to representing the Group'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.

Therefore this consolidated 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 consolidated interim report. Additional details useful to this end are provided below:

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

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

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

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 nine months of 2018 for the purposes of this management analysis are based on the figures for Banca Interprovinciale. The comparative figures used in preparing the reclassified balance sheet as at 31 December 2018 refer to the official consolidated financial statements of SPAXS.

Reclassified consolidated balance sheet

(Amounts in thousands of euro)

Components of official items of the Balance Sheet	Assets	30/09/2019	31/12/2018	Chg.	Chg. (%)
20 a) + 30	Treasury portfolio - Securities at FV	91,806	137,164	(45,358)	(33%)
40 b)	Treasury portfolio - Securities at amortised cost	103,259	113,688	(10,429)	(9%)
20 c)	Financial instruments subject to mandatory fair value measurement	9,680	99	9,581	>100%
40 a)	Due from Banks	271,289	372,158	(100,869)	(27%)
40 b)	Loans to customers	957,084	483,713	473,371	98%
40 b)	Senior financing instruments at amortised cost	297,953	-	297,953	N.A.
90 + 100	Property and equipment and intangible assets	62,208	24,408	37,800	>100%
110	Tax assets	35,039	19,462	15,577	80%
10 + 130	Other assets	128,151	84,749	43,402	51%
	Total assets	**1,956,470**	**1,235,441**	**721,029**	**58%**

(Amounts in thousands of euro)

Components of official items of the Balance Sheet	Liabilities	30/09/2019	31/12/2018	Chg.	Chg. (%)
10 a)	Amounts due to banks	397,005	108,842	288,163	>100%
10 b)	Amounts due to customers	912,900	453,721	459,179	>100%
10 c)	Debt securities issued	15,393	81,413	(66,020)	(81%)
60	Tax liabilities	1,461	280	1,181	>100%
80 + 90 + 100	Other liabilities	86,368	33,940	52,428	>100%
120 + 150 + 160 + 170 + 180 + 190 + 200	**Shareholders' equity**	**543,343**	**557,245**	**(13,902)**	**(2%)**
	Total liabilities and equity	**1,956,470**	**1,235,441**	**721,029**	**58%**

Consolidated balance sheet highlights

The Group's total assets as at 30 September 2019 amounted to EUR 1,956 million, compared to EUR 1,235 million as at 31 December 2018, and primarily include financial assets arising from loans to customers for EUR 957 million, up from EUR 484 million as at 31 December 2018 due to the new transactions relating to the new business concluded during the reporting period (as described above in this report, in the section "Significant events in the first nine months of 2019").

Financial assets arising from receivables measured at amortised cost - receivables from banks were down compared to 31 December 2018, being equal to EUR 101 million.

Other financial assets in the treasury portfolio decreased, as securities classified as measured at fair value through other comprehensive income (held within a hold-to-collect-and-sell business model) were sold during the period, in addition to securities measured at amortised cost (held within a hold-to-collect business model, hereinafter HTC), confirming the securities de-risking process initiated by management in the period 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 by Banca Interprovinciale, completed during the preparation of the consolidated financial statements at 31 December 2018[9].

The increase in property and equipment was due to the recognition of right-of-use assets acquired under leases amounting to approximately EUR 21 million, in accordance with IFRS 16, which came into effect on 1 January 2019.

Total consolidated shareholders' equity and liabilities amounted to EUR 1,956 million, consisting primarily of total shareholders' equity of EUR 543 million, amounts relative to financial liabilities measured at amortised cost due to customers of EUR 913 million and amounts due to banks of EUR 397 million. The latter item increased due to repurchase agreements being entered into during the period.

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

Reclassified consolidated income statement

(Amounts in thousands of euro)

Components of official items of the Income Statement	Income Statement items	30/09/2019	30/09/2018	Chg.	Chg. %
10 + 20	Net interest income	29,907	7,588	22,319	>100%
40 + 50	Net fee and commission income	5,107	3,224	1,883	58%
80 + 100 + 110	Net trading and hedging result and purchase/sale of financial assets	1,382	(9,349)	10,731	<100%
140 + 230 + 280	Other operating costs and income (excluding taxes)	287	111	176	>100%
	Operational total income	**36,683**	**1,574**	**35,109**	**>100%**
130 a)	Net write-downs/write-backs for credit risk - HTC Banks	(197)	29	(226)	<100%
130 a)	Net write-downs/write-backs for credit risk - HTC Clients	(6,382)	(2,844)	(3,538)	>100%
130 b)	Net write-downs/write-backs for credit risk - HTCS	(51)	7	(58)	<100%
200 a)	Net write-downs/write-backs for commitments and guarantees	(543)	(23)	(520)	>100%
	Total net write-downs/write-backs	**(7,173)**	**(2,831)**	**(4,342)**	**>100%**
	Net result of banking operations	**29,510**	**(1,257)**	**30,767**	**<100%**
190 a)	Personnel costs	(21,996)	(6,285)	(15,711)	>100%
190 b)	Other administrative costs	(35,277)	(9,061)	(26,216)	>100%
210 + 220	Net write-downs/write-backs on property and equipment and intangible assets	(2,030)	(216)	(1,814)	>100%
	Operating expenses	**(59,303)**	**(15,562)**	**(43,741)**	**>100%**
220 b)	Other net provisions	(124)	(214)	90	(42%)
	Profit (loss) from operations before taxes	**(29,916)**	**(17,033)**	**(12,883)**	**76%**
300	Income taxes for the period on current operations	11,722	4,569	7,153	>100%
	Profit (loss) for the period	**(18,194)**	**(12,464)**	**(5,730)**	**46%**

Consolidated income statement highlights

Total net income amounted to approximately EUR 36.7 million, compared to EUR 1.6 million as at 30 September 2018, mainly due to an increase in the interest margin as a result of the new businesses described in this report.

Personnel costs increased by approximately EUR 16 million compared to 30 September 2018; as a result of new hiring, other administrative costs increased by approximately EUR 26 million compared to the same period of the previous year and refer primarily to one-off charges relating to the launch of new activities and to consultancy and advisory costs.

Net write-downs/write backs for credit risk concerning financial assets measured at amortised cost and at fair value through OCI of approximately EUR 7 million mainly include analytical and collective assessments on loans to clients and the effects of the review of expected cash flows referable to new NPL portfolios acquired.

The loss for the period ended 30 September 2019, gross of taxes, amounted to EUR 29.9 million.

Deferred tax assets, equal to EUR 11.7 million, include the tax benefit resulting from the recognition of the tax asset on the tax loss generated by the incorporated SPAXS in 2018 and on the subsidy for economic growth (ACE) and were recognised in the interim financial report as at 30 September 2019 for an amount equal to EUR 3.8 million, following the positive outcome of the request for non-application.

The consolidated net loss reported in the first nine months of 2019 was equal to EUR 18.2 million.

The basic and diluted loss per share in the first nine months of 2019, calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue, was EUR 0.28. See the section *"Basic and diluted loss per share"* for details of the methodology to calculate the loss per share.

KEY BALANCE SHEET FIGURES

Invested assets

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

(Amounts in thousands of euro)

DETAILS OF INVESTED ASSETS	30/09/2019		31/12/2018		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**110,490**	**6.00%**	**68,088**	**5.79%**	**42,402**	**62%**
Financial assets held for trading	**69**	**0.00%**	**29,251**	**2.49%**	**(29,182)**	**(100%)**
Financial assets subject to mandatory fair value measurement:	**9,680**	**0.53%**	**99**	**0.01%**	**9,581**	**>100%**
- Business NPL	2,889	0.16%	-	-	2,889	N.A.
- Business SME	6,691	0.36%	-	-	6,691	N.A.
- Treasury portfolio	100	0.01%	99	0.01%	1	1%
HTCS financial assets:	**91,737**	**4.98%**	**107,913**	**9.18%**	**(16,176)**	**(15%)**
- Treasury portfolio	91,737	4.98%	107,913	9.18%	(16,176)	(15%)
Due from Banks	**271,289**	**14.73%**	**372,158**	**31.68%**	**(100,869)**	**(27%)**
- of which: Repurchase agreements	205,272	11.15%	-	-	205,272	N.A.
Due from customers - Loans:	**957,084**	**51.97%**	**483,712**	**41.17%**	**473,372**	**98%**
- Organic non-performing loans	20,153	1.09%	17,278	1.47%	2,875	17%
-Inorganic non-performing loans	518,187	28.14%	86,449	7.36%	431,738	>100%
- Performing loans	418,744	22.74%	379,985	32.34%	38,759	10%
Due from customers - Securities:	**401,212**	**21.79%**	**113,688**	**9.68%**	**287,524**	**>100%**
- Business NPL (Senior financing)	297,953	16.18%	-	-	297,953	N.A.
- Treasury portfolio	103,259	5.61%	113,688	9.68%	(10,429)	(9%)
Total invested assets	**1,841,561**	**100%**	**1,174,909**	**100%**	**666,652**	**>100%**

Loans to customers amounted to approximately EUR 957 million, up from EUR 484 million at the end of the previous year, due to transactions relating to the new business. The item also includes NPLs for approximately EUR 518 million classified as POCI (Purchased or Originated Credit Impaired), up from EUR 86 million as at 31 December 2018, following the activities of the SME Division and purchase transactions concluded by the NPL Division during the reporting period. Considering Senior Financing, customer loans amounted to EUR 1,255 million.

Financial assets measured at fair value through other comprehensive income held within a hold-to-collect-and-sell business model, amounted to approximately EUR 92 million, and were represented mainly by government bonds and bank securities.

Financial assets subject to mandatory measurement at fair value with an impact on profit or loss amounted to EUR 9.7 million and mainly include an investment in an equity instrument of EUR 6.7 million attributable to a transaction concluded by the SME division.

The remaining securities of EUR 401 million are measured at amortised cost (Hold-to-Collect Business model) and consist primarily of government bonds and EUR 298 million of senior financing notes.

INVESTED ASSETS BY TECHNICAL FORM	30/09/2019	Incidence	31/12/2018	Incidence	Absolute	Change Chg. (%)
Cash	**110,490**	**6.00%**	**68,088**	**5.80%**	**42,402**	**62.3%**
Current accounts and deposits	66,017	3.58%	372,158	31.68%	(306,141)	(82.3%)
Repurchase agreements - receivable	205,272	11.15%	-	0.00%	205,272	N.A.
Loans to banks	**271,289**	**14.73%**	**372,158**	**31.68%**	**(100,869)**	**(27.1%)**
Current accounts held by customers	66,064	3.59%	112,395	9.57%	(46,332)	(41.2%)
Loans	891,020	48.38%	371,317	31.60%	519,703	>100%
Loans with customers	**957,084**	**51.97%**	**483,712**	**41.17%**	**473,372**	**97.9%**
Debt securities	495,823	26.92%	221,587	18.86%	274,236	>100%
- Government bonds	115,265	6.26%	194,381	16.54%	(79,116)	(40.7%)
- Bank bonds	53,511	2.91%	27,084	2.31%	26,427	97.6%
- Others	327,047	17.76%	122	0.01%	326,925	>100%
Equity instrument	6,691	0.36%	-	0.00%	6,691	N.A.
Equity securities	15	0.00%	12	0.00%	3	25%
Units of UCIs	169	0.01%	29,350	2.50%	(29,181)	(99.4%)
Securities	**502,698**	**27.30%**	**250,951**	**21.36%**	**251,747**	**>100%**
Total	**1,841,561**	**100%**	**1,174,909**	**100%**	**666,652**	**56.7%**

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

Loans to banks totalled EUR 271 million, up compared to 31 December 2018, mainly due to repurchase agreements being entered into during the period. Loans to customers were also up considerably, due to the start of the new businesses described in this report.

Lastly, securities were up by EUR 274 million, mainly as a result of the new transactions undertaken by the NPL Division (Senior Financing) for a total of EUR 298 million as at 30 September 2019 and following the sale of government bonds. Government bonds (almost exclusively Italian government bonds) accounted for 6% of invested assets (without considering loans to banks), down significantly compared to the previous year as a result of the sovereign debt de-risking process that was undertaken by the Bank in the second half of 2018 and that continued in the period.

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

(Amounts in millions of Euro)

INVESTED ASSETS BY BUSINESS DIVISION	30/09/2019	Amount %	31/12/2018	Amount %
NPL Division	822	60.49%	138	23.12%
SME Division	219	16.11%	34	5.70%
Loans to ordinary former BIP customers	215	15.82%	312	52.26%
Portfolio of securities at amortised cost	103	7.58%	113	18.93%
Total loans to customers at amortised cost	**1,359**	**100%**	**597**	**100%**

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 as at 31 December 2018.

(Amounts in thousands of euro)

Financial assets at amortised cost	30/09/2019						31/12/2018					
	Gross exposure		Write-downs/ write-backs	Book value		Coverage ratio	Gross exposure		Write-downs/ write-backs	Book value		Coverage ratio
Loans with banks	**271,581**	**16.43%**	**(292)**	**271,289**	**16.65%**	**0.11%**	**372,254**	**37.76%**	**(96)**	**372,158**	**38.38%**	**0.03%**
- Loans	271,581	16.43%	(292)	271,289	16.65%	0.11%	372,254	37.76%	(96)	372,158	38.38%	0.03%
- Stage 1/2	*271,581*	*16.43%*	*(292)*	*271,289*	*16.65%*	*0.11%*	*372,254*	*37.76%*	*(96)*	*372,158*	*38.38%*	*0.03%*
Loans to customers	**1,381,363**	**83.57%**	**(23,067)**	**1,358,296**	**83.35%**	**1.67%**	**613,617**	**62.24%**	**(16,217)**	**597,401**	**61.62%**	**2.64%**
- Securities	401,675	24.30%	(463)	401,212	24.62%	0.1%	113,920	11.56%	(232)	113,688	11.73%	0.2%
- Stage 1/2	*401,675*	*24.30%*	*(463)*	*401,212*	*24.62%*	*0.1%*	*113,920*	*11.56%*	*(232)*	*113,688*	*11.73%*	*0.2%*
- Loans	979,688	59.27%	(22,604)	957,084	58.73%	2.3%	499,697	50.69%	(15,985)	483,713	49.89%	3.2%
- Stage 1/2	*423,247*	*25.61%*	*(4,503)*	*418,744*	*25.70%*	*1.06%*	*383,707*	*38.92%*	*(3,722)*	*379,986*	*39.19%*	*0.97%*
- Stage 3	*556,441*	*33.66%*	*(18,101)*	*538,340*	*33.03%*	*3.3%*	*115,990*	*11.77%*	*(12,263)*	*103,727*	*10.70%*	*10.6%*
Total financial assets at amortised cost	**1,652,944**	**100%**	**(23,359)**	**1,629,585**	**100%**	**1.41%**	**985,871**	**100%**	**(16,312)**	**969,559**	**100%**	**1.65%**

As at 30 September 2019 loans to banks amounted to EUR 271 million, compared to EUR 372 million as at 31 December 2018, and consisted primarily of current accounts, on demand deposits and reverse repos.

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

Loans with customers	30/09/2019						31/12/2018					
	Gross exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio	Gross exposure	Incidence	Write-downs/ write-backs	Book value	Incidence	Coverage ratio
- Organic non-performing loans	**38,098**	**2.76%**	**(17,945)**	**20,153**	**1.48%**	**47.1%**	**30,854**	**5.03%**	**(13,576)**	**17,278**	**2.89%**	**44.0%**
- Non-performing loans	15,441	1.12%	(11,240)	4,201	0.31%	72.8%	16,587	2.70%	(8,966)	7,621	1.28%	54.1%
- Unlikely-to-pay positions	20,978	1.52%	(6,486)	14,492	1.07%	30.9%	13,948	2.27%	(4,495)	9,453	1.58%	32.2%
- Past-due positions	1,679	0.12%	(219)	1,460	0.11%	13.0%	319	0.05%	(114)	205	0.03%	35.9%
Non-performing loans – inorganic (POCI)	**518,343**	**37.52%**	**(156)**	**518,187**	**38.15%**	**N.A.**	**85,136**	**13.87%**	**1,313**	**86,449**	**14.47%**	**N.A.**
- Non-performing loans	375,840	27.21%	68	375,908	27.68%	N.A.	85,136	13.87%	1,313	86,449	14.47%	N.A.
- Unlikely-to-pay positions	142,503	10.32%	(224)	142,279	10.47%	0.2%						
Performing loans	**824,922**	**59.72%**	**(4,966)**	**819,956**	**60.37%**	**0.6%**	**497,627**	**81.10%**	**(3,954)**	**493,673**	**82.64%**	**0.8%**
- Securities	401,675	29.08%	(463)	401,212	29.54%	0.1%	113,920	18.57%	(232)	113,688	19.03%	0.2%
- Loans	423,247	30.64%	(4,503)	418,744	30.83%	1.06%	383,707	62.53%	(3,722)	379,985	63.61%	0.97%
Total	**1,381,363**	**100%**	**(23,067)**	**1,358,296**	**100%**	**1.7%**	**613,617**	**100%**	**(16,217)**	**597,400**	**100%**	**2.6%**

Organic net bad loans amounted to approximately EUR 20.2 million, up compared to EUR 17.3 million as at 31 December 2018, due to new positions in the UTP and past due categories. Organic bad-debt positions decreased from EUR 7.6 million to EUR 4.2 million due to the combined effect of significant inflows for some positions and an additional general consolidation of the coverage ratio.

Inorganic non-performing loans amounted to EUR 518.2 million, of which:

- EUR 375.9 million relating to transactions concluded by the NPL Division classified as bad-debt positions, up from EUR 86.5 million as at 31 December 2018;
- EUR 142.3 million relating to transactions completed by the SME and NPL Division, classified as UTP positions.

Performing loans amounted to EUR 418.7 million, up compared to EUR 380 million as at 31 December 2018 regarding new operations in the period. Securities as at 30 September 2019 were up compared to December 2018, due to new transactions in senior financing instruments.

Funding

(Amounts in thousands of euro)

Deposits by technical form	30/09/2019		31/12/2018		Change	
Item	Book values	Inc. %	Book values	Inc. %	Absolute	Chg. (%)
Amounts due to customers (A)	**912,900**	**68.88%**	**453,721**	**70.46%**	**459,179**	**>100%**
- of which:Liabilities for leasing (B)	21,868	1.65%	-	0%	21,868	N.A.
Securities issued (C)	**15,393**	**1.16%**	**81,413**	**12.64%**	**(66,020)**	**(81%)**
Amounts due to banks (D)	**397,005**	**29.96%**	**108,842**	**16.9%**	**288,163**	**>100%**
Total direct deposits from customers (A) - (B) + (C)	**906,425**	**N.A.**	**535,134**	**N.A.**	**371,291**	**69%**
Total deposits (A) + (C) + (D)	**1,325,298**	**100%**	**643,976**	**100%**	**681,322**	**>100%**

At the end of the reporting period, direct deposits amounted to approximately EUR 1,325 million, up considerably compared to 31 December 2018, due to the undersigning of Repo agreements payable for EUR 226 million and the increase in direct funding through the opening of deposit accounts following the launch of the Digital Bank.

Property and equipment and intangible assets

Property and equipment amounted to approximately EUR 25.4 million as at 30 September 2019, compared to EUR 2.5 million as 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, equal to approximately EUR 21 million.

The item also includes the value of an owned property for functional purposes, as well as a property complex and a property held for investment purposes, purchased through an auction *as part of NPL lease* operations.

Property and equipment amounted to approximately EUR 36.8 million as at 30 September 2019, compared to EUR 21.9 million as at 31 December 2018. The item consists primarily of the goodwill arising from the business combination of EUR 21.6 million and IT investments.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 35 million as at 30 September 2019, up from EUR 19.5 million carried as at 31 December 2018. Details of the breakdown of tax assets are shown below.

(Amounts in thousands of euro)

Tax assets	30/09/2019	31/12/2018
Current	4,380	1,972
Advance	30,659	17,490
Total	**35,039**	**19,462**

Advance tax assets other than those convertible into tax credits (Article 2 paragraphs 55 and following of Decree Law 225/2010) are recognised on the basis of the likelihood of earning taxable income in future years able to reabsorb the temporary differences.

The balance as at 30 September 2019 includes EUR 3.8 million for deferred tax assets relating to tax losses and the economic growth aid (ACE) tax relief relative to the incorporated company SPAXS (merged with Banca Interprovinciale on 5 March 2019) for 2018, following the positive outcome of the request for the non-application of anti-avoidance rules governing the carry-forward of tax losses following the reverse merger of SPAXS with Banca Interprovinciale.

Deferred tax liabilities stood at EUR 1.5 million as at 30 September 2019 compared to EUR 280 thousand as at 31 December 2018.

FINANCIAL PERFORMANCE

Net interest income

(Amounts in thousands of euro)

Items/Technical forms	Debt securities	Loans	Other transactions	30/09/2019	30/09/2018	Chg.	Chg. (%)
Interest and similar income							
1. Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-
Held for trading	-	-	-	-	-	-	-
Designated at FV	-	-	-	-	-	-	-
Subject to mandatory fair value measurement	-	-	-	-	-	-	-
2. Financial assets at FV through other comprehensive income	1,197	-	-	1,197	2,665	(1,468)	(55%)
3. Financial assets at amortised cost	4,797	28,757	-	33,554	7,544	26,010	>100%
Due from Banks	-	385	-	385	273	112	41%
Loans to customers	4,797	28,372	-	33,169	7,271	25,898	>100%
4. Hedging derivatives	-	-	-	-	-	-	-
5. Other assets	-	-	71	71		71	N.A.
6. Financial liabilities	-	-	-	308	480	(172)	(36%)
Total interest income	**5,994**	**28,757**	**71**	**35,130**	**10,689**	**24,441**	**>100%**
Interest and similar expense							
1. Financial liabilities at amortised cost	(451)	(4,600)	-	(5,051)	(2,980)	(2,071)	69%
Amounts due to central banks	-	(230)	-	(230)	(43)	(187)	>100%
Amounts due to banks	-	(765)	-	(765)	(109)	(656)	>100%
Amounts due to customers	-	(3,605)	-	(3,605)	(1,278)	(2,327)	>100%
Debt securities issued	(451)	-	-	(451)	(1,550)	1,099	(71%)
of which: Leasing transactions	-	(873)	-	(873)	-	(873)	N.A.
2. Financial liabilities held for trading	-	-	-	-	-	-	-
3. Financial liabilities designated at FV	-	-	-	-	-	-	-
4. Other liabilities and provisions	-	-	(1)	(1)	-	(1)	N.A.
5. Hedging derivatives	-	-	-	-	-	-	-
6. Financial assets	-	-	-	(171)	(121)	(50)	41%
Total interest expense	**(451)**	**(4,600)**	**(1)**	**(5,223)**	**(3,101)**	**(2,122)**	**68%**
Net interest income	**5,543**	**24,157**	**70**	**29,907**	**7,588**	**22,319**	**>100%**

As at 30 September 2019, the interest margin amounted to approximately EUR 29.9 million, up considerably on the same period of the previous year when it amounted to EU 7.6 million. This change is mainly due to the increase in interest income from financial assets measured at amortised cost with customers, due to new transactions taking place in the reporting period. This increase is partially offset by a reduction in interest income from financial assets at fair value with an impact on overall profitability of approximately EUR 2 million due to the de-risking previously described.

The item interest expense increased by approximately EUR 2.1 million compared to 30 September 2018, mainly due to an increase in interest expense with banks for approximately EUR 700 thousand and with customers for approximately EUR 2.3 million; this increase is partially offset by a reduction in interest on issued securities for EUR 1.1 million.

Commission margin

(Amounts in thousands of euro)

Items/Technical forms	30/09/2019	30/09/2018	Chg.	Chg. (%)
Fee and commission income				
a. guarantees given	188	197	(9)	(5%)
c. management, brokerage and advisory services	121	306	(185)	(60%)
d. collection and payment services	346	669	(323)	(48%)
f. factoring services	104	-	104	N.A.
i. maintenance and management of current accounts	941	2,331	(1,390)	(60%)
j. other services	6,216	117	6,099	>100%
Total commission income	**7,916**	**3,620**	**4,296**	**>100%**
Fee and commission expense				
a. guarantees received	(116)	(28)	(88)	>100%
c. management and brokerage services	(41)	(40)	(1)	3%
d. collection and payment services	(2,196)	(156)	(2,040)	>100%
e. other services	(456)	(172)	(284)	>100%
Total commission expense	**(2,809)**	**(396)**	**(2,413)**	**>100%**
Net fee and commission income	**5,107**	**3,224**	**1,883**	**58%**

Net commissions amounted to EUR 5.1 million, up by 58% on the amount recognised by Banca Interprovinciale as at 30 September 2018.

The sub-item other services under commission income mainly refers to structuring commission relative to new NPL and SME business operations. Commission expense under collection and payment services includes servicing commission.

Other operating costs and income

(Amounts in thousands of euro)

Items/Technical forms	30/09/2019	30/09/2018	Chg.	Chg. (%)
Other operating costs				
Theft and robbery charges	-	(15)	15	(100%)
Other operating costs	(131)	(90)	(41)	46%
Total operating costs	(131)	(105)	(26)	25%
Other operating income				
Recovery of other client expenses	280	104	176	>100%
Other non-recurrent income	16	-	16	N.A.
Other income	122	112	10	9%
Total operating income	**418**	**216**	**202**	**94%**
Other operating charges/incomes	**287**	**111**	**176**	**>100%**

Other operating expenses/income of EUR 287 thousand mainly refers to the recovery of other expenses from clients.

Other operating income includes, under the item “Other non-recurrent income” EUR 16 thousand of badwill, arising from an acquisition of the Company Neprix determined from the comparison between the acquisition cost equal to EUR 23 thousand and shareholders’ equity (as provided for by IFRS 3) equal to EUR 39 thousand.

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

(Amounts in thousands of euro)

Transaction/Income item	Write-downs/write-backs			Write-backs		TOTAL 30/09/2019	TOTAL 30/09/2018		
	Stage one and Stage two	Stage three Write-offs	Stage three Others	Stage one and Stage two	Stage three			Chg.	Chg. (%)
A. Loans and receivables with banks	**(283)**	**-**	**-**	**87**	**-**	**(196)**	**29**	**(225)**	**<100%**
- loans	(283)	-	-	87	-	(196)	29	(225)	<100%
- debt securities	-	-	-	-	-	-	-	-	-
of which: purchased or originated loans and receivables, impaired	-	-	-	-	-	-	-	-	-
B. Loans to customers:	**(4,287)**	**(40)**	**(11,174)**	**1,969**	**7,149**	**(6,383)**	**(2,844)**	**(3,539)**	**>100%**
- loans	(3,916)	(40)	(11,174)	1,829	7,149	(6,152)	(2,677)	(3,475)	>100%
- debt securities	(371)	-	-	140	-	(231)	(167)	(64)	38%
of which: purchased or originated loans and receivables, impaired	-	(40)	(4,793)	-	4,900	67	-	67	N.A.
Total	**(4,570)**	**(40)**	**(11,174)**	**2,056**	**7,149**	**(6,579)**	**(2,815)**	**(9,394)**	**<100%**

Net write-downs/write-backs for assets measured at amortised cost amounted to EUR 6.6 million, with a significant increase compared to 30 September 2018. Write-backs on POCI amounted to EUR 67 thousand.

Personnel costs

(Amounts in thousands of euro)

Items/Technical forms	30/09/2019	30/09/2018	Chg.	Chg. (%)
1. Employees	(20,325)	(5,005)	(15,320)	>100%
2. Other personnel in service	(657)	(89)	(568)	>100%
3. Directors and statutory auditors	(1,014)	(1,191)	177	(15%)
Personnel costs	**(21,996)**	**(6,285)**	**(15,711)**	**>100%**

Personnel costs amounted to approximately EUR 22 million and consist mainly of employee wages and salaries and the related social security contributions.

The Group had a total of 315 employees as at 30 September 2019, up on 31 December 2018 (138 Units). The following table shows the number of employees as at 30 September 2019, broken down by classification, together with changes compared to 31 December 2018.

Level	30/09/2019			31/12/2018			Changes	
	Average age	No. emp.	No. emp. (%)	Average age	No. emp.	No. emp. (%)	Ass.	%
Executives	45	43	14%	46	34	25%	9	26%
Middle managers	32	95	30%	42	60	43%	35	58%
White-collar	37	177	56%	34	44	32%	133	>100%
Total		**315**	**100%**		**138**	**100%**	**177**	**>100%**

Other administrative costs

(Amounts in thousands of euro)

Items/Technical forms	30/09/2019	30/09/2018	Chg.	Chg. (%)
Rental of premises	(400)	(426)	26	-6%
Insurance	(410)	(66)	(344)	>100%
Various consulting services	(14,775)	(4,984)	(9,791)	>100%
Contributions	(828)	(105)	(723)	>100%
Financial information	(626)	-	-	N.A.
Promotions, advertising and events	(3,283)	(380)	(2,903)	>100%
Various maintenance	(240)	(79)	(161)	>100%
Outsourcing	(3,064)	(1,247)	(1,817)	>100%
IT and software expenses	(5,761)	(11)	(5,750)	>100%
Legal and notary's fees	(2,694)	-	-	N.A.
Utilities and services	(1,068)	(43)	(1,025)	N.A.
Other indirect taxes and duties	(424)	(454)	30	(7%)
Others	(1,704)	(1,266)	(438)	35%
Total other administrative expenses	**(35,277)**	**(9,061)**	**(26,216)**	**>100%**

Other administrative costs amounted to EUR 35 million, increasing by EUR 23 million compared to figures reported by the Bank as at 30 September 2018, and consisted primarily of costs for professional and advisory services, IT and software expenses and costs for promotions, advertising and events.

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

(Amounts in thousands of euro)

Items/Technical forms	30/09/2019	30/09/2018	Chg.	Chg. (%)
Net write-downs/write-backs on property and equipment				
Property and equipment with functional use	(1,479)	(214)	(1,265)	>100%
of which: Own property and equipment	*(295)*	*(214)*	*(81)*	*38%*
of which: Lease rights of use	*(1,184)*	*-*	*(1,184)*	*N.A.*
Total	**(1,479)**	**(214)**	**(1,265)**	**>100%**
Net write-downs/write-backs on intangible assets				
Limited duration	(551)	(2)	(549)	>100%
Unlimited duration	-	-	-	-
Total	**(551)**	**(2)**	**(549)**	**>100%**
Total net write-downs/write-backs on property and equipment and intangible assets	**(2,030)**	**(216)**	**(1,814)**	**>100%**

Net write-downs/write-backs on property and equipment and intangible assets amounted to approximately EUR 2 million, compared to EUR 216 thousand as at 30 September 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)

Item	30/09/2019	30/09/2018	Chg.	Chg. (%)
1. Current taxes	(23)	383	(406)	<100%
2. Change in deferred tax assets (+/-)	11,001	4,186	6,815	>100%
3. Change in deferred taxes (+/-)	744	-	744	N.A.
Income taxes for the period on current operations	**11,722**	**4,569**	**7,153**	**>100%**

Income taxes amounted to EUR 11.7 million, due to the change in deferred tax assets that include non-recurring income related to the positive outcome of the request for non-application, as referred to previously.

QUARTERLY TREND

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

Balance Sheet

(Amounts in thousands of euro)

Assets	illimity consolidated financial statements as at 30/09/2019	illimity consolidated financial statements as at 30/06/2019	illimity consolidated financial statements as at 31/03/2019	SPAXS consolidated financial statements as at 31/12/2018
Treasury portfolio - securities at FV	91,806	100,205	88,170	137,164
Treasury portfolio securities at amortised cost	103,259	102,760	117,095	113,688
Financial instruments subject to mandatory fair value measurement	9,680	7,178	6,782	99
Due from Banks	271,289	122,763	137,373	372,158
Loans to customers	1,255,037	774,696	512,915	483,713
Property and equipment and intangible assets	62,208	54,861	44,878	24,408
Tax assets	35,039	32,121	23,407	19,462
Other assets	128,151	58,509	189,333	84,749
Total assets	**1,956,470**	**1,253,093**	**1,119,953**	**1,235,441**

(Amounts in thousands of euro)

Liabilities	illimity consolidated financial statements as at 30/09/2019	illimity consolidated financial statements as at 30/06/2019	illimity consolidated financial statements as at 31/03/2019	SPAXS consolidated financial statements as at 31/12/2018
Amounts due to banks	397,005	238,779	71,361	108,842
Amounts due to customers	912,900	384,276	382,701	453,721
Debt securities issued	15,393	18,043	63,682	81,413
Tax liabilities	1,461	693	946	280
Other liabilities	86,368	62,486	49,013	33,940
Shareholders' equity	543,343	548,816	552,250	557,245
Total liabilities and shareholders' equity	**1,956,470**	**1,253,093**	**1,119,953**	**1,235,441**

INCOME STATEMENT

(Amounts in thousands of euro)

Income Statement items	3Q 2019	2Q 2019	1Q 2019	4Q 2018
Net interest income	13,785	8,939	7,183	4,690
Net fee and commission income	2,562	1,933	612	87
Net trading and hedging result and purchase/sale of financial assets	115	343	924	(2,086)
Other operating costs and income (excluding taxes)	(75)	85	277	(83)
Operational total income	**16,387**	**11,300**	**8,996**	**2,608**
Net write-downs/write-backs for credit risk - HTC Clients	(3,767)	(2,725)	110	(3,324)
Net write-downs/write-backs for credit risk - HTC Banks	(155)	42	(84)	28
Net write-downs/write-backs for credit risk - HTCS	25	161	(237)	(116)
Net write-downs/write-backs for commitments and guarantees	(116)	(398)	(29)	(33)
Total net write-downs/write-backs	**(4,013)**	**(2,919)**	**(240)**	**(3,445)**
Net result of banking operations	**12,374**	**8,381**	**8,756**	**(837)**
Personnel costs	(6,915)	(8,717)	(6,364)	(3,799)
Other administrative costs	(13,876)	(11,379)	(10,022)	(13,567)
Net write-downs/write-backs on property and equipment and intangible assets	(882)	(670)	(478)	(80)
Operating expenses	**(21,673)**	**(20,766)**	**(16,864)**	**(17,446)**
Other net provisions	(78)	168	(214)	(2,378)
Pre-tax profit (loss) from current operations	**(9,377)**	**(12,217)**	**(8,322)**	**(20,660)**
Income taxes for the period on current operations	2,541	6,798	2,383	4,844
Profit (loss) from current operations net of taxes	**(6,836)**	**(5,417)**	**(5,940)**	**(15,816)**

The interest margin in the third quarter of 2019 amounted to EUR 13.8 million, up significantly by 54% compared to the second quarter, and up on the quarterly figure of 24% recorded in the previous quarter. In line with the industrial plan, the contribution from the NPL Investment & Servicing Division was significant, with inflows relative to purchased portfolios in the quarter higher than figures in relative recovery plans.

Total income for the third quarter amounted to EUR 16.4 million, up by 45% compared to the second quarter. Revenues for the period include EUR 2.6 million of commissions, up considerably compared to the second quarter, thanks to the contribution of upfront structuring commissions of NPL senior financing operations and Crossover & Acquisition finance operations.

Operating expenses in the third quarter, equal to approximately EUR 21.7 million, include approximately EUR 3.3 million of specific costs related to the communication and marketing plan for the launch of the digital direct bank illimitybank.com.

Personnel costs, equal to approximately EUR 7 million, recorded a downturn compared to the second quarter, due to lower costs related to the Bank's ESOP (*Employee Stock Ownership Plan*), incurred only in the first half of the year, and the increase in the personnel cost component, capitalised in the long term.

These components more than offset the cost incurred in the quarter, related to the recruitment of new resources, to implement the Bank's development plan. Overall, costs of EUR 1.3 million were capitalised in the first nine months of 2019, for staff involved in innovation, design and risk management projects.

During the quarter, illimity made value adjustments on loans for EUR 3.9 million. These adjustments arise from the calibration of collective hedging on customer loans and increases from the analytical adjustments of some impaired loan exposures in Banca Interprovinciale's portfolio, corresponding to a credit cost of 118 BPS overall for the first nine months of 2019.

Due to the above factors, the quarter ended with a loss of EUR 6.8 million, resulting in a net profit for the first nine months of 2019 of EUR 18.2 million, in line with figures in the industrial plan.

CAPITAL ADEQUACY

On 1 January 2014 the new prudential requirements for banks and investment firms came into force, in the form of Regulation (EU) 575/2013 (Capital Requirements Regulation, CRR) and Directive 2013/36/EU (Capital Requirements Directive, CRD IV), which have transposed into the EU the standards set by the Basel Committee on Banking Supervision (Basel 3 Framework). The CRR entered into effect in the Member States directly, whereas the rules laid down in CRD IV were transposed into Italian law by Legislative Decree No. 72 of 12 May 2015, which entered into force on 27 June 2015. Following a public consultation process launched in November, on 17 December 2013 the Bank of Italy published Circular No. 285, "Prudential supervisory regulations for banks", implementing the new European rules within the areas within its purview, together with Circular 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	30/09/2019	31/12/2018
Common Equity Tier 1 (CET1) capital	**(466,359)**	**526,538**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**(466,359)**	**526,538**
Credit risk	(126,623)	43,293
Credit valuation adjustment risk	-	7
Settlement risks	-	-
Market risks	(40)	1,322
Operational risk	2,370	2,370
Other calculation factors	-	-
Total minimum requirements	**129,033**	**46,992**
Risk-weighted assets	**1,612,907**	**587,398**
Common Equity Tier 1 ratio	**28.91%**	**89.64%**
(Common Equity Tier 1 capital after filters and deductions/ Risk-weighted assets)		
Tier 1 ratio	**28.91%**	**89.64%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**28.91%**	**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%.

The regulations call for full application of the capital conservation buffer (of 2.5%) in 2019. 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%.

ONGOING SHAREHOLDERS' EQUITY

As at 30 September 2019, shareholders' equity, inclusive of the loss for the period, amounted to approximately EUR 543.3 million, down from EUR 557.2 million at the end of 2018, primarily due to the net loss for the period.

Shareholders' equity attributable to the Group

(Amounts in thousands of euro)

Items/values	30/09/2019	31/12/2018
1. Share capital	43,408	62,781
2. Share premium	480,156	517,827
3. Reserves	35,497	-
4. Equity instruments	-	-
5. (Treasury shares)	(96)	-
6. Valuation reserves	2,572	26
7. Profit (loss) for the period	(18,194)	(23,542)
Total shareholders' equity attributable to the Group	**543,343**	**557,092**
Shareholders' equity attributable to non-controlling interest	**-**	**153**
Total shareholders' equity	**543,343**	**557,245**

Share capital and ownership structure

As at 30 September 2019 the Bank's share capital amounted to EUR 44,904,333.15, of which EUR 43,407,661.81 subscribed and paid in, divided into 65,164,434 ordinary shares and 1,440,000 special shares, without par value.

On 20 September 2019, the first anniversary of the date when the Material Transaction became effective, holders of 28,492,827 Conditional Share Rights were assigned 5,698,551 new-issue illimity conversion share rights, for every five Conditional Share Rights held, according to relative regulations. These shares have the same characteristics as Ordinary Shares. This assignment did not result in any change to the share capital.

The Ordinary Shares were admitted to trading on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A. on 5 March 2019.

Trading of the Conditional Share Rights, admitted to trading on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A. on 5 March 2019, ended on 17 September 2019, with assignment of the above shares.

The Bank's Special Shares are not traded.

On 7 June 2019, illimity disclosed the new composition of share capital, with an increase in share capital of EUR 30.6 thousand through the issue of 43,022 new ordinary shares and EUR 355.2 thousand of the share premium reserve, to serve the Employee Stock Option Plan (ESOP).

Basic and diluted loss per share

The basic loss per share is calculated by dividing the Group's net loss for the period by the weighted average number of ordinary shares in issue. The diluted loss per share for the nine months ended 30 September 2019 coincides with the basic loss per share.

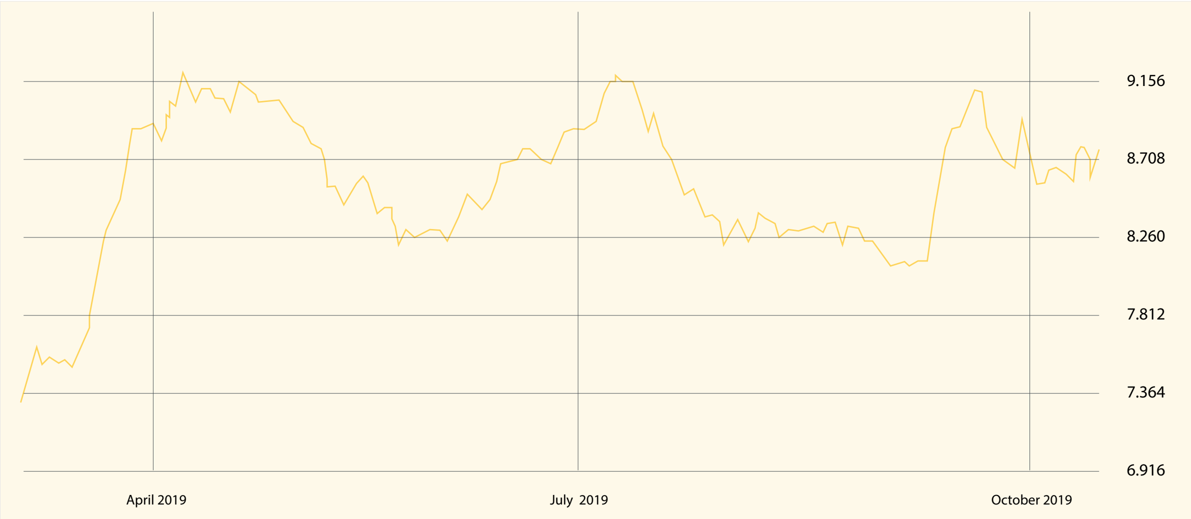
As described previously, on 20 September 2019, holders of Conditional Share Rights were assigned 5,698,551 new-issue illimity conversion shares, having the same characteristics as the Ordinary Shares, and at the same time, 28,492,827 Conditional Share Rights were cancelled. This increase in the number of shares, in keeping with IAS 33 requirements, was considered retroactively as if it had occurred at the start of 2018 (comparison period). Comparative data for the period ended 30 September 2018 were therefore restated.

(in thousands of euro)

Basic and diluted loss per share	Profit/ (Loss) for the period	Average number of shares	Basic and diluted loss per share
Period ended 30 September 2019	(18,194)	65,120,123	(0.28)
Period ended 30 September 2018	(7,846)	55,967,421	(0.14)

illimity Bank share

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



Based on available information, published by CONSOB, updated on 15 October 2019, the main shareholders of the Bank are as follows:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding % of the voting capital
SDP CAPITAL MANAGEMENT LTD	SDP CAPITAL MANAGEMENT LTD	Discretionary asset management	9.875%	9.875%
Atlas Merchant Capital LLC	AMC METIS SARL	Owned	7.741%	7.741%
TENSILE CAPITAL MANAGEMENT LLC	TENSILE-METIS HOLDINGS SARL.	Owned	7.010%	7.010%

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

EVENTS AFTER THE REPORTING DATE

On 16 October 2019, illimity was recognised by the *European Financial Management Association* ("Efma") as the best new bank and a player specialised on a global scale. Just once year from its foundation and a month from the launch of the digital direct bank, *illimitybank.com*, illimity has gained a reputation on the market as a new kind of bank, conceived to be a fully comprehensive bank for a latest-generation user experience, in line with the habitual ease of use that tech players in various sectors have given users.

Consolidated balance sheet

(Amounts in thousands of euro)

	Assets	30/09/2019	31/12/2018*
10	Cash and cash equivalents	110,490	68,088
20	Financial assets measured at fair value through profit or loss	9,749	29,350
	a) financial assets held for trading	*69*	*29,251*
	b) financial assets at fair value	-	-
	c) other financial assets subject to mandatory fair value measurement	*9,680*	*99*
30	Financial assets measured at fair value through other comprehensive income	91,737	107,913
40	Financial assets measured at amortised cost	1,629,585	969,559
	a) loans and receivables with banks	*271,289*	*372,158*
	b) loans and receivables with customers	*1,358,296*	*597,401*
50	Hedging derivatives	-	-
60	Adjustments in value of generic hedging financial assets (+/-)	-	-
70	Equity investments	-	-
80	Technical reinsurance reserves		-
90	Property and equipment	25,400	2,495
100	Intangible assets	36,808	21,913
	Of which goodwill	21,643	21,643
110	Tax assets	35,039	19,462
	a) current	*4,380*	*1,972*
	b) advance	*30,659*	*17,490*
120	Non-current assets and groups of assets held for disposal	-	-
130	Other assets	17,661	16,661
	Total assets	**1,956,470**	**1,235,441**

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

(Amounts in thousands of euro)

Liabilities		30/09/2019	31/12/2018*
10	Financial liabilities measured at amortised cost	1,325,298	643,976
	a) due to banks	*397,005*	*108,842*
	b) due to customers	*912,900*	*453,721*
	c) debt securities issued	*15,393*	*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	1,461	280
	a) current	*43*	-
	b) deferred	*1,418*	*280*
70	Liabilities linked to assets held for sale	-	-
80	Other liabilities	84,174	30,510
90	Provisions for termination indemnities	1,063	575
100	Provisions for risks and charges:	1,131	2,855
	a) commitments and guarantees issued	*662*	*119*
	b) pensions and similar obligations	-	-
	c) other provisions for risks and charges	*469*	*2,736*
110	Valuation reserves	2,572	26
120	Redeemable shares	-	-
130	Equity instruments	-	-
140	Reserves	35,497	-
150	Share premium reserves	480,156	517,827
160	Share capital	43,408	62,781
170	Treasury shares	(96)	-
180	Profit (loss) for the period attributable to the Group (+/-)	(18,194)	(23,542)
	Group equity	**543,343**	**557,092**
190	Profit (loss) for the period attributable to minority interests (+/-)	-	(120)
	Equity of minority interests	**-**	**153**
	Total liabilities and shareholders' equity	**1,956,470**	**1,235,441**

* The comparative figures as 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)

		30/09/2019	30/09/2018
10	Interest and similar income	35,130	402
	of which interest income calculated according to the effective interest method	32,941	-
20	Interest payable and similar costs	(5,223)	-
30	**Net interest income**	**29,907**	**402**
40	Fee and commission income	7,916	-
50	Fee and commission expense	(2,809)	-
60	**Net fee and commission income**	**5,107**	
70	Dividends and similar income	-	-
80	Net trading income	70	-
90	Net hedging result	-	-
100	Profit (loss) from sale or repurchase of:	1,310	-
	a) financial assets measured at amortised cost	*368*	-
	b) financial assets measured at fair value affecting overall profitability	*942*	-
	c) financial liabilities	-	-
110	Net result of other financial assets and liabilities valued at fair value through profit or loss	1	-
	a) financial liabilities carried at fair value	*1*	-
	b) other financial assets subject to mandatory fair value measurement	-	-
120	**Total income**	**36,395**	**402**
130	Net losses/recoveries for credit risks associated with:	(6,630)	-
	a) financial assets measured at amortised cost	*(6,579)*	-
	b) financial assets measured at fair value through other comprehensive income	*(51)*	-
140	Gains/losses from contract amendments without cancellations	(1)	-
150	**Net result of financial management**	**29,764**	**402**
160	Net premiums	-	-
170	Balance of other income/costs from insurance management	-	-
180	**Net result of financial and insurance management**	**29,764**	**402**
190	Administrative costs:	(57,848)	(8,245)

(Amounts in thousands of euro)

		30/09/2019	30/09/2018
	a) personnel cost	*(21,601)*	*(233)*
	b) other administrative costs	*(36,247)*	*(8,011)*
200	Net allocations to provisions for risks and charges	(666)	-
	a) commitments and guarantees issued	*(542)*	-
	b) other net provisions	*(124)*	-
210	Net write-downs/write-backs on property and equipment	(1,479)	(3)
220	Net write-downs/write-backs on intangible assets	(551)	-
230	Other operating charges/incomes	864	-
240	**Operating costs**	**(59,680)**	**(8,247)**
250	Gains (losses) from equity investments	-	-
260	Net result of fair-value valuation of Property and Equipment and intangible assets	-	-
270	Goodwill impairment	-	-
280	Gains (losses) from disposal of investments	-	-
290	**Pre-tax profit (loss) from current operations**	**(29,916)**	**(7,846)**
300	Income taxes for the period on current operations	11,722	-
310	**Profit (loss) from current operations net of taxes**	**(18,194)**	**(7,846)**
320	Profit (loss) from disposed operations net of taxes	-	-
330	**Profit (loss) for the period**	**(18,194)**	**(7,846)**
340	Profit (loss) for the period attributable to minority interests	-	-
350	**Profit (loss) for the period attributable to the Parent Company**	**(18,194)**	**(7,846)**
	Base loss per share (in EUR)	**(0.28)**	**(0.14)**
	Diluted loss per share (in EUR)	**(0.28)**	**(0.14)**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(Amounts in thousands of euro)

		30/09/2019	30/09/2018
10.	**Profit (loss) for the period**	**(18,194)**	**(7,846)**
	Other income components, net of taxes, that may not be reclassified to the income statement		**-**
20.	Equity instruments carried at fair value through other comprehensive income	2	-
30.	Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)	-	-
40.	Hedging of equity instruments carried at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(100)	-
80.	Non-current assets and disposal groups	-	-
90.	Share of valuation reserves for equity investments measured at equity:	-	-
	Other income components, net of taxes, that may be reclassified to the income statement		**-**
100.	Hedging of foreign investments	-	-
110.	Foreign exchange differences	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (undesignated elements)	-	-
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	2,645	-
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**	**2,547**	**-**
180	**Other comprehensive income (Item 10+170)**	**(15,647)**	**(7,846)**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 30 SEPTEMBER 2019

(Amounts in thousands of euro)

	Balances as 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 year		Changes in the PERIOD									Shareholders' equity attributable to the Group as at 30/09/2019	Equity attributable to minority interests as at 30/09/2019
							Shareholders' equity transactions									
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the period		
Share capital:	**62,781**	**(19,404)**	**43,377**	**-**	**-**	**-**	**31**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**43,408**	**-**
a) ordinary shares	61,341	(18,990)	42,351	-	-	-	31	-	-	87	-	-	-	-	42,469	-
b) other shares	1,440	(414)	1,026	-	-	-		-	-	(87)	-	-	-	-	939	-
Share premium	517,827		517,827		(23,662)	(14,364)	355	-	-	-	-	-	-	-	480,156	-
Reserves:	285	19,404	19,689	-	-	15,451	-	-	-	-	-	357	-	-	35,497	-
a) from profits				-	-	12,007	-	-	-	-	-	-	-	-	12,007	-
b) other	285	19,404	19,689	-	-	3,444	-	-	-	-	-	357	-	-	23,490	-
Valuation reserves	13	-	13	-	-	12		-	-	-	-	-	-	2,547	2,572	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	(96)	-	-	-	-	-	-	(96)	-
Profit (loss) for the period	**(23,662)**		**(23,662)**	**-**	**23,662**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,194)**	**(18,194)**	**-**
Shareholders' equity	**557,244**		**557,244**	**-**	**-**	**1,099**	**386**	**(96)**	**-**	**-**	**-**	**357**		**(15,647)**	**543,343**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A - 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.

Declaration of conformity with international financial reporting standards

The interim report has been prepared in accordance with paragraph 5 of Article 154-ter, of Legislative Decree No. 58 of 24 February 1998. The line items presented in this document have been valued and measured on the basis of the international accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB) and include the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), as well as the guidance in Bank of Italy Circular No. 262 of 22/12/2005 (sixth *revision of* 30/11/2018), in accordance with the accounting policies adopted in preparing the consolidated financial statements of SPAXS for the year ended 31 December 2018.

Section 2 – General basis of preparation

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

The interim report has been prepared using 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 as at 30 September 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"*.

During 2019, some acquisitions and re-possessions of property took place arising from the management of non-performing loans secured by collateral, with particular reference to loans of lease agreements. The sections *"Accounting standards for property arising from enforcement procedures adopted in credit collection processes*" and "*Accounting standards for the recognition of NPL lease operations*" present the accounting standards adopted by the Bank in order to recognise the tangible assets arising from these new operations.

The interim report for the period ended 30 September 2019 was submitted for the approval of the Board of Directors on 8 November 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.

Section 3 – Consolidation scope and methods

The consolidation policies and principles adopted in preparing the interim report for the period ended 30 September 2019 are unchanged with respect to the consolidated financial statements for the year ended 31 December 2018.

The interim financial report includes the accounting values of illimity and of the companies over which it directly or indirectly exercises control for the period ended 30 September 2019, encompassing within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements or reports of companies operating in business segments dissimilar to that of the Parent Company.

The scope of consolidation of the interim financial report as at 30 September 2019 has changed with respect to the consolidated financial statements for the year ended 31 December 2018, following the entry of new entities related to the management of NPL leasing, Neprix and illimity SGR.

Details of the scope of consolidation of subsidiaries, registered with the Banking Group, as at 30 September 2019, and consolidated entities, are given below:

Name	Operational headquarters	Registered office	Type of relationship (*)	Ownership relationship	
				Held by	Holding %
A Companies					
A.0 illimity Bank S.p.A.	Milan	Milan			
A.1 Consolidated on a line-by-line basis					
A.1 Aporti S.r.l. (SPV)	Milan	Milan	4	A.0	100.0%
A.2 Soperga RE S.r.l.	Milan	Milan	1	A.0	100.0%
A.3 Lumen S.r.l.	Conegliano	Conegliano	4	A.0	100.0%
A.4 Friuli LeaseCo. S.r.l.	Milan	Milan	1	A.0	100.0%
A.5 Friuli SPV S.r.l. (SPV)	Milan	Milan	4	A.0	100.0%
A.6 Doria Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.7 Doria SPV S.r.l. (SPV)	Milan	Milan	4	A.0	100.0%
A.8 River Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.9 River SPV S.r.l. (SPV)	Milan	Milan	4	A.0	100.0%
A.10 Neprix	Milan	Milan	1	A.0	100.0%
A.11 illimity SGR	Milan	Milan	1	A.0	100.0%

(*) Type of relationship:

1 = majority of voting rights at the ordinary meeting of shareholders (pursuant to Article 2359 paragraph 1(1))

2 = dominant influence at the ordinary meeting of shareholders

3 = arrangements with other shareholders

4 = other forms of control

Section 4 - Events after the reporting date

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

Section 5 – Other aspects

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

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) 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. Based on 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 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.

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 as 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 measured 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.

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 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.

Accounting standards for property arising from enforcement procedures adopted in credit collection processes

Illimity is assisted by a *Real Estate Owned Company* (REOCO, Soperga RE) that manages property, also valuing and selling it on the market, arising from enforcement procedures taken in the process to recover non-performing loans acquired by the NPL Division.

The property is recognised at the moment when the Bank reaches an agreement that releases the borrower from its obligations, with concurrent derecognition pursuant to IFRS 9 "Financial instruments" of the NPL the guaranteed property referred to and the non-recognition of interest expense relative to the transaction.

This property is classified under "property and equipment", indicated as "assets held through the enforcement of guarantees received" and recognised:

- at the lower of the fair value, assumed from an appraisal of an independent expert, and the carrying amount of the guaranteed loan, in the event of obtaining the amount following an agreement "datio in solutum" with the borrower. If the value of the receivable is higher than the fair value, impairment is recognised in the income statement under the item "Write-downs/write-backs for credit risk: Financial assets measured at amortised cost"; or
- at the price the property was sold at auction. In this case, the bank aligns the value of the NPL with the property auction price, recognising the negative difference in the item "Write-downs/write-backs for credit risk: Financial assets measured at amortised cost".

After their recognition in the financial statements, property purchased through REOCO is measured, in compliance with requirements in IAS 2 "Inventories", at the lesser of cost and the net realisable value.

If the sale of the property is expected in the medium/long term or if the property is held for the purpose of receiving rent payments or to capitalise on invested capital, accounting treatment is in accordance with IAS 40 "Investment property" and Internal Risk Management Policies, measuring the investment property at fair value, with changes in value recognised in profit or loss.

Accounting policies applied to the accounting treatment of NPL leasing operations

NPL leasing portfolios, which come under the POCI (Purchased or Originated Credit Impaired) category, as provided for by IFRS 9, refer to contracts that have been terminated and consequently no further lease payments are expected to be invoiced.

After contracts have been acquired, the Bank starts procedures for the return of the leased asset, or takes over in enforcement proceedings started by the assignor (original lessor). This enforcement stage does not have any effect on the debt position of the lessee, who is not relieved of obligations with the lessor and consequently the amount receivable is not derecognised. The asset returned by the lessee is therefore equivalent to "collateral" regarding the receivable arising from the lease agreement, while the operation is still classified as a finance lease receivable due from the lessee.

If the asset is sold at a value greater than the gross book value of the receivable (equal to its original value in the financial statements of the assignor), the higher value is recognised as the amount payable in insolvency proceedings. If instead the asset is sold at a value below the gross book value, the difference between the two values will still be recognised as a receivable for the lessee, and will be subsequently tested for impairment according to criteria in IFRS 9.

If instead an agreement is reached with the debtor releasing its obligations (for example full and final settlement, datio in solutum, etc.) the NPL leasing receivable is derecognised and the asset is recognised under Property and equipment, as “Assets obtained from the enforcement of guarantees received”. Following the derecognition of the receivable, interest income arising from the operation is no longer recognised.

These assets are recognised at the lesser of the fair value, assumed from an appraisal of an independent expert, and the (net) carrying amount of the leasing receivable it refers to. If instead the value of the receivable is higher than the fair value, impairment is recognised in the income statement under the item “Write-downs/write-backs for credit risk: Financial assets measured at amortised cost”.

After their recognition in the financial statements, property is measured, in compliance with requirements in IAS 2 “Inventories”, at the lesser of cost and the net realisable value.

If the sale of the property is expected in the medium/long term or if the property is held for the purpose of receiving rent payments or to capitalise on invested capital, accounting treatment is in accordance with IAS 40 “Investment property”, measuring the investment property at fair value, with changes in value recognised in profit or loss.

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 - *Leases*	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
Annual Improvements to IFRS Standards 2015–2017 Cycle, with changes to: IFRS 3 Business combinations – Investment held previously in a joint operation; IFRS 11 Investment held previously in a joint arrangement; IAS 12 Income taxes - Tax effects of payments on financial instruments classified as equity; IAS 23 Borrowing costs - Borrowing costs that may be capitalised.	December 2017	1 January 2019	14 March 2019	(EU) No 2019/412 15 March 2019
Plan amendment, curtailment or settlement (Amendments to IAS 19)	February 2018	1 January 2019	13 March 2019	(EU) No 2019/402 14 March 2019
Long-term interests in associates and joint ventures (Amendments to IAS 28)	October 2017	1 January 2019	8 February 2019	(EU) No 2019/402 11 February 2019

Amendments to IFRS 9, IFRIC 23, Annual Improvements to IFRS Standards 2015–2017 Cycle, amendments to IAS 19 and IAS 28 did not generate any impact at the date of first-time adoption, 1 January 2019.

IFRS 16 was adopted for the interim financial report as at 30 September 2019. Contracts may be classified in the three following categories:

1. Business and personal use properties;

2. Motor vehicles.

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 was 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 shareholders’ equity were 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 approximately EUR 14 million; and

2. in assets, following the recognition of the right to use the assets, of approximately EUR 14 million.

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

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 this interim financial report. The items subject to significant use of estimates and assumptions are indicated below:

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

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

STATEMENT OF THE FINANCIAL REPORTING OFFICER

The manager responsible for preparing the company's financial reports, Sergio Fagioli, declares, pursuant to paragraph 2, Article 154-bis of the Consolidated Finance Act, that the accounting information contained in this interim report for the period ended 30 September 2019 corresponds to the contents of accounting documents, books and records.

Sergio Fagioli

Financial Reporting
Officer