PROSPECTUS

CONCERNING THE ADMISSION OF ORDINARY SHARES AND CONDITIONAL SHARE RIGHTS TO TRADING ON THE ELECTRONIC STOCK MARKET ORGANISED AND MANAGED BY BORSA ITALIANA S.P.A.

OF

BANCA INTERPROVINCIALE

which, after the merger of SPAXS S.p.A. into Banca Interprovinciale S.p.A. (whose effectiveness is subject to trading starting on the Electronic Stock Market organised and managed by Borsa Italiana S.p.A.), will take the name of

illimity

BANCA OLTRE LA FORMA

Sponsor

BANCA IMI

The Prospectus, prepared pursuant to Directive 2003/71/EC and Regulation (EC) no. 809/2004 as amended, was filed with Consob on 1 March 2019 on receipt of the notification that Consob had issued its provision approving the Prospectus in a note dated 28 February 2019 bearing protocol no. 0112812/19.

The publication of the Prospectus does not lead to the expression by Consob of any opinion on the proposed investment opportunity or on the merits of the figures and information relating to such.

The Prospectus is available to the public at the registered office of illimity S.p.A. (at Via Soperga 9, Milan, Italy) and on its website (www.bancainterprovinciale.it and, after the Merger, www.illimity.com).

WARNING TO INVESTORS

In order to obtain a proper understanding of the investment, investors are invited to make a careful assessment of the information contained in the Prospectus as a whole, including the risk factors relating to the Issuer, to the business sectors in which it operates and to the Ordinary Shares and to the Conditional Share Rights, reported in Chapter 4, Paragraphs 4.1, 4.2 and 4.3 of the Prospectus. In particular, attention is drawn to the following.

- The Prospectus has been prepared with a view to applying for the admission to trading and listing of the Ordinary Shares and Conditional Share Rights of the Issuer on the Electronic Stock Market, organised and managed by Borsa Italiana S.p.A., as survivor of the Merger into the Issuer of its parent SPAXS, whose Ordinary Shares and Conditional Share Rights are already traded – at the Prospectus Date – on the AIM Italia multilateral trading facility – Alternative Investment Market, organised and managed by Borsa Italiana S.p.A.. The listing for which the Prospectus has been prepared does not envisage a simultaneous offer of financial instruments for subscription, and accordingly it is not planned to raise any new funds for the Bank resulting from admission to trading after the listing on the Electronic Stock Market. In addition, the listing expenses of EUR 2.1 million will be incurred by the Issuer. Further details can be found in Chapter 3, Paragraph 3.4 of the Second Section of the Prospectus.
- In the configuration resulting from the Merger, the Issuer will perform activities that are substantially different from those performed in prior years. The Business Combination and the Merger constitute complex financial history, from which it follows that together with the financial information of the Issuer and of SPAXS, the Prospectus must also include the pro-forma financial information of illimity, the company resulting from the Merger. The financial data relating to the Bank post-Merger will not be comparable with the historical data. Further details can be found in Chapter 4, Paragraphs 4.1.1 and 4.1.3 of the Prospectus.
- The Prospectus contains forecast data extracted from the 2018-2023 Business Plan. This plan shows that the Issuer expects to reach and exceed breakeven with a positive economic result starting from 2020. In this respect, the Issuer's ability to achieve its results and pursue its future programmes and objectives, reaching adequate profitability levels, depends on its success in realising its commercial and financial strategy. The Issuer's ability to perform the actions and reach the objectives of the 2018-2023 Business Plan depends on assumptions, some of which are out of the Issuer's control, such as variables connected with macroeconomic trends and developments in the regulatory framework, as well as those relating to the effects of specific actions or concerning future events which the Issue can only partially affect. In particular, it should be noted that the Prospectus contains statements of key information and estimates of the size of the target market, as well as market assessments and comparisons with competitors conducted by the Issuer based on past experience, specific knowledge of the industry and the processing of data available on the market, in the absence of forecasts of the growth rates of the market of transactions involving NPLs and of those of the other activities or businesses in which the Issuer intends to operate. The performance of business sectors could differ from that assumed in those statements. Emphasis is additionally given to the fact that the activities that the Issuer intends to perform in the NPL sector could suffer negative effects resulting from the evolution of the relative legislative and regulatory framework. That said, the actual profitability results could also deviate in a significantly negative manner from the planned

WARNING TO INVESTORS

targets. Further details can be found in Chapter 4, Paragraphs 4.1.3, 4.1.4, 4.1.5 and 4.2.6 of the Prospectus.

- As stated in the 2018-2023 Business Plan, the Issuer's operations and the realisation of the related envisaged initiatives form part of a framework involving a total innovation of its business model. In this respect, as noted by the Bank of Italy during its authorisation process for the Merger, the internal control functions assume a central role, also for the purpose of limiting the risks assumed. The measures adopted by the Bank might not, wholly or in part, be effective or might not be considered such by the Authority for Prudential Supervision. At the Prospectus Date, the initiatives required to implement the 2018-2023 Business Plan, consistent with the growth of the business, are still in the process of being finalised, such as for example the activation of the digital platform, the authorisation to acquire Neprix, which will service the NPLs purchased by the Issuer, and the development of an adequate organisational structure suitable for achieving the set objectives. A delay in their implementation could have negative effects on the Issuer's financial position, results and cash flows. Further details can be found in Paragraphs 4.1.7, 4.1.22 and 4.2.25 of the Prospectus.
- The Issuer incurred a loss at 30 September 2018, a decline in performance compared to the result for the corresponding period of the previous year. More specifically, the loss for the period of EUR 12.5 million should be compared with the profit for the period ended 30 September 2017 of EUR 3.2 million. Further, on the basis of the Issuer's preliminary results at 31 December 2018, approved by the Board of Directors on 11 February 2019 for supervisory reporting purposes, the Issuer incurred a loss for the year of EUR 29.1 million. In this respect, the outlook for operations will depend on the successful outcome of the business the Issuer develops. Further details can be found in Chapter 4, Paragraphs 4.1.2 and 4.1.3 of the Prospectus.
- At the Prospectus Date the Issuer's exposure to governments and central banks consists almost entirely of government bonds issued by the Italian state which remain in the Issuer's portfolio following the de-risking process conducted after the Business Combination for a nominal value of EUR 122 million at amortised cost (HTC portfolio) and for a nominal value of EUR 15 million at fair value (HTC&S portfolio) and which represented approximately 15% of the Issuer's total assets at 31 December 2018. The investments in government bonds issued by the Italian state classified in the HTC&S portfolio (namely financial assets at fair value through comprehensive income) are characterised by a volatility that mainly depends on trends in sovereign risk (which can typically be inferred from the spread between the yields of Italian BTPs and those of German Bunds), which may have a negative effect on the Bank's financial position, results and/or cash flows. Further details can be found in Chapter 4, Paragraph 4.1.20 of the Prospectus.
- Pursuant to the Issuer's bylaws which will enter force on the effective date of the Merger, it is currently established (in the same way as in the provisions of the current bylaws of SPAXS) that the holders of Special Shares have the right to submit their own list of candidates for the election of the corporate bodies. This right is not provided by Article 147-ter of the TUF and the relative implementing provisions contained in the Issuers' Regulation, according to which lists can be submitted by the holders of shares representing at least the minimum percentage of capital set from time to time by Consob, where "share capital" pursuant to letters a) and b) of Article 144-ter of the Issuers' Regulation means "the capital consisting of listed shares" that grants the right to vote in shareholders' meetings involving the appointment of the members of management and control bodies. In this respect it is pointed out that: (i) the holders of SPAXS Special Shares (also in their capacity as future holders of illimity Special Shares) have waived the possibility of exercising their right to submit their lists of

WARNING TO INVESTORS

candidates for appointment to the Issuer's corporate bodies, and as a result, on the renewal of the Issuer's corporate bodies the process of submitting lists of candidates for the election of such bodies by the special shareholders will not apply; (ii) on the first available occasion after the listing of its financial instruments on the MTA, in accordance with the procedures and time limits established by laws and regulations, including those of a supervisory nature and those determined by the bylaws, the Issuer will set in motion the necessary steps to make the changes to the Post-merger Bylaws required to eliminate the right for the holders of Special Shares to submit their lists for the appointment of the corporate bodies and the consequent possible conversion of the Special Shares into Ordinary Shares. Despite this, also taking into account that a specific timetable for making such changes to the bylaws has not been established, the risk exists that if the Issuer's bylaws are not amended with the formal elimination of the above right, disputes could arise for the Issuer in relation to the potential advantages of the owners of Special Shares in case of the submission of a list over the holders of Ordinary Shares. Further details can be found in Chapter 4, Paragraph 4.1.21 of the Prospectus.

- At 31 December 2018, 30 September 2018 and 31 December 2017 the Bank had coverage levels for its Non-Performing Loans that were lower than the averages in the category of "Less significant Italian banks" at 30 June 2018 and 31 December 2017. Further details can be found in Chapter 4, Paragraph 13.1.1 of the Prospectus.
- At 31 December 2018, 30 September 2018 and 31 December 2017 the Bank had coverage levels for its Non-Performing Loans that were lower than the averages in the category of "Less significant Italian banks" at 30 June 2018 and 31 December 2017. Further details can be found in Chapter 4, Paragraph 13.1.1 of the Prospectus.
- The Issuer is required to apply the classification and measurement rules for financial assets laid down in the new international accounting standard IFRS 9 Financial Instruments from 1 January 2019. The adoption of the new accounting standard could lead to negative effects on the Issuer's operating profit and its financial position, results and/or cash flows. Further details can be found in Chapter 4, Paragraph 4.1.28 of the Prospectus..
- Following the acquisition of approximately 99.17% of BIP on 20 September 2018, SPAX recognised a provisional amount of approximately EUR 21.6 million as goodwill in its consolidated balance sheet. The Issuer expects to complete the process of allocating the purchase price and determining the goodwill in the consolidated financial statements at 31 December 2018.The consolidated financial statements of SPAXS at 31 December 2018 have not yet been approved by the Board of Directors and accordingly the goodwill recognised at 30 September 2018 has not yet been impairment tested. Impairment testing will be carried out on the goodwill at the end of each year, as the result of which it may be necessary to adjust its carrying amount, and this might require the recognition of impairment losses in profit or loss leading to negative effects on the Issuer's financial position and results. Further details can be found in Chapter 4, Paragraph 4.1.32 of the Prospectus.

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CONTENTS

DEFINITIONS

The main definitions used in the Prospectus are as follows, in addition to those indicated in the text.

AIM or **AIM Italia**	The AIM Italia/Alternative Investment Market multilateral trading facility organised and managed by Borsa Italia S.p.A..
Banca Emilveneta or **BEV**	Banca Emilveneta S.p.A., merged into the Issuer by way of merger deed dated 2 August 2017.
Banca IMI	Banca IMI S.p.A., with registered office at Largo Mattioli 3, Milan, Italy.
BIP or **Issuer or Bank** or **Company**	Banca Interprovinciale S.p.A., with registered office at Via Emilia Est, 107 – 41121 Modena, Italy, having approved share capital of EUR 58,377,000.00, of which EUR 43,377,000.00 subscribed and paid and consisting of 43,377 ordinary shares each of nominal value EUR 1,000.00, and VAT number and registration number in the Modena Companies Register 03192350365.
Borsa Italiana	Borsa Italiana S.p.A., with registered office at Piazza degli Affari 6, Milan, Italy.
Business Combination or **Material Transaction**	The acquisition, carried out on 20 September 2018, of approximately 99.2% of the share capital of Banca Interprovinciale S.p.A. by SPAXS S.p.A., settled in cash for approximately EUR 44.7 million (equivalent to approximately 79.9% of the Bank's share capital) and, for the remainder, amounting to approximately EUR 10.8 million, through the contribution to SPAXS S.p.A. of Banca Interprovinciale S.p.A. shares representing approximately 19.3% of its share capital.
Business Plan	The Issuer's 2018-2023 business plan approved by its Board of Directors on 30 November 2018.
Circular 285	Circular no. 285 of the Bank of Italy dated 17 December 2013, as amended.
Conditional Share Rights	The 28,492,827 conditional share rights entitled "illimity S.p.A. Conditional Share Rights" which will be issued to service the Merger and which grant their holders the right to obtain Conversion Shares free of charge under the terms and conditions stated in the "illimity S.p.A. Conditional Share Rights Regulation" attached to the Draft Merger Terms.
Consob	The Commissione Nazionale per le Società e la Borsa (the National Commission for Companies and the Stock Exchange), with registered office at Via G. B. Martini 3, Rome, Italy.

Consolidated Banking Law or **TUB**	Legislative Decree no. 385 of 1 September 1993, as amended.
Consolidated Finance Law or **TUF**	Legislative Decree no. 58 of 24 February 1998, as amended.
Conversion Shares	Up to a maximum of 5,698,565 newly-issued Ordinary Shares, without nominal value, to be allocated free of charge to the holders of the Conditional Share Rights, in accordance with illimity's Conditional Share Rights Regulation.
Corporate Governance Code	The Corporate Governance Code effective at the Prospectus Date prepared by the Listed Company Corporate Governance Committee set up by Borsa Italiana.
CP	Corrado Passera, born in Como (CO) on 30 December 1954 and having tax code PSSCRD54T30C933K.
CRD IV	Directive 2013/36/EU (the Capital Requirements Directive or CRD IV), as amended.
CRO Division	The division of the Issuer containing the second level control functions envisaged by Circular 285.
CRR	Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 (Capital Requirements Regulation), as amended.
Deloitte	Deloitte & Touche S.p.A., with registered office at Via Tortona 25, Milan, Italy, engaged to audit the Issuer's financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and to review the Issuer's interim financial statements as of and for the period ended 30 September 2018.
Draft Merger Terms	The common draft terms of the merger approved on 30 October 2018 by the Boards of Directors of the Issuer and of SPAXS and drafted pursuant to Articles 2501-ter and 2505-bis of the Italian civil code that governs the Merger.
Electronic Stock Market or **MTA**	The Electronic Stock Market organised and managed by Borsa Italiana S.p.A..
First Day of Trading	The first day on which the Ordinary Shares and Conditional Share Rights are traded on the MTA.
Friuli LeaseCo	Friuli LeaseCo S.r.l., with registered office at Via Ferrante Aporti 8, Milan, Italy, a company which was formed by the Issuer (which holds its entire quota capital) on 12 December 2018 and operates pursuant to Article 7.1, Law no. 130/1999 on securitisations.
Group or illimity Group	The banking group consisting of illimity and any subsidiaries, which pursuant to the current law applicable to banks may only be formed on the receipt of the relative authorisations from the competent authorities.

illimity	The Issuer which, following the Merger (whose effectiveness is subject to trading starting on the MTA), will take the name of illimity Bank S.p.A., in abbreviated form illimity S.p.A., with registered office at Via Soperga 9, Milan, Italy.
International Financial Reporting Standards or **IASs/IFRSs**	The International Financial Reporting Standards (IFRSs) and the International Accounting Standards (IASs) adopted by the European Commission pursuant to Regulation (EC) no. 1616/2002 and the relative interpretations (of the Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standards Board (IASB) and effective at the balance sheet date.
KPMG	KPMG S.p.A., with registered office at Via Vittor Pisani 25, Milan, Italy, engaged to audit the Issuer's accounts and to carry out procedures to ensure that the corporate accounting records have been properly maintained and that operations are properly recorded in the accounting entries for the years from 2018 to 2026. KPMG has also been engaged to perform the legal audit of the separate and consolidated interim financial statements of SPAXS as of and for the periods ended 30 June 2018 and 30 September 2018. In addition, it has issued reports on its examination of the pro-forma figures of illimity at 31 December 2017, 30 June 2018 and 30 September 2018, as a well as a report on the forecast financial information contained in Chapter 13 of the Prospectus.
Market Abuse Regulation or **MAR**	Regulation (EU) no. 596/2014 of the European Parliament and of the Council of 16 April 2014 and the relative supplementary and implementation provisions effective at the Prospectus Date.
Merger	The merger of SPAXS into the Company approved by the general meetings of the shareholders of SPAXS and of the Company on 18 January 2019. The Merger deed was stipulated on 15 February 2019 and the Bank of Italy authorised the Merger on 11 December 2018.
Monte Titoli	Monte Titoli S.p.A., with registered office at Piazza degli Affari, 6, Milan, Italy.
NPL Investment & Servicing Division	The division of the Issuer specialising in the purchase, management and recovery of secured and unsecured corporate Non-Performing Loans.
Ordinary Shares or **Shares**	The ordinary shares of the Issuer (called illimity after the Merger) to be admitted to trading on the MTA which will be issued to service the Merger. These shares will have no nominal value, will have regular dividend rights and will be freely transferable.
Post-merger Bylaws	The bylaws of the Issuer effective on the First Day of Trading of the Shares on the MTA.

Promoters	Jointly, Tetis S.p.A. and AC Valuecreation S.r.l., holders of 99% and 1% respectively of the SPAXS Special Shares.
Prospectus	This prospectus.
Prospectus Date	The date on which Consob approves this prospectus.
RAF or **Risk Appetite Framework**	The frame of reference which defines – consistent with the maximum risk that can be assumed, the business model and the strategic plan – risk propensity, tolerance threshold and risk management policies and the processes required to define and implement these.
Regulation 809	Regulation (EC) no. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC.
Related Parties Regulation	The regulation approved by way of Consob Resolution no. 17221 of 12 March 2010, as amended.
Retail Division	A division of the Issuer focusing on digital direct banking for retail and corporate customers.
Shareholders' Meeting	The general meeting of the Issuer's shareholders.
SME Division	A division of the Issuer specialising in corporate loans made to businesses with a high potential but having a non-optimal financial structure and/or low rating or no rating, including the non-performing SME segment (Unlikely-to-Pay or "UTP").
SPAXS	SPAXS S.p.A. (special-purpose acquisition company), with registered office at Via Mercato 3, Milan, Italy and tax code, VAT code and registration number in the Milan Companies Register 10147580962.
SPAXS Conditional Share Rights	The 28,492,827 conditional share rights entitled "SPAXS S.p.A. Conditional Share Rights" admitted to trading on the AIM Italia, which grant their holders the right to obtain SPAXS Conversion Shares under the terms and conditions stated in the "SPAXS S.p.A. Conditional Share Rights Regulation".
SPAXS Conversion Shares	Up to a maximum of 5,698,565 newly-issued Ordinary Shares of SPAXS, without nominal value, to be allocated free of charge to the holders of the SPAXS Conditional Share Rights, in accordance with the SPAXS Conditional Share Rights Regulation.
SPAXS Ordinary Shares	The 59,373,241 ordinary shares of SPAXS to be admitted to trading on the AIM Italia. These shares will have no nominal value, will have regular dividend rights and will be freely transferable.
SPAXS Special Shares	The 1,440,000 special shares of SPAXS, without nominal value, with regular dividend rights and with no voting rights, convertible into Ordinary SPAXS Shares under the terms and conditions of Article 6 of the SPAXS Bylaws effective after the Prospectus Date and not traded on the AIM Italia.

Special Shares	The 1,440,000 special shares of the Issuer that will be issued to service the Merger. These shares will have no nominal value, will have regular dividend rights, will have no voting rights, will be convertible into Ordinary Shares under the terms and conditions of the Post-merger Bylaws and will not be traded on the AIM Italia.
Sponsor	Banca IMI.
Top Management	The CEO, Head of the SME Division, Head of the NPL Investment & Servicing Division, Heads of the Retail and Digital Operations Divisions, CFO & Head of Central Functions.
TULPS	The "Consolidated Text of Laws on Public Security", in force since 1931 (Royal Decree no. 773 of 18 June 1931). The TULPS governs the means by which the state controls the activities of individuals and private entities that may have importance for the purposes of public safety. Amongst other things the TULPS governs extrajudicial debt recovery. The Debt Recovery Licence referred to in Article 115 of the TULPS is issued by Police Headquarters and authorises the management, collection and recovery of dishonoured debts on behalf of third parties through any means of contact with the debtor, in compliance with current legislation, as well as the performance of the connected activities.

GLOSSARY

The main terms used in the Prospectus are set out below. Unless stated otherwise, these terms shall have the following meaning. Terms defined in the singular shall have the same meaning in the plural and vice versa, as the context requires.

Additional Tier 1 capital	An entity's additional tier 1 capital consists of additional tier 1 items after the deduction of the items referred to in Article 56 of the CRR and the application of Article 79 of the CRR (which lays down the conditions for a temporary waiver of the provisions on deductions).
Alternative Performance Measures	Indicators other than those defined in IFRSs that are used to describe the results of a business in relation to its operations in press releases or prospectuses.
Artificial intelligence	Methodologies and techniques that enable hardware systems and software programme systems to be designed which are able to provide services to a computer, which to an ordinary observer appear to pertain solely to human intelligence.
Bail-in	The bail-in is a resolution mechanism for banking crises which provides for the direct involvement of shareholders and bondholders and any holders of deposit accounts with balances exceeding EUR 100 thousand.
Big Data	The totality of large-size data in terms of volume, variety and speed, whose sources may be heterogeneous and which are used in various business applications.
Capital Conservation Buffer	The capital reserve required to be maintained by banks at an individual and consolidated level whose aim is to keep minimum levels of regulatory capital. The reserve amounts to 2.5% and consists of common equity tier 1 capital.
Cash on Cash	The nominal rate that determines the return on an investment as a multiple of the cash received compared to the money invested in a specific activity. This rate is generally expressed as a multiplier of the amount of the investment made (for example 1.5x or 2.0x).
Common Equity Tier (CET 1)	The highest quality component of an entity's capital, consisting mainly of paid-in ordinary share capital, the relative share premium reserves, the calculable profit for the period, reserves and minority interest (calculable within set limits), less any specific regulatory adjustments, as provided by the CRR.
Common Equity Tier 1 Ratio or CET 1 Ratio	The solvency ratio between Common Equity Tier 1 and risk-weighted assets in accordance with the CRR and Directive 2013/36/EU (CRD IV).

Counterbalancing capacity	The ability to counterbalance imbalances in cash flows by means of a plan designed to preserve or obtain liquidity, over a short, medium or long period, in response to a situation of extended or planned stress.
Credit spread	The differential between the yield of ten-year bonds issued by the Republic of Italy (Buoni del Tesoro Pluriennali, BTPs) and those issued by the Federal Republic of Germany.
Crossover lending	Simple or structured lending, in the short or medium-to-long term, to small- or medium-sized Italian companies having a rating (synthetic indicator of solvency, meaning the ability to settle its debts) at a medium level or not having a rating at all.
Customer experience	Overall experience of customers during the whole of their relationship with the company: not only at the time the financial product or service is acquired but also during the interaction/ relationship, which includes support, personalisation and interaction. The interaction with the company must be a memorable experience that involves the customer personally.
Direct factoring	Factoring is a contract under which a company sells its debts to a specialist financial intermediary as a means of obtaining immediate liquidity and a series of services connected with the sold debt as a whole, such as managing, collecting and obtaining advances on debts before they fall due.
Due diligence	The detailed analysis of a target company in relation, for example, to its activities, strategies, competitors and financial results in order to identify any risk factors in connection with a possible acquisition.
Early warning	A warning system that enables any economic or financial difficulties or liquidity crises of the borrowing customer to be perceived in advance, and accordingly a means of anticipating any difficulties the Bank may encounter in obtaining the repayment of its loan.
Economic Value Added or EVA	Economic Value Added is a method of calculating the return on an investment, taking into account the remuneration of debt and risk capital. EVA is calculated as the difference between operating profit and the cost of the capital employed to obtain that profit: EVA = NOPAT - WACC*IC where NOPAT = Net Operating Profit After Taxes WACC = Weighted Average Cost of Capital and IC = Invested Capital (consisting of fixed capital and net working capital).

ERCs – Expected Remaining Collections	ERCs represent the estimate of the gross amount that can be collected from the Non-Performing Loan (NPL) portfolios acquired. The estimate for each NPL portfolio is based on the experience of the company in processing and recovering managed portfolios.
Gap analysis	A gap analysis is a set of activities that enable a comparison to be made between current performance (as is) and desired performance (to be) with respect to sector best practice, voluntary regulations, laws, internal targets and customer requests. A gap analysis accordingly identifies differences with expectations and, as a result, the improvements to be introduced to reach the desired performance.
GBV (gross book value)	The residual nominal value of a loan at a specific date before value adjustments. This represents the amount collectible by the creditor from the debtor.
High quality liquid assets	Assets which can readily be converted to cash on the markets, also in periods of tension, and which ideally can be held by a central bank.
Invoice lending	A form of lending of working capital that consists of anticipating bank credit against invoices and/or transferring trade receivables to a bank, which then deals with the management and collection of these items. Invoice lending transactions consist of agreements for the sale of loans by which one party (the transferor) transfers a receivable due from a debtor (the transferred debtor) to another party (the transferee, in this case the bank); these agreements may or may not lead to the transfer of the debtor's insolvency risk by the transferor to the transferee.
Key personnel in business control functions	The heads of the business's control functions, and in particular the Chief Risk Officer, the Head of Compliance and Money Laundering, the Head of Internal Audit, the Data Protection Officer and the Head of Human Resources.
Liquidity coverage ratio	Regulatory indicator of short term liquidity, which expresses the ratio between unrestricted high quality liquid assets (HQLAs) and total net cash outflows occurring over a stress period of the 30 following calendar days. From 1 January 2016 this indicator was subject to a regulatory minimum requirement of 70%, increased to 80% from 1 January 2017 and to 100% from 1 January 2018.
Liquidity ladder	A means of managing and monitoring operational liquidity, which by offsetting assets and liabilities falling due within the same time band makes it possible to identify imbalances (periodic and cumulative) between the various expected cash inflows and expected cash outflows, and therefore to calculate the net borrowing requirements (or the net surplus) over the considered timescale.

Machine learning	An artificial intelligence application which by means of statistical systems enables information systems to gradually learn the transactions and behaviour of users of the data collected and processed, without prior programming.
Mid corporate	The set of medium-sized businesses, mainly categorised by having a turnover indicatively between 20 and 250 million euros.
Multiple TITs	Systems of TITs that differ in their technical form and/or in the duration of the various lending and deposit items.
Net book value	The residual nominal value of a loan at a specific date before value adjustments.
Net loan	The carrying amount of a loan after value adjustments.
Net Stable Funding Ratio	A regulatory indicator of structural liquidity that corresponds to the proportion of available stable funding over the required stable funding.
Non-Performing Loans, Impaired Loans or NPLs	Impaired financial assets are divided into bad loans, unlikely-to-pay exposures and overdrawn and/or past-due exposures on the basis of the following summarised rules: (i) bad loans: total cash and "off-balance sheet" exposures to an insolvent customer (even if not formalised as such from a legal standpoint) or in substantially similar circumstances, regardless of any loss forecasts; (ii) unlikely-to-pay exposures: those, aside from those included among bad loans, in respect of which banks believe that their debtors are unlikely to meet their contractual obligations in full (principal and interest) unless action such as the enforcement of guarantees is taken; (iii) overdrawn and/or past-due exposures: those, aside from those included among bad loans and/or unlikely-to-pay exposures, which at the reference date of identification are overdrawn and/or past-due by more than 90 days and are above a predefined amount.
Performing	"In bonis" positions, meaning balances on loans due from customers that the bank considers to be solvent.
PSD2	"Payment Services Directive 2 – PSD" is the new European directive on digital payments, introduced in 2018, whose objective is to standardise the way in which digital payments are made, make transactions more secure and safeguard consumers. The directive is addressed to all payment service providers, from banks to the FinTechs, Telcos and TPPs (Third Party Providers), and requires banks to grant TPPs secure access to their customers' accounts on the basis of the availability of information on payment accounts, with the aim of creating a more efficient European payments market.

Recovery rate The percentage of the nominal value of a loan that the creditor recovers.

Regulations for prudential supervision The set of regulations introduced by the Basel Committee whose objective is capital adequacy, risk limitation in its various forms, the equity investments that may be held and the administrative and accounting organisation and internal control in banks.

Retail The set of banking transactions and services for the retail market, which consists of customers that are individuals or small economic operators (by way of example: personal current accounts, home banking services, payment services).

Reverse factoring A contract under which a business of typically large dimensions which represents the leader in its supply chain/industrial cluster is able to facilitate access to credit by selected suppliers, which can transfer the receivables due from the business to a financial intermediary. Typically the transfer of these trade receivables by one of these suppliers is financed at a lower interest rate than that normally offered, since this takes into account the lower level of risk on the sold receivables deriving from the strength of the debtor promoting the reverse factoring.

Risk-Weighted Assets (RWAs) Risk-weighted assets are assets or off-balance sheet exposures weighted according to risk. Depending on the type of asset, bank assets are weighted using factors that represent their risk and default potential as a means of calculating capital adequacy.

Secured loans Guaranteed loans or mortgage loans backed by specific guarantees given by the debtor and/or third parties or collateral (liens, pledges and mortgages in favour of the bank, which can use them to recover the amount due if the debtor fails to honour its debt at the due date).

Sensitivity analysis Sensitivity analysis is the study of the changes in a balance on the variation of one or more of the parameters that determine that balance.

Servicing The totality of debt collection, cash servicing and payment management activities, including judicial activities (by way of example, the application for an injunction) and extrajudicial activities (by way of example, written or verbal notifications to the debtor), required to collect debts.

SPV Financing Credit assets, mostly senior, disbursed to non-banking operators working in investments in NPL portfolios on the Italian market.

SREP The Supervisory Review and Evaluation Process governed by the CRD IV and the Supervisory Provisions to which banks are submitted, on an annual basis, by the ECB or by the competent national supervisory authorities.

Supply chain Production chain or industrial cluster.

Tier 1 Capital Pursuant to Article 25 of the CRR, the Tier 1 capital of an institution consists of the sum of the Common Equity Tier 1 capital and Additional Tier 1 capital of the institution.

Tier 1 Ratio The solvency ratio between Tier 1 Capital and risk-weighted assets.

Tier 2 Capital An entity's tier 2 capital consists of its tier 2 items after the deduction of the items referred to in Article 66 of the CRR and the application of Article 79 of the CRR (which lays down the conditions for a temporary waiver of the provisions on deductions).

TIT The TIT system consists of a set of figurative transactions inside a bank which enable it to centralise in a single unit decisions taken relative to the position that the bank intends to take with respect to changes in market rates.

By affecting the means of allocating profitability within the various business/branch units, TITs are capable of directing the incentives of the latter towards ensuring that liquidity risk management (and the management of other risks) is both prudent and consistent with business policies.

TLTROs The acronym for Targeted Longer-Term Refinancing Operations, which are carried out by the ECB and consist of loans, at interest rates established by the ECB, that are granted to banks on request, are secured by various guarantees (government bonds of member states of the European Union or other assets considered to be admissible securities by the ECB) and have the aim of supporting the process of disbursing bank credit to the real economy.

Total Capital The total capital of a bank consists of a series of items (net of negative items that should be deducted) that are classified on the basis of capital quality and the ability to absorb losses. Pursuant to the CRR, Total Capital consists of Tier 1 Capital and Tier 2 Capital.

Total Capital Ratio The solvency ratio between Total Capital and risk-weighted assets calculated on the basis of the new Basel III framework in application of the requirements of the CRR, CRD IV and the Supervisory Provisions for Banks (Circular 285).

Turnaround The operation of reviving a business in financial or operational difficulty, which includes performing an analysis to establish the causes of the difficulty and drafting debt restructuring agreements and an earnings recovery strategy, with or without recourse to new financing operations and with or without recourse to insolvency proceedings.

Turnover	The gross flow of loans sold by customers in a specific interval of time (for example one year) which is the activity level indicator (scale variable) most used by companies specialising in factoring, also at an international level.
Tutors	Professional figures with specific business and financial skills and knowledge of the local area who facilitate the relationship between the Issuer and its business customers, providing financial advice on the basis of their specialist experience and experience in the sector in question.
Unsecured loans	Unguaranteed loans or loans which in the case that the debtor fails to honour its debt are not covered by any guarantee or are guaranteed exclusively by personal guarantees (mainly sureties and endorsements).
UTP or Unlikely-to-Pay	Credit exposures, aside from those included among bad loans, in respect of which the bank believes that their debtors are unlikely to meet their contractual obligations in full (principal and/or interest) unless action such as the enforcement of guarantees is taken.
Vintage	Period of time generally measured in years from the date of classifying a loan or receivable as bad.

SUMMARY

This summary (the "Summary"), prepared pursuant to Commission Delegated Regulation (EU) no. 486/2012 of 30 March 2012 amending Regulation (EC) no. 809/2004 as regards the format and the content of prospectuses, the base prospectus, the summary and the final terms and as regards the disclosure requirements, contains the essential information relating to the Issuer and the business sector in which it works as well as to the Shares to be admitted to trading on the MTA.

This Summary consists of a series of mandatory items of information called "Elements". These Elements are numbered in the sections from A to E (A.1 – E.7).

This Summary contains all the items whose inclusion in a Summary is required for such type of financial instrument and Issuer. If certain Elements are not envisaged, there may be intervals in the numerical sequence of the Items.

Although an Element should be included in the Summary on the basis of the type of financial instrument and the features of the Issuer, it may be the case that no information is available in this respect. In this eventuality a brief description of the Element is included in the Summary with the indication "not applicable".

SECTION A – INTRODUCTION AND WARNINGS

A.1	**Warning.** This Summary should be read as an introduction to the Prospectus; any decision made by the investor to invest in the Shares and Conditional Share Rights should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the Summary, including any translation thereof, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Shares and the Conditional Share Rights.
A.2	**Consent by the Issuer to the use of the Prospectus.** The Issuer does not consent to the use of the Prospectus for subsequent resale or final placement of the Shares by financial intermediaries.

SECTION B – ISSUER AND ANY GUARANTOR

B.1	**The legal name of the Issuer.** Banca Interprovinciale S.p.A., which on the outcome of the merger will take the name of illimity Bank S.p.A..
B.2	**The domicile and legal form of the Issuer, the legislation under which the Issuer operates and the country of incorporation.** The issuer is a joint-stock company registered under Italian law, incorporated in Italy and operating under Italian legislation. The Company has registered office at Via Emilia Est 107, Modena, Italy (and from the effective date of the Merger, the Issuer will have registered office at Via Soperga 9, Milan, Italy).
B.3	**A description of, and key factors relating to, the nature of the Issuer's current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the Issuer competes.** The main products offered by the Issuer at the Prospectus Date consist of short and long term secured and unsecured corporate loans, overdraft loans, retail mortgage loans, corporate and retail current accounts and term deposit accounts with home banking and mobile banking services. The commercial offer is completed with loans to insolvency proceedings with prior distribution rights and with a high level of security, secured current accounts, credit facilities for the disposal of trade receivables and certain externally managed products (i.e. import/export advances, letters of credit and other forms of international financing). In line with its 2018-2023 Business Plan, starting with the activities performed by the Bank, the Issuer's strategy envisages the development of new businesses concentrating on the following market segments (further information can be found in Paragraph 6.1.2 and Chapter 13 of the Prospectus): (i) corporate loans made to businesses with a high potential but having a non-optimal financial structure and/or low rating or no rating, including the non-performing SME segment (Unlikely-to-Pay or "UTP"), through the offer of the skills, products and services of the SME division; (ii) secured and unsecured corporate Non-Performing Loans, through the vertical skills of the NPL Investment & Servicing division; (iii) digital direct banking for retail and corporate customers through the Retail division, with an offer of products dedicated to the direct channel and with an innovative means of interfacing.

B.4a	**A description of the most significant recent trends affecting the Issuer and the industries in which it operates.** In the Issuer's opinion, at the Prospectus Date there are no particularly significant trends affecting production, sales or the evolution of costs and sales prices capable of influencing, positively or negatively, the Issuer's activities.
B.5	**A description of the Group to which the Issuer belongs.** At the Prospectus Date, and at the effective date of the Merger, the Issuer does not belong to and will not belong to any group.
B.6	**In so far as is known to the Issuer, the name of any person who, directly or indirectly, has an interest in the Issuer's capital or voting rights which is notifiable under the Issuer's national law; an indication of by whom the Issuer is controlled.** On the basis of the current entries in the shareholders' register, the notifications received pursuant to law and the other information at the Company's disposal, (i) at the Prospectus Date SPAXS controls the Bank with an interest of approximately 99.17%; and (ii) at the effective date of the Merger the persons having an interest exceeding 5% of voting rights will be SDP-RAIF Genesis (9.88%), AMC Metis S.a.r.l. (7.74%), Tensile-Metis Holdings S.a.r.l. (6.23%) and AZ Fund Management SA (5.07%); no shareholder will have control of the Issuer.
B.7	**Selected historical key financial information regarding the Issuer relating to prior years.** The following tables provide key information on the financial position, results and cash flows of BIP as of and for the nine months ended 30 September 2018 and 2017 and as of and for the years ended 31 December 2017, 2016 and 2015; and key information on the financial position, results and cash flows of SPAXS as of and for the period from its date of incorporation (20 December 2017) to 30 September 2018 and as of and for the period from its date of incorporation (20 December 2017) to 30 June 2018. On 18 July 2016 BIP obtained control of "Banca Emilveneta S.p.A.". Following this transaction consolidated financial statements were prepared as of 31 December 2016. Subsequently, by way of a merger deed dated 2 August 2017 and in performance of the respective shareholders' resolutions, Banca Emilveneta was merged into BIP. There was accordingly no need to prepare consolidated financial statements as of 31 December 2017.

Statements of financial position of BIP as of 30 September 2018 and as of 31 December 2017

The following are the statements of financial position of BIP as of 30 September 2018 and 31 December 2017 (restated) and changes in absolute and percentage terms.

(Thousands of euros)	**BIP**			
	30 September 2018	**31 December 2017 (restated)**	**Change 2018 vs 2017**	**Change % 2018 vs 2017**
Financial assets other than receivables	443,495	608,021	(164,526)	(27.06%)
Loans to banks	150,441	125,338	25,103	20.03%
Loans to customers	333,183	326,049	7,134	2.19%
Equity investments	-	-	-	-
Tangible and intangible assets	2,064	1,836	228	12.42%
Tax assets	11,062	6,285	4,777	76.01%
Other assets	15,523	6,884	8,639	125.49%
Total assets	**955,769**	**1,074,413**	**(118,644)**	**(11.04%)**
Due to banks	257,603	470,623	(213,020)	(45.26%)
Direct deposits from customers	587,998	528,978	59,020	11.16%
Deferred tax liabilities	335	2,110	(1,775)	(84.12%)
Liabilities associated with non-current assets and disposal groups held for sale	-	-	-	-
Other liabilities	18,604	10,124	8,480	83.76%
Specific provisions	922	2,508	(1,586)	(63.24%)
Net equity	90,306	60,070	30,236	50.33%
Total liabilities and equity	**955,769**	**1,074,413**	**(118,644)**	**(11.04%)**

The figures at 31 December 2017 (determined in accordance with IAS 39) have been restated on the basis of the new line items arising from the reclassifications made necessary under the new classification criteria introduced by IFRS 9, which therefore did not lead to any changes in total assets or total liabilities.

These consist of combined restatements of items included in the statement of financial position as required by Circular 262/2005 of the Bank of Italy – 5th revision of 22 December 2017.

At 30 September 2018, the item "Financial assets other than receivables" amounted to EUR 443 million, representing a decrease of EUR 165 million (-27%) over the balance at 31 December 2017.

This change can mainly be attributed to a decrease in government bonds as part of a reduction in the exposure to the risk of Italian government/corporate securities, which were sold during the period for a nominal amount of EUR 157.5 million.

In the same period amounts due to banks, equal to EUR 258 million, fell by EUR 213 million compared to the balance at the end of the previous period due to a decrease of amounts payable to central banks.

Interbank funding at 30 September 2018 consisted mainly of amounts due to central banks and namely:

- encumbered deposits from the European Central Bank guaranteed by eligible securities amounting to approximately EUR 142 million compared to EUR 399 million at 31 December 2017;

- amounts due to banks of approximately EUR 115 million compared to approximately EUR 71 million at 31 December 2017 consisting mainly of loans received of approximately EUR 109 million.

Statements of financial position of BIP as of 31 December 2017, 2016 and 2015

The statements of financial position of BIP as of 31 December 2017, 2016 and 2015 and changes in absolute and percentage terms are as follows.

(Thousand of euros)	**BIP**						
	31 December			**Change**		**Change %**	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**	**2017 vs 2016**	**2016 vs 2015**
Financial assets other than receivables	608,021	595,352	548,443	12,669	46,909	2.13%	8.55%
Due from banks	125,338	116,111	72,935	9,227	43,176	7.95%	59.20%
Due from customers	326,049	299,451	222,665	26,598	76,786	8.88%	34.48%
Equity investments	-	-	–	–	–	-	-
Tangible and intangible assets	1,836	1,970	646	(134)	1,324	(6.80%)	>100%
Tax assets	6,285	7,500	4,742	(1,215)	2,758	(16.20%)	58.16%
Non-current assets and disposal groups held for sale	-	-	-	–	–	-	-
Other assets	6,884	5,483	4,459	1,401	1,024	25.55%	22.96%
Total assets	**1,074,413**	**1,025,867**	**853,890**	**48,546**	**171,977**	**4.73%**	**20.14%**
Due to banks	470,623	447,774	380,429	22,849	67,345	5.10%	17.70%
Direct deposits from customers	528,978	507,940	403,569	21,038	104,371	4.14%	25.86%
Deferred tax liabilities	2,110	2,493	3,777	(383)	(1,284)	(15.36%)	(34.00%)
Liabilities associated with non-current assets and disposal groups held for sale	-	-	–	–	–	-	-
Other liabilities	10,124	8,580	8,338	1,544	242	18.00%	2.90%
Specific provisions	2,508	2,873	3,149	(365)	(276)	(12.70%)	(8.76%)
Net equity	60,070	56,207	54,628	3,863	1,579	6.87%	2.89%
Total liabilities and equity	**1,074,413**	**1,025,867**	**853,890**	**48,546**	**171,977**	**4.73%**	**20.14%**

Al 31 December 2017 the item “Financial assets other than receivables”, which includes financial assets held for trading and financial assets available for sale, amounted to EUR 608 million, representing an increase of 2.1% over 2016.

Al 31 December 2017 amounts due from customers, equal to EUR 326 million (+9% compared to 31 December 2016), may be analysed as follows: current accounts, equal to EUR 108 million, a decrease of 3.61% over 31 December 2016; mortgage loans, equal to EUR 207 million, an increase of 18.64% over 31 December 2016; credit cards, personal loans and salary-backed loans, equal to EUR 1 million, a rise of 68.29% over 31 December 2016; other loans, equal to EUR 10 million, falling by 19.76% over 31 December 2016.

Direct deposits from customers at 31 December 2017 amounted to EUR 529 million, a rise of 4.14% over the figure of EUR 508 million at 31 December 2016.The trend in the balance was caused by an increase in current accounts (+ EUR 25 million), time deposits (+ EUR 6 million), certificates of deposit (+ EUR 5 million) and loans (+ EUR 5 million), only partially offset by a decrease in bonds (- EUR 18 million) and savings deposits (- EUR 3 million).

At 31 December 2016, amounts due from customers, totalled EUR 299 million (+34% compared to 31 December 2015) and may be analysed as follows: current accounts, equal to EUR 112 million, a rise of 12% over 31 December 2015; mortgage loans, equal to EUR 174 million, an increase of 53% over 31 December 2015; credit cards, personal loans and salary-backed loans, equal to EUR 823 thousand, a rise of over 100% compared to 31 December 2015; other loans, equal to EUR 12 million, an increase of 41% over 31 December 2015.

Direct deposits from customers at 31 December 2016 amounted to EUR 508 million, a rise of 26% over the figure of EUR 404 million at 31 December 2015. The trend in the balance was caused by an increase in current accounts (+ EUR 96 million), certificates of deposit (+ EUR 7 million), time deposits (+ EUR 700 thousand), loans (+ EUR 162 thousand) and bonds (+ EUR 262 thousand).

Income statements of BIP for the nine months ended 30 September 2018 and 2017

The income statements of BIP for the nine months ended 30 September 2018 and 2017 (restated) and changes in absolute and percentage terms are as follows.

(Thousands of euros)	BIP			
	30 September 2018	30 September 2017 (restated)	Change 2018 vs 2017	Change 2018 vs 2017
Net interest income	7,588	8,043	(455)	(5.66%)
Net fee and commission income	3,224	2,828	396	14.00%
Dividends and similar income	–	–	–	–
Net profit (loss) from trading and hedging activities	(9,349)	2,582	(11,931)	(>100%)
Other operating income and expense	111	147	(36)	(24.49%)
Net interest and other banking income	1,574	13,600	(12,026)	(88.43%)
Personnel expenses	(6,284)	(3,623)	(2,661)	73.45%
Administrative expenses	(9,060)	(3,177)	(5,883)	>100%
Value adjustments/recoveries on tangible and intangible assets	(216)	(124)	(92)	74.19%
Operating expenses	(15,560)	(6,924)	(8,636)	>100%
Net operating profit (loss)	(13,986)	6,676	(20,662)	(>100%)
Net value adjustments to receivables	(2,815)	(993)	(1,822)	>100%
Net value adjustments to other assets/liabilities	(16)	(563)	547	(97.16%)
Net accruals to provisions	(214)	(113)	(101)	89.38%
Profits (losses) from equity investments and the disposal of investments	(2)	–	(2)	100%
Profit (loss) from continuing operations before taxes	(17,033)	5,007	(22,040)	(>100%)
Income tax on profit (loss) from continuing operations	4,569	(1,777)	6,346	(>100%)
Profit (loss) from discontinued operations, net of tax	–	–	–	–
Profit (loss) for the period	**(12,464)**	**3,230**	**(15,694)**	**(>100%)**

The figures for the period ended 30 September 2017 (determined in accordance with IAS 39) have been restated on the basis of the new line items arising from the reclassifications made necessary under the new classification criteria introduced by IFRS 9, which therefore did not lead to any changes in total assets or total liabilities.

These consist of combined restatements of items included in the statement of financial position as required by Circular 262/2005 of the Bank of Italy – 5th revision of 22 December 2017.

Net interest income at 30 September 2018 amounted to EUR 7.6 million, a fall of 5.7% over 30 September 2017. This decrease is due to a reduction of EUR 3.1 million in interest on financial liabilities at amortised cost (-9%) at 30 September 2018, against an increase

	in the volume of disbursements. Interest on securities fell as a result of the sales made during the period. In the same period net fee and commission income of EUR 3.2 million increased over 30 September 2017, as the result of a rise in commission income (+11%) and a simultaneous fall in commission expense (-7%). Of particular importance as part of fee and commission income was that arising from traditional banking activities (managing current accounts and payment and receipt services), which amounted in total to approximately EUR 3 million, and that relating to management, brokerage and consultancy services, amounting to EUR 306 thousand. The net loss of EUR 9.35 million from security trading mainly regards the gains and losses arising on the disposal of the HTCS instruments that took place during the period. As the consequence of the above items, net interest and other banking income amounted to EUR 1,574 thousand, representing a decrease of EUR 12 million compared to 30 September 2017. Net value adjustments to receivables amounted to EUR 2.8 million at 30 September 2018, representing an increase over 30 September 2017. As a whole, amounts due from customers totalled EUR 346 million at the balance sheet date (EUR 337.7 million at 31 December 2017), adjusted by EUR 12.8 million (EUR 11.6 million in 2017), equivalent to 3.70% of their total (3.45% in 2017).

Income statements of BIP for the years ended 31 December 2017, 2016 and 2015

The income statements of BIP for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percentage terms are as follows.

(Thousands of euros)	BIP						
	31 December			Change		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Net interest income	11,645	9,995	10,176	1,650	(181)	16.5%	(1.8%)
Net fee and commission income	4,356	3,327	2,548	1,029	779	30.9%	30.6%
Dividends and similar income	-	-	-	-	-	-	-
Net profit (loss) from trading and hedging activities	3,892	4,003	4,054	(111)	(51)	(2.8%)	(1.3%)
Other income and expense	93	134	59	(41)	75	(30.6%)	>100%
Net interest and other banking income	**19,986**	**17,459**	**16,837**	**2,527**	**622**	**14.5%**	**3.7%**
Personnel expenses	(5,271)	(4,566)	(4,022)	(705)	(544)	15.4%	13.5%
Administrative expenses	(4,626)	(3,968)	(3,074)	(658)	(894)	16.6%	29.1%
Value adjustments/recoveries on tangible and intangible assets	(233)	(210)	(268)	(23)	58	11.0%	(21.6%)
Operating expenses	**(10,130)**	**(8,744)**	**(7,364)**	**(1,386)**	**(1,380)**	**15.9%**	**18.7%**
Net operating profit (loss)	**9,856**	**8,715**	**9,473**	**1,141**	**(758)**	**13.1%**	**(8.0%)**
Net value adjustments to receivables	(3,151)	(3,067)	(2,348)	(84)	(719)	2.7%	30.6%
Goodwill impairment	(327)	-	-	(327)	-	-	-
Net value adjustments to other assets/liabilities	(870)	(2,894)	(56)	2,024	(2,838)	(69.9%)	>100%
Net accruals to provisions	(160)	(176)	(144)	16	(32)	(9.1%)	22.2%
Profits (losses) from equity investments and the disposal of investments	-	-	-	-	-	-	-
Profit (loss) from continuing operations before taxes	**5,348**	**2,578**	**6,925**	**2,770**	**(4,347)**	**>100%**	**(62.8%)**
Income tax on profit (loss) from continuing operations	(1,949)	(1,725)	(2,362)	(224)	637	13.0%	(27.0%)
Profit (loss) on discontinued operations net of tax	-	-	-	-	-	-	-
Profit (loss) for the year	**3,399**	**853**	**4,563**	**2,546**	**(3,710)**	**>100%**	**(81.3%)**

Net interest income at 31 December 2017 amounted to EUR 11.6 million, a rise of 16.5% over 31 December 2016. This change is due to an increase of EUR 3.1 million in interest income (+3%), which amounted to EUR 16.3 million at 31 December 2017, and a simultaneous decrease in interest expense (-20%) amounting to EUR 4.6 million at 31 December 2017.

In the same period net fee and commission income of EUR 4.4 million increased over 31 December 2016 as the result of a rise in fee and commission income (+24%) and a simultaneous fall in fee and commission expense (-14%).

As a result of these items net interest and other banking income amounted to EUR 20 million in 2017, a rise of EUR 3 million over 31 December 2016.

Net value adjustments to receivables amounted to EUR 3.1 million at 31 December 2017, in line with 31 December 2016, and this is one of the most significant cost items in the income statement.

Net interest income amounted to EUR 9.9 million at 31 December 2016, a fall of 1.8% over 31 December 2015.This decrease is due to a fall in interest income (- 5%), equal to EUR 15.8 million at 31 December 2016, and in interest expense (-10%), equal to EUR 5.8 million at 31 December 2016.

In the same period net fee and commission income, amounting to EUR 3.3 million, increased over 31 December 2015 as the result of a rise in both fee and commission income (+35%) and fee and commission expense (61%).

As a consequence of the above items, net interest and other banking income amounted to EUR 17 million, a rise of EUR 622 thousand compared to 31 December 2015 due to the contribution of the subsidiary.

Net value adjustments to receivables amounted to EUR 3.1 million at 31 December 2016, and this is one of the most significant cost items in the income statement.

Statements of cash flows of BIP for the nine months ended 30 September 2018 and 2017

The following table presents the statements of cash flows of BIP for the nine months ended 30 September 2018 and 2017 and the relative reconciliations with cash and cash equivalents at the beginning and end of the period.

(Thousands of euros)	**BIP**			
	30 September 2018	**30 September 2017**	**Change 2018 vs 2017**	**Change % 2018 vs 2017**
Net cash from (used in) operating activities	49,338(*)	(898)	50,236	(>100%)
Net cash from (used in) investing activities	332	(131)	463	(>100%)
Net cash from (used in) financing activities	-	(800)	800	(>100%)
NET CASH GENERATED (USED) IN THE PERIOD	**49,670**	**(1,828)**	**51,498**	**(>100%)**
Cash and cash equivalents at the beginning of the period	26,926	27,812	(886)	(3.19%)
Cash and cash equivalents at the beginning of the period	76,596	25,984	50,612	>100%

The figures at 30 September 2017 have been restated on the basis of the new items required by the 5th revision of Circular 262/2005 of the Bank of Italy without leading to any change in the cash generated/used during the period.

(*) The payment on account of future capital increases is included in the total of "other liabilities" given that at 30 September 2018 the transaction had not been finalised as the "issue/purchase of equity instruments".

Statements of cash flows of BIP for the years ended 31 December 2017, 2016 and 2015

The following table presents the statements of cash flows of BIP for the years ended 31 December 2017, 2016 and 2015 and a reconciliation with cash and cash equivalents at the beginning and end of the year.

(Thousands of euros)	BIP						
	Year ended 31 December			**Change**		**Change %**	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**	**2017 vs 2016**	**2016 vs 2015**
Net cash from (used in) operating activities	953	28,021	2,002	(27,068)	26,019	(96.60%)	(>100%)
Net cash from (used in) investing activities	(1,839)	(1,558)	(49)	(281)	(1,509)	18.04%	>100%
Net cash from (used in) financing activities	-	800	1,200	(800)	(400)	(100.00%)	(33.33%)
NET CASH GENERATED (USED) IN THE YEAR	**(886)**	**27,263**	**(851)**	**(28,149)**	**28,114**	**(>100%)**	**(>100%)**
Cash and cash equivalents at the beginning of the year	27,812	591	1,442	27,221	(851)	>100%	(59.02%)
Cash and cash equivalents at the end of the year	26,926	27,853	591	(927)	27,262	(3.33%)	>100%

Alternative performance measures of BIP

Set out below are the key economic and financial measures used by Company management to monitor economic and financial performance.

These are not GAAP accounting measures within the meaning of IASs/IFRSs and accordingly should not be considered as alternative measures to those provided by the Company's financial statements for assessing the Issuer's economic performance and financial position.

The following table provides details of the alternative performance measures for BIP for the nine months ended 30 September 2018 and 2017 and for the year ended 31 December 2017:

Alternative Performance Measures	**BIP**	
	Nine months ended 30 September	
	2018	**2017**
R.O.E.(*)	(16.17%)	8.41%
R.O.A.(*)	(1.74%)	0.40%
Cost/Income ratio	100%	51.00%
Net adjustments to receivables/Loans to customers(*)	1.13%	0.45%

(*) Annualised performance measured over interim periods.

Alternative Performance Measures	BIP	
	30 September 2018	31 December 2017
Net bad loans/Loans to customers	2.26%	1.51%
Gross NPLs/Gross loans to customers	6.42%	5.44%
Tier I capital ratio (Tier 1 capital/Total risk-weighted assets)	23.83%	17.29%
Total capital ratio (Regulatory capital + Tier II)/Total risk-weighted assets	23.83%	17.29%
Total capital	85,966	57,596
Risk-weighted assets	360,813	333,038

The following table provides details of the alternative performance measures for BIP for the years ended 31 December 2017, 2016 and 2015:

Alternative Performance Measures	BIP		
	Year ended 31 December		
	2017	2016	2015
R.O.E.	6.00%	2.34%	9.11%
R.O.A.	0.32%	0.11%	0.53%
Cost/Income ratio	51%	50%	44%
Net adjustments to receivables/Loans to customers	0.97%	1.02%	1.05%
Net non-performing loans/Net loans to customers	1.51%	1.28%	0.30%
Gross bad loans/Gross loans to customers	5.44%	5.98%	3.67%
Tier I capital ratio (Tier 1 capital/Total risk-weighted assets)	17.29%	14.90%	18.22%
Total capital ratio (Regulatory capital + Tier II)/Total risk-weighted assets	17.29%	14.99%	18.23%
Total capital	57,596	49,174	46,636
Risk-weighted assets	333,038	327,950	255,888

Consolidated statement of financial position of SPAXS as of 30 September 2018

The consolidated statement of financial position of SPAXS as of 30 September 2018 is as follows.

(Thousands of euros)	SPAXS
	30 September 2018
Financial assets other than receivables	434,333
Loans to banks	668,621
Loans to customers	333,183
Equity investments	-
Tangible and intangible assets	23,740
of which: Goodwill	*21,643*
Tax assets	14,092
Other assets	15,548
Total assets	**1,489,516**
Due to banks	257,603
Direct deposits from customers	587,998
Deferred tax liabilities	335
Liabilities associated with non-current assets and disposal groups held for sale	-
Other liabilities	82,841
Specific provisions	922
Net equity	559,817
Total liabilities and equity	**1,489,516**

Consolidated income statement of SPAXS for the period ended 30 September 2018

The consolidated income statement of SPAXS for the period from its date of incorporation (20 December 2017) to 30 September 2018 is as follows.

(Thousands of euros)	**SPAXS**
	30 September 2018
Interest and similar income	402
Net fee and commission income	-
Dividends and similar income	-
Net profit (loss) from trading and hedging activities	-
Other operating income and expense	-
Net interest and other banking income	-
Personnel expenses	233
Administrative expenses	8,011
Value adjustments/recoveries on tangible and intangible assets	3
Operating expenses	-
Net value adjustments to receivables	-
Net value adjustments to other assets/liabilities	-
Net accruals to provisions	-
Profits (losses) from equity investments and the disposal of investments	-
Profit (loss) from continuing operations before taxes	-
Income tax on profit (loss) from continuing operations	-
Profit (loss) on discontinued operations net of tax	-
Profit (loss) for the period	**7,845**

Consolidated statement of cash flows of SPAXS for the period ended 30 September 2018

The consolidated statement of cash flows of SPAXS for the period from its date of incorporation (20 December 2017) to 30 September 2018 and a reconciliation with cash and cash equivalents are as follows.

(Thousands of euros)	**SPAXS**
	30 September 2018
A. OPERATING ACTIVITIES	
Cash from (used in) operating activities	(450,917)
B. INVESTING ACTIVITIES	
Cash from (used in) investing activities	(28,309)
C. FINANCING ACTIVITIES	
Cash from (used in) financing activities	555,822
NET CASH GENERATED (USED) IN THE PERIOD	**76,596**

Reconciliation *(Thousands of euros)*	**30 September 2018**
Cash and cash equivalents at the beginning of the period	-
Net cash generated (used) in the period	76,596
Cash and cash equivalents at the end of the period	76,596

Statement of financial position of SPAXS as of 30 June 2018

The statement of financial position of SPAXS as of 30 June 2018 is as follows.

(Thousands of euros)	**SPAXS**
	30 June 2018
Cash and cash equivalents	613,698
Other receivables	9
Property and equipment	6
Total assets	613,713
Trade payables	3,134
Other payables	6,692
Reserves	545,731
Share capital	61,800
Profit (loss) for the period	(3,643)
Total liabilities and equity	**613,713**

Income statement of SPAXS for the period ended 30 June 2018

The consolidated income statement of SPAXS for the period from its date of incorporation (20 December 2017) to 30 June 2018 is as follows.

(Thousands of euros)	**SPAXS**
	30 June 2018
Revenues	-
Consumables	(2)
Service costs	(3,844)
Lease and rental expense	(40)
Other operating expenses	(2)
Depreciation, amortisation and impairment	-
Operating profit (loss)	**(3,889)**
Financial income	245
Financial expense	-
Profit (loss) before tax	**(3,643)**
Income taxes	-
Profit (loss) for the period	**(3,643)**

Statement of cash flows of SPAXS for the period ended 30 June 2018

The statement of cash flows of SPAXS for the period from its date of incorporation (20 December 2017) to 30 June 2018 and the relative reconciliations with cash and cash equivalents are as follows.

(Thousands of euros)	**SPAXS**
	30 June 2018
Profit (loss) before tax	(3,643)
Depreciation, amortisation and impairment	-
Increase in trade payables and other short-term payables	9,826
Increase in trade receivables and other short-term receivables	(9)
Net cash from (used in) operating activities	**6,174**
Property and equipment	(7)
Other intangible assets	-
Net cash (used in) investing activities	**(7)**
Capital increase on incorporation	50
Issue of special shares	17,950
Issue of ordinary shares	600,000
Other increases/decreases in equity	(10,469)
Net cash from (used in) financing activities	**607,531**
Net (decrease) increase in cash and cash equivalents and short-term deposits	**613,698**
Cash and cash equivalents and short-term deposits at 20 December 2017	-
Cash and cash equivalents and short-term deposits at 30 June 2018	**613,698**

B.8 **Pro-forma financial information.**

The following section presents pro-forma selected financial information extracted from the Issuer's pro-forma statement of financial position as of 31 December 2017, its pro-forma statements of financial position as of 30 June 2018 and 30 September 2018 and its relative pro-forma income statements and statements of cash flows for the respective six months and nine months then ended, which represent with retrospective effect the significant effects of the Business Combination and of the reverse merger of SPAXS into BIP which will give rise to illimity. In addition, with respect to the Pro-Forma Statements as of 31 December 2017, the effects of the transactions carried out by SPAXS in preparation for the Business Combination, which include the placement of the Ordinary Shares and Conditional Share Rights of SPAXS and the Promoters' Capital Increase (together the "Transactions") are presented retrospectively.

These financial statements are accompanied by the relative Auditors' Reports issued on 30 November 2018.

The following aspects should be considered for a proper understanding of the pro-forma financial information:

(i) being representations based on assumptions, if the Transactions had actually taken place at the dates taken as the reference date for the preparation of the pro-forma figures, instead of the respective effective dates, the historical figures would not necessarily have been the same as the pro-forma figures;

(ii) the pro-forma figures do not represent forward-looking statements as they have only been provided to represent the significant effects, which can be separated out and objectively measured, arising from the Transactions, without taking into account the potential effects due to changes in management policies and operating decisions resulting from the Transactions.

Pro-forma statements at 31 December 2017

The pro-forma statement of financial position as of 31 December 2017 presents respectively:

(i) in the first column (i), "SPAXS", the accounting position of SPAXS;

(ii) in the second column (ii), "BIP", the 2017 financial statements of BIP;

(iii) in the third column (iii), "Combined", the amounts resulting from the sum of the two preceding columns (i) and (ii);

(iv) in the fourth column (iv), "Adjustments", the pro-forma adjustments resulting from the placement of the Ordinary Shares and Conditional Share Rights and the Promoters' Capital Increase of SPAXS which took place between January and February 2018, net of the relative tax effects;

(v) in the fifth column (v), "Withdrawal", the pro-forma adjustments arising from the effects of the exercising by the holders of SPAXS Ordinary Shares of their withdrawal right;

(vi) in the sixth column (vi), "Acquisition", the pro-forma adjustments arising from the effects resulting from the purchase by SPAXS of 99.2% of the shares of BIP;

(vii) in the seventh column (vii), "Consolidation and reverse merger", the pro-forma adjustments arising from the effect of consolidating BIP in SPAXS and of the reverse merger of SPAXS into BIP;

(viii) in the eighth column (viii), "PRO-FORMA", the pro-forma figures of illimity resulting from the sum of the preceding columns (iii) to (vii).

Pro-forma statement of financial position as of 31 December 2017

(Thousands of euros)	SPAXS (i)	BIP (ii)	Combined (iii)	PRO-FORMA ADJUSTMENTS				PRO-FORMA (viii)
				Adjustment (iv)	Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
Cash and cash equivalents	13	26,926	26,939	37	0	0	0	26,976
Financial assets	0	1,033,114	1,033,114	607,915	(37,679)	(44,739)	0	1,558,611
Equity investments	0	0	0	0	0	55,532	(55,532)	0
Tangible and intangible assets	0	1,659	1,659	0	0	0	21,643	23,302
Other assets	14	12,714	12,728	3,474	0	0	0	16,202
Total assets	**27**	**1,074,413**	**1,074,440**	**611,426**	**(37,679)**	**10,793**	**(33,889)**	**1,625,091**
Financial liabilities	0	999,601	999,601	0	0	0	0	999,601
Other liabilities	58	14,226	14,284	471	0	0	25,679	40,434
Provisions	0	516	516	0	0	0	0	516
Net equity	(31)	60,070	60,039	610,955	(37,679)	10,793	(59,568)	584,540
Total liabilities and equity	**27**	**1,074,413**	**1,074,440**	**611,426**	**(37,679)**	**10,793**	**(33,889)**	**1,625,091**

Pro-forma statements at 30 June 2018

The pro-forma statements present respectively:

(i) in the first column (i), "SPAXS", the interim financial statements of SPAXS for 1H 2018;

(ii) in the second column (ii), "BIP", the interim financial statements of BIP for 1H 2018;

(iii) in the third column (iii), "Combined", the amounts resulting from the sum of the two preceding columns (i) and (ii);

(iv) in the fourth column (iv), "Adjustments", the pro-forma adjustments regarding: (1) the tax effects relating to the placement costs and other listing expenses, (2) the costs from ordinary operations, net of the tax effect, (3) the reclassification of deferred listing expenses in order to represent these as if they had already been settled in cash, (4) the recognition of the tax effect resulting from the economic growth benefit scheme (ACE) and the recognition of the deferred taxes resulting from the tax loss of SPAXS;

(v) in the fifth column (v), "Withdrawal", the pro-forma adjustments arising from the effects of the exercising by the holders of SPAXS Ordinary Shares of their withdrawal right;

(vi) in the sixth column (vi), "Acquisition", the pro-forma adjustments arising from the effects resulting from the purchase by SPAXS of 99.2% of the shares of BIP;

(vii) in the seventh column (vii), "Consolidation and reverse merger", the pro-forma adjustments arising from the effect of consolidating BIP in SPAXS and of the reverse merger of SPAXS into BIP;

(viii) in the eighth column (viii), "PRO-FORMA", the pro-forma figures of illimity resulting from the sum of the preceding columns (iii) to (vii).

Pro-forma statement of financial position as of 30 June 2018

(Thousands of euros)	SPAXS (i)	BIP (ii)	Combined (iii)	PRO-FORMA ADJUSTMENTS				PRO-FORMA (viii)
				Adjustment (iv)	Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
Cash and cash equivalents	0	16,811	16,811	0	0	0	0	16,811
Financial assets	613,698	996,733	1,610,431	(6,667)	(37,679)	(44,739)	(9,161)	1,512,185
Equity investments	0	0	0	0	0	55,532	(55,532)	0
Tangible and intangible assets	6	1,862	1,868	0	0	0	21,643	23,511
Other assets	9	20,415	20,424	3,474	0	(4,483)	3,030	22,445
Total assets	**613,713**	**1,035,821**	**1,649,534**	**(3,193)**	**(37,679)**	**6,310**	**(40,020)**	**1,574,952**
Financial liabilities	0	965,909	965,909	0	0	0	0	965,909
Other liabilities	9,825	18,614	28,439	(6,667)	0	0	10,616	32,388
Provisions	0	287	287	0	0	0	0	287
Net equity	603,888	51,011	654,899	3,474	(37,679)	6,310	(50,636)	576,368
Total liabilities and equity	**613,713**	**1,035,821**	**1,649,534**	**(3,193)**	**(37,679)**	**6,310**	**(40,020)**	**1,574,952**

Pro-forma income statement for the six months ended 30 June 2018

	SPAXS (i)	BIP (ii)	Combined (iii)	PRO-FORMA ADJUSTMENTS				PRO-FORM (viii)
				Adjustment (iv)	Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
Net profit (loss) from banking activities	245	7,340	7,585	0	0	0	794	8,379
Operating expenses	(3,889)	(6,264)	(10,153)	(2,409)	0	(4,483)	0	(17,045)
Profits (losses) from the disposal of investments	0	(2)	(2)	0	0	0	0	(2)
Profit (loss) from continuing operations before taxes	**(3,643)**	**1,074**	**(2,569)**	**(2,409)**	**-**	**(4,483)**	**794**	**(8,668)**
Income tax on profit (loss) from continuing operations	0	(393)	(393)	3,073	(78)		(263)	2,340
Profit (loss) for the period	**(3,643)**	**681**	**(2,962)**	**664**	**(78)**	**(4,483)**	**531**	**(6,328)**
of which non-recurring				*247*	*(78)*	*(4,483)*	*0*	*(4,314)*

Pro-forma statement of cash flows for the six months ended 30 June 2018

	SPAXS (i)	BIP (ii)	Combined (iii)	PRO-FORMA ADJUSTMENTS				PRO-FORMA (viii)
				Adjustment (iv)	Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
Net cash from (used in) operating activities	369	(10,432)	(10,063)	1,939	(78)	(4,483)	531	(12,154)
Net cash from (used in) investing activities	(607,900)	317	(607,583)	–	37,679	–	–	(569,904)
Net cash from (used in) financing activities	607,531	–	607,531	–	(37,679)	–	–	569,852
Changes to the income statement not reflected in the pro-forma statement of financial position	–	–	–	(1,939)	78	4,483	(531)	2,091
NET CASH GENERATED (USED) IN THE PERIOD	**–**	**(10,115)**	**(10,115)**	**–**	**–**	**–**	**–**	**(10,115)**
Cash and cash equivalents at the beginning of the period	–	26,926	26,926	–	–	–	–	26,926
Net cash generated (used) in the period	-	(10,115)	(10,115)	–	–	–	–	(10,115)
Cash and cash equivalents: effect of changes in exchange rates	–	–	–	–	–	–	–	-
Cash and cash equivalents at the end of the period	–	16,811	16,811	–	–	–	–	16,811

Pro-forma statements at 30 September 2018

The pro-forma statements present, respectively:

(i) in the first column (i), "Consolidated SPAXS", the interim consolidated financial statements of SPAXS for 9M 2018;

(ii) in the second column (ii), "Adjustments", the pro-forma adjustments regarding: (1) the tax effects relating to the placement costs and listing expenses, (2) the costs from ordinary operations, net of the tax effect, (3) the reclassification of deferred listing expenses in order to represent these as if they had already been settled in cash, (4) the recognition of the tax effect resulting from the economic growth benefit scheme (ACE) and the recognition of the deferred taxes resulting from the tax loss of SPAXS;

(iii) in the third column (iii), "Withdrawal", the pro-forma adjustments arising from the effects of the exercising by the holders of SPAXS Ordinary Shares of their withdrawal right;

(iv) in the fourth column (iv), "Reverse merger", the pro-forma adjustments arising from the effect of the reverse merger of SPAXS into BIP;

(v) in the fifth column (v), "PRO-FORMA", the pro-forma figures of illimity resulting from the sum of the preceding columns (i) to (iv).

Pro-forma statement of financial position as of 30 September 2018

(Thousands of euros)	Consolidated SPAXS (i)	PRO-FORMA ADJUSTMENTS			illimity PRO-FORMA (v)
		Adjustments (ii)	Withdrawal (iii)	Reverse merger (iv)	
Cash and cash equivalents	76,596	0	0	0	76,596
Financial assets	1,360,126	(6,667)	(37,679)	0	1,315,780
Equity investments	0	0	0	0	0
Tangible and intangible assets	23,490	0	0	0	23,490
Other assets	29,306	3,475	0	0	32,781
Total assets	**1,489,518**	**(3,192)**	**(37,679)**	**0**	**1,448,647**
Financial liabilities	845,601	0	0	0	845,601
Other liabilities	83,657	(6,667)	(50,909)	0	26,081
Provisions	443	0	0	0	443
Net equity	559,532	3,475	13,230	285	576,522
Total liabilities and equity	**1,489,233**	**(3,192)**	**(37,679)**	**285**	**1,448,647**

Pro-forma income statement for the nine months ended 30 September 2018

	Consolidated SPAXS (i)	PRO-FORMA ADJUSTMENTS			illimity PRO-FORMA (v)
		Adjustments (ii)	Withdrawal (iii)	Reverse merger (iv)	
Net profit (loss) from banking activities	0	(1,357)	0	1,191	(166)
Operating expenses	(8,247)	(16,748)	0	0	(24,996)
Profit (loss) on the sale of investments	0	(2)	0	0	(2)
Profit (loss) from continuing operations before taxes	**(7,846)**	**(18,107)**	**0**	**1,191**	**(24,762)**
Income tax on profit (loss) from continuing operations	(393)	3,073	(78)	(263)	2,340
Profit (loss) for the period	**(7,846)**	**(9,035)**	**(117)**	**797**	**(16,200)**
of which non-recurring		*(4,124)*	*(117)*	*0*	*(4,241)*

Pro-forma statement of cash flows for the nine months ended 30 September 2018

	Consolidated SPAXS (i)	PRO-FORMA ADJUSTMENTS Adjustments (ii)	Withdrawal (iii)	Reverse merger (iv)	illimity PRO-FORMA (v)
Net cash from (used in) operating activities	(400,009)	(9,035)	(51,025)	797	(459,272)
Net cash from (used in) investing activities	(28,309)	–	37,679	–	9,370
Net cash from (used in) financing activities	504,914	–	13,229	–	518,143
Changes to the income statement not reflected in the pro-forma statement of financial position	–	9,035	117	(797)	8,355
NET CASH GENERATED (USED) IN THE PERIOD)	**76,596**	**–**	**–**	**–**	**76,596**
Cash and cash equivalents at the beginning of the period	–	–	–	–	–
Net cash generated (used) in the period	76,596	–	–	–	76,596
Cash and cash equivalents: effect of changes in exchange rates	–	–	–	–	–
Cash and cash equivalents at the end of the period	76,596	–	–	–	76,596

B.9 **Forecast or estimate of 2018 result**

Chapter 13 of the Prospectus presents the information regarding the Issuer's 2018-2023 Business Plan.

The 2018-2023 Business Plan, which contains the Issuer's strategic guidelines and its economic, financial and capital targets for the period between 2018 and 2023, is based on:

(i) assumptions made by the Issuer of a general and hypothetical character about future events which may not necessarily occur and which essentially depend on uncontrollable or only partially controllable variables, including among other things the present macroeconomic scenario and the evolution of the legislative framework;

(ii) assumptions of a discretional nature relating to the effects of specific actions or those concerning future events which the Issuer can only partially affect.

The Business Plan and the forecast information it includes, as well as the changes resulting from the above operations and events, have accordingly been established on the basis of certain external scenarios, subject to risks and uncertainties that characterise the current macroeconomic scenario, which the Issuer cannot affect, as well as on the basis of assumptions relating to the effects of specific actions or those concerning future events which the Issuer can only partially effect and which may or may not occur during the period covered by the 2018-2023 Business Plan.

The forecast information included in the Business Plan is not historical fact and due to its nature contains objectives, intentions and expectations that have been drawn up on the basis of assumptions made by the Issuer based on the information available at the time the Plan was prepared. The Issuer believes, though, that the Business Plan has been constructed on the basis of reasonable and reliable assumptions, with due regard to rational criteria in quantifying the economic and financial items of which it consists.

In conclusion, it should be noted that due to the uncertainty connected with the occurrence of the future events envisaged in the Business Plan, both as relates to their actual occurrence and as regards the extent of this occurrence and the timescale over which they occur, as well as the effect that the occurrence or non-occurrence of such future events may have on events controllable, even only partially, by the Issuer, differences, even material, may occur between the actual amounts and the forecast amounts even if the events forecast as part of the above assumptions used in the preparation of the Business Plan do occur.

In light of the above, investors should not rely solely on the forecast information included in the Business Plan, nor should they base their decision to invest in the Issuer exclusively on such information, but should arrive at their decision to invest in the Issuer on the basis of all the other information included in the Prospectus.

The following sets out the key forecast figures included in the Issuer's Business Plan. Further details together with the relative auditors' report can be found in Chapter 13 of the Prospectus.

Key income statement figures *(Millions of euros)*	**30 September 2018 pro-forma**	**2020E (range)**	**2023E (approx.)**
Net interest and other banking income	3	250-310	675
Operating profit (loss)	-22	140-170	515
Net profit (loss)	-16	55-70	280

Key balance sheet figures *(Billions of euros)*			
Total assets	1.4	3.5-4.3	6.6
Net equity	0.6	0.6-0.7	1.1

Key financial ratios *%*			
Cost/Income Ratio		<50%	<30%
ROE		9%-12%	25%
CET1 Ratio		>15%	>15%

Chapter 13 of the Prospectus also contains the preliminary results approved by the Issuer's Board of Directors on 11 February 2019 for supervisory reporting purposes, which show a loss of EUR 29.1 million, in line with the performance envisaged in the 2018-2023 Business Plan, which includes the contribution of BIP for the period from the date of the Business Combination (20 September 2018) to 31 December 2018, compared to an actual loss of EUR 12.5 million for the first nine months of 2018.

These preliminary results are accompanied by the relative Auditors' Report issued on 11 February 2019.

At the Prospectus Date, SPAX had not yet approved the consolidated figures at 31 December 2018, and on 11 February 2019, after acknowledging the indications communicated by SPAXS, the Issuer's Board of Directors also announced that estimated total liquidity, including that available in SPAXS, amounted to EUR 384 million, consisting of the aggregate of the cash and cash equivalents included in the 2018 preliminary results

	of Banca Interprovinciale S.p.A. and an estimate of the readily available bank accounts and deposits of SPAXS S.p.A. at 31 December 2018. The preliminary results of SPAXS and its subsidiaries that present "total liquidity" at 31 December 2018 are accompanied by the relative Auditors' Report issued on 11 February 2019. To the best of the Issuer's knowledge and belief, the figures for SPAXS at 31 December 2018 have not yet been approved by the competent bodies and approval is expected after the effective date of the Merger. Taking into account the result at 30 September 2018 and the limited operations of SPAXS after the Business Combination, it is estimated that the consolidated result for SPAXS for 2018 will report a loss that is greater than that at 30 September 2018, in line with the loss of Banca Interprovinciale posted for the period from the date of its consolidation in SPAXS (namely the effective date of the Business Combination).
B.10	**A description of the nature of any qualifications in the audit report on the Issuer's historical financial information.** Not applicable.
B.11	**Working capital statement.** In accordance with Regulation (EC) no. 809/2004/EC and the definition of working capital – as "the Issuer's ability to access cash and other available liquid resources in order to meet its liabilities as they fall due" – contained in the ESMA/2013/319 Recommendations, at the Prospectus Date the Issuer believes that it and its subsidiary have sufficient working capital available, in the post-Merger configuration, to meet their current financial requirements for the twelve months following the Prospectus Date.

SECTION C – FINANCIAL INSTRUMENTS

C.1	**Description of the Shares and the Conditional Share Rights.** The subject of the Prospectus is the admission of the Issuer's Shares and Conditional Share Rights to trading on the MTA. The Shares are registered securities, are freely transferable, have no nominal value, have regular dividend rights, are issued in dematerialised form pursuant to Articles 83-bis et seq. of the TUF and the relative implementation regulations and are included in the centralised management facility managed by Monte Titoli. The Shares have ISIN code IT0005359192. The Conditional Share Rights are bearer securities and are included in the centralised management facility managed by Monte Titoli in dematerialised form pursuant to Articles 83-bis et seq. of the TUF and the relative implementation regulations. The Conditional Share Rights have ISIN code IT0005359150.

C.2	**Currency in which the Shares and Conditional Share Rights are issued.** The Shares and Conditional Share Rights are issued in euros.
C.3	**Subscribed and paid-up share capital.** At the Prospectus Date, the Company's subscribed and paid-in share capital amounts to EUR 43,377,000 consisting of 43,377 Shares without nominal value.
C.4	**A description of the rights attached to the Shares and the Conditional Share Rights.** All the Shares have the same features and assign the same rights. Each Share assigns the right to one vote at the Company's ordinary and extraordinary Shareholders' Meetings, as well as ownership and administrative rights in accordance with the applicable provisions of law and the post-Merger Bylaws. The Conditional Share Rights include the right to receive, free of charge, a number of Conversion Shares determined on the basis of the Assignment Ratio under the terms and conditions established by the relative Regulation.
C.5	**A description of any restrictions on the free transferability of the Shares and Conditional Share Rights.** At the effective date of the Merger there will be no restrictions on the free transferability of the Shares, and the Conditional Share Rights will circulate separately from the Shares and will be freely transferable.
C.6	**An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.** On 30 November 2018 the Issuer filed an application with Borsa Italiana for admission to listing of the Shares and the Conditional Share Rights on the Electronic Stock Market. Jointly, SPAXS filed an application with Borsa Italiana to withdraw its ordinary and conditional share rights from trading on the AIM, subject to the effectiveness of the Merger and concurrent start of trading of the Issuer's ordinary shares and conditional share rights on the MTA. By way of provision no. 8537 of 25 February 2019, Borsa Italiana authorised the admission of the SPAXS and the SPAXS Conditional Share Rights to listing on the Electronic Stock Market and at the same time their exclusion from trading on the AIM. Following receipt of this provision, on 25 February 2019 the Issuer also filed an application to be admitted to trading.

C.7	**A description of dividend policy.** At the Prospectus Date the Bank does not have a dividend policy. For the year ended 31 December 2015, the Bank distributed dividends of EUR 800,000. No dividends were declared for the years ended 31 December 2016 or 31 December 2017. Being a start-up, in its Business Plan, as further detailed in Chapter 13, the Bank expresses its expectation that if the plan's targets are reached dividends will be distributed from 2022, increasing over time, on the basis of a pay-out target of 20% in 2022 rising to 25% in 2023.

SECTION D – RISKS

D.1	**Key information on the key risks that are specific to the Issuer or its industry.** *Risks related to the limited relevance of historical financial data regarding the Issuer and of pro-forma financial information* The activity performed by the Issuer over the years and in the periods to which the historical financial information included in the Prospectus refers is being extended as the consequence of the Strategic Plan through the development of the Retail Division, the SME Division and the Investment & Servicing Division. As a result, in its present configuration the Issuer has a limited operational history and, consequently, believes that in assessing the financial information for prior years, investors should take into account the possible strategies and activities being introduced and currently undergoing change by the Issuer. In consideration of the preceding, with a view to admitting the Shares to listing on the Electronic Stock Market and in order to represent the effects of the Material Transaction, Pro-Forma Consolidated Statements have also been prepared and included in the Prospectus in addition to the financial statements of the Issuer and SPAXS. Since the Pro-Forma Consolidated Statements are representations based on assumptions, there is the risk that if the above-mentioned transactions had actually occurred at the dates taken as a reference for the preparation of the pro-forma data instead of at the actual dates the effects obtained might have been different from those represented in the Pro-Forma Consolidated Statements. *Risks related to the Issuer's negative economic performance for 2018* The Issuer posted a net loss as at 30 September 2018, a decline in performance compared to the same period of the previous year. More specifically, the net loss for the current period was EUR 12.5 million compared to a net profit of EUR 3.2 million as at 30 September 2017. Further, on the basis of the Issuer's preliminary results at 31 December 2018, approved by the Board of Directors on 11 February 2019 for supervisory reporting purposes, the Issuer incurred a loss for the year of EUR 29.1 million, in line with the performance envisaged in the 2018-2023 Business Plan, which includes the contribution of BIP for the period from the date of the Business Combination (20 September 2018) to 31 December 2018.

Risks related to the Issuer's 2018-2023 Business Plan and start-up phase

The Business Plan calls for the development of a new bank focused on three synergistic, integrated lines of business as follows: the SME Division, focused on loans to enterprises with high potential but with a non-optimal financial structure and/or with a low or no rating, including the segment of unlikely-to-pay ("UTP") SMEs, the NPL Investment & Servicing Division, dedicated to the purchase of corporate secured and unsecured NPLs and the Retail Division, the digital bank serving retail and corporate customers directly with an offering of products dedicated to the direct channel and with innovative approaches to relationship management. The Issuer's ability to achieve its results and pursue its future programmes and objectives, reaching suitable profitability levels, depends on its success in realising its commercial and financial strategy. If the above-mentioned Business Plan is not realised in the ways and/or with the timing planned and/or if the guidelines and assumptions on which the Issuer has based its strategy do not turn out to be correct and/or the Issuer fails to undertake the new initiatives in the ways and with the timing planned and/or such initiatives do not generate the expected revenues, or else if in any case the strategy fails to obtain the forecast results, the Issuer's activity and growth prospects could be negatively affected, with consequent negative effects on the Issuer's financial position, results and cash flows.

Risks related to prospective data

The Business Plan contains certain objectives to be reached between 2020 and 2023 (the "Forecast Data") that are based on assumptions of a general and hypothetical nature and of a discretional nature (the "Assumptions") linked to the effects of specific operational and/or organisational actions that the Issuer intends to perform over the period covered by the Business Plan. The Issuer's ability to carry out these actions and meet the targets included in the Business Plan depends on Assumptions which in some cases are out of the Issuer's control, such as variables connected with macroeconomic trends and the evolution of the regulatory situation, as well as the effects of specific actions or those concerning future events which the Issuer can only partially affect. Finally, the Issuer cannot exclude that the Assumptions on which the estimates contained in the Business Plan are based may turn out to be unreliable or may not be realised either wholly or in part.

Furthermore, the assessments expressed of the size of the reference market, past and future, have been formulated, unless otherwise stated, by the Issuer and have not been submitted for verification by an independent party.

Risks related to disclosures of key information and information concerning market trends and competitive positioning

Risks related to the Issuer's dependence on key members of management

The Issuer's results, as well as the future success of its activities, depend to a significant extent on its ability to attract, retain and motivate skilled personnel having considerable experience in the sector in which it is proposed to operate.

The loss of one or more key figures, the inability to replace them on a timely basis with other figures able in the short term to ensure the same contribution or the inability to attract and retain additional skilled personnel or to supplement the organisational structure with figures capable of managing the increasing operational complexity of the Issuer post-Merger could cause a reduction in the Issuer's competitive ability – thereby affecting the possibility of reaching its objectives – and accordingly have a negative effect on the Issuer's financial position, results and cash flows. In addition, at the Prospectus Date the Issuer has not yet concluded non-competition agreements with Top Management. Any interruption of the working relationship with one or more of the above-mentioned key figures could have a negative effect on the Issuer's financial position, results and cash flows.

Risks related to oversight by the Bank of Italy

As a bank, the Issuer is subject to a complex set of regulations and to the oversight of various authorities, including the Bank of Italy in particular. Audits and inspections may concern the organisation of the Bank and its processes, including those that govern the management, recognition and measurement of the Bank's assets and liabilities.

Risks related to the risk management process

The Bank is exposed to the risks arising from mistakes that may be made in establishing its risk management processes or their failure to work as planned.

More specifically, the Bank has an organisational, business process, human resources and skill structure for identifying, monitoring controlling and managing risks as well as for controlling credit risk ("risk management"), which it uses as part of its activities and which may be divided into the following categories: credit and counterparty risk, liquidity risk, market and interest rate risk, concentration risks, operational risks and risks of a technological nature.

Risks related to the system of control and management

Although the Issuer believes that, as of the Prospectus Date, the system of management control is, on the whole, adequate and able to provide management with a timely and sufficiently thorough picture of the Issuer's financial and economic position, it cannot be excluded that, within the scope of the development process described above to revise and update the process for the purpose of implementing the additional activities envisaged for the new businesses in line with the Business Plan, the process of implementing the final version of the management control system could be subject to the risk of delays or mistakes in preparing the consolidated information, and this could cause management to receive incorrect information concerning potentially significant issues or those that could require prompt action.

Risks related to the deterioration of credit quality

The Issuer's activity, the solidity of its results, balance sheet and financial position and its ability to produce profits depend, among other things, on the creditworthiness of its customers. The Issuer is accordingly exposed to the risk that an unexpected change in the credit position of a counterparty could lead to a resulting change in the value of its expected exposure, and in this way give rise to a partial or complete write-down of such. In particular, as part of lending activities, this risk materialises in the possibility that the Issuer's counterparties may fail to honour their payment obligations and that credit is granted on the basis of incomplete, untrue or incorrect information, credit which the Issuer may otherwise never have granted or in any case may have granted under different terms and conditions.

The main causes of non-performance may be traced to the borrower's loss of the autonomous ability to ensure the repayment of the debt (due to a lack of liquidity, insolvency or other reasons) or to the possibility that circumstances that do not depend on economic or financial conditions may arise, such as for example "country risk", or finally to the effect of operating risks.

To deal with this risk, the Issuer has adopted procedures, rules and principles designed to monitor and manage credit risk at the level of single counterparty and total portfolio. Despite this action, the risk still exists that the Issuer's credit exposure in the future may increase and/or exceed the predetermined levels it has established pursuant to its procedures, rules and principles. As a result, a deterioration in the creditworthiness of certain particularly significant customers, as well as more generally any non-performance or irregularity of the repayments, the reduction of the economic value and /or the impossibility to enforce the guarantees received successfully or on a timely basis, or any mistakes made in assessing customers, could have significant negative effects on the Issuer's activity and its financial position, results and cash flows.

Risks related to a possible further increase in competition in the sector in which the Issuer intends to operate

The Business Plan calls for the development of a new bank focused on three synergistic, integrated lines of business as follows: the SME Division, focused on loans to enterprises with high potential but with a non-optimal financial structure and/or with a low or no rating, including the segment of unlikely-to-pay ("UTP") SMEs; the NPL Investment & Servicing Division, dedicated to the purchase of corporate secured and unsecured NPLs; and the Retail Division, the digital bank serving retail and corporate customers directly with an offering of products dedicated to the direct channel and with innovative approaches to relationship management. In each of these areas, the Issuer will be competing in markets in which competitive pressures have been increasing in recent years and could further increase as a result of changes in legislation, of the actions of competitors, of consumer demand, of technological changes, of mergers and acquisitions involving other financial players, of the entrance of new competitors, and of other factors not necessarily under the Issuer's control.

Should the Issuer prove unable to deal with these increasing competitive pressures, the Issuer may not be able to achieve the objectives of the Business Plan in the manner and within the time frames expected, and the Issuer's activities and outlook for growth could be negatively affected, which could have a negative effect on the Issuer's financial position, results and cash flows.

Risks related to NPLs

The Issuer's main risks related to its Non-Performing Loan (NPL) business are described below.

Risks related to the purchase of securities within the scope of securitisation operations

The Issuer's operations in the segment of the NPL Investment & Servicing Division calls for investment in portfolios of NPLs by way of the full subscription of the securities issued by the securitisation vehicle Aporti SPV S.r.l. (and/or by other securitisation vehicles), by way of which the NPL portfolios are purchased from the various counterparties within the scope of competitive and/or restricted processes.Although the Issuer believes that its valuation models are consistent with the activities performed in the segment of the NPL Investment & Servicing Division, it cannot be excluded that on purchasing the NPL, the Issuer may possess information that is not exact (also partially). In these cases the Issuer's ability to set the purchase price of the receivables and its ability to collect such could be jeopardised and it cannot be excluded that the Issuer may incur losses. In this respect the Issuer places reliance on publicly available information that is obtained from various sources and/or provided by creditworthiness assessment agencies, as well as from other providers that offer information services for the credit sector.

Risks related to the lack or inadequacy of the statistical models used by the Issuer in operations

If the estimates made by the Issuer using the adopted forecasting models turn out to be different from the subsequent actual figures this could have negative effects on the Issuer's activities and outlook as well as on its financial position, results and cash flows.

Risks related to implementation of the IT platform

At the Prospectus Date, the Issuer is involved in implementing a digital platform process, needed for achieving the objectives stated in the Business Plan.

Despite the fact that the timetable for this process has, at the Prospectus Date, been respected, the Issuer cannot exclude that such implementation activity may require a timescale that is longer than that previously envisaged or that possible difficulties in the implementation of the platform could have negative effects on the Bank's financial position, results and cash flows.

Risks related to credit/customer concentration

At the Prospectus Date, despite complying with the requirements of its internal policies, the Bank holds a loan portfolio characterised by a not insignificant level of concentration, in terms both of single customer and groups of related customers.

At 30 September 2018, the Bank's gross total exposure with respect to the first 30 customer loans by single customer amounted to EUR 116.6 million, representing 35% of the total customer portfolio of performing loans, while its gross total exposure with respect to the first 30 customer loans by groups of related customers amounted to EUR 128.1 million, representing 38% of the total customer portfolio of performing loans.

At 31 December 2017, the Bank's gross total exposure with respect to the first 30 customer loans by single customer amounted to EUR 113.7 million, representing 34% of the total customer portfolio of performing loans, while its gross total exposure with respect to the first 30 customer loans by groups of related customers amounted to EUR 121.2 million, representing 36% of the total customer portfolio of performing loans.

Given the concentration of customers to which the Bank is exposed, any deterioration in the creditworthiness of its principal customers could lead to negative effects on the Bank's financial position, results and cash flows.

Risks related to the collection, storage and processing of personal data, to violations of the security and confidentiality of the information systems used by the Bank, and to the outsourcing of related services

At the Prospectus Date, CSE provides the Bank with most of its digital services. On 25 June 2014, the Bank signed an agreement with CSE for the provision of a range of services that includes the following: (i) management of the Bank's online banking system; (ii) provision of virtual server services (including disaster recovery); (iii) provision of the mobile banking app; (iv) document storage; (v) provision of ATM and POS services; (vi) management of the data transmission network; and (vii) sale of online accounts.

On 20 December 2018 the Bank notified CSE, which had already received advance notice, that for strictly business-related reasons it would need to begin a process of migration to a new outsourcer, thus resulting in the early termination of existing agreements. The Issuer cannot exclude the risk of delays to the provision of the services by the new outsourcer, with whom an agreement will be entered for the provision of IT services, or the failure to provide such services, with possible negative effects on the Bank's financial position, results and cash flows.

Risks related to employees and post-employment benefits

The Issuer has a workforce of employees in order to conduct its operations; for more information in this respect reference should be made to Chapter 17 of the Prospectus. At the Prospectus Date the Issuer does not have a General Manager (taking into account that a Chief Executive Officer of the Bank has instead been appointed) or a Deputy General Manager in its organisational chart. With reference to the Bank's former Deputy General Manager, Mr Giuliano Davoli, at the Prospectus Date on staff in the SME Division with the role of head of the "Customer Operation Management" unit, on 11 January 2018 the Bank's Board of Directors, with the favourable opinion of the Risks and Controls Committee, approved the following amendments to the labour agreement in place between the Bank and the executive: (i) the consolidation, as of 1 January 2020, of the remuneration (EUR 40,000.00 gross) recognised every year for the stability pact (expiring on 31 December 2019); (ii) the payment, in the case of dismissal without justified reason or just cause during the stability period, of monthly salaries until 31 December 2019, as well as the payment of indemnity in lieu of prior notice (9 months of pay) and compensation (from 7 to 22 months of pay), as set forth in the national collective bargaining agreement. Withdrawal prior to the expiry by the former Deputy General Manager in all circumstances other than those mentioned above, will require him to provide compensation for damages due to breach to the extent corresponding to the remuneration due for the entire duration of the pact by way of penalty (EUR 120,000.00 gross). The amount shall in this case be due from the former Deputy General Manager by the date of disbursement of his residual compensation, with his authorisation to the Bank to partially or fully offset the relative amounts.

Risks related to extraordinary transactions

In recent financial years, the Issuer has carried out a number of extraordinary transactions and could be exposed to liabilities that did not emerge during the pre-acquisition due diligence processes or that may not be covered by contract provisions, and other assessments conducted prior to an acquisition may not have been entirely correct.

Risks related to relations with counterparties (both customers and borrowers)

The Issuer is exposed to risks related to relations with its customers and borrowers, which inter alia consist of the possibility that its counterparties may interrupt contractual relations and contact other credit institutions for financing or deposit and current accounts.

Although the Bank has consolidated its relationships with its customers over time, it cannot be excluded that such customers may contact other credit institutions, nor can it be excluded that there may be a future reduction in volumes of customer lending or funding with potential negative effects on the Bank's financial position, results and cash flows.

Interest rate risk: banking book

The Issuer is exposed to the risk of significant fluctuations in interest rates.

Risks related to sovereign debt

The Bank's exposure to governments and central banks is almost entirely related to securities issued by the Italian government. In order to limit the risk of the owned securities portfolio and with a view to the further volatility that could be seen in Italian sovereign debt in the last quarter of 2018 and the first few months of 2019 due to upcoming deadlines for the Italian government relating to the 2019 draft budget and to the end of quantitative easing and the ECB's accommodative policies, the Issuer's management took a series of steps to de-risk the portfolio designed to reduce the exposure to debt securities issued by the Italian state and the relative risk profile.

Risks related to provisions of the Bylaws that provide the right for holders of Special Shares to present a list of candidates for the election of the Issuer's corporate bodies

Pursuant to Articles 6, paragraph 4, point (b), 14, paragraph 2, point 2.3 and 29, paragraph 2 of the Post-merger Bylaws (similar to what is set forth in the current bylaws of SPAXS), it is currently established that the Special Shares (which, pursuant to the same Post-merger Bylaws do not have voting rights in the ordinary and extraordinary shareholders' meetings of the Issuer) have the right to submit a list of candidates for the election of the corporate bodies. This right is not provided by Article 147-ter of the TUF and the relative implementing provisions set forth in the Issuer's Regulation, the lists may be submitted by holders of shares representing at least the minimum proportion of the share capital established, over time, by Consob, with "share capital" being defined pursuant to Article 144-ter, points a) and b) of the Issuer's Regulation, as "the capital consisting of listed shares" that grants the right to vote on shareholders' meeting resolutions concerning the appointment of members of the management and control bodies. In this regard, it is noted that: (i) on 18 January 2019, a communication was received from holders of SPAXS Special Shares (also in their capacity as future holders of the Special Shares) whereby they declared that they waived the right to submit their own lists of candidates for the appointment of the corporate bodies of the Issuer; and (ii) the special meeting of SPAXS Special Shareholders (also in their capacity as future holders of the Special Shares), which met on 24 January 2019, unanimously decided to waive, until the date of conversion of all Special Shares into Ordinary Shares, the right to submit their own lists for the appointment of the corporate bodies of the Issuer, also irrespective of any future amendments of the Post-merger Bylaws intended to eliminate the above-mentioned right, with respect to which, moreover, the holders of all SPAXS Special Shares (also in their capacity as future holders of the Special Shares) declared, at the above-mentioned shareholders' meeting and for all intents and purposes, that they were favourable. On the basis of the above-mentioned waivers expressed by the SPAXS Special Shareholders (also in their capacity as future holders of the Special Shares) and the above-mentioned resolution passed by the special shareholders' meeting and registered at the competent Companies Register, at the time of the re-election of the Issuer's corporate bodies, the mechanism for the submission of the list of candidates for the election of the Board of Directors and the Board of Statutory Auditors by the special shareholders will not apply and, as a result, neither will the mechanism of automatic conversion of the Special Shares into Ordinary Shares linked to the submission by Special Shareholders of their own list of candidates for the office of member of the Issuer's Board of Directors, as set forth in Article 6, paragraph 4, point (f) of the Post-merger Bylaws, should the candidates presented in the above-mentioned list not be appointed. In light of the foregoing, the Issuer will undertake the necessary activities, as soon as possible after the listing of its financial instruments on the MTA with methods and timing compatible with applicable supervisory, Bylaw and other regulations, to make amendments to the text of the Post-merger Bylaws intended to eliminate the right for Special Shareholders to submit their own lists for the appointment of the corporate bodies and the resulting possibility of conversion of the Special Shares into, also for the purpose of the formal incorporation within the Bylaws of the above-mentioned waiver of the future holders of Special Shares, in any case already validly expressed by them and, as noted, disclosed to the Issuer during the shareholders' meetings of SPAXS and the Bank on 18 January 2019 and approved by the SPAXS special shareholders' meeting. Despite this, also taking into account that a specific timetable for making such changes to the bylaws has not been established, the risk exists that if the Issuer's bylaws are not amended with the formal elimination of the above right, disputes could arise for the Issuer in relation to the potential advantages of the owners of Special Shares in case of the submission of a list over the holders of Ordinary Shares.

Risks related to outsourcing services

The Bank has entered outsourcing service agreements that take on importance for the purposes of regulations on supervising the outsourcing of important operational functions (also known as FOIs).

Despite the fact that these outsourcing agreements include clauses and guarantees in the Bank's favour which are usual in operations of this nature, in addition to being exposed to the risks typically connected with operations relating to auxiliary, accounting and administrative services, the Bank is also exposed to the risks deriving from errors, omissions or delays in the services provided capable of causing discontinuity in the service provided compared to the contractually envisaged levels.

If the policies and procedures designed to identify, monitor and manage risks should turn out to be inadequate, or if the assessments and assumptions underlying these policies and procedures should turn out to be incorrect, or if the statistical models should be inaccurate, or if the data underlying these should lose their predictive power for future phenomena, the occurrence of certain specific events – currently unpredictable and unable to be assessed (also given the uncertainty and volatility that is a feature of market performance) – which lead to an increase in the risk (or a concentration of such) without the Issuer being able to deal with the effect in an adequate manner or adopt suitable corrective measures, could cause the Issuer to incur losses, also significant, with negative effects on the Bank's activities, its prospects and its financial position, results and cash flows.

Risks related to capital adequacy

As an institution authorised to provide banking services in Italy, the Issuer is subject to Italian laws and regulations applicable to the banking industry that are aimed at ensuring bank stability and solidity and limiting exposure to risk. The rules concerning capital adequacy for banks establish prudent minimum capital requirements, capital quality standards and mechanisms for mitigating risk.

Capital adequacy is one of the primary strategic objectives. As a result, outlooks and analyses are constantly conducted in order to maintain adequate levels of capital both to meet the minimum capital requirements and to ensure adequate margins for growth

Despite the fact that at the Prospectus Date the capital ratios exceed the minimum limits established by prudent regulations, investors must consider that it is still possible that, in the future, the Bank could, in response to external factors and other events that are unpredictable and/or out of its control and/or following further requirements by the supervisory authority, find itself with the need to further strengthen capital. It also cannot be excluded that the Bank could be unable to establish or maintain the minimum capital requirements established at any given time by the supervisory authority in a timely manner, with negative effects on the Issuer's activities and its financial position, results and cash flows.

Operational risks

The main sources giving rise to operating risks are: the lack of reliability – in terms of effectiveness/efficiency – of operating processes, internal and external fraud, operating errors, the qualitative level of physical and logical security, the inadequacy of the IT system compared to the size of operations, the rising recourse to automation, the outsourcing of business functions, the use of few suppliers, the adoption of changes in strategy, incorrect personnel management and training policies and finally social and environmental effects. Operational risk management is a component of an integrated risk management strategy aimed at limiting overall risk among other things through the prevention of the propagation and transformation of risks.

The Issuer governs the systematic and structured collection of loss data arriving from the various business departments, performs suitable analyses, assesses operational risks with the appropriate frequency and may propose suitable operational mitigation measures. The model for assessing and measuring operational risks is based on the use of internal operational loss information, collected from the network of business contacts, and is used exclusively for internal management purposes. For reporting purposes the Issuer uses BIA methodology. A disaster recovery plan is included as one of the means by which critical matters are managed, and this establishes the technical and organisational measures designed to deal with events that might cause the unavailability of the data processing centres. The plan, designed to enable key IT procedures to function at sites alternative to those used for production, forms an integral part of the operational continuity plan, adopted by the Bank's Board of Directors on 15 January 2014.

It cannot be excluded that the measures adopted by the Bank to mitigate the risk related to carrying out operations and designed to prevent and/or limit any possible negative effects may turn out to be insufficient for dealing with all the types of risk that may arise, and that one or more of these risks may occur in the future, also due to unforeseeable events wholly or partially outside the control of the Bank (including, for example, fraud, embezzlement or losses resulting from a lack of employee loyalty and/or a breach of control procedures). The occurrence of one or more of such risks could have negative effects on the Bank's activity, prospects, operating results and on its financial position, results and cash flows.

Risks related to related party transactions

The Issuer carried out transactions with Related Parties in the periods ended 30 September 2018 and 31 December 2017, 2016 and 2015 and continues to have such relationships at the Prospectus Date. Despite the fact that the Bank believes that such relationships are at arm's length conditions, there can be no guarantee that if the transactions carried out by the Bank with related parties had been carried out between, or with, unrelated parties, such parties would have negotiated and entered the relative agreements, or carried out the transactions governed by such under the same conditions and by the same means. If losses and/or asset impairment should arise or if liabilities should emerge from related party transactions there could be negative effects on the Bank's activity and results.

Liquidity risks

By liquidity risk is meant the Bank's inability to meet its certain payment obligations or those expected with reasonable certainty. This occurs when internal causes (a specific crisis) or external causes (macroeconomic conditions) lead to an unexpected reduction in available liquidity or an unexpected need to increase funding.

Risks related to proceedings concerning certain members of the Issuer's organisation

Risks related to the distribution of dividends

At the Prospectus Date, the Issuer does not have a dividend distribution policy. The 2018-2023 Business Plan does, however, envisage an increasing dividend from financial 2022, with a pay-out of approximately 20% in 2022 and approximately 25% in 2023. In this respect reference should be made to Chapter 13, Paragraph 13.6.1 of the Prospectus. The distribution of dividends could be excluded or limited by the need to comply with the capital requirements of laws and/or regulations applicable to the Issuer or imposed by the Bank of Italy. It is not possible to guarantee that the Issuer will earn distributable profits in the future or that, in that circumstance, the competent bodies will resolve to distribute dividends to shareholders.

Risks related to the applicability of new accounting standards

The Issuer prepares its financial statements in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, and applicable at the date of preparation of such statements. In this respect it should be taken in to consideration that in general terms the Bank might have to revise the accounting or regulatory treatment of certain existing assets and liabilities and transactions (and the connected income and expense), with possible negative effects, also significant, on the financial information.

On the other hand there are no particular changes for lessor companies, apart from the requirement for additional disclosures, for which the current distinction between operating and financial leases remains unchanged.

Analyses are currently taking place to determine the effect for the Bank of applying the new standard, designed mainly to establish the perimeter and relative accounting treatment of the assets used by the Bank under lease agreements.

Risks related to the administrative liability of legal persons

On 26 July 2018, the Bank introduced a Management and Control Organisation Model within the meaning of Legislative Decree no. 231/2001 for the purpose of creating a system of rules designed to prevent illegal acts being committed by persons in senior management positions, executives or in any case persons having decision-making powers and persons subject to management and supervision by persons in senior management positions, considered relevant for the purpose of applying that legislation.The adoption of the model, though, may not be a sufficient condition per se for exemption if the judicial authorities are required to assess the adequacy of the model in the event that one of the offences contemplated by Legislative Decree no. 231/2001 occurs.

Risks related to changes in fiscal law

Risks related to the provisional purchase price allocation for the acquisition of BIP by SPAXS

The completion of the Material Transaction by which on 20 September 2018 SPAXS acquired 99.165% of BIP's capital led to the recognition of a preliminary balance of EUR 21.6 million for goodwill in the consolidated financial statements of SPAXS as of 30 September 2018. This balance may change within the 12 months from of the date of acquisition of the investment due to the finalisation of the process of allocating the purchase price to the fair value of the individual assets and liabilities. It is expected that the process of allocating the purchase price to the net assets acquired will be completed when preparing the consolidated financial statements at 31 December 2018, within the time period permitted by IFRS 3. In addition, the reverse merger of SPAXS into BIP will be accounted for on the basis of the consolidated principle of the continuity of balances in business combinations between parents and subsidiaries. At the end of each year an assessment will be made of the final balance recognised as goodwill (by way of impairment testing) to identify the existence of any impairment losses, in accordance with IAS 36 Impairment of Assets. If in future the Issuer should identify a deterioration in its ability to generate cash flows and results, with the consequence that these are significantly different or worse than the estimates and forecasts, adjustments to the carrying amount of the goodwill may be needed. These adjustments, equal to the difference between the recoverable amount of the goodwill and its carrying amount, could lead to the recognition of impairment losses in the income statement, with negative effects on the Issuer's financial position, results and cash flows.

	<u>Risks related to outstanding disputes and the adequacy of provisions</u> The Bank operates within a legal and regulatory landscape that exposes it to a wide range of legal disputes related, for example, to the terms and conditions granted to customers, the nature and characteristics of the financial products and services provided, administrative irregularities, bankruptcy claims and labour-law suits. *<u>Risks related to alternative performance measures</u>* *<u>Risks related to the new "illimity" and "illimity bank" trademarks and completion of the registration process</u>* *<u>Risks related to the ability of the Issuer, as the surviving entity of the Merger, to carry forward fiscal losses and ACE excesses</u>* The ability for the company resulting from the Merger to carry forward certain of the tax assets of the merging companies, and specifically those arising from the tax losses and excess ACE balances of the merged company, SPAXS, depends on the need to pass certain tests required by Article 172, paragraph 7, of the TUIR. If for any reason there are significant changes to the present tax law or if future taxable income is lower than that forecast in the Business Plan, this could lead to negative effects on the Issuer's financial position, results and/or cash flows arising from the impossibility to realise such tax assets.
D.2	**Key information on the key risks that are specific to the Issuer.** *<u>Risks related to competition and operations in the banking and financial services industry</u>* *<u>Risks related to market volatility and the performance of financial instruments</u>* Market risk is the risk caused by losses in the value of the financial instruments held by the Issuer due to fluctuations in market variables (by way of example, but not limited, to interest rates, security prices, exchange rates, commodity prices, volatility and correlated effects) or to other factors that could compromise the Issuer's ability to redeem these instruments (credit spread), which could result in a deterioration of the Issuer's capital solidity. These fluctuations could be caused by a change in the general performance of the Italian and international economy, by trends in investment and divestment by qualified investors, by changes in monetary and fiscal policies, by global market liquidity, by the availability and cost of capital, by actions taken by ratings agencies, by local and international political events or by conflicts or terrorist attacks. As such, the Issuer is exposed to potential changes in the value of the financial instruments held due to fluctuations in interest rates, exchange rates, stock prices, commodity prices, credit spreads, and/or other risks. For the sake of completeness, it is noted that at the Prospectus Date the Ordinary Shares and the Conditional Share Rights of SPAXS, the company that will be absorbed into the Issuer as a result of the merger, have been admitted to trading on the AIM Italia multilateral

trading facility. The Ordinary Shares and the Conditional Share Rights began trading on the AIM Italia on 1 February 2018.

From the start of trading on the AIM Italia until 8 February 2019, the market value of the SPAXS Ordinary Shares declined by roughly 32%. Also considering the value of the free of charge Conditional Share Rights, in the ratio of 5 (five) Rights for every 10 (ten) shares held, incorporated into the price of the ordinary share at the time of listing on the AIM market and detached on 12 November 2018, the security's performance would have been down by around 25%. In the same period, the reduction in the FTSE AIM Italia index was roughly 11%. This is compared with a 37% drop in the reference European banking index.

Risks related to policy and economic decisions by European Union and eurozone nations and to the United Kingdom leaving the EU ("Brexit")

On 23 June 2016, the United Kingdom passed a referendum to leave the European Union (a move known as "Brexit").

Regardless of the timing and terms of the United Kingdom's exit from the European Union, the outcome of the June 2016 referendum has created a great deal of uncertainty concerning the political and economic outlook of both the United Kingdom and the European Union. The potential exit of the United Kingdom from the European Union, the potential exit of Scotland, Wales, or Northern Ireland from the United Kingdom, the possibility that other EU member states could pass similar referendums to that of the United Kingdom and the possibility that one or more nations that have adopted the euro as their national currency could decide, over the long term, to adopt an alternative currency, or extended periods of uncertainty surrounding these possibilities could have significantly negative impacts on international markets, including further declines in stock-market indexes, a weakening of the British pound, an increase in exchange rates between the pound and the euro and/or greater market volatility generally due to this heightened uncertainty, and this could have adverse consequences on the Issuer's operations and its financial position, results and cash flows.

Risks related to changes in regulations of the banking industry and other laws and regulations that concern the Issuer

Risks related to macroeconomic and political uncertainty

Risks related to changes in laws and regulations applicable to the business the Issuer intends to conduct in the NPL industry segment

It is the Issuer's intention to operate in the NPL sector by acquiring and subsequently managing and recovering impaired portfolios, including by way of entrusting these ancillary activities to specialised entities.

It cannot be excluded that a possible legislative or regulatory change that causes the recovery of dishonoured loans from debtors to be less effective, or requires this to be carried out on a different timescale from that currently in force or by different means,

	may have possible negative effects on the Issuer's activities and its financial position, results and cash flows. *Risks related to the bail-in* Italian Legislative Decree nos. 180/2015 and 181/2015 transposed Directive 2014/59/EU of the European Parliament and of the Council, known as the Banking Resolution and Recovery Directive (BRRD). One such resolution measure includes the "bail-in", which went into effect in Italy on 1 January 2016 and involves reducing the rights of shareholders and of creditors or converting these rights into equity in order to absorb the losses and recapitalise the bank in crisis or new entity that would continue its essential functions. This bail-in process is applied by following a hierarchy based on a principle that states that investors in riskier financial instruments must incur any losses or conversions of shares before others. Only after exhausting all resources of the category of highest risk do you move on to the next category. Accordingly should a crisis arise for which the Bank is then subject to resolution proceedings, the Bank's shares could be written down and/or the Bank's receivables could be cancelled or substantially reduced, in addition, the Issuer's shareholders could see their investments severely diluted in the event in which other liabilities are converted into shares at conversion rates that are particularly unfavourable to them. The receivables of the parties other than shareholders could participate in the losses based on the hierarchy described above. Therefore, investment in the Issuer's shares implies taking on the risks typically related to an investment in risk capital, such as the risk of loss, in whole or in part, of the capital invested should the Issuer be subject to bankruptcy proceedings or find itself in a situation or crisis or risk of collapse that results in application of resolution mechanisms such as the bail-in process. *Risks related to efforts to support system liquidity* *Risks related to trends in the real estate industry* Within the scope of its lending operations, the Bank is exposed to the risks of the real estate industry related both to the effect of lending to companies in the real estate industry, whose cash flows are generated mainly by leasing or selling commercial real estate, and, indirectly, to the effect of granting mortgage loans backed by real estate to individuals, should it become necessary to foreclose in the event of a default.
D.3	**Key information on the key risks that are specific to the securities.** *Characteristics typical of investments in financial instruments* Investments in the Bank's financial instruments are to be considered investments intended for expert investors who are aware of the characteristics of the financial markets and,

above all, of the type of business the Bank conducts, which is characterised by a particular set of business risks.

As such, the risk profile of such investments cannot be considered to be in line with investments typically pursued by investors with a low appetite for risk.

Risks related to trading on the MTA stock market, to market liquidity, and to the potential volatility of the Bank's financial instruments – Performance of the SPAXS Ordinary Shares and the SPAXS Conditional Share Rights

As of the Prospectus Date, the SPAXS Ordinary Shares and the Conditional Share Rights were listed on the AIM Italia market. As a result of the Merger and simultaneous admission to listing of illimity (as the surviving entity of the Merger), the Issuer's Ordinary Shares and Conditional Share Rights, issued in service of the Merger to holders of SPAXS Ordinary Shares and Conditional Share Rights and to the Issuer's other shareholders, are to be traded on the MTA market, and holders of these Ordinary Shares and Conditional Share Rights may liquidate their investments by selling their shares on this market.

However, even if Borsa Italiana authorises the start of trading in the Issuer's Ordinary Shares and Conditional Share Rights on the MTA, it cannot be guaranteed that a liquid market for the Company's Ordinary Shares and Conditional Share Rights will form or be maintained. The Company's Ordinary Shares and Conditional Share Rights could be subject to significant fluctuations in price or suffer ordinary, generalised problems of liquidity, and offers to sell may not find suitable buyers in a timely manner. Furthermore, once the process for listing on the MTA market has been completed, the market price of the Company's Ordinary Shares and Conditional Share Rights could fluctuate significantly in response to a series of factors, some of which are beyond the Issuer's control, and this price could, therefore, not reflect the Company's actual operating performance.

Risks related to the dilution of shares

As of the Prospectus Date, the Promoters hold all of the 1,440,000 SPAXS Special Shares, which are not traded on the AIM Italia market and are convertible into SPAXS Ordinary Shares in accordance with the SPAXS bylaws at a ratio of 8 SPAXS Ordinary Shares for each SPAXS Special Share (for a total of 11,520,000 SPAXS Ordinary Shares) in the event that, by 20 September 2022, the average price of the SPAXS Ordinary Shares traded on the AIM Italia market (or other regulated market in Italy), for at least 22 consecutive trading days, be greater than or equal to EUR 13.9663866 per SPAXS Ordinary Share.

In service of the Merger, the Issuer will issue 1,440,000 Special Shares (as per the Post-merger Bylaws) with the same characteristics as the SPAXS Special Shares (including the conversion), which are to be allocated to the Sponsors in a 1:1 exchange for the SPAXS Special Shares held as of the Prospectus Date.

It should also be noted that any conversion of the Special Shares into Ordinary Shares will result in a dilution of the interests of holders of Ordinary Shares.

As of the Prospectus Date, the merged company SPAXS has issued 28,492,827 SPAXS Conditional Share Rights, which are traded on the AIM Italia market and give the right to receive 1 SPAXS Ordinary Share for every 5 SPAXS Conditional Share Rights held by 20 September 2019, for a maximum total of 5,698,565 SPAXS Conversion Shares.

In service of the Merger, the Issuer will issue 28,492,827 Conditional Share Rights (as per the Conditional Share Rights Regulation), which will be assigned to the holders of the SPAXS Conditional Share Rights in a 1:1 ratio. The illimity Conditional Share Rights will have the same features as the SPAXS Conditional Share Rights, including the right to conversion into Ordinary Shares of the Issuer by 20 September 2019.

It should also be noted in this respect that conversion of the Issuer's Conditional Share Rights into Ordinary Shares will result in a dilution of the interest of holders of the Issuer's Ordinary Shares, represented by voting rights. Conversely, should any shareholders transfer their Conditional Share Rights by the aforementioned date of 20 September 2019, their interest in the Bank will be diluted.

Risks related to availability restrictions on the shares held by the shareholders

Tetis and AC Valuecreation have entered a lock-up agreement with Banca IMI and Credit Suisse Securities (Europe) Limited, as joint global coordinators for SPAXS in the restricted offer having the aim of admitting such to the AIM Italia, based on the SPAXS Ordinary Shares arising from the conversion of the SPAXS Special Shares that are held by Tetis and AC Valuecreations and/or other companies directly and/or indirectly controlled by such. This lock-up agreement was also confirmed for after the Merger and accordingly with regard to the Issuer's Ordinary Shares; the lock-up has a term of 12 months from the respective conversion date and, therefore, up to 21 November 2019 (the date corresponding to the 12th month from the conversion of the first tranche of SPAX Special Shares which took place on 21 November 2018), with reference to 2,138,400 SPAXS Ordinary Shares and 21,600 SPAXS Ordinary Shares held by Tetis and AC Valuecreations respectively, which for the purposes of the Merger will be exchanged for an equal number of the Issuer's Ordinary Shares.

Potential conflicts of interest for the Issuer's directors and senior management

It is noted that: (i) board member Alessandro Gennari holds 4,500 SPAXS Ordinary Shares, equal to approximately 0.0076% of the company's voting rights; (ii) Tetis S.p.A. ("**Tetis**", 98.67% of which is held by Metis S.p.A. ("**Metis**"), in which the Managing Director, Corrado Passera, holds a 90% interest and board member Brambilla holds a 5% interest) holds 1,425,600 SPAXS Special Shares and 2,138,400 SPAXS Ordinary Shares (equal to 3.60% of SPAXS shares with voting rights); (iii) board member Diamond is the majority shareholder, indirectly, of Atlas Merchant Capital Fund LP, which, in turn, holds 100% of the shares in AMC Metis SARL. AMC Metis SARL holds 7.75% of the SPAXS shares with voting rights; (iv) board member Diaz della Vittoria Pallavicini holds, indirectly - through the subsidiary SDP Holding di Partecipazioni S.r.l., a company of which he is Sole Director, and whose entire share capital is held directly and indirectly by board member Diaz - 100% of SDP Capital Management Ltd., of which Diaz is a board member, the alternative

	investment fund manager (AIFM) of SDP RAIF – Genesis (of which, however, neither the board member himself nor parties related and/or associated with him are unitholders), which holds 9.88% of the SPAXS shares. In addition, at the Prospectus Date, the fund SDP RAIF – Genesis is the majority shareholder relative to SPAXS (and following the Merger, the Issuer) with a holding of 9.88% in the share capital and this situation could also continue in case of the conversion of the Special Shares into Ordinary Shares under the minimum conversion ratio (1:1). Despite the existence of these holdings, the Issuer's Board of Directors has expressed its belief, most recently on 11 February 2019, that these do not act as an impediment in qualifying board member Diaz as an Independent Director pursuant to Article 148 of the TUF and Article 3 of the Corporate Governance Code; (v) AC Valuecreation S.r.l. ("**AC Valuecreation**", held in its entirety by Andrea Clamer) holds 14,400 SPAXS Special Shares and 21,600 SPAXS Ordinary Shares (equal to 0.04% of SPAXS shares with voting rights); and (vi) the senior managers Andrea Clamer (by way of AC Valuecreation), Carlo Panella, Enrico Fagioli, and Francesco Mele hold special-category shares in Tetis and served as members of the Tetis board of directors as of the Prospectus Date. These shares, which may be owned solely by directors of the company, do not have voting rights and grant the right to receive a return on the investment made by the company by assigning Ordinary Shares (totalling a 4.8% interest in the Bank) on the condition that the SPAXS Special Shares held by Tetis are fully converted upon achieving the objectives set in the SPAXS bylaws and subordinate to the fact that all holders of Tetis ordinary shares have achieved a certain return on their investment in that company. All of the above shall be understood to refer to the Issuer and to the Issuer's Ordinary and Special Shares upon completion of the Merger. *<u>Relations with the Sponsor and potential conflicts of interest of the Sponsor</u>* As Sponsor, Banca IMI will be paid a fee for services rendered pursuant to the sponsorship agreement entered into with the Issuer on 22 November 2018. In addition, Banca IMI has acted as Nomad, Specialist, Joint Global Coordinator and Joint Bookrunner, receiving the relative fees and commissions, by placing the ordinary shares and conditional share rights that are the subject of the SPAXS offer made in connection with the listing on the AIM which took place on 1 February 2018. In relation to such roles, Banca IMI received another placement fee on the finalisation of the Material Transaction. Fideuram – Intesa Sanpaolo Private Banking S.p.A., a member of the Intesa Sanpaolo Group, was engaged by SPAXS as Placing Agent and received a fee for its services. As part of its ordinary operations, Banca IMI and/or one of the other companies belonging to the Intesa Sanpaolo Group might in future render trading, lending, investment banking, asset management or corporate finance services, also on a continuous basis, in favour of the Issuer, for which it will receive fees, and operate, on its own behalf or on behalf of its customers, on financial instruments issued by the Issuer. Finally, at the Prospectus Date, Banca IMI holds 1,247,900 SPAXS Ordinary Shares, corresponding to 2.10% of the ordinary share capital of SPAXS, and 1,360 SPAXS Conditional Share Rights. As a consequence, due to the Merger, Banca IMI will hold an equal number of Ordinary Shares and Conditional Share Rights.

SECTION E – OFFER

E.1	**The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the Issuer.** Expenses of EUR 2.1 million are expected to be incurred in the Bank's listing process and these will be borne by the Issuer.
E.2a	**Reasons for the offer, use of proceeds, estimated net amount of the proceeds.** The transaction described in the Prospectus does not envisage the offering and/or issue of financial products whose exclusive aim is the admission of the Company's Shares and Conditional Share Rights to trading on the MTA.The Issuer has proceeded with the listing project as a means of benefiting from the greater visibility that this will bring.
E.3	**A description of the terms and conditions of the offer.** Not applicable.
E.4	**A description of any interest that is material to the issue/offer including conflicting interests.** Not applicable.
E.5	**Name of the person or entity offering to sell the security. Lock-up agreements: the parties involved; and indication of the period of the lock-up.** Not applicable.
E.6	**The amount and percentage of immediate dilution resulting from the offer. In the case of a subscription offer to existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.** The listing does not lead to the issuing of new ordinary shares by the Company and accordingly no dilution effect arises from the Merger. Nevertheless shareholdings in the Issuer will undergo changes over time for the following reasons: (i) the completion of the Merger, (ii) the assignment of a maximum of 5,698,565 Conversion Shares deriving from all the outstanding 28,492,827 Conditional Share Rights and (iii) the conversion of all the Issuer's 1,440,000 Special Shares into 11,520,000 Ordinary Shares, in the case stipulated by the bylaws of the conversion of the former into the latter in the ratio of 1:8 (i.e. when triggered by the specified performance of the prices of the Ordinary Shares on the MTA), or (iv) the conversion of all the Issuer's 1,440,000 Special Shares into 1,440,000 Ordinary Shares, in the case stipulated by the bylaws of the conversion

	of all the former into the latter in the ratio of 1:1 (i.e. if the event referred to in point (iii) has not been triggered by the deadline of 20 September 2022 set by the bylaws). Compared to the Prospectus Date, on the occurrence of the above conditions (under (i) and (ii) and accordingly taking account of the completion of the Merger and the assignment of the Conversion Shares), the Issuer's ordinary shareholders, by this meaning the total of (a) the ordinary shareholders of SPAXS at the Prospectus Date other than the Promoters and (b) the ordinary shareholders of the Bank at the Prospectus Date other than SPAXS, will hold a total investment in the Issuer's share capital of (x) 82.2%, corresponding to a dilution, represented by the Issuer's voting rights, of 17.8% (on the assumption of the conversion of all the Special Shares in the ratio of 1:8) and (y) 94.6%, corresponding to a dilution, represented by the Issuer's voting rights, of 5.4% (on the assumption of the conversion of all the Special Shares in the ratio of 1:1). These dilutions correspond to 17.9% and 5.5% respectively for the ordinary shareholders of SPAXS alone at the Prospectus Date other than the Promoters; as well as a dilution for the shareholders of the Issuer other than the shareholders of SPAXS and the Promoters at the Prospectus Date from a proportion of the Issuer's voting rights of 0.08% to proportions of 0.06% and 0.075% respectively. The figures described above and set out in the following table do not take account of the percentage of voting rights deriving from the purchase by the Bank as the result of the Merger of 74 ordinary shares of BIP for which the minority shareholders have exercised their sales rights pursuant to and in accordance with Article 2505-bis, first paragraph, of the Italian civil code, as this has no material effect. Further details can be found in Chapter 5, Paragraph 5.1 of the Prospectus.

Situation at the Prospectus Date		Post-merger situation	Post-merger situation, assignment of Conversion Shares based on the Conditional Share Rights	Fully diluted (post-merger situation, assignment of Conversion Shares based on the Conditional Share Rights and conversion of Special Shares)	
				Conversion of Special Shares in the ratio 1:1	Conversion of Special Shares in the ratio 1:8
Shareholder	**% of share capital with voting rights**	**% of share capital with voting rights**	**% of share capital with voting rights**	**% of share capital with voting rights**	**% of share capital with voting rights**
SPAXS S.p.A.(*)	99.17%	-	-	-	-
Minority shareholders of BIP	0.83%	0.08%	0.08%	0.075%	0.065%
SDP RAIF – Genesis(**)(1)	-	9.88%	9.01%	8.82%	7.66%
AMC Metis S.a.r.l.(**)(***)(2)	-	7.74%	7.06%	6.91%	6.00%(***)
Tensile-Metis Holdings S.a.r.l.(**)(3)	-	6.23%	5.68%	5.56%	4.83%
AZ Fund Management SA(**)(4)	-	5.07%	4.63%	4.53%	3.93%
Tetis S.p.A. (**)(***)(5)	-	3.60%	3.28%	5.35%	17.67%(***)
AC Valuecreations S.r.l. (**)(6)	-	0.04%	0.03%	0.05%	0.18%
Banca IMI (**)	-	2.02%	1.84%	1.80%	1.56%
Floating capital (**)	-	65.35%	68.39%	66.91%	58.11%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

(*) As a result of the Merger, at the effective date SPAXS will no longer exist vis-à-vis third parties.

(**) Shareholders of SPAXS at the Prospectus Date.

(***) To the best of the Issuer's knowledge and belief, according to the provisions of the term sheet agreed by Metis S.p.A. (which controls Tetis S.p.A.) and AMC Metis S.a.r.l. (which is controlled by Atlas Merchant Capital LP), for which reference should be made to the First Section, Chapter 14, Paragraph 14.2.1 of the Prospectus, the interest of Atlas in the Issuer could increase, and that of Tetis correspondingly decrease, for a maximum amount of 1% (on a fully diluted basis) of the Issuer's share capital.

(1) An investment fund managed by (AIFM) SDP Capital Management Ltd., a company whose capital is 100% owned by SDP Partecipazioni S.r.l., whose quota capital in turn is held as to 70% by Diaz della Vittoria Pallavicini and as to the remaining 30% by SDP Advisory S.A., a Swiss company 100% owned by Diaz della Vittoria Pallavicini.

(2) A company wholly controlled by Atlas Merchant Capital Fund LP, of which board member Diamond is the majority shareholder.

(3) On the basis of the information available to the Issuer, this company is 100% held by Tensile Capital Partners Master Fund L.P., of which Tensile Capital Management LLC (whose controlling owner as well as Managing Partner is Arthur Chiakai Young) is the manager of such fund.

(4) A member of the Azimut Group.

(5) Tetis is a Promoter of SPAXS together with AC Valuecreations S.r.l.. The share capital of Tetis is held as to 98.67% by Metis S.p.A., whose share capital is held as to 90% by the Manging Director Corrado Passera, as to 5% by the Director Massimo Brambilla and as to 5% by Luca Arnaboldi. The remaining share capital of Tetis is represented by special category shares which are held by AC Valuecreations S.r.l. and by other Senior Managers of the Bank, Enrico Fagioli, Francesco Mele and Carlo Panella.

(6) AC Valuecreations S.r.l. is wholly owned by Andrea Clamer, and at the Prospectus Date holds 21,600 ordinary shares of SPAXS. In this respect reference should be made to Paragraphs 14.2.1. and 14.2.3.

E.7 Estimated expenses charged to the investor by the Issuer.

Not applicable.

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FIRST SECTION

1. PERSONS RESPONSIBLE

1.1 Entities responsible

The Issuer and SPAXS, as the entity that at the Prospectus Date holds approximately 99.17% of the Issuer's share capital, assume the responsibility for the completeness and truthfulness of the information contained in the Prospectus.

1.2 Declaration of responsibility

Having taken all reasonable diligence for such purpose, the Issuer and SPAXS declare that to the best of their knowledge and belief the information contained in the Prospectus corresponds to the facts and that there are no omissions that might alter its meaning.

The Prospectus corresponds to the version filed with Consob on 1 March 2019, on receipt of the notification that Consob had issued its provision in a note dated 28 February 2019 bearing protocol no. 0112812/19.

2. AUDITORS

2.1 Issuer's legal auditors

At the Prospectus Date, KPMG S.p.A. ("KPMG") is the firm engaged to perform the Issuer's legal audit.

More specifically, following the prior favourable opinion of the Board of Statutory Auditors, on 17 December 2018 the Issuer's Ordinary Shareholders' Meeting adopted a resolution for the mutual termination of the agreement entered into by the Bank with Deloitte & Touche S.p.A. ("Deloitte") for the engagement of Deloitte as legal auditors for the years from 2012 to 2020 (first and last years inclusive), as approved by shareholders on 24 May 2012, and at the same time appointed KPMG to perform the legal audit of the Issuer's financial statements and carry out procedures to ensure that the corporate accounting records have been properly maintained and that operations are properly recorded in the accounting entries for the years from 2018 to 2026 (first and last years inclusive), pursuant to Legislative Decree no. 39 of 27 January 2010, implementing Directive 2006/43/EC.

Considering that at the Prospectus Date KPMG also performs the legal audit of the subsidiary SPAXS, the above resolution to appoint KPMG adopted by the shareholders of BIP permits the procedures carried out for the legal audit to be rationalised and simplified, and enables the costs and administrative expenses connected with such to be reduced.

As further described in Chapter 20 of the Prospectus, to which reference should be made for additional details, the information of a financial, economic and cash-flow nature in the Prospectus has been extracted from:

- the interim financial statements of BIP for the nine months ended 30 September 2018 (the "BIP 9M 2018 Interim Financial Statements"), prepared in accordance with the international accounting standard applicable to interim reporting (IAS 34), approved by the Board of Directors of BIP on 12 November 2018 and reviewed by Deloitte & Touche S.p.A., which issued an unqualified opinion thereon dated 15 November 2018;
- the annual financial statements of BIP as of and for the year ended 31 December 2017 (the "BIP 2017 Financial Statements"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union (IFRS), as well as the provisions issued in implementation of Article 43 of Legislative Decree no. 136/15, approved by the Board of Directors of BIP on 29 March 2018 and audited by Deloitte & Touche S.p.A., which issued an unqualified opinion thereon dated 3 April 2018. As regards the auditors' report on the annual financial statements for the year ended 31 December 2017, no findings were notified to the heads of governance as to any significant weaknesses in internal control identified during the audit;
- the consolidated financial statements of BIP and its subsidiary as of and for the year ended 31 December 2016 (the "BIP 2016 Financial Statements"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union (IFRS), as well as the provisions issued in implementation of Article 43 of Legislative Decree no. 136/15, approved by the Board of Directors of BIP on 30 March 2017 and audited by Deloitte & Touche S.p.A., which issued an unqualified opinion thereon dated 12 April 2017;

- the annual financial statements of BIP as of and for the year ended 31 December 2015 (the "BIP 2015 Financial Statements"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union (IFRS), as well as the provisions issued in implementation of Article 9 of Legislative Decree no. 38/05, approved by the Board of Directors of BIP on 8 February 2016 and audited by Deloitte & Touche S.p.A., which issued an unqualified opinion thereon dated 10 February 2016;
- the interim consolidated financial statements of SPAXS for the period from its date of incorporation (20 December 2017) to 30 September 2018 (the "SPAXS 9M 2018 Interim Consolidated Financial Statements"), prepared in accordance with the international accounting standard applicable to interim reporting (IAS 34), approved by the Board of Directors of SPAXS on 30 November 2018 and reviewed by KPMG S.p.A., which issued an unqualified opinion thereon dated 30 November 2018;
- the interim consolidated financial statements of SPAXS for the period from its date of incorporation (20 December 2017) to 30 June 2018 (the "SPAXS 1H 2018 Interim Consolidated Financial Statements"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union (IFRS), approved by the Board of Directors of SPAXS on 30 October 2018 and audited by KPMG S.p.A., which issued an unqualified opinion thereon dated 22 November 2018.

The reports of Deloitte are KPMG are attached as an Annex to the Prospectus.

Neither Deloitte nor KPMG (to the extent of their responsibility) reported any findings on the Company's financial statements which they audited, nor did they refuse to issue an opinion on such, for the years to which the financial information in the Prospectus refers.

The auditors' reports issued by Deloitte on the Issuer's annual financial statements as of and for the year ended 31 December 2017, the Issuer's consolidated financial statements as of and for the year ended 31 December 2016 and the Issuer's annual financial statements as of and for the year ended 31 December 2015, as well as on the interim financial statements of BIP as of and for the nine months ended 30 September 2018, contain no emphasis of matter paragraphs. In addition, the auditors' reports issued by KPMG on the interim financial statements of SPAXS for the period from its date of incorporation (20 December 2017) to 30 June 2018 and the interim consolidated financial statements of SPAXS for the period from its date of incorporation (20 December 2017) to 30 September 2018 also contain no emphasis of matter paragraphs.

2.2 INFORMATION ON RELATIONS WITH THE AUDITORS

With the exception of the matter discussed in Paragraph 2.1 above relating to the mutual termination of the agreement to engage Deloitte, neither Deloitte nor KPMG withdrew from the engagement, nor were they removed from the engagement, nor was such engagement revoked for the period to which the financial information contained in the Prospectus refers.

3. SELECTED FINANCIAL INFORMATION

Introduction

The Business Combination between the Issuer and SPAXS S.p.A. approved by the respective general shareholders' meetings and carried out on 20 September 2018 (a description of which can be found below) and the reverse Merger to be performed by merging the parent SPAXS into the Issuer (a description of which can be found in Paragraph 5.1.5 and Chapter 22), authorised by the Bank of Italy on 11 December 2018 and approved by the extraordinary general meetings of the shareholders of the Issuer and of SPAXS S.p.A. on 18 January 2019, are examples of complex financial history as per Article 4a of Regulation (EC) no. 809/2004, from which the need additionally arises to include the financial information for the Issuer and SPAXS and pro-forma financial information for illimity, the company arising from the Merger.

The Business Combination also led to the need for SPAXS S.p.A. to prepare its first set of consolidated financial statements at 30 September 2018 to consolidate the Issuer's figures.

This chapter sets out in summarised form:

- key information on the financial position of BIP as of 30 September 2018 and 31 December 2017, 2016 and 2015;
- key information on the income statement of BIP for the nine months ended 30 September 2018 and 2017 and the years ended 31 December 2017, 2016 and 2015;
- key information on the financial position of SPAXS as of 30 September 2018 and 30 June 2018;
- key information on the income statement of SPAXS for the period from its date of incorporation (20 December 2017) to 30 September 2018 and for the period from its date of incorporation (20 December 2017) to 30 June 2018;
- the pro-forma financial statements of illimity as of and for the nine months ended 30 September 2018 which describe the effect of the Business Combination and any other significant events/extraordinary transactions;
- the pro-forma financial statements of illimity as of and for the six months ended 30 June 2018 which describe the effect of the Business Combination and any other significant events/extraordinary transactions;
- the pro-forma balance sheet of illimity at 31 December 2017 which describes the effect of the Business Combination and any other significant events/extraordinary transactions.

On 18 July 2018, BIP acquired control of "Banca Emilveneta S.p.A.". As a result of this transaction, consolidated financial statements were prepared at 31 December 2016. Subsequently, by way of a merger deed dated 2 August 2017 and in performance of the resolutions adopted by the respective shareholders, Banca Emilveneta was merged into BIP. It was accordingly not necessary to prepare consolidated financial statements at 31 December 2017.

The financial, economic and cash-flow information included in this Chapter has been extracted from the following:

- the interim financial statements of BIP as of and for the nine months ended 30 September 2018 (the "BIP 9M 2018 Interim Financial Statements"), prepared in accordance with the international accounting standard applicable to interim reporting (IAS 34), approved by the Board of Directors of BIP on 12 November 2018 and reviewed by Deloitte & Touche S.p.A., which issued an unqualified opinion thereon dated 15 November 2018;

- the annual financial statements of BIP as of and for the year ended 31 December 2017 (the "BIP 2017 Financial Statements"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union (IFRS), as well as the provisions issued in implementation of Article 43 of Legislative Decree no. 136/15, approved by the Board of Directors of BIP on 29 March 2018 and audited by Deloitte & Touche S.p.A., which issued an unqualified opinion thereon dated 3 April 2018;
- the consolidated financial statements of BIP and its subsidiary as of and for the year ended 31 December 2016 (the "BIP 2016 Financial Statements"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union (IFRS), as well as the provisions issued in implementation of Article 43 of Legislative Decree no. 136/15, approved by the Board of Directors of BIP on 30 March 2017 and audited by Deloitte & Touche S.p.A., which issued an unqualified opinion thereon dated 12 April 2017;
- the annual financial statements of BIP as of and for the year ended 31 December 2015 (the "BIP 2015 Financial Statements"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union (IFRS), as well as the provisions issued in implementation of Article 9 of Legislative Decree no. 38/05, approved by the Board of Directors of BIP on 8 February 2016 and audited by Deloitte & Touche S.p.A., which issued an unqualified opinion thereon dated 10 February 2016;
- the interim consolidated financial statements of SPAXS as of and for the period from its date of incorporation (20 December 2017) to 30 September 2018 (the "SPAXS 9M 2018 Interim Consolidated Financial Statements"), prepared in accordance with the international accounting standard applicable to interim reporting (IAS 34), approved by the Board of Directors of SPAXS on 30 November 2018 and reviewed by KPMG S.p.A., which issued an unqualified opinion thereon dated 30 November 2018;
- the interim financial statements of SPAXS as of and for the period from its date of incorporation (20 December 2017) to 30 June 2018 (the "SPAXS 1H 2018 Interim Financial Statements"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union (IFRS), approved by the Board of Directors of SPAXS on 30 October 2018 and audited by KPMG S.p.A., which issued an unqualified opinion thereon dated 22 November 2018.

Further details concerning the pro-forma financial information that gives retrospective effect to the Business Combination can be found in Chapter 20, Paragraph 20.2. For a better understanding of the activities carried out by illimity reference should also be made to the forecast data extracted from illimity's 2018-2023 Business Plan presented in Chapter 13.

Alternative Performance Measures ("APMs")

To facilitate an understanding of the Issuer's economic and financial performance the directors have identified a series of Alternative Performance Measures ("APMs"). The APMs are presented in the Prospectus in accordance with the guidelines contained in the document ESMA/2015/1415 and at point 100 of the ESMA/2016/1674 FAQ.

The following matters are noted to ensure a proper interpretation of the APMs:

(i) these indicators have been calculated solely for the Issuer's historical data and are not indicative of the Issuer's future performance;

(ii) APMs are not envisaged by International Financial Reporting Standards (IFRSs) (they are non-GAAP financial measures) and even if extracted from the Issuer's financial statements have not been audited;

(iii) APMs should not be considered as replacements for the measures envisaged by International Financial Reporting Standards (IFRSs);

(iv) the APMs should be read together with the Issuer's financial information extracted from its financial statements as of and for the years ended 31 December 2017, 2016 and 2015 and as of and for the nine months ended 30 September 2018 presented in Chapters 9, 10 and 20 of the Prospectus;

(v) as they are not envisaged by IFRSs, the definitions of the measures used by the Issuer may not be consistent with those adopted by other companies/groups and may therefore not be comparable;

(vi) the APMs have been calculated with continuity and consistency of definition and representation for all the periods for which the financial information in the Prospectus is presented.

The Issuer has selected and represented the APMs set out below in the Prospectus as it believes that they are a useful means of obtaining a better understanding of its economic and financial performance.

The profitability and balance sheet ratios used are as follows:

- Return on Equity (R.O.E.), obtained by dividing net profit by equity, is an economic ratio that measures the profitability of shareholders' funds.This ratio is used to assess the remuneration of risk capital, representing the return on the capital contributed by shareholders to a company;
- Return on Assets (R.O.A.), obtained by dividing net profit by total assets, is an economic ratio representative of the percentage return earned by the investments made by a company;
- the Cost/Income ratio, calculated as the ratio between operating expenses and total revenues extracted from the reclassified management income statement, is one of the main indicators of the Bank's operational efficiency; the lower the ratio, the greater the efficiency
- the Common Equity Tier 1 Ratio (the CET 1 Ratio), calculated as the ratio between Common Equity Tier 1 and total risk-weighted assets.

For the following indices the introduction of the new accounting standard IFRS 9 (on 1 January 2018) has led to significant changes in the classification and measurement of financial instruments compared to the previous IAS 39. More specifically, the carrying amount of loans and debt securities classified as financial assets at amortised cost and financial assets at fair value through other comprehensive income, and the amounts included in the disclosures for significant off-balance sheet exposures, have been adjusted in accordance with the new approach taken by IFRS 9.

In particular:

- Net Adjustments to Receivables/Loans to Customers, calculated as the ratio between net write-downs/reversals of write-downs for credit risk on financial assets at amortised cost and total loans to customers (as per the reclassified balance sheet), is representative of the provisions made in a given period as a percentage of outstanding receivables;

- Net Bad Loans to Customers/Loans to Customers is representative of net bad loans as a percentage of total loans to customers (as per the reclassified balance sheet);
- Gross Non-Performing Loans/Gross Loans to Customers is representative of gross non-performing loans as a percentage of total loans to customers (as per the reclassified balance sheet).

The financial and economic information presented below should be read together with the information contained in Chapters 9, 10 and 20 of the First Section of the Prospectus.

3.1 Selected financial information for BIP as of and for the period ended 30 September 2018

The following paragraphs present the statement of financial position, income statement and statement of cash flows extracted from the BIP 9M 2018 Interim Financial Statements as supplemented by additional accounting information.

Statements of financial position as of 30 September 2018 and 31 December 2017

The statements of financial position of BIP as of 30 September 2018 and 31 December 2017 (restated) and changes in absolute and percentage terms are as follows.

The figures have been reclassified using management accounting criteria designed to best represent the bank's economic and financial situation, considering the specifics of a set of financial statements prepared for a bank. The aim of doing this is to simplify a reading of the statements by means of specific aggregations of items and reclassifications.

Further details of the main changes can be found in the information included in Chapters 9 and 10 of the First Section of the Prospectus.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Change 2018 vs 2017**	**Change % 2018 vs 2017**
Financial assets other than receivables	443,495	608,021	(164,526)	(27.06%)
Due from banks	150,441	125,338	25,103	20.03%
Due from customers	333,183	326,049	7,134	2.19%
Equity investments	-	-	-	-
Tangible and intangible assets	2,064	1,836	228	12.42%
Tax assets	11,062	6,285	4,777	76.01%
Other assets	15,523	6,884	8,639	>100%
Total assets	**955,768**	**1,074,413**	**(118,645)**	**(11.04%)**
Due to banks	257,603	470,623	(213,020)	(45.26%)
Direct deposits from customers	587,998	528,978	59,020	11.16%
Deferred tax liabilities	335	2,110	(1,775)	(84.12%)
Liabilities associated with non-current assets and disposal groups held for sale	-	-	-	-
Other liabilities	18,604	10,124	8,480	83.76%
Specific provisions	922	2,508	(1,586)	(63.24%)
Net equity	90,306	60,070	30,236	50.33%
Total liabilities and equity	**955,768**	**1,074,413**	**(118,645)**	**(11.04%)**

The figures at 31 December 2017 (determined in accordance with IAS 39) have been restated on the basis of the new line items arising from the reclassifications made necessary under the new classification criteria introduced by IFRS 9, which therefore did not lead to any changes in total assets or total liabilities.

These consist of combined restatements of items included in the statement of financial position as required by Circular 262/2005 of the Bank of Italy – 5th revision of 22 December 2017.

2018 vs 2017

Applications

The item "Financial assets other than receivables" at 30 September 2018 amounted to EUR 443 million, a decrease of EUR 165 million (-27%) over the balance at 31 December 2017.

More specifically, at 30 September 2018, this item consisted of:

- units in UCIs measured at fair value through profit or loss amounting to EUR 29 million;
- debt securities measured at fair value through comprehensive income amounting to EUR 289 million, of which EUR 262 million relating to the public administration (Italian government bonds) and EUR 27 million to banks;
- debt securities measured at amortised cost amounting to approximately EUR 125 million relating to the public administration (Italian government bonds).

The change in this item is mainly attributable to a decrease in government bonds as part of steps being taken to reduce the exposure to the risk on Italian government and corporate bonds; a nominal amount of these totalling EUR 157.5 million was sold in the period.

Amounts due to banks amounted to EUR 150 million, a rise of EUR 25 million (+20%) over 31 December 2017. More specifically, at 30 September 2018, this item consisted of:

- unrestricted deposits with central banks of approximately EUR 76 million;
- loans to banks of approximately EUR 74.5 million.

The increase of EUR 50 million in demand deposits with central banks was only partially offset by a decrease of EUR 25 million in loans to banks.

There was a rising trend in loans to customers[1] as a proportion of total assets, with an increase from 30% in 2017 to 35% in 2018. In further detail, loans to customers of EUR 333 million at 30 September 2018 (+2% over 31 December 2017) can be analysed as follows:

- current accounts, of approximately EUR 118 million, a rise of 9% over 31 December 2017;
- mortgage loans, of approximately EUR 201 million, a fall of 3% over 31 December 2017;
- credit cards, personal loans and salary-backed loans of approximately EUR 1 million, an increase of 7% over 31 December 2017;
- other loans, of approximately EUR 12 million, a rise of 27% over 31 December 2017.

The following tables set out the composition of loans to customers at 30 September 2018. For further details of percentage coverage reference should be made to Chapter 9, Paragraph 9.1.2.2 of the Prospectus.

LOANS TO CUSTOMERS

(Thousands of euros)	**Gross exposure**		**Adjustments**	**Carrying amount**		**Level of coverage**
At 30 September 2018						
Non-performing loans	22,196	6.42%	(10,235)	11,961	3.59%	46.11%
of which forborne exposures	*6,861*	*1.98%*	*(3,122)*	*3,739*	*1.12%*	*45.50%*
- Bad loans	15,721	4.54%	(8,201)	7,520	2.26%	52.17%
- Unlikely-to-pay	6,033	1.74%	(1,985)	4,048	1.21%	32.90%
- Overdrawn/past-due exp.	442	0.13%	(49)	393	0.12%	11.09%
Performing loans	323,799	93.58%	(2,577)	321,222	96.41%	0.80%
of which forborne exposures	*4,356*	*1.26%*	*(104)*	*4,252*	*1.28%*	*2.39%*
Total	**345,995**	**100.00%**	**(12,812)**	**333,183**	**100.00%**	**3.70%**

(1) The item "Loans to customers" in the reclassified balance sheet consists of the item "Receivables from customers" in the official formats as per Circular 262 of the Bank of Italy – 5th revision less debt securities at amortised cost due to customers which have been reclassified to the item "Financial assets other than receivables".

LOANS TO CUSTOMERS						
(Thousands of euros)	**Gross exposure**		**Adjustments**	**Carrying amount**		**Level of coverage**
At 30 September 2017						
Non-performing loans	18,377	5.44%	(8,204)	10,173	3.12%	44.64%
of which forborne exposures	*7,848*	*2.32%*	*(3,096)*	*4,752*	*1.46%*	*39.45%*
- Bad loans	10,527	3.12%	(5,614)	4,913	1.51%	53.33%
- Unlikely-to-pay	7,729	2.29%	(2,585)	5,144	1.58%	33.45%
- Overdrawn/past-due exp.	121	0.04%	(5)	116	0.04%	4.13%
Performing loans	319,314	94.56%	(3,438)	315,876	96.88%	1.08%
of which forborne exposures	*2,520*	*0.75%*	*(70)*	*2,450*	*0.75%*	*2.78%*
Total	**337,691**	**100.00%**	**(11,642)**	**326,049**	**100.00%**	**3.45%**

As far as credit quality is concerned, non-performing loans represented approximately 6.4% of total gross loans to customers at 30 September 2018 compared to 5.4% at 31 December 2017.

Gross bad loans represented 4.5% of gross loans to customers at 30 September 2018 compared to 3.1% at 31 December 2017, and unlikely-to-pay exposures represented 1.74% at 30 September 2018 against 2.29% at 31 December 2017.

The following provides an analysis of the ratio between net bad loans and equity:

(in migliaia di Euro)	**Al 30 settembre 2018**	**Al 31 dicembre 2017**
A, Sofferenze nette	7,520	4,913
B, Patrimonio netto	90,306	60,070
A/B, Sofferenze nette/Patrimonio netto	**8.33%**	**8.18%**

At 30 September 2018 the coverage ratio for non-performing loans (the ratio between adjustments and gross exposure) was 46.11%, representing an increase over the figure of 44.64% at 31 December 2017. The ratio also increased as the result of the new loan measurement rules introduced by IFRS 9.

%	**30 September 2018**			**30 June 2018**		
	Bank			**Total for less significant Italian banks***		
	Percentage of gross loans	**Percentage of net loans**	**Coverage**	**Percentage of gross loans**	**Percentage of net loans**	**Coverage**
Bad loans	4.54%	2.26%	52.17%	8.20%	3.00%	66.10%
Unlikely-to-pay exposures	1.74%	1.21%	32.90%	5.00%	3.60%	33.70%
Overdue and/or past-due exposures	0.13%	0.12%	11.09%	0.70%	0.70%	11.70%
Non-performing loans	6.42%	3.59%	46.11%	13.90%	7.30%	51.70%
Performing loans	93.58%	96.41%	0.80%	86.10%	92.70%	0.80%

(*) Figures at 30 June 2018. Source: Bank of Italy, Report on Financial Stability, no. 1, November 2018 page 37.

The coverage level for the performing loan portfolio was in line with the average for the sector consisting of the "Less significant Italian banks" at 30 June 2018, the latest date for which figures are available, while the coverage level for the non-performing loan portfolio was lower.

This difference is due to the specific features of the non-performing loans in portfolio, with particular reference to the security underlying these instruments which has been carefully assessed by the Issuer as part of its estimate of the recovery prospects.

The following table provides details of the cost of loans, namely the ratio between adjustments to loans and net loans due from customers:

	30 September 2018	31 December 2017
A. Adjustments	12,812	11,642
B. Net loans due from customers	333,183	326,049
A/B. Adjustments/Net loans due from customers	**3.85%**	**3.57%**

Sources

In the same period amounts due to banks, totalling EUR 258 million, decreased by EUR 213 million over the balance at the end of the previous period, attributable to a fall in amounts due to central banks.

Bank deposits at 30 September 2018 consisted mainly of amounts due to central banks, attributable to:

- encumbered deposits from the European Central Bank guaranteed by eligible securities amounting to approximately EUR 142 million compared to EUR 399 million at 31 December 2017;
- amounts due to banks of approximately EUR 115 million compared to approximately EUR 71 million at 31 December 2017 consisting mainly of loans received of approximately EUR 109 million.

Direct deposits with customers amounted to EUR 588 million, representing an increase of EUR 59 million over 31 December 2017 (+11%), attributable mainly to an increase in current accounts (+ EUR 43 million), time deposits (+ EUR 11 million) and certificates of deposit (+ EUR 5 million).

Current accounts continue to represent the main source of deposits, amounting to EUR 442 million (75% of the total). Compared to total deposits of EUR 588 million, time deposits accounted for 18% of the total, approaching EUR 107 million.

DIRECT DEPOSITS BY RESIDUAL LIFE *(Thousands of euros)*	**On demand**	**Within 1 year**	**Beyond 1 year**	**Total 30/09/2018**	**%**	**Total 31/12/2017**
Current accounts	441,588	–	–	441,588	75%	398,688
Savings deposits	1,905	–	–	1,905	0%	1,558
Other	975	–	–	975	0%	1,804
Time deposits	36,905	–	–	36,905	6%	25,932
Demand deposits	**481,373**	**–**	**–**	**481,373**	**82%**	**427,982**
Repurchase transactions	–	–	–	–	0%	-
Certificates of deposit	354	32,739	39,713	72,806	12%	68,073
Bonds	1,012	10,923	14,380	26,315	4%	26,362
Loans	–	–	7,504	7,504	1%	6,561
Term deposits	**1,366**	**43,662**	**61,597**	**106,625**	**18%**	**100,996**
Total direct deposits	**482,739**	**43,662**	**61,597**	**587,998**	**100%**	**528,978**

Net equity amounted to EUR 90 million at 30 September 2018, representing an increase in absolute terms of EUR 30 million (+50%) compared to EUR 60 million at 31 December 2017.This increase arose from the following:

- an increase in reserves of approximately EUR 53 million, compared to EUR 11 million at 31 December 2017 (due mainly to a payment of EUR 50 million made by the parent SPAXS S.p.A. into the "future capital increases for exchange ratio" account;
- a decrease of EUR 8 million in the revaluation reserves arising from an unrealised capital loss on financial assets (financial instruments at fair value through comprehensive income), which were affected by an adverse fluctuation in the value of Italian government bonds;
- the loss for the period of approximately EUR 12.5 million.

In detail, share capital amounted to EUR 43 million at 30 September 2018 and consisted of 43,377 ordinary shares each of nominal value EUR 1,000.

Analysis by residual contractual term of financial assets and liabilities as of 30 September 2018

For assets denominated in euros, cash assets repayable on demand amounted to EUR 179,425 thousand at 30 September 2018, and consisted mainly of loans (83.62%). Cash assets "from over 1 year to 5 years" and "over 5 years" amounted to EUR 273,548 thousand and EUR 220,718 thousand respectively.

Cash liabilities repayable on demand amounted to EUR 445,683 thousand at 30 September 2018, and consisted mainly of current accounts (99.69%). Cash liabilities "from over 3 months to 6 months amounted to EUR 162,118 thousand and EUR 127,829 thousand respectively.

"Off-balance sheet" transactions repayable on demand amounted to EUR 858 thousand, and consisted mainly of financial guarantees given (88.93%). "Off-balance sheet" transactions "from over 1 day to seven days" amounted to EUR 87,137 thousand.

For assets denominated in currencies other than the euro, cash assets repayable on demand amounted to EUR 3,197 thousand at 30 September 2018, and consisted of loans (100%). Cash assets "from over 15 days to 1 month" and "from over 1 month to 3 months" amounted to EUR 938 thousand and EUR 704 thousand respectively.

Cash liabilities repayable on demand amounted to EUR 3,193 thousand at 30 September 2018, and consisted of current accounts (100%). Cash liabilities "from over 1 day to 7 days" and from "over 15 days to 1 month" amounted to EUR 303 thousand and EUR 1,636 thousand respectively.

At 30 September 2018, "off-balance sheet" transactions repayable on demand amounted to EUR 94 thousand and consisted of financial derivatives with capital exchange (100%). "Off-balance sheet" transactions "from over 1 day to 7 days" amounted to EUR 38 thousand.

Income statements for the nine months ended 30 September 2018 and 2017

The income statements of BIP for the nine months ended 30 September 2018 and 2017 (restated) and changes in absolute and percentage terms are as follows.

The figures have been reclassified using management accounting criteria designed to best represent the bank's economic and financial situation, considering the specifics of a set of financial statements prepared for a bank. The aim of doing this is to simplify a reading of the statements by means of specific aggregations of items and reclassifications.

Further details of the main changes can be found in the information included in Chapters 9 and 10 of the First Section of the Prospectus.

(Thousands of euros)	**BIP**			
	30 September 2018	**30 September 2017 (restated)**	**Change 2018 vs 2017**	**Change 2018 vs 2017**
Net interest income	7,588	8,043	(455)	(5.66%)
Net fee and commission income	3,224	2,828	396	14.00%
Dividends and similar income	–	–	–	–
Net profit (loss) from trading and hedging activities	(9,349)	2,582	(11,931)	(>100%)
Other operating income and expense	111	147	(36)	(24.49%)
Net interest and other banking income	1,574	13,600	(12,026)	(88.43%)
Personnel expenses	(6,284)	(3,623)	(2,661)	73.45%
Administrative expenses	(9,060)	(3,177)	(5,883)	>100%
Value adjustments/recoveries on tangible and intangible assets	(216)	(124)	(92)	74.19%
Operating expenses	(15,560)	(6,924)	(8,636)	>100%
Net operating profit (loss)	(13,986)	6,676	(20,662)	(>100%)
Net value adjustments to receivables	(2,815)	(993)	(1,822)	>100%
Net value adjustments to other assets/liabilities	(16)	(563)	547	(97.16%)
Net accruals to provisions	(214)	(113)	(101)	89.38%
Profits (losses) from equity investments and the disposal of investments	(2)	–	(2)	-
Profit (loss) from continuing operations before taxes	(17,033)	5,007	(22,040)	(>100%)
Income tax on profit (loss) from continuing operations	4,569	(1,777)	6,346	(>100%)
Profit (loss) from discontinued operations, net of tax	–	–	–	–
Profit (loss) for the period	**(12,464)**	**3,230**	**(15,694)**	**(>100%)**

The figures at 30 September 2017 (determined in accordance with IAS 39) have been restated on the basis of the new line items arising from the reclassifications made necessary under the new classification criteria introduced by IFRS 9, which therefore did not lead to any changes in total assets or total liabilities. These consist of combined restatements of items included in the statement of financial position as required by Circular 262/2005 of the Bank of Italy – 5th revision of 22 December 2017.

2018 vs 2017

Net interest income at 30 September 2018 amounted to EUR 7.6 million, a rise of 5.7% over 30 September 2017. This increase is due to a decrease of EUR 3.1 million in interest on financial liabilities at amortised cost at 30 September 2018 (-9%), against an increase in the volume of disbursements. Interest on securities fell as a result of the sales made during the period.

Segment	30/09/2018		30/09/2017		Change,	Change %
	Margin	%	Margin	%		
Customer margin	3,901	51%	3,421	43%	480	14%
Financial margin	3,687	49%	4,622	57%	(935)	(20%)
Securities portfolio	3,207		4,600		(1,393)	(30%)
Interbank margin	480		22		458	>100%
Interest margin (net interest income)	**7,588**	**100%**	**8,043**	**100%**	**(455)**	**(6%)**

In the same period net fee and commission income of EUR 3.2 million increased over 30 September 2017, as the result of a rise in commission income (+11%) and a simultaneous fall in commission expense (-7%).

Of particular importance in fee and commission income was that arising from traditional banking activities (managing current accounts and payment and receipt services), which amounted in total to approximately EUR 3 million, and that relating to management, brokerage and consultancy services, amounting to EUR 306 thousand.

Fees and commissions represented 1.29% as a percentage of net balances due from customers at the end of the period (1.34% at the end of the previous period); this shows that the rise in net fees and commissions in absolute terms (still for the most part arising directly from the natural growth in volumes) also reflects the benefits arising from using a more incisive rationalisation policy in the fee and commission structure.

Fee and commission expense include a lower amount of commissions payable to agent promotors (not employees) classified under the sub-item "e. other services"; the sub-item "a. guarantees received" also includes those received from the SME Fund.

Net fees and commission income represented 205% as a percentage of operating income, an increase over the corresponding figure at 30 September 2017.

Other operating income and expense, which includes the reimbursement of expenses and other costs not connected with ordinary activities and having an immaterial effect on operations, amounted to EUR 111 thousand at 30 September 2018, in line with 30 September 2017 (EUR 147 thousand).

The net loss of EUR 9.35 million from security trading mainly regards the gains and losses arising on the disposal of the HTCS securities that took place during the period.

As the consequence of the above items, net interest and other banking income amounted to EUR 1,574 thousand in 2018, representing a decrease of EUR 12 million compared to 30 September 2017.

Personnel expenses amounted to EUR 6.3 million at 30 September 2018, representing a rise of 73% (EUR 2.6 million) over 30 September 2017. This change was caused by an increase in employee expenses (+ EUR 2 million) and in fees payable to directors and statutory auditors (+ EUR 0.7 million).

Administrative expenses, amounting to EUR 9.1 million at 30 September 2018, increased by over 100% compared to 30 September 2017. The most significant expenses in this item consist of fees of EUR 6,004 thousand payable for professional and consulting services (66% of the total), a rise of over 100% (+ EUR 5,323 thousand) compared to 30 September 2017. These figures are considerably affected by non-recurring events and the extraordinary transaction which led to the entry of the new reference shareholder. Success fees amounting to approximately EUR 4.5 million, identified as a transaction cost, represent the most significant component of this, and regard the conclusion of the acquisition by SPAXS under an engagement given to the Bank's advisor MC Square for the provision of assistance to the Bank in respect of any extraordinary transactions concerning the Bank. This advisor did not have any relationships with the Issuer or the parties that were its shareholders at the date of completion of the Business Combination, to the best of the Issuer's knowledge and belief, also given the significant fragmentation of its shareholdings.

Value adjustments/recoveries on tangible and intangible assets, amounting to EUR 216 thousand, increased slightly at 30 September 2018 (+ EUR 92 thousand) compared to the previous period, attributable to the depreciation of the new property acquired on the merger of Banca Emilveneta S.p.A..

Net value adjustments to receivables amounted to EUR 2.8 million at 30 September 2018, representing an increase over 30 September 2017. As a whole, amounts due from customers amounted to EUR 346 million at the balance sheet date (EUR 337.7 million at 31 December 2017), adjusted by EUR 12.8 million (EUR 11.6 million in 2017), equivalent to 3.70% of their total (3.45% in 2017).

In the same period net adjustments to other assets/liabilities amounted to EUR 16 thousand, a fall of 97% compared to EUR 563 thousand at 30 September 2017.

Accruals to provisions amounting to EUR 214 thousand at 30 September 2018 (EUR 113 thousand at 30 September 2017) include provisions for employees less a release of EUR 85 thousand from the litigation provision.

The result of the above was a net loss for the period of EUR 12.5 million, representing a decrease of over 100% compared to 30 September 2017.

The basic loss per share amounted to EUR 287, considering an average of 43,377 shares, compared to basic earnings per share of EUR 74 at 30 September 2017, again considering an average of 43,377 shares.

No dividends were distributed in the period.

The Issuer has not received any recommendations from the prudential supervisory authority in respect of dividend distribution. In addition, as of today's date, the Issuer has not established a dividend policy other than the indications for dividend distribution presented in the Business Plan.

Statements of cash flows for the nine months ended 30 September 2018 and 2017

The following table presents the statements of cash flows of BIP for the nine months ended 30 September 2018 and 2017 (restated) and the relative reconciliations with cash and cash equivalents.

Further details of the main changes can be found in the information included in Chapters 9 and 10 of the First Section of the Prospectus.

(Thousands of euros)	**BIP**			
	30 September 2018	**30 September 2017 (restated)**	**Change 2018 vs 2017**	**Change % 2018 vs 2017**
Net cash from (used in) operating activities	49,338(*)	(898)	50,236	(>100%)
Net cash from (used in) investing activities	332	(131)	463	(>100%)
Net cash from (used in) financing activities	-	(800)	800	(100.00%)
NET CASH GENERATED (USED) IN THE PERIOD	**49,670**	**(1,828)**	**51,498**	**(>100%)**
Cash and cash equivalents at the beginning of the period	26,926	27,812	(886)	(3.19%)
Cash and cash equivalents at the end of the period	76,596	25,984	50,612	>100%

The figures at 30 September 2017 have been restated on the basis of the new items required by the 5th revision of Circular 262/2005 of the Bank of Italy without leading to any change in the cash generated/absorbed during the period.

(*) The payment on account of future capital increases is included in the total of "other liabilities" given that at 30 September 2018 the transaction had not been finalised as the "issue/purchase of equity instruments".

The Issuer generated cash of EUR 49.7 million in the period ended 30 September 2018 compared to the use of cash of EUR 1.8 million in the period ended 30 September 2017.

Cash flows for the period ended 30 September 2018 show that operating activities generated liquidity of EUR 49.3 million due to the combined effect of:

(i) Cash of EUR 4.2 million used in operating activities (- EUR 7,3 million compared to 30 September 2017);

(ii) Cash of EUR 106.8 million used in financial liabilities (- EUR 231 million compared to 30 September 2017);

(iii) Cash of EUR 160.4 million generated by financial assets (+ EUR 288 million compared to 30 September 2017);

Investing activities led to the use of cash of EUR 0.3 million at 30 September 2018 (+ EUR 0.4 million compared to 30 September 2017), characterised by the purchase of tangible assets for EUR 0.3 million;

Financing activities neither generated nor used liquidity in the period ended 30 September 2018 compared to a use of EUR 800 thousand in the period ended 30 September 2017.

Alternative performance measures as of and for the nine months ended 30 September 2018 and 2017

The following tables set out the key economic and financial measures for the nine months ended 30 September 2018 and 2017.

Alternative Performance Measures	BIP	
	Nine months ended 30 September	
	2018	2017
R.O.E.(*)	(16.17%)	8.41%
R.O.A.(*)	(1.74%)	0.40%
Cost/Income ratio	>100%	51.00%
Net adjustments to receivables/Loans to customers(*)	1.13%	0.45%

(*) Annualised performance measured over interim periods.

Alternative Performance Measures	BIP	
	30 September 2018	31 December 2017
Net bad loans/Loans to customers	2.26%	1.51%
Gross non-performing loans/Gross loans to customers	6.42%	5.44%
Common Equity Tier 1 ratio	23.83%	17.29%
Tier I capital ratio (Tier 1 capital/ Total risk-weighted assets)	23.83%	17.29%
Total capital ratio (Regulatory capital + Tier II)/ Total risk-weighted assets	23.83%	17.29%
Own funds	85,966	57,596
Risk-weighted assets	360,813	333,038

Return on Equity (R.O.E.)

The following table sets out the calculation of R.O.E..

	Nine months ended 30 September	
	2018	2017
A. Net profit (loss)	(12,464)	3,230
B. Equity (excluding profit/loss for the period)	102,770	51,230
A/B. R.O.E.(*)	(16.17%)	8.41%

(*) Annualised performance measured over interim periods.

The Issuer's Return on Equity of (16.17%) at 30 September 2018 represents a substantial decrease compared to the corresponding figure for the previous period due to the loss incurred in 2018 for the above-mentioned reasons.

Return on Assets (R.O.A.)

The following table sets out the calculation of R.O.A..

	Nine months ended 30 September	
	2018	2017
A. Net profit (loss)	(12,464)	3,230
B. Total assets	955,769	1,076,667
R.O.A.(*)	**(1.74%)**	**0.40%**

(*) Annualised performance measured over interim periods.

The Issuer's Return on Assets of (1.74%) at 30 September 2018 represents a substantial decrease compared to the corresponding figure for the previous period due to the loss incurred in 2018 for the above-mentioned reasons.

Cost/Income ratio

The following table sets out the calculation of the cost/income ratio.

	Nine months ended 30 September	
	2018	2017
A. Operating expenses	(15,560)	(6,924)
Personnel expenses	(6,284)	(3,623)
Administrative expenses	(9,060)	(3,177)
Net adjustments to tangible fixed assets and intangible assets	(216)	(124)
B. Operating income	1,574	13,600
A/B. Cost/Income Ratio	**>100%**	**51%**

There was a deterioration in the Cost/Income ratio at 30 September 2018 compared to the corresponding figure for the previous period due to the increase in operating expenses in 2018.

Net adjustments to receivables/Loans to customers

The following table sets out the calculation of the net adjustments to receivables/loans to customers ratio.

	Nine months ended 30 September	
	2018	2017
A. Net adjustments to receivables	(2,815)	(993)
B. Loans to customers	333,183	326,049
A/B. Net adjustments to receivables/Loans to customers	**1.13%**	**0.30%**

There was a substantial increase in the Net adjustments to receivables/Loans to customers ratio at 30 September 2018 compared to the corresponding figure at the end of the the previous period due to the increase in net adjustments to receivables in 2018.

Net bad loans/Loans to customers

The following table sets out the calculation of the net bad loans/loans to customers ratio.

	30 September 2018	31 December 2017
A. Net bad loans	7,520	4,913
B. Loans to customers	333,183	326,049
A/B. Net bad loans/Loans to customers	**2.26%**	**1.51%**

There was an increase in the Net bad loans/Loans to customers ratio at 30 September 2018 over the corresponding figure at the end of the previous period.

Gross non-performing loans/Gross loans to customers

The following table sets out the calculation of the gross non-performing loans/gross loans to customers ratio.

	30 September 2018	31 December 2017
A. Gross non-performing loans	22,196	18,377
B. Gross loans to customers	345,995	337,691
A/B. Gross non-performing loans/Gross loans to customers	**6.42%**	**5.44%**

There was a substantial increase in the Gross non-performing loans/Gross loans to customers ratio at 30 September 2018 compared to the corresponding figure at the end of the previous period due to the above-mentioned increase in net non-performing loans in 2018.

Other financial information at 30 September 2018 and 2017

Regulatory capital

Capital ratios	30 September 2018	31 December 2017
Common Equity Tier 1 – CET1	**85,966**	**57,596**
Additional Tier 1 – AT1	**–**	**–**
Tier 2 –T2	**–**	**–**
Total own funds	**85,966**	**57,596**
Credit risk	25,116	24,404
Loan valuation adjustment risk	13	6
Regulatory risks	-	-
Market risks	1,540	37
Operating risk	2,196	2,196
Other items	-	-
Total prudential requirements	**28,865**	**26,643**
Risk weighted-assets	**360,813**	**333,038**
Common Equity Tier 1 ratio	**23.83%**	**17.29%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**23.83%**	**17.29%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**23.83%**	**17.29%**
(Total own funds/ Risk-weighted assets)		

BIP's own funds at 30 September 2018 amounted to EUR 86 million (EUR 57.6 million at 31 December 2017), compared to risk-weighted assets of EUR 360.8 million (EUR 333 million at 31 December 2017), resulting almost exclusively from credit risk. With regard to the Supervisory Review and Evaluation Process (SREP), on 13 March 2017, by way of protocol no. 0323739/17, the Bank of Italy notified the Issuer of a planned change in the phase-in of the Capital Conservation Buffer to be applied for 2017. This SREP communication contained indications of areas of improvement for credit risk control and the need to contain the level of concentration.

At the end of the periodic SREP, the Bank of Italy communicated the new additional capital requirements established as a result of the SREP. Following the change in the Capital Conservation Buffer, the target thresholds effective from 1 January 2018 are a CET1 Ratio of 6.78% and a Total Capital Ratio of 10.63%.

Again with reference to the Supervisory Review and Evaluation Process (SREP), the latest communication received by Banca Interprovinciale is that of 1 March 2018.

In that communication, the levels for the Overall Capital Requirement (OCR) ratio as defined by the EBA/GL/2014/13 Guidelines were updated, being the sum of the mandatory constraints represented by the Total SREP Capital Requirement (TSCR) ratio and the Capital Conservation Buffer (CCB).This revision reflects the change envisaged for the phase-in of the Capital Conservation Buffer (rising in 2018 from 1.25% to 1.875%), starting from the SREP recommendations contained in a letter dated 13 March 2017 and subsequently supplemented by the communication of 1 March 2018.

While waiting to receive further recommendations from the supervisory authorities, the current regulatory ratios applicable to Banca Interprovinciale are summarised in the following table, consisting of an OCR CET1 and TCR of 6.775% and 10.625% respectively.

	CET1	Tier 1	Total Capital Ratio
Minimum regulatory requirements	4.500%	6.000%	8.000%
Additional requirements	0.400%	0.550%	0.750%
Total SREP Capital Requirement (TSCR)	**4.900%**	**6.550%**	**8.750%**
Capital Conservation Buffer	1.875%	1.875%	1.875%
Overall Capital Requirement (OCR)	**6.775%**	**8.425%**	**10.625%**

The regulations provide for the full application of the Capital Conservation Buffer (of 2.5%) in 2019, and therefore – with unchanged additional requirements – the OCR ratios will increase by 0.625% in 2019.

The CET 1 Ratio (23.83% at 30 September 2018), Tier 1 Ratio (23.83% at 30 September 2018) and Total Capital Ratio (23.83% at 30 September 2018) exceed the minimum regulatory requirements described previously for 2018.

For determining risk-weighted assets the Issuer uses the standard method for calculating the capital requirements for credit risk.

Large risks

A "Large Exposure" is defined as any asset item or any off-balance sheet item that represents an exposure, without applying risk-weighting factors or risk-category weighting factors, towards a customer or a group of connected customers equal to or above 10% of the Issuer's eligible capital for supervisory purposes.

The following table provides details of the exposure and risk provision for groups of connected customers which in terms of carrying amount in the balance sheets at 30 September 2018, 31 December 2017, 31 December 2016 and 31 December 2015 have an exposure equal to or above the established limit.

	30/09/2018		31/12/2017		31/12/2016		31/12/2015	
	Carrying amount	Weighted amount	Carrying amount	Weighted amount	Carrying amount	Weighted amount	Carrying amount	Weighted amount
a) Amount	764,939	104,239	929,677	186,616	847,266	173,200	704,657	142,235
b) Number		9		23		22		21

At 30 September 2018, the weighted amount of the exposure was EUR 104 million, a decrease of the figure at 31 December 2017 when the balance was EUR 187 million.

The number of risk groups was lower at 30 September 2018 due to the increase in eligible capital, following the payment on account of future capital increases made by the parent SPAXS S.p.A. (EUR 50 million). Making up the total amount of the risk exposure and position at 30 September 2018 were liquidity reserves and other banking transactions corresponding to a carrying amount of EUR 201 million , together with loans to central government of EUR 546 million. The large risks for customers alone amounted to approximately EUR 18 million, represented by 2 positions.

At 31 December 2017, included in the overall balance of the exposure and the risk position were liquidity reserves and other interbank transactions, corresponding to a carrying amount of EUR 204 million, as well as loans to central government for EUR 624 million. The carrying amount of large risks for customers alone was EUR 101 million, represented by 13 positions, as it was also at 31 December 2016 but spread across 17 risk groups.

At 31 December 2016, included in the overall balance of the exposure and the risk position were liquidity reserves and other interbank transactions, corresponding to a carrying amount of EUR 194 million, as well as loans to central government for EUR 586 million. The carrying amount of large risks for customers alone was EUR 67 million.

At 31 December 2015, included in the overall balance of the exposure and the risk position were liquidity reserves and other interbank transactions corresponding to a carrying amount of EUR 87 million, as well as loans to central government for EUR 508 million. The carrying amount of large risks for customers alone was EUR 57 million.

The following tables provide details of the ratio between large exposures and net loans to customers:

(Thousands of euros)	**30 September 2018**	**31 December 2017**
A. Large exposures	18,298	101,349
B. Net loans to customers	333,183	326,049
A/B. Large exposures/Net loans to customers	**5.49%**	**31.08%**

(Thousands of euros)	**31 December 2017**	**31 December 2016**	**31 December 2015**
A. Large exposures	101,349	67,345	56,598
B. Net loans to customers	326,049	299,451	222,665
A/B. Large exposures/Net loans to customers	**31.08%**	**22.49%**	**25.42%**

Liquidity ratios

At 30 September 2018 the Issuer's Liquidity Coverage Ratio (LCR) was approximately 192% on a stand-alone basis.

The regulatory minimum requirement was initially set at 60% (1 January 2015) and was subsequently increased on a sliding scale each year until it reached 100% on 1 January 2019. The Bank's LCR therefore exceeds the minimum requirement for 2018.

Again at 30 September 2018, the Net Stable Funding Ratio (NSFR) was 180% and therefore this too exceeded the minimum requirements from 2018.

In accordance with minimum regulatory requirements the NSFR, defined as the proportion of available stable funding over the required stable funding, must remain constantly at a level of at least 100%.

Finally the Issuer's Loan to deposit ratio was 56.7% on a stand-alone basis at 30 September 2018.

Liquidity ratios at 30 September 2018 and at 31 December 2017 are as follows.

Indicator	30 September 2018	31 December 2017
Liquidity Coverage Ratio (LCR)	192%	251%
Net Stable Funding Ratio (NSFR)	180%	122%
Loan to deposit ratio	56.7%	61.6%

Financial leverage ratios

Indicator	30 September 2018	31 December 2017
Leverage ratio	8.35%	5.19%

The leverage ratio was introduced as part of the prudential regulations of Basel III, on a definitive basis from 1 January 2015, which measures the ratio between Tier 1 Capital and the Bank's total exposure. The aim of this indicator is to restrict the degree of debt in bank balance sheets by introducing a minimum coverage level for assets at risk by means of own funds. The ratio, currently being monitored by the authorities, is expressed as a percentage and is subject to a regulatory minimum of 3% (the Basel Committee's reference level).

At 30 September 2018 the leverage ratio was 8.35%.

Exposure to sovereign debt

At 20 February 2019, the Issuer's exposure to governments and central banks consisted almost entirely of government bonds issued by the Italian state which remained in the Issuer's portfolio following the de-risking process conducted after the Business Combination for a nominal value of EUR 122 million at amortised cost (HTC portfolio) and for a nominal value of EUR 15 million at fair value (HTC&S portfolio) and which represented approximately 15% of the Issuer's total assets at 31 December 2018.

The investments in government bonds issued by the Italian state classified in the HTC&S portfolio (namely financial assets at fair value through comprehensive income) are characterised by a volatility that mainly depends on trends in sovereign risk (which can typically be inferred from the spread between the yields of Italian BTPs and those of German Bunds), which may have a negative effect on the Bank's financial position, results and/or cash flows.

The Bank's exposure to governments and central banks consists almost entirely of government bonds issued by the Republic of Italy. To limit the risk involved in the owned securities portfolio and in view of the additional volatility that could have persisted on Italy's sovereign debt in the fourth quarter of 2018 and the first few months of 2019, due to the scheduled deadlines that involved the Italian government arising from the 2019 finance bill and the conclusion of Quantitative Easing and the ECB's accommodative policy, the Issuer's management took a series of steps to de-risk the portfolio, using for this activity credit risk sensitivity (meaning the losses that would arise on a change of 1 basis point in the credit spread). This parameter is considered to be the most important driver for determining portfolio management strategies with reference to credit risk, given that in any case real price movements on the securities markets also depend on other parameters such as a non-parallel movement in the credit curve, the liquidity of the security and the depth of the market.

De-risking activities led to a reduction in the exposure to government bonds issued by the Republic of Italy from nominal EUR 552.5 million at 31 December 2017, to nominal EUR 137 million at 20 February 2019, leading to a reduction of approximately 75% in the exposure.

Reference should be made to Chapter 9, Paragraph 9.1.1 for further information on the de-risking activities performed.

The following table summarises the Bank's sovereign debt security exposures at 30 September 2018 and at 31 December 2017, 2016 and 2015, measured on the basis of the category to which the instruments belong:

(Millions of euros)	**Prospectus date**	**30.09.2018**	**31.12.2017**	**31.12.2016**	**31.12.2015**
Securities	**261**	**443**	**608**	**594**	**547**
of which financial assets at fair value through profit or loss (FVTP&L ex-IFRS 9)	29	29	-	-	-
of which financial assets ex AFS IAS 39 (HTC&S ex-IFRS 9)	**108**	**289**	**608**	**594**	**547**
di cui Governi e Banche Centrali	81	262	565	543	498
of which the public administration	-	-	-	-	-
of which banks	27	27	40	43	47
other issuers	-	-	3	8	2
of which financial assets at amortised cost (HTC ex-IFRS 9)	**124**	**125**	-	-	-
of which governments and central banks	124	125	-	-	-

At 20 February 2019, the indicative value of the Bank's exposures in government bonds issued by the Republic of Italy was EUR 138.9 million, of which EUR 14.5 million in the accounting category "Held to Collect & Sell" ("**HTC&S**") (ex- AFS IAS 39) and EUR 124.4 million in the accounting category "Held to Collect" ("**HTC**"). There was also an exposure in government bonds issued by the Republic of France in the accounting category HTC&S, with an indicative counter-value of approximately EUR 1 million. These exposures represented approximately 9.3% of pro-forma consolidated total assets at 30 September 2018 and approximately 71% of loans at 20 February 2019.

At 30 September 2018, the carrying amount of the Bank's exposures in government bonds issued by the Republic of Italy was EUR 387 million, of which EUR 262 million in the accounting category "Held to Collect & Sell" ("**HTC&S**") (ex-AFS IAS 39) and EUR 125 million in the accounting category "Held to Collect" ("**HTC**"). These exposures represented 26% of pro-forma consolidated total assets at 30 September 2018 and approximately 87.4% of loans at the Prospectus Date.

The Issuer has participated in the various tranches of the ECB's TLTRO II scheme (Targeted Longer-Term Refinancing Operations) and currently has encumbered assets of EUR 53 million.

At 31 December 2017, the carrying amount of the Bank's exposures in government bonds issued by the Republic of Italy was EUR 565 million, all of which classified in the accounting category "financial assets available for sale" (ex- AFS IAS 39). These exposures represented 60.5% of total assets and approximately 93% of loans at that date.

At 31 December 2016 and 2015, the carrying amount of these exposures, classified in the accounting category "financial assets available for sale" (ex- AFS IAS 39), was EUR 543 million for 2016 and EUR 498 million for 2015 respectively, representing 60.7% and 64.6% of total assets respectively.

The following information regards security management at 30 September 2018:

- the interest accrued on debt securities (including non-government securities) was EUR 3.2 million;
- there was a loss of EUR 8.6 million on the management of debt securities (including non-government securities);
- the net effect of the two previous points is a loss of EUR 5.4 million compared to a net loss for the period of EUR 17 million.

At 20 February 2019, the HTC&S portfolio was characterised by a level of risk, expressed in terms of credit risk sensitivity (namely the loss resulting from a change of 1 basis point in the credit spread), of EUR 30,482 (for the Italian government component alone this sensitivity falls to EUR 4,952).

The following provides details of any negative effects on pro-forma consolidated net equity at 30 September 2018 and on the Issuer's Common Equity Tier 1 at 31 December 2018 as the result of an increase of 100 basis points in the spread between Italian and German government bonds (the BTP-Bund spread):

- EUR 558 thousand in terms of the effect on the Issuer's Common Equity Tier 1 at 31 December 2018 and on pro-forma consolidated net equity at 30 September 2018 for the government bond component (the effect is EUR 854 thousand if the whole HTC&S portfolio is considered);
- 0.1% in terms of the effect on the Issuer's CET 1 Ratio at 31 December 2018 for the government bond component (0.5% in terms of the effect on the Issuer's CET 1 Ratio at 31 December 2018 if the whole HTC&S portfolio is considered).

The following table provides a summarised comparison between the ratings assigned by Moody's, Fitch, Standard & Poor's and DBRS that were in force at 20 February 2019:

	Moody's		Fitch		S&Ps		DBRS	
	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
Italy	Baa3	Stable	BBB	Negative	BBB	Negative	BBB (high)	Stable
France	Aa2	Positive	AA	Stable	AA	Stable	AAA	Stable

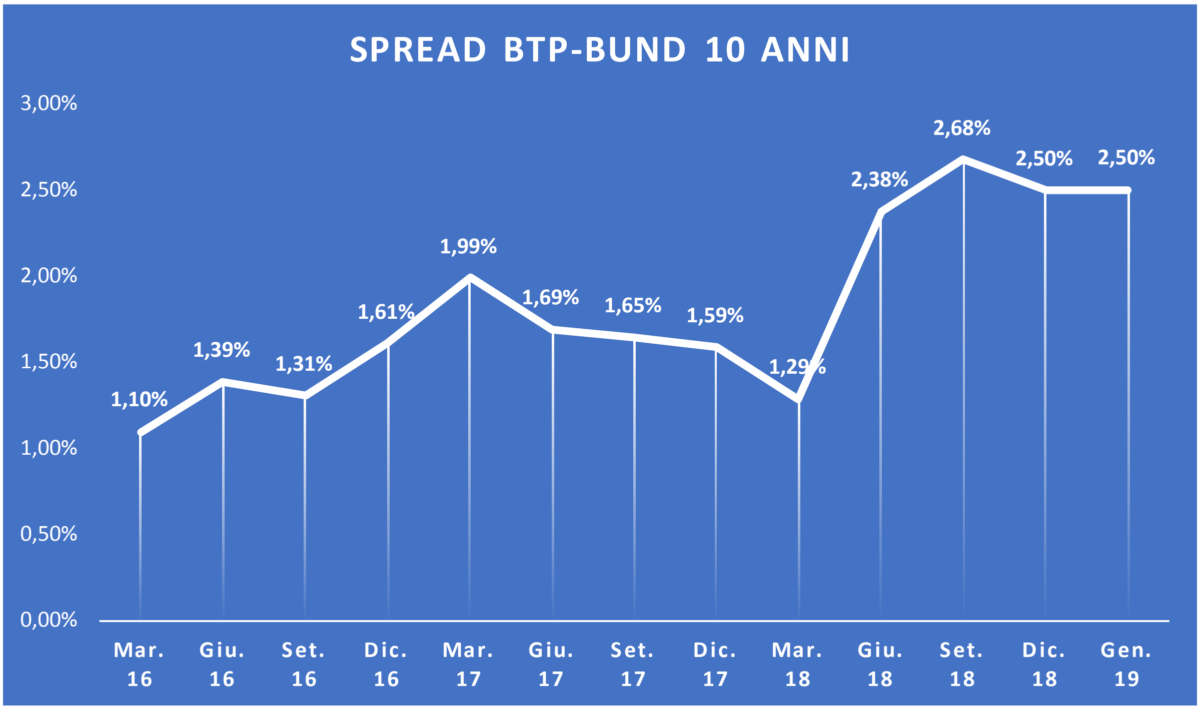
The risk relating to the ability of an issuer to meet its obligations, arising from the issue of debt instruments and money market instruments, is in practice determined by referring to the credit ratings issued by the independent ratings agencies. These assessments and the relative research can be of assistance to investors in analysing the credit risk pertaining to financial instruments, because they provide indications of the ability of issuers to meet their obligations. The lower the rating assigned on the respective scale, the higher the risk, as assessed by the ratings agency, that an issuer will not meet its obligations at the due date, or that it won't meet its obligations in full or on a timely basis. On the other hand the outlook is the parameter that indicates the expected trend in the near future in the ratings assigned to an issuer.

A rating is not a recommendation to buy, sell or hold any issued financial instrument, and can be suspended, reduced or withdrawn at any time by the ratings agency which has assigned it. A suspension, reduction or withdrawal of an assigned rating may have a negative effect on market price. As a result, these changes in a rating might not reflect the evolution in an issuer's solvency on a timely basis.

The persistence of tension on the government bond market or its volatility could lead to negative effects, also material, on the Issuer's activities and on its financial position, results and/or cash flows.

Furthermore, a deterioration in the creditworthiness of the State, together with a resulting fall in the value of its bonds, could lead to a revision of the weighting criteria used to determine RWAs, with resulting negative effects on the Bank's capital ratios and/or a revision of the haircut criteria used by counterparties in refinancing operations (for example in the operations carried out with the ECB), with the resulting increase in the collateral required, or a reduction in the liquidity obtained against such collateral. In this respect, following the downgradings made by Moody's and Standard & Poor's, the Bank's exposures to the issues of Italian sovereign debt that can be used to guarantee refinancing operations with the European Central Bank have been subject to an increase in the haircuts applied at the various maturity dates of these operations. This has led to a reduction in the value of these guarantees in terms of the amount of liquidity that may actually be received from the ECB once these guarantees are provided against the participation of the Bank in refinancing operations.

The following graph shows the performance of the ten-year BTP-Bund spread from 2016 to 20 February 2019 as a means of obtaining a better understanding of trends in sovereign risk.



Reference should be made to Chapter 20 of the Prospectus for further information.

Loans received from the European Central Bank

Amounts due to central banks at 30 September 2018, totalling EUR 142 million, consist of the following:

- encumbered assets at the European Central Bank falling due in three months and amounting to a total of approximately EUR 72 million;
- European Central Bank TLTRO II operations, secured by eligible securities, for a total of approximately EUR 18 million maturing in 2020 and approximately EUR 53 million maturing in 2021.

At the Prospectus Date an amount of EUR 53 million remains in operations with the European Central Bank, secured by eligible securities, all relating to the TLTRO II series, as described above.

At 20 February 2019, the Bank did not have any significant risk profiles in terms of liquidity requirements. At that date its counterbalancing capacity was EUR 452 million, of which:

- EUR 83 million related to asset encumbrance (EUR 53 million of which in transactions at the European Central Bank, EUR 25 million in repurchase agreement transactions with market counterparties and EUR 5 million against cheque guarantee deposits at the Bank of Italy);
- EUR 101 million in available assets that could be provided as loan guarantees both on the market and as part of refinancing operations with the ECB (which includes securities that are not eligible with the ECB for refinancing operations but can be readily converted to cash or used in financing transactions with market counterparties);
- EUR 268 million related to available liquidity in the accounts of the Bank and of SPAXS (at 20 February 2019, there was available liquidity of EUR 63 million at the Bank and EUR 205 million at SPAXS).

3.2 Selected financial information for BIP as of and for the years ended 31 December 2017, 31 December 2016 and 31 December 2015

The following paragraphs present the statements of financial position, income statements and statements of cash flows extracted from the 2017, 2016 and 2015 financial statements and supplemented by additional accounting information.

Reclassified statements of financial position as of 31 December 2017, 2016 and 2015

The reclassified statements of financial position as of 31 December 2017, 2016 and 2015 and changes in absolute and percentage terms are as follows.

The figures have been reclassified using management accounting criteria designed to best represent the Bank's economic and financial situation, considering the specifics of a set of financial statements prepared for a bank. The aim of doing this is to simplify a reading of the statements by means of specific aggregations of items and reclassifications.

Further details of the main changes can be found in the information included in Chapters 9 and 10 of the First Section of the Prospectus.

(Thousands of euros)	BIP						
	31 December			Change		Change %	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**	**2017 vs 2016**	**2016 vs 2015**
Financial assets other than receivables	608,021	595,352	548,443	12,669	46,909	2.13%	8.55%
Due from banks	125,338	116,111	72,935	9,227	43,176	7.95%	59.20%
Due from customers	326,049	299,451	222,665	26,598	76,786	8.88%	34.48%
Equity investments	-	-	–	–	–	-	-
Tangible and intangible assets	1,836	1,970	646	(134)	1,324	(6.80%)	> 100%
Tax assets	6,285	7,500	4,742	(1,215)	2,758	(16.20%)	58.16%
Non-current assets and disposal groups held for sale	-	-	-	–	–	-	-
Other assets	6,884	5,483	4,459	1,401	1,024	25.55%	22.96%
Total assets	**1,074,413**	**1,025,867**	**853,890**	**48,546**	**171,977**	**4.73%**	**20.14%**
Due to banks	470,623	447,774	380,429	22,849	67,345	5.10%	17.70%
Direct deposits from customers	528,978	507,940	403,569	21,038	104,371	4.14%	25.86%
Deferred tax liabilities	2,110	2,493	3,777	(383)	(1,284)	(15.36%)	(34.00%)
Liabilities associated with non-current assets and disposal groups held for sale	-	-	-	-	-	-	-
Other liabilities	10,124	8,580	8,338	1,544	242	18.00%	2.90%
Specific provisions	2,508	2,873	3,149	(365)	(276)	(12.70%)	(8.76%)
Net equity	60,070	56,207	54,628	3,863	1,579	6.87%	2.89%
Total liabilities and equity	**1,074,413**	**1,025,867**	**853,890**	**48,546**	**171,977**	**4.73%**	**20.14%**

Applications

2017 vs 2016

At 31 December 2017 the item "Financial assets other than receivables", which includes financial assets held for trading and financial assets available for sale, amounted to EUR 608 million, representing an increase of 2.1% over 2016.

More specifically, at 31 December 2017, this item consisted of:

- units in UCIs classified as financial assets held for trading amounting to EUR 115 thousand;
- debt securities classified as financial assets held for sale amounting to EUR 607 million, of which EUR 565 million having governments and central banks as debtors/issuers;
- equities classified as financial assets available for sale amounting to EUR 12 thousand;
- units in UCIs classified as financial assets available for sale amounting to EUR 214 thousand.

The change in this item is mainly attributable to the purchase of additional Italian government bonds of short duration (maturing within 4 to 5 years).

Amounts due to banks amounted to EUR 125 million, a rise of EUR 9 million over the previous year, attributable to the decrease in interbank deposits to be used for loans to banks.

At 31 December 2017 this item consisted for 21% (24% in 2016) of amounts due from central banks and for 79% (76% in 2016) of bank loans.

There was a rising trend in loans to customers as a proportion of total assets, with an increase from 29% in 2016 to 30% in 2017.

At 31 December 2017, loans to customers, amounting to EUR 326 million (+9% compared to 31 December 2016), can be analysed as follows:

- current accounts, of EUR 108 million, a fall of 3.61% over 31 December 2016;
- mortgage loans, of EUR 207 million, a rise of 18.64% over 31 December 2016;
- credit cards, personal loans and salary-backed loans of EUR 1 million, an increase of 68.29% over 31 December 2016;
- other loans, of EUR 10 million, a fall of 19.76% over 31 December 2016.

The following tables set out the composition of loans to customers at 31 December 2017 and 31 December 2016. For further details of the percentage coverage reference should be made to Chapter 9, Paragraph 9.1.2.2 of the Prospectus.

LOANS TO CUSTOMERS *(Thousands of euros)*	**Gross exposure**		**Adjustments**	**Carrying amount**		**Level of coverage**
At 31 December 2017						
Non-performing loans	18,377	5.44%	(8,204)	10,173	3.12%	44.64%
of which forborne exposures	*7,848*	*2.32%*	*(3,096)*	*4,752*	*1.46%*	*39.45%*
- Bad loans	10,527	3.12%	(5,614)	4,913	1.51%	53.33%
- Unlikely-to-pay	7,729	2.29%	(2,585)	5,144	1.58%	33.45%
- Overdrawn/past-due exp.	121	0.04%	(5)	116	0.04%	4.13%
Performing loans	319,314	94.56%	(3,438)	315,876	96.88%	1.08%
of which forborne exposures	*2,520*	*0.75%*	*(70)*	*2,450*	*0.75%*	*2.78%*
Total	**337,691**	**100.00%**	**(11,642)**	**326,049**	**100.00%**	**3.45%**

LOANS TO CUSTOMERS *(Thousands of euros)*	**Gross exposure**		**Adjustments**	**Carrying amount**		**Level of coverage**
At 31 December 2016						
Non-performing loans	18,645	5.98%	(9,064)	9,581	3.20%	48.61%
of which forborne exposures	*6,361*	*2.04%*	*(2,739)*	*3,622*	*1.21%*	*43.06%*
- Bad loans	8,697	2.79%	(4,874)	3,823	1.28%	56.04%
- Unlikely-to-pay	9,528	3.06%	(4,167)	5,361	1.79%	43.73%
- Overdrawn/past-due exp.	420	0.13%	(23)	397	0.13%	5.48%
Performing loans	292,990	94.02%	(3,120)	289,870	96.80%	1.06%
of which forborne exposures	*3,461*	*1.11%*	*(80)*	*3,381*	*1.13%*	*2.31%*
Total	**311,635**	**100.00%**	**(12,184)**	**299,451**	**100.00%**	**3.91%**

As far as credit quality is concerned, non-performing loans represented approximately 5.4% of total gross loans to customers at 31 December 2017 compared to 6.0% at 31 December 2016.

Gross bad loans represented 3.1% of gross loans to customers at 31 December 2017 compared to 2.8% at 31 December 2016 and unlikely-to-pay exposures represented 2.29% at 31 December 2017 against 3.06 % at 31 December 2016.

The following provides an analysis of the ratio between net bad loans and equity:

(Thousands of euros)	**31 December 2017**	**31 December 2016**
A. Net bad loans	4,913	3,823
B. Equity	60,070	50,220
A/B. Net bad loans/Equity	**8.18%**	**7.61%**

At 31 December 2017 the coverage ratio for non-performing loans (calculated as the ratio between adjustments and gross exposure) was 44.64%, representing a decrease over the figure of 48.60% at 31 December 2016.

%	**31 December 2017**					
	Bank			**Total for less significant Italian banks(*)**		
	Percentage of gross loans	**Percentage of net loans**	**Coverage**	**Percentage of gross loans**	**Percentage of net loans**	**Coverage**
Bad loans	3.12%	1.51%	53.33%	10.70%	4.50%	61.30%
Unlikely-to-pay exposures	2.29%	1.58%	33.45%	6.10%	4.70%	31.00%
Overdue and/or past-due exposures	0.04%	0.04%	4.13%	0.70%	0.70%	9.80%
Non-performing loans	5.44%	3.12%	44.64%	17.50%	9.90%	48.50%
Performing loans	94.56%	96.88%	1.08%	82.50%	90.10%	0.60%

(*) Figures at 31 December 2017. Source: Bank of Italy, Financial Stability Report, no. 1, April 2018, page 26.

From the above it can be seen that at 31 December 2017 the Bank had coverage levels for non-performing loans as a percentage of both gross and net loans that were lower than the average for the sector consisting of "less significant Italian banks". At the same time the Bank had coverage levels for non-performing loans lower than the average for the above entities, while its coverage level for performing loans exceeded the average for the Italian banking system.

This difference is due to the specific features of the non-performing loans in portfolio, with particular reference to the security underlying these instruments, which has been carefully assessed by the Issuer as part of its estimate of the recovery prospects.

%	**31 December 2016**					
	Bank			**Total for less significant Italian banks(*)**		
	Percentage of gross loans	**Percentage of net loans**	**Coverage**	**Percentage of gross loans**	**Percentage of net loans**	**Percentage of gross loans**
Bad loans	2.80%	1.27%	56.04%	11.50%	5.40%	57.80%
Unlikely-to-pay exposures	3.06%	1.80%	43.73%	7.00%	5.60%	27.90%
Overdue and/or past-due exposures	0.13%	0.13%	5.47%	0.90%	0.90%	9.40%
Non-performing loans	6.00%	3.20%	48.60%	19.40%	11.80%	44.80%
Performing loans	94.00%	96.80%	1.06%	80.60%	88.20%	0.70%

(*) Figures at 31 December 2016. Source: Bank of Italy, Financial Stability Report, no. 1, April 2017, page 21.

At 31 December 2016 the Bank had coverage levels for non-performing loans as a percentage of both gross and net loans that were lower than the average for the sector consisting of "less significant Italian banks". At the same time the Bank had coverage levels for both non-performing loans and performing loans higher than the average for the Italian banking system(2),

The following table provides details of the cost of loans, namely the ratio between adjustments to loans and net loans due from customers:

	31 December 2017	31 December 2016
A. Adjustments	11,642	12,184
B. Net loans due from customers	326,049	299,451
A/B. Adjustments/Net loans due from customers	**3.57%**	**4.07%**

Sources

In the same period amounts due to banks, totalling EUR 471 million at 31 December 2017, increased by EUR 23 million over the balance at the end of the previous period, attributable to an increase in amounts due to central banks.

Interbank deposits consisted mainly of amounts due to central banks, attributable to encumbered deposits with the European Central Bank and guarantees of eligible securities amounting to EUR 399 million (corresponding to 85% of the total), compared to EUR 381 million at 31 December 2016.

Direct deposits with customers amounted to EUR 529 million at 31 December 2017, representing an increase of 4.14% over the figure of EUR 508 million at 31 December 2016. The evolution of the aggregate arose from an increase in current accounts (+ EUR 25 million), time deposits (+ EUR 6 million), certificates of deposit (+ EUR 5 million) and loans (+EUR 5 million), only partially offset by a decrease in bonds (- EUR 18 million) and savings deposits (- EUR 3 million).

(2) It was not possible to perform the same kind of analysis for the figures at 31 December 2015 as comparative averages for the less significant bank sector are not available in the same detail as of that date.

Current accounts continued to represent the main source of deposits during the period, being 75% of the total (74% in 2016).

DIRECT DEPOSITS BY RESIDUAL LIFE *(Thousands of euros)*	**On demand**	**Within 1 year**	**Beyond 1 year**	**Total 31/12/2017**
Current accounts	398,688	–	–	398,688
Savings deposits	1,558	–	–	1,558
Other	1,804	–	–	1,804
Time deposits	25,932	–	–	25,932
Demand deposits	**427,982**	**–**	**–**	**427,982**
Repurchase transactions	–	–	–	–
Certificates of deposit	428	29,251	38,394	68,073
Bonds	–	3,868	22,494	26,362
Loans	–	–	6,561	6,561
Term deposits	**428**	**33,119**	**67,449**	**100,996**
Total direct deposits	**428,410**	**33,119**	**67,449**	**528,978**

DIRECT DEPOSITS BY RESIDUAL LIFE *(Thousands of euros)*	**On demand**	**Within 1 year**	**Beyond 1 year**	**Total 31/12/2016**	**%**	**Total 31/12/2015**
Current accounts	373,804	-	-	373,804	74%	277,468
Savings deposits	4,708	-	-	4,708	1%	4,693
Other	524	-	-	524	0.1%	292
Time deposits	19,881	-	-	19,881	4%	19,181
Demand deposits	**398,917**	**-**	**-**	**398,917**	**79%**	**301,634**
Repurchase transactions	-	-	-	-	0%	-
Certificates of deposit	-	30,751	32,205	62,956	12%	56,292
Bonds	-	29,378	15,045	44,423	9%	44,161
Loans	-	-	1,644	1,644	0%	1,482
Term deposits	**-**	**60,129**	**48,894**	**109,023**	**21%**	**101,935**
Total direct deposits	**398,917**	**60,129**	**48,894**	**507,940**	**100%**	**403,569**

Net equity amounted to EUR 60 million at 31 December 2017, representing an increase in absolute terms of EUR 3.8 million (+7%) compared to EUR 56.2 million at 31 December 2016. This increase arose from the following increases:

- in share capital by EUR 3,377 thousand compared to EUR 40 million at 31 December 2016;
- in reserves by EUR 3,731 thousand, compared to EUR 7 million at 31 December 2016;
- in revaluation reserves by EUR 491 thousand compared to EUR 2 million at 31 December 2016;
- in profit for the year by EUR 2,251 thousand compared to EUR 1 million at 31 December 2016.

In detail, share capital amounted to EUR 43 million and consisted of 43,377 ordinary shares each of nominal value EUR 1,000.

2016 vs 2015

Applications

At 31 December 2016 the item "Financial assets other than receivables" amounted to EUR 595 million, representing an increase of 8.6% over 2015.

More specifically, at 31 December 2016, this item consisted of:

- debt securities classified as financial assets held for sale amounting to EUR 594 million, of which EUR 543 million issued by governments and central banks;
- equities of EUR 708 thousand;
- units in UCIs amounting to EUR 27 million.

The change in this item is mainly attributable to the increase in debt securities issued by governments and central banks.

Amounts due to banks amounted to EUR 116 million, a rise of EUR 43 million over the figure at 31 December 2015. More specifically, at 31 December 2016 this item consisted of

- an amount of EUR 89 thousand due from banks;
- an amount of EUR 27 thousand due from central banks.

There was a rising trend in loans to customers as a proportion of total assets, with an increase from 26% in 2015 to 29% in 2016.

At 31 December 2016, loans to customers, amounting to EUR 299 million (+34% compared to 31 December 2015), can be analysed as follows:

- current accounts, of EUR 112 million, a rise of 12% over 31 December 2015;
- mortgage loans, of EUR 174 million, a rise of 53% over 31 December 2015;
- credit cards, personal loans and salary-backed loans of EUR 823 thousand, an increase of over 100% compared to 31 December 2015;
- other loans, of EUR 12 million, a rise of 41% over 31 December 2015.

The following tables set out the composition of loans to customers at 31 December 2016 and 31 December 2015. For further details of the percentage coverage reference should be made to Chapter 9, Paragraph 9.1.2.2 of the Prospectus.

LOANS TO CUSTOMERS *(Thousands of euros)*	**Gross exposure**		**Adjustments**	**Carrying amount**		**Level of coverage**
At 31 December 2016						
Non-performing loans	18,645	5.98%	(9,064)	9,581	3.20%	48.61%
of which forborne exposures	*6,361*	*2.04%*	*(2,739)*	*3,622*	*1.21%*	*43.06%*
- Bad loans	8,697	2.79%	(4,874)	3,823	1.28%	56.04%
- Unlikely-to-pay	9,528	3.06%	(4,167)	5,361	1.79%	43.73%
- Overdrawn/past-due exp.	420	0.13%	(23)	397	0.13%	5.48%
Performing loans	292,990	94.02%	(3,120)	289,870	96.80%	1.06%
of which forborne exposures	*3,461*	*1.11%*	*(80)*	*3,381*	*1.13%*	*2.31%*
Total	**311,635**	**100.00%**	**(12,184)**	**299,451**	**100.00%**	**3.91%**

LOANS TO CUSTOMERS *(Thousands of euros)*	**Gross exposure**		**Adjustments**	**Carrying amount**		**Level of coverage**
At 31 December 2015						
Non-performing loans	8,395	3.67%	(3,925)	4,470	2.01%	46.75%
of which forborne exposures	*5,042*	*2.20%*	*(2,121)*	*2,921*	*1.31%*	*42.07%*
- Bad loans	1,972	0.86%	(1,309)	663	0.30%	66.38%
- Unlikely-to-pay	6,184	2.70%	(2,595)	3,589	1.61%	41.96%
- Overdrawn/past-due exp.	239	0.10%	(21)	218	0.10%	8.79%
Performing loans	220,385	96.33%	(2,190)	218,195	97.99%	0.99%
of which forborne exposures	*1,622*	*0.71%*	*(17)*	*1,605*	*0.72%*	*1.05%*
Total	**228,780**	**100.00%**	**(6,115)**	**222,665**	**100.00%**	**2.67%**

As far as credit quality is concerned, non-performing loans represented approximately 6.0% of total gross loans to customers at 31 December 2016 compared to 3.7% at 31 December 2015.

Gross bad loans represented 2.8% of gross loans to customers at 31 December 2016 compared to 0.9% at 31 December 2015 and unlikely-to-pay exposures represented 3.1% at 31 December 2016 against 2.7 % at 31 December 2015.

The following provides an analysis of the ratio between net bad loans and equity:

(Thousands of euros)	**31 December 2016**	**31 December 2015**
A. Net bad loans	3,823	663
B. Equity	50,220	54,628
A/B. Net bad loans/Equity	**7.61%**	**1.21%**

At 31 December 2016 the coverage ratio for non-performing loans (the ratio between adjustments and gross exposure) was 48.61%, representing an increase over the figure of 46.75% at 31 December 2015.

The following table provides details of the cost of loans, namely the ratio between adjustments to loans and net loans due from customers:

	31 December 2016	31 December 2015
A. Adjustments	12,184	6,115
B. Net loans due from customers	299,451	222,665
A/B. Adjustments/Net loans due from customers	**4.07%**	**2.75%**

Sources

In the same period amounts due to banks, totalling EUR 448 million at 31 December 2016, increased by EUR 67 million over the balance at the end of the previous period, attributable to an increase in amounts due to central banks.

Interbank deposits consisted mainly of amounts due to central banks, attributable to encumbered deposits with the European Central Bank and guarantees of eligible securities amounting to EUR 381 million (corresponding to 85% of the total), compared to EUR 360 million at 31 December 2015.

Direct deposits with customers amounted to EUR 508 million at 31 December 2016, representing an increase of 26% over the figure of EUR 404 million at 31 December 2015.The evolution of the aggregate arose from an increase in current accounts (+ EUR 96 million), certificates of deposit (+ EUR 7 million), time deposits (+ EUR 700 thousand), loans (+EUR 162 thousand), and bonds (+EUR 262 thousand).

Current accounts continued to represent the main source of deposits during the period, being 74% of the total (69% in 2015).

DIRECT DEPOSITS BY RESIDUAL LIFE *(Thousands of euros)*	**On demand**	**Within 1 year**	**Beyond 1 year**	**Total 31/12/2016**	**%**	**Total 31/12/2015**
Current accounts	373,804	-	-	373,804	74%	277,468
Savings deposits	4,708	-	-	4,708	1%	4,693
Other	524	-	-	524	0.1%	292
Time deposits	19,881	-	-	19,881	4%	19,181
Demand deposits	**398,917**	**-**	**-**	**398,917**	**79%**	**301,634**
Repurchase transactions	-	-	-	-	0%	-
Certificates of deposit	-	30,751	32,205	62,956	12%	56,292
Bonds	-	29,378	15,045	44,423	9%	44,161
Loans	-	-	1,644	1,644	0%	1,482
Term deposits	**-**	**60,129**	**48,894**	**109,023**	**21%**	**101,935**
Total direct deposits	**398,917**	**60,129**	**48,894**	**507,940**	**100%**	**403,569**

Net equity amounted to EUR 56.2 million at 31 December 2016, representing an increase in absolute terms of EUR 1.6 million (+3%) compared to EUR 54.6 million at 31 December 2015. This increase arose from the following components:

- share capital equal to EUR 40 million, in line with 31 December 2015;
- reserves equal to EUR 6,931 thousand, compared to EUR 3,324 thousand at 31 December 2015;

- equity attributable to non-controlling interests equal to EUR 5,987;
- revaluation reserves equal to EUR 2,141 thousand compared to EUR 6,741 thousand at 31 December 2015;
- profit for the year equal to EUR 1,148 thousand compared to EUR 4,563 thousand at 31 December 2015.

In detail, share capital amounted to EUR 40 million and consisted of 40,00 ordinary shares each of nominal value EUR 1,000.

Analysis by residual contractual term of financial assets and liabilities at 31 December 2016 and 2015.

For assets denominated in euros, cash assets repayable on demand amounted to EUR 131,125 thousand at 31 December 2016 and consisted mainly of loans (99.92%). Cash assets "over 5 years" and "from over 1 year to 5 years" amounted to EUR 229,822 thousand and EUR 407,894 thousand respectively.

Cash liabilities repayable on demand amounted to EUR 377,802 thousand at 31 December 2016 and consisted mainly of current accounts (99.79%). Cash liabilities "from over 1 months to 3 months" and "from over 1 year to 5 years" amounted to EUR 134,094 thousand and EUR 326,771 thousand respectively.

There were no "off-balance sheet" transactions at 31 December 2016.

For assets denominated in currencies other than the euro, cash assets repayable on demand amounted to EUR 1,242 thousand at 31 December 2016 and consisted of loans (100%). Cash assets "from over 1 month to 3 months" amounted to EUR 921 thousand.

Cash liabilities repayable on demand amounted to EUR 1,030 thousand at 31 December 2016 and consisted of current accounts (100%). Cash liabilities "from over 1 month to 3 months" amounted to EUR 909 thousand.

There were no "off-balance sheet" transactions repayable on demand at 31 December 2016.

For assets denominated in euros at 31 December 2015, cash assets repayable on demand amounted to EUR 107,813 thousand and consisted mainly of loans (99.91%). Cash assets "over 5 years" and "from over 1 year to 5 years" amounted to EUR 154,807 thousand and EUR 432,000 thousand respectively.

Cash liabilities repayable on demand amounted to EUR 280,422 thousand at 31 December 2015 and consisted mainly of current accounts (99.86%). Cash liabilities "from over 1 months to 3 months" and "from over 1 year to 5 years" amounted to EUR 96,017 thousand and EUR 300,043 thousand respectively.

At 31 December 2015 "off-balance sheet" transactions "from over 1 day to 7 days" amounted to EUR 8,318 thousand.

For assets denominated in currencies other than the euro, cash assets repayable on demand amounted to EUR 1,853 thousand at 31 December 2015 and consisted of loans (100%), all of which granted to banks.

Cash liabilities repayable on demand amounted to EUR 1,845 thousand at 31 December 2015 and consisted of deposit and current accounts (100%).These all referred to current accounts opened by customers.

There were no "off-balance sheet" transactions payable on demand at 31 December 2015.

Income statements for the years ended 31 December 2017, 2016 and 2015

The income statements for the years ended December 2017, 2016 and 2015 and changes in absolute and percentage terms are as follows.

The figures have been reclassified using management accounting criteria designed to best represent the bank's economic and financial situation, considering the specifics of a set of financial statements prepared for a bank. The aim of doing this is to simplify a reading of the statements by means of specific aggregations of items and reclassifications.

(Thousands of euros)	BIP						
	31 December			Change		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Net interest income	11,645	9,995	10,176	1,650	(181)	16.5%	(1.8%)
Net fee and commission income	4,356	3,327	2,548	1,029	779	30.9%	30.6%
Dividends and similar income	-	-	-	-	-	-	-
Net profit (loss) from trading and hedging activities	3,892	4,003	4,054	(111)	(51)	(2.8%)	(1.3%)
Other operating income and expense	93	134	59	(41)	75	(30.6%)	>100%
Net interest and other banking income	**19,986**	**17,459**	**16,837**	**2,527**	**622**	**14.5%**	**3.7%**
Personnel expenses	(5,271)	(4,566)	(4,022)	(705)	(544)	15.4%	13.5%
Administrative expenses	(4,626)	(3,968)	(3,074)	(658)	(894)	16.6%	29.1%
Value adjustments/recoveries on tangible and intangible assets	(233)	(210)	(268)	(23)	58	11.0%	(21.6%)
Operating expenses	**(10,130)**	**(8,744)**	**(7,364)**	**(1,386)**	**(1,380)**	**15.9%**	**18.7%**
Net operating profit (loss)	**9,856**	**8,715**	**9,473**	**1,141**	**(758)**	**13.1%**	**(8.0%)**
Net value adjustments to receivables	(3,151)	(3,067)	(2,348)	(84)	(719)	2.7%	30.6%
Impairment of goodwill	(327)	-	-	(327)	-	-	-
Net value adjustments to other assets/ liabilities	(870)	(2,894)	(56)	2,024	(2,838)	(69.9%)	>100%
Net accruals to provisions	(160)	(176)	(144)	16	(32)	(9.1%)	22.2%
Profits (losses) from equity investments and the disposal of investments	-	-	-	-	-	-	-
Profit (loss) from continuing operations before taxes	**5,348**	**2,578**	**6,925**	**2,770**	**(4,347)**	**>100%**	**(62.8%)**
Income tax on profit (loss) from continuing operations	(1,949)	(1,725)	(2,362)	(224)	637	13.0%	(27.0%)
Profit (loss) from discontinued operations, net of tax	-	-	-	-	-	-	-
Profit (loss) for the year	**3,399**	**853**	**4,563**	**2,546**	**(3,710)**	**>100%**	**(81.3%)**

2017 vs 2016

Net interest income at 31 December 2017 amounted to EUR 11.6 million, a rise of 16.5% over 31 December 2016.This is due to an increase of 3% in interest income equal to EUR 16.3 million at 31 December 2017 and a simultaneous decrease in interest expense (-20%) equal to EUR 4.6 million at 31 December 2017.

More specifically, there was a fall over 2016 in interest on financial assets available for sale (-12%), amounts due to customers (-27%) and securities issued (-17%), and a rise in interest on loans to customers (+15%), loans to banks (+31%) and loans from banks (+7%) and central banks (4%).

Segment	31/12/2017		31/12/2016	
	Margin	%	Margin	%
Customer margin	5,486	47%	3,031	30%
Financial margin	6,159	53%	6,964	70%
Securities portfolio	6,117		6,960	
Interbank margin	42		4	
Interest margin (net interest income)	**11,645**	**100%**	**9,995**	**100%**

In the same period net fee and commission income of EUR 4.4 million represented an increase over 31 December 2016, as the result of a rise in fee and commission income (+24%) and a simultaneous fall in fee and commission expense (-14%).

Of particular importance in fee and commission income was that arising from traditional banking activities, which amounted in total to EUR 3.9 million, and that relating to management, brokerage and consultancy services, amounting to EUR 353 thousand.

Net fees and commission income represented 22% as a percentage of operating income, in line with the corresponding figure at 31 December 2016 (19%).

Other operating income and expense, which includes the reimbursement of expenses and other costs not connected with ordinary activities and having an immaterial effect on operations, amounted to EUR 93 thousand at 31 December 2017, compared to EUR 134 thousand at 31 December 2016.

As the consequence of the above items, net interest and other banking income amounted to EUR 20 million in 2017, representing an increase of EUR 3 million over 31 December 2016.

Nevertheless there are various differences within this total as a whole, on the one hand there is the primary margin (interest margin + net fees and commissions), which increased by EUR 2.7 million and represented a higher percentage of total income, on the other there is the performance of security trading which represents a lower percentage of the total, despite in substance achieving the same return as the previous year.

Personnel expenses amounted to EUR 5.3 million at 31 December 2017, representing a rise of 15.4% (EUR 0.7 million) over 31 December 2016.This increase in the total was caused by a rise both in employee expenses (+ EUR 0.6 million) and in fees payable to directors and statutory auditors (+ EUR 0.1 million).

More specifically, the increase in expenses arising from the integration with Banca Emilveneta S.p.A. amounted to EUR 362 thousand, of which EUR 317 thousand referring to employees integrated into the structure (6 employees) and EUR 45 thousand to directors and statutory auditors.

Administrative expenses, amounting to EUR 4,626 thousand at 31 December 2017, increased by 17% over 31 December 2016.

The largest items in this category are represented by third party data processing services (18% of the total) totalling EUR 833 thousand, a rise of 34% over 31 December 2016 (EUR +211 thousand). These costs consist mainly of services rendered by IT outsourcers and settlement costs incurred for services provided by banks.

Other important cost drivers were professional and consulting services (18.4% of the total), amounting to EUR 850 thousand (+106% compared to 31 December 2016), and advertising and promotion costs (8.9% of the total), amounting to EUR 412 thousand (+12% compared to 31 December 2016).

Total expenses for professional and consulting services at 31 December 2017 include non-recurring costs for strategic consultancy (EUR 0.4 million) and the merger of Banca Emilveneta S.p.A. (EUR 0.5 million).

Value adjustments/recoveries on tangible and intangible assets, amounting to EUR 233 thousand, slightly increased at 31 December 2017 to the previous year (+ EUR 23 thousand) compared, due to the depreciation charge on the new building acquired from the merger of Banca Emilveneta S.p.A..

Net value adjustments to receivables amounted to EUR 3.1 million at 31 December 2017 were in line with the figure at 31 December 2016 and represent one of the most significant costs in the income statement.

Gross loans to customers amounted to EUR 337.7 million at 31 December 2017 (EUR 311.6 million at 31 December 2016), with adjustments amounting EUR 11.6 million (EUR 12.2 million at 31 December 2016), equal to 3.45% of their total (3.91% in 2016).

Gross performing loans to customers totalled EUR 319 million (EUR 293 million at 31 December 2016), with adjustments amounting to EUR 3.4 million (EUR 3.1 million in 2016), corresponding to a coverage of 1.08% on the total portfolio (1.06% at 31 December 2016), with an adjustment of EUR 332 thousand in the period (EUR 713 thousand in 2016).

In the same period net adjustments to other assets/liabilities amounted to EUR 870 thousand, a decrease of 70% compared to the figure of EUR 2,894 thousand at 31 December 2016.

Net adjustments to other assets/liabilities at 31 December 2017 include:

- a loss of EUR 654 thousand arising from impairment testing performed on the investment in Banca Carim S.p.A., with the carrying amount being fully written off. In the previous year the adjustment to this investment, on the basis of the value of EUR 1 communicated to shareholders, led to a write-down of EUR 2.8 million, thereby particularly penalising the result;

- an adjustment of EUR 187 thousand to the participation in the Voluntary Scheme for the Interbank Deposit Protection Fund, which intervened in support of distressed banks (Carim, Carismi and Caricesena);
- net value adjustments of EUR 29 thousand recognised on other assets and liabilities (EUR 33 thousand at 31 December 2016), which include portfolio recoveries on guarantees given, discounted using the same impairment coefficient envisaged for cash exposures.

The result of the above was a net profit for the year of EUR 3.4 million, representing an increase of over 100% compared to 31 December 2016.

Basic earnings per share amounted to a EUR 78.4, calculated considering an average number of 43,377 shares, compared to basic earnings per share of EUR 21.3 at 31 December 2016, calculated considering an average number of 40,000 shares.

No dividends were distributed in the period.

2016 vs 2015

Net interest income at 31 December 2016 amounted to EUR 9.9 million, a decrease of 1.8% over 31 December 2015. This fall is due to a decrease in interest income (-5%), equal to EUR 15.8 million at 31 December 2016, and a decrease in interest expense (-10%) ,equal to EUR 5.8 million at 31 December 2016.

More specifically, there was a decrease over 2015 in interest on financial assets available for sale (-20%), amounts due to customers (-19%) and securities issued (-2%), and a rise in interest on loans to customers (+9%), loans to banks (>100%) and amounts due to banks (>100%).

Segment	**31/12/2016**		**31/12/2015**	
	Margin	**%**	**Margin**	**%**
Customer margin	3,031	30%	1,652	16%
Financial margin	6,964	70%	8,524	84%
Securities portfolio	6,960		8,716	
Interbank margin	4		(192)	
Interest margin (net interest income)	**9,995**	**100%**	**10,176**	**100%**

In the same period net fee and commission income of EUR 3.3 million represented an increase over 31 December 2015, as the result of a rise in fee and commission income (+35%) and in fee and commission expense (+61%).

Of particular importance in fee and commission income was that arising from traditional banking activities, which amounted in total to EUR 2.9 million, and that relating to management, brokerage and consultancy services, amounting to EUR 155 thousand.

Net fees and commission income represented 19% as a percentage of operating income, an improvement over the figure at 31 December 2015 (15%).

Other operating income and expense, which includes the reimbursement of expenses and other costs not connected with ordinary activities and having an immaterial effect on operations, amounted to EUR 134 thousand at 31 December 2016, compared to EUR 59 thousand at 31 December 2015.

As the consequence of the above items, net interest and other banking income amounted to EUR 17 million in 2016, representing an increase of EUR 622 thousand over 31 December 2015, thanks to the contribution made by the subsidiary.

Nevertheless there are various differences within this total as a whole, with on the one hand the financial return from the securities sector posting a decrease, and on the other net fees and commissions rising by 31% over 31 December 2015. The trading result was stable; this also including the loss on the disposal of non-performing loans.

Personnel expenses amounted to EUR 4.6 million at 31 December 2016, representing a rise of 13.5% (EUR 0.5 million) over 31 December 2015. This increase in the total was caused by an increase both in employee expenses (+ EUR 0.4 million) and in fees payable to directors and statutory auditors (+ EUR 0.2 million).

Administrative expenses, amounting to EUR 3,968 thousand at 31 December 2016, increased by 29% compared to 31 December 2015.

The largest items in this category are represented by third party data processing services (16% of the total) costing EUR 622 thousand, a rise of 34% over 31 December 2016 (EUR +211 thousand). These costs consist mainly of services rendered by IT outsourcers and settlement costs incurred for services provided by banks.

Other important cost drivers were professional and consulting services (10% of the total), equal to EUR 412 thousand (+28% compared to 31 December 2015) and advertising and promotion costs (9% of the total), equal to EUR 368 thousand (+7% compared to 31 December 2015).

Value adjustments/recoveries on tangible and intangible assets, amounting to EUR 210 thousand, decreased at 31 December 2016 (- EUR 58 thousand) compared to the previous year.

Net value adjustments to receivables amounted to EUR 3.1 million at 31 December 2016 and represent one of the most significant costs in the income statement.

Gross loans to customers amounted to EUR 311.6 million at 31 December 2016 (EUR 228.8 million at 31 December 2015), with adjustments amounting to EUR 12.2 million (EUR 6.1 million in 2015), equal to 3.91% of their total (2.67% in 2015).

Gross performing loans to customers totalled EUR 293 million (EUR 220 million at 31 December 2015), with adjustments amounting to EUR 3.4 million (EUR 2.2 million at 31 December 2015), corresponding to a coverage of 1.06% on the total portfolio (0.99% at 31 December 2015), with an adjustment of EUR 713 thousand in the period.

In the same period net adjustments to other assets/liabilities amounted to EUR 2,894 thousand, an increase of over 100% compared to EUR 56 thousand at 31 December 2015.

Net adjustments to other assets/liabilities at 31 December 2016 include:

- a loss of EUR 2,846 thousand arising from impairment testing performed on the investment in Banca Carim S.p.A.. The minority interest (equal to 1.33% of the capital) was adjusted in accordance with the value of EUR 1 per share communicated by the counterparty to shareholders pursuant to Article 56 of Consob Regulation no. 16190/2007. This adjustment took the carrying amount of the equity to EUR 654 thousand, considerably below its nominal value;
- net value adjustments of EUR 33 thousand recognised on other assets and liabilities (EUR 56 thousand at 31 December 2015), which include portfolio recoveries on guarantees given and discounted using the same impairment coefficient envisaged for cash exposures.

The result of the above was a net profit for the year of EUR 853 thousand, representing a decrease of 81% compared to 31 December 2015.

Basic earnings per share amounted to a EUR 21.3, considering an average number of 40,000 shares.

Dividends of EUR 800 thousand were distributed in 2016 relating to the year ended 31 December 2015.

Statements of cash flows for the years ended 31 December 2017, 2016 and 2015

The statements of cash flows for the years ended 31 December 2017, 2016 and 2015 and the relative reconciliations with cash and cash equivalents at the beginning and end of the year are as follows.

(Thousands of euros)	**BIP**						
	Year ended 31 December			**Change**		**Change %**	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**	**2017 vs 2016**	**2016 vs 2015**
Net cash from (used in) operating activities	953	28,021	(2,002)	(27,068)	30,023	(96.60%)	(>100%)
Net cash from (used in) investing activities	(1,839)	(1,558)	(49)	(281)	(1,509)	18.04%	>100%
Net cash from (used in) financing activities	-	800	1,200	(800)	(400)	(100.00%)	(33.33%)
NET CASH GENERATED (USED) IN THE YEAR	**(886)**	**27,263**	**(851)**	**(28,149)**	**28,114**	**(>100%)**	**(>100%)**
Cash and cash equivalents at the beginning of the year	27,812	591	1,442	27,221	(851)	>100%	(59.02%)
Cash and cash equivalents at the end of the year	26,926	27,853	591	(927)	27,262	(3.33%)	>100%

2017 vs 2016

In 2017 the Issuer used cash of EUR 0.9 million compared to cash of EUR 27.3 million generated in the previous year.

Cash flows for the year ended 31 December 2017 show that operating activities generated cash of EUR 953 thousand due to the combined effect of the following:

(i) Cash generated by operations of EUR 5,290 thousand (+ EUR 184 thousand compared to 31 December 2016);

(ii) Cash generated by financial liabilities of EUR 118,011 thousand (- EUR 50 million compared to 31 December 2016), characterised by a reduction in issued securities;

(iii) Cash used by financial assets of EUR 122,347 thousand (+ EUR 23 million compared to 31 December 2016), characterised by an increase in loans to customers.

(iv) Investing activities used cash of EUR 1,839 thousand in 2017 (- EUR 281 thousand compared to 31 December 2016), characterised by purchases of tangible assets for EUR 1,509 thousand.

(v) Financing activities neither generated nor used cash in 2017. The figure at 31 December 2016 of EUR 800 thousand relates entirely to the distribution of dividends for 2015.

2016 vs 2015

In 2016 the Issuer generated cash of EUR 27.3 million compared to EUR 0.9 million used the previous year.

Cash flows for the year ended 31 December 2016 show that operating activities generated cash of EUR 28,021 thousand due to the combined effect of the following:

(i) Cash generated by operations of EUR 5,106 thousand (+ EUR 412 thousand compared to 31 December 2015);

(ii) Cash generated by financial liabilities of EUR 168,079 thousand (+ EUR 5 million compared to 31 December 2015), characterised by an increase in amounts due to customers;

(iii) Cash used by financial assets of EUR 145,165 thousand (+ EUR 25 million compared to 31 December 2015), characterised by loans to customers of EUR 79,115 thousand.

(iv) Investing activities used cash of EUR 1,558 thousand in 2016 (- EUR 1,509 thousand compared to 31 December 2015), characterised by purchases of tangible assets for EUR 1,227 thousand.

(v) Financing activities generated cash of EUR 800 thousand (- EUR 400 thousand compared to 31 December 2015), the difference being entirely due to the distribution of dividends for 2014.

Alternative performance measures as of and for the years ended 31 December 2017, 2016 and 2015

The following table provides details of the alternative performance measures as of and for the years ended 31 December 2017, 2016 and 2015.

Alternative Performance Measures	**BIP**		
	Year ended 31 December		
	2017	**2016**	**2015**
R.O.E.	6.00%	2.34%	9.11%
R.O.A.	0.32%	0.11%	0.53%
Cost/Income ratio	51%	50%	44%
Net adjustments to receivables/Net loans to customers	0.97%	1.02%	1.05%

Alternative Performance Measures	**BIP**		
	Year ended 31 December		
	2017	**2016**	**2015**
Net bad debts/Net loans to customers	1.51%	1.28%	0.30%
Gross non-performing loans/Gross loans to customers	5.44%	5.98%	3.67%
Tier I capital ratio (Tier 1 capital/Total risk-weighted assets)	17.29%	14.90%	18.22%
Total capital ratio (Regulatory capital + Tier II)/Total risk-weighted assets	17.29%	14.99%	18.23%
Total capital	57,596	49,174	46,636
Risk-weighted assets	333,038	327,950	255,888

Return on Equity (R.O.E.)

The following table sets out the calculation of R.O.E..

	Year ended 31 December		
	2017	**2016**	**2015**
A. Net profit (loss)	3,399	1,148	4,563
B. Equity (excluding net profit (loss) for the year)	56,671	49,072	50,065
A/B. R.O.E.	**6.00%**	**2.34%**	**9.11%**

At 31 December 2017 the Issuer's ROE of 6.00% increased with respect to the figure for the previous year, mainly attributable to the increase in net profit despite a simultaneous increase in equity for the above-mentioned reasons.

At 31 December 2016 the Issuer's ROE of 2.34% fell significantly compared to the figure for the previous year, due to the decrease in net profit for the above-mentioned reasons.

Return on Assets (R.O.A.)

The following table sets out the calculation of R.O.A..

	Year ended 31 December		
	2017	**2016**	**2015**
A. Net profit (loss)	3,399	1,148	4,563
B. Total assets	1,074,413	1,025,867	853,890
A/B. R.O.A.	**0.32%**	**0.11%**	**0.53%**

At 31 December 2017 the Issuer's ROA of 0.32% slightly increased with respect to the figure for the previous year, attributable to the increase in net profit for the year.

At 31 December 2016 the Issuer's ROA of 0.11% fell significantly compared to the figure for the previous year, attributable to the decrease in net profit for the year.

Cost/Income ratio

The following table sets out the calculation of the cost/income ratio.

	Year ended 31 December		
	2017	**2016**	**2015**
A. Operating expenses	(10,130)	(8,744)	(7,364)
Personnel expenses	(5,271)	(4,566)	(4,022)
Administrative expenses	(4,626)	(3,968)	(3,074)
Net adjustments to tangible fixed assets and intangible assets	(233)	(210)	(268)
B. Operating income	19,986	17,459	16,837
A/B. Cost/Income Ratio	**51%**	**50%**	**44%**

At 31 December 2017 the Cost/Income ratio did not change significantly compared to the figure for the previous year (around 1%), and in fact both operating expenses and operating income rose proportionately.

At 31 December 2016 the Cost/Income ratio increased compared to the figure for the previous year, the difference arising from a greater increase in operating expenses compared to the increase in operating income, with respect to the previous year.

Net adjustments to receivables/Loans to customers

The following table sets out the calculation of the net adjustments to receivables/loans to customers ratio.

	Year ended 31 December		
	2017	2016	2015
A. Net adjustments to receivables	(3,151)	(3,067)	(2,348)
B. Loans to customers	326,049	299,451	222,665
A/B. Net adjustments to receivables/Loans to customers	**0.97%**	**1.02%**	**1.05%**

At 31 December 2017 the net adjustments to receivables/loans to customers ratio fell slightly compared to the figure for the end of the previous year, attributable to the decrease in the period of net value adjustments to receivables for the above-stated reasons.

At 31 December 2016 the net adjustments to receivables/loans to customers ratio fell slightly compared to the figure for the end of the previous year, attributable to the decrease in the period of net value adjustments to receivables for the above-stated reasons.

Net bad loans/loans to customers

The following table sets out the calculation of the net bad loans/loans to customers ratio.

	Year ended 31 December		
	2017	2016	2015
A. Net bad loans	4,913	3,823	663
B. Loans to customers	326,049	299,451	222,665
A/B. Net bad loans/Loans to customers	**1.51%**	**1.28%**	**0.30%**

At 31 December 2017 the net bad loans/loans to customers ratio increased slightly over the figure at the end of the previous year, due to a percentage increase of net bad loans that was greater than that for loans to customers, for the above-mentioned reasons.

At 31 December 2016 the net bad loans/loans to customers ratio increased significantly over the figure at the end of the previous year, due to the increase during the period of net bad loans, for the above-mentioned reasons.

Gross non-performing loans/Gross loans to customers

The following table sets out the calculation of the gross non-performing loans/loans to customers ratio.

	Year ended 31 December		
	2017	2016	2015
A. Gross non-performing loans	18,377	18,645	8,395
B. Gross loans to customers	337,691	311,635	228,780
A/B. Gross non-performing loans/Gross loans to customers	**5.44%**	**5.98%**	**3.67%**

At 31 December 2017 the gross non-performing loans/loans to customers ratio decreased over the figure at the end of the previous year due to the fall in net bad loans during the period.

At 31 December 2016 the gross non-performing loans/loans to customers ratio increased significantly over the figure at the end of the previous year due to the increase in net bad loans during the period.

Other financial information at 31 December 2017, 2016 and 2015

Regulatory capital

Capital ratios	31/12/2017	31/12/2016	31/12/2015
Common Equity Tier 1 – CET1	**57,569**	**48,875**	**46,635**
Additional Tier 1 – AT1	-	-	-
Tier 2 –T2	**27**	**299**	**2**
Total own funds	**57,596**	**49,174**	**46,636**
Credit risk	24,404	24,025	18,832
Loan valuation adjustment risk	6	8	5
Regulatory risks	-	-	-
Market risks	37	-	-
Operating risk	2,196	2,203	1,634
Other items	-	-	-
Total prudential requirements	**26,643**	**26,236**	**20,471**
Risk weighted-assets	**333,038**	**327,950**	**255,888**
Common Equity Tier 1 ratio	**17.29%**	**14.90%**	**18.22%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)			
Tier 1 ratio	**17.29%**	**14.90%**	**18.22%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)			
Total capital ratio	**17.29%**	**14.99%**	**18.23%**
(Total own funds/ Risk-weighted assets)			

BIP's own funds at 31 December 2017 amounted to EUR 57,6 million (EUR 49,2 million at 31 December 2016 and EUR 46,6 million at 31 December 2015), compared to risk-weighted assets of EUR 333 million (EUR 327.9 million at 31 December 2016 and EUR 255.9 million at 31 December 2015), resulting almost exclusively from credit risk.

At 31 December 2017 and at 31 December 2016, the Total capital ratio exceeded the regulatory limit of 10.5% when fully operational (including the capital conservation buffer), as well as the 9.25% envisaged for 2017 by the present transitional scheme.

When determining risk-weighted assets the Issuer uses the standard method for calculating the capital requirements for credit risk.

Liquidity ratios

Liquidity ratios at 31 December 2017, 31 December 2016 and 31 December 2015 were as follows.

Indicator	31 December 2017	31 December 2016	31 December 2015
Liquidity Coverage Ratio (LCR)	251%	223%	269%
Net Stable Funding Ratio (NSFR)	122%	168%	185%

At 31 December 2017 the Issuer's Liquidity coverage ratio (LCR) on a stand-alone basis was 251%.

Again at 31 December 2017 the Issuer's Net stable funding ratio (NSFR) was 122% and its Loan to deposit ratio on a stand-alone basis was 61.64% at 31 December 2017.

At 31 December 2016 the Issuer's Liquidity coverage ratio (LCR) on a consolidated basis was 223%.

Again at 31 December 2016 the Issuer's Net stable funding ratio (NSFR) was 168% and its Loan to deposit ratio on a stand-alone basis was 58.95% at 31 December 2016.

At 31 December 2015 the Issuer's Liquidity coverage ratio (LCR) on a stand-alone basis was 269%.

Again at 31 December 2015 the Issuer's Net stable funding ratio (NSFR) was 185% and its Loan to deposit ratio on a stand-alone basis was 55.17% at 31 December 2015.

The regulatory minimum requirement was initially set at 60% (1 January 2015) and was subsequently increased on a sliding scale each year until it reached 100% on 1 January 2019. The Bank's LCR therefore exceeds the minimum requirements for the three years considered.

In accordance with minimum regulatory requirements the NSFR, defined as the proportion of available stable funding over the required stable funding, must remain constantly at a level of at least 100%.

Leverage ratio

The leverage ratios at 31 December 2017, 31 December 2016 and 31 December 2015 were as follows.

Indicator	31 December 2017	31 December 2016	31 December 2015
Leverage Ratio	5.19%	4.63%	5.31%

The leverage ratio was 5.19% at 31 December 2017 compared to 4.63% at 31 December 2016 (31 December 2015: 5.31%).

3.3 Selected financial information for SPAXS for the period from the date of incorporation (20 December 2017) to 30 September 2018

The Business Combination between the Issuer and SPAXS S.p.A. was concluded on 20 September 2018. As a result of this operation, the Issuer's financial statements were consolidated into those of SPAXS S.p.A. for the first time on 30 September 2018 and SPAXS S.p.A. prepared its first set of consolidated financial statements as of that date.

The following paragraphs present the statement of financial position, income statement and statement of cash flows extracted from the consolidated financial statements of SPAXS for the period from its date of incorporation (20 December 2017) to 30 September 2018.

Reclassified consolidated statement of financial position as of 30 September 2018 based on operations from the date of incorporation (20 December 2017)

The consolidated statement of financial position as of 30 September 2018 based on operations from the date of incorporation (20 December 2017) is as follows.

The figures have been reclassified using management accounting criteria designed to best represent the bank's economic and financial situation, considering the specifics of a set of financial statements prepared for a bank. The aim of doing this is to simplify a reading of the statements by means of specific aggregations of items and reclassifications.

Further details of the main changes can be found in the information included in Chapters 9 and 10 of the First Section of the Prospectus.

(Thousands of euros)	**SPAXS**
	30 September 2018
Financial assets other than receivables	434,333
Due from banks	668,621
Due from customers	333,183
Equity investments	-
Tangible and intangible assets	23,740
Of which: goodwill	21,643
Tax assets	14,092
Other assets	15,549
Total assets	**1,489,518**
Due to banks	257,603
Direct deposits from customers	587,998
Deferred tax liabilities	335
Liabilities associated with non-current assets and disposal groups held for sale	-
Other liabilities	82,842
Specific provisions	922
Net equity	559,818
Total liabilities and equity	**1,489,518**

Applications

The item "Financial assets other than receivables" at 30 September 2018 amounted to EUR 434 million.

More specifically, at 30 September 2018, this item consisted of:

- units in UCIs measured at fair value through profit or loss amounting to EUR 29 million;
- debt securities measured at fair value through comprehensive income amounting to EUR 292 million, of which EUR 265 million relating to the public administration (Italian government bonds) and EUR 27 million to banks;
- debt securities measured at amortised cost amounting to approximately EUR 113 million relating to the public administration (Italian government bonds).

Amounts due from banks totalled EUR 669 million. More specifically, at 30 September 2018 this item consisted of:

- unrestricted deposits with central banks of approximately EUR 76 million;
- receivables from banks of approximately EUR 593 million.

Receivables from banks of EUR 593 million may be further analysed as follows:

- current accounts of approximately EUR 555 million;
- mortgage loans of approximately EUR 37 million.

Amounts due from customers amounted to approximately EUR 333 million and may be analysed as follows:

- current accounts of approximately EUR 118 million;
- mortgage loans of approximately EUR 201 million;
- credit cards, personal loans and salary-backed loans of approximately EUR 1 million;
- other loans, of approximately EUR 12 million.

This item is entirely attributable to the subsidiary Banca Interprovinciale: reference should be made to Paragraph 3.1 for further details on the composition, degree of coverage and quality of the credit.

At 31 December 2016, the item "Tangible and intangible assets" amounted to approximately EUR 23 million and mainly consisted of:

- goodwill of EUR 21.6 million consisting of the difference between the purchase price of the shares of Banca Interprovinciale, considering both the part paid in cash and the part settled by way of SPAXS shares, and the corresponding portion of the book value of the Bank's net assets at the acquisition date of 20 September 2018, provisionally recognised as goodwill in the assets section of the balance sheet in accordance with IFRS 3.

Sources

At 30 September 2018 balances due to banks amounted to EUR 258 million.

Interbank deposits at that date consisted mainly of amounts due to central banks attributable to

- encumbered deposits from the European Central Bank guaranteed by eligible securities amounting to approximately EUR 142 million;
- amounts due to banks of approximately EUR 115 million compared to approximately EUR 71 million at 31 December 2017, consisting mainly of loans received of approximately EUR 109 million.

Direct deposits with customers amounted to EUR 588 million. Current accounts continue to represent the main source of deposits, amounting to EUR 442 million (75% of the total). Compared to total deposits of EUR 588 million, time deposits accounted for 18% of the total, approaching EUR 107 million.

Net equity totalled EUR 559.8 million at 30 September 2018. In detail, share capital at that date amounted to approximately EUR 63.1 million, of which EUR 62.8 million attributable to the Group and EUR 0.3 million to minorities.The share premium reserve amounted to approximately EUR 504.6 million while there was a consolidated loss of EUR 7.8 million.

Share capital at 30 September 2018 was fully subscribed and paid and consisted of 60,981,144 Ordinary Shares and 1,800,000 Special Shares, the latter convertible into Ordinary Shares on the occurrence of the conditions, and by the means, stated in Article 6 of the SPAX bylaws.

Reclassified consolidated statements of income and comprehensive income for the period from the date of incorporation (20 December 2017) to 30 September 2018

The consolidated statements of income and comprehensive income for the period from the date of incorporation (20 December 2017) to 30 September 2018 are as follows.

(Thousands of euros)	**SPAXS**
	30 September 2018
Net interest income	402
Net fee and commission income	-
Dividends and similar income	-
Net profit (loss) from trading and hedging activities	-
Other operating income and expense	-
Net interest and other banking income	402
Personnel expenses	(233)
Administrative expenses	(8,245)
Other administrative expenses	(8,011)
Value adjustments/recoveries on tangible and intangible assets	(3)
Operating expenses	(8,247)
Net operating profit (loss)	(7,846)
Net value adjustments to receivables	-
Net value adjustments to other assets/liabilities	-
Net accruals to provisions	-
Profits (losses) from equity investments and the disposal of investments	-
Profit (loss) from continuing operations before taxes	(7,846)
Income tax on profit (loss) from continuing operations	-
Profit (loss) from discontinued operations, net of tax	-
Profit (loss) for the period	**(7,846)**

There was a loss of EUR 7.8 million for the period ended 30 September 2018, almost entirely due to administrative expenses of approximately EUR 8 million consisting mainly of the costs incurred for professional services and consultancy relating to the Material Transaction.

Consolidated statement of cash flows (indirect method) for the period from the date of incorporation (20 December 2017) to 30 September 2018

(Thousands of euros)	**SPAXS**
	30 September 2018
A. OPERATING ACTIVITIES	
Net cash from (used in) operating activities	(450,917)
B. INVESTING ACTIVITIES	
Net cash from (used in) investing activities	(28,309)
C. FINANCING ACTIVITIES	
Net cash from (used in) financing activities	555,822
NET CASH GENERATED (USED) IN THE PERIOD	**76,596**

Reconciliation *(Thousands of euros)*	**30 September 2018**
Cash and cash equivalents at the beginning of the period	-
Net cash generated (used) in the period	76,596
Cash and cash equivalents at the end of the period	**76,596**

At a consolidated level SPAXS generated cash of EUR 76.6 million in the period from the date of incorporation to 30 September 2018:

Operating activities used cash of EUR 450.9 million in that period due to the combined effect of the following:

(i) Cash generated by operations of EUR 13.7 million;

(ii) Cash used by financial assets of EUR 357.8 million;

(iii) Cash used by financial liabilities of EUR 106.8 million;

(iv) Investing activities led to the use of cash of EUR 28.3 million at 30 September 2018, characterised by the purchase of the investment in the Issuer for approximately EUR 28 million.

(v) Financing activities generated cash of EUR 555.8 million at 30 September 2018, arising from the issue of SPAXS shares through which funding was obtained on the market.

3.4 Selected financial information for SPAXS for the period from the date of incorporation (20 December 2017) to 30 June 2018

The statement of financial position, income statement and statement of cash flows extracted from the SPAXS 1H 2018 Financial Statements are as follows.

Statement of financial position as of 30 June 2018

The statement of financial position as of 30 June 2018 is as follows.

(Thousands of euros)	**SPAXS**
	30 June 2018
Cash and cash equivalents	613,698
Other receivables	9
Property and equipment	6
Total assets	**613,713**
Trade payables	3,134
Other payables	6,692
Reserves	545,731
Share capital	61,800
Profit (loss) for the period	(3,643)
Total liabilities and equity	**613,713**

Consolidated income statement for the period from the date of incorporation (20 December 2017) to 30 June 2018

The consolidated income statement for the period from the date of incorporation (20 December 2017) to 30 June 2018 is as follows.

(Thousands of euros)	**SPAXS**
	30 June 2018
Revenues	-
Consumables	(2)
Service costs	(3,844)
Lease and rental expense	(40)
Other operating expenses	(2)
Depreciation, amortisation and impairment	-
Operating profit (loss)	(3,888)
Financial income	245
Financial expense	-
Profit (loss) before tax	(3,643)
Income taxes	-
Profit (loss) for the period	(3,643)

Statement of cash flows for the period from the date of incorporation (20 December 2017) to 30 June 2018

The statement of cash flows for the period from the date of incorporation (20 December 2017) to 30 June 2018 is as follows.

(Thousands of euros)	**SPAXS**
	30 June 2018
Net cash (used in) from operating activities	**6,174**
Net cash from (used in) investing activities	**(7)**
Net cash from (used in) financing activities	**607,531**
(Decrease) increase in cash and cash equivalents and short-term deposits	**613,698**
Cash and cash equivalents and short-term deposits at 20 December 2017	-
Cash and cash equivalents and short-term deposits at 30 June 2018	**613,698**

3.5 PRO-FORMA FINANCIAL INFORMATION AT 31 DECEMBER 2017, 30 JUNE 2018 AND 30 SEPTEMBER 2018

The information reported in this paragraph consists of the Issuer's pro-forma statement of financial position as of 31 December 2017 and its pro-forma statements of financial position as of 30 June 2018 and 30 September 2018 together with the relative income statements and statements of cash flows for the respective six months and nine months then ended (the "**Pro-Forma Statements**") and relative notes, which with retrospective effect represent the significant effects of the Business Combination and of the reverse merger of SPAXS into BIP that will give rise to illimity.The effects of the transactions carried out by SPAXS in preparation for the Business Combination, which include the placement of the Ordinary Shares and Conditional Share Rights of SPAXS and the Promoters' Capital Increase (together the "**Transactions**"), are presented retrospectively in the Pro-Forma Statements as of 31 December 2017.

On 12 April 2018 and through subsequent applications the almost entirety of the shareholders of the Issuer and SPAXS entered an agreement for the purchase of the Issuer by SPAXS (a company operating as a special-purpose acquisition company).

This agreement provides for the purchase in cash by SPAXS of ordinary shares of the Issuer and the contribution by certain of the Issuer's shareholders of their shares to enable a capital increase to go ahead as resolved by SPAXS for the purpose.

This transaction was carried out on 20 September 2018 by means of:

- the purchase by SPAXS of 34,655 ordinary shares at a price of approximately EUR 44.7 million;
- the contribution of 8,360 of the Issuer's ordinary shares (equivalent to approximately 19.27% of its share capital) to perform the reserved increase in share capital resolved by the SPAXS Shareholders' Meeting of 8 August 2018 and carried out through the issue of 981,144 newly-issued ordinary shares of SPAXS to the Bank's contributing shareholders.

As a result of this transaction, SPAXS' holding rose to 43,015 of the Issuer's ordinary shares, corresponding to approximately 99.165% of its share capital, and this represents the interest held by SPAXS in the Issuer at the Prospectus Date.

The Pro-Forma Statements as of and for the year ended 31 December 2017 have been prepared on the basis of historical data extracted from:

- the BIP 2017 Financial Statements approved by the Board of Directors on 29 March 2018 and audited by Deloitte & Touche S.p.A., whose unqualified report is attached to the Prospectus;
- the accounting situation of SPAXS as of 31 December 2017 and for the period from 20 December 2017, the date of its incorporation, to 31 December 2017 (the "**SPAXS Accounting Situation**"), prepared in accordance with IFRSs.

Only a pro-forma statement of financial position has been prepared as of 31 December 2017, whereas the effect of the Transactions have not been reflected in the income statement or statement of cash flows given that SPAXS was incorporated on 20 December 2017 with a share capital of EUR 50 thousand and did not operate in the period between its incorporation and 31 December 2017. As a consequence, the effect of consolidating the income statement and statement of cash flows in the pro-forma income statement and pro-forma statement of cash flows for 2017 would not be material, and such financial statements would not provide significant additional financial information with respect to the Issuer's corresponding historical data.

The Pro-Forma Statements as of and for the six months ended 30 June 2018 have been prepared on the basis of historical data extracted from:

- the Issuer's interim financial statements as of and for the six months ended 30 June 2018, prepared in accordance with IAS 34 Interim Financial Reporting, approved by the Board of Directors on 30 October 2018 (the "**BIP 1H 2018 Interim Financial Statements**") and subject to a full audit by KPMG S.p.A.;
- the SPAXS 1H 2018 Interim Financial Statements approved by the Board of Directors on 30 October 2018 and subject to a full audit by KPMG S.p.A..

The Pro-Forma Statements as of and for the nine months ended 30 September 2018 have been prepared on the basis of historical data extracted from the SPAXS 9M 2018 Interim Consolidated Financial Statements approved by the Board of Directors on 30 October 2018 and subject to a review by KPMG S.p.A..

The SPAXS Accounting Situation and the SPAXS 1H 2018 Interim Financial Statements used as a basis for the preparation of the pro-forma figures and prepared in accordance with IFRSs have been reclassified into the financial statement format used by BIP.

The Pro-Forma Statements have been prepared solely for descriptive purposes and were obtained by making suitable pro-forma adjustments to the above-mentioned historical data in order to retrospectively recognise the significant effects of the Business Combination and, with reference to the Pro-Forma Statements as of and for the year ended 31 December 2017, the Transactions. More specifically, on the basis of the requirements of Consob communication no. DEM/1052803 of 5 July 2001, to prepare the pro-forma statements of financial position these effects have been recognised retrospectively as if the Transactions had been carried out at 31 December 2017, 30 June 2018 and 30 September 2018, and to prepare the pro-forma income statements and statements of cash flows the six and nine months ended 30 June 2018 and 30 September 2018 as if the Transactions had been carried out on 1 January 2018.

For details of the accounting standards used to prepare the BIP 2017 Financial Statements, the BIP 1H 2018 Interim Financial Statements, the SPAXS 1H 2018 Interim Financial Statements and the SPAXS 9M 2018 Interim Consolidated Financial Statements, reference should be made to the notes to the financial statements attached to the Prospectus. For the SPAXS Accounting Situation as of and for the period ended 31 December 2017 the accounting standards adopted were the same as those used to prepare the SPAXS 1H 2018 Interim Financial Statements.

For the assumptions made in preparing the Pro-Forma Statements and the relative notes to the financial statements reference should be made to Chapter 20, Paragraph 20.2.

Pro-Forma Statements at 31 December 2017

The pro-forma statement of financial position as of 31 December 2017 presents, respectively:

(i) in the first column (i), "SPAXS", the SPAXS Accounting Situation;

(ii) in the second column (ii), "BIP", the BIP 2017 Financial Statements;

(iii) in the third column (iii), "Combined", the amounts resulting from the sum of the two preceding columns (i) and (ii);

(iv) in the fourth column (iv), "Adjustments", the pro-forma adjustments resulting from the placement of the Ordinary Shares and Conditional Share Rights and the Promoters' Capital Increase of SPAXS which took place between January and February 2018, net of the relative tax effects;

(v) in the fifth column (v), "Withdrawal", the pro-forma adjustments arising from the effects of the exercising by the holders of SPAXS Ordinary Shares of their withdrawal right;

(vi) in the sixth column (vi), "Acquisition", the pro-forma adjustments arising from the effects resulting from the purchase by SPAXS of 99.2% of the shares of BIP;

(vii) in the seventh column (vii), "Consolidation and reverse merger", the pro-forma adjustments arising from the effect of consolidating BIP in SPAXS and of the reverse merger of SPAXS into BIP;

(viii) in the eighth column (viii), "PRO-FORMA", the pro-forma figures of illimity resulting from the sum of the preceding columns (iii) to (vii).

Pro-forma statement of financial position as of 31 December 2017

(Thousands of euros)	**SPAXS (i)**	**BIP (ii)**	**Combined (iii)**	**PRO-FORMA ADJUSTMENTS**				**illimity PRO-FORMA (viii)**
				Adjustments (iv)	**Withdrawal (v)**	**Acquisition (vi)**	**Consolidation and reverse merger (vii)**	
Cash and cash equivalents	13	26,926	26,939	37	0	0	0	26,976
Financial assets	0	1,033,114	1,033,114	607,915	(37,679)	(44,739)	0	1,558,611
Equity investments	0	0	0	0	0	55,532	(55,532)	0
Tangible and intangible assets	0	1,659	1,659	0	0	0	21,643	23,302
Other assets	14	12,714	12,728	3,474	0	0	0	16,202
Total assets	**27**	**1,074,413**	**1,074,440**	**611,426**	**(37,679)**	**10,793**	**(33,889)**	**1,625,091**
Financial liabilities	0	999,601	999,601	0	0	0	0	999,601
Other liabilities	58	14,226	14,284	471	0	0	25,679	40,434
Provisions	0	516	516	0	0	0	0	516
Net equity	(31)	60,070	60,039	610,955	(37,679)	10,793	(59,568)	584,540
Total liabilities and equity	**27**	**1,074,413**	**1,074,440**	**611,426**	**(37,679)**	**10,793**	**(33,889)**	**1,625,091**

The main pro-forma adjustments regard the following items:

- financial assets: this item shows a net increase of EUR 525.5 million, due to the recognition of the proceeds from the placement of the Ordinary Shares and Conditional Share Rights and the Promoters' Capital Increase, net of commissions of EUR 607.9 million paid to the placement banks, the effect of which is partially offset by the payment of EUR 37.7 million made on the exercising of the withdrawal rights and the portion of the price settled in cash relating to the acquisition of BIP amounting to EUR 44.7 million;
- intangible assets: this item includes the recognition of goodwill of EUR 21.6 million arising from the provisional accounting for the excess of the price paid for the purchase of BIP and the fair value of the assets (including the identifiable intangible assets) acquired and the liabilities and contingent liabilities assumed;
- other assets: this item includes the recognition of deferred tax assets of EUR 3.5 million, of which EUR 3.3 million arising from temporary differences on the commissions paid to the placement banks and EUR 0.2 million from temporary differences on the consultancy costs incurred for the placement of the Ordinary Shares;
- other liabilities: this item includes the increase in consultancy costs arising from the placement of the Ordinary Shares for EUR 0.5 million and an entry to reconcile the difference between the book value of BIP's equity at 31 December 2017 and the corresponding amount at the acquisition date, following the criteria established for the preparation of the pro-forma statements.

Pro-Forma Statements at 30 June 2018

The Pro-Forma Statements present, respectively:

(i) in the first column (i), "SPAXS", the SPAXS 1H 2018 Interim Financial Statements;

(ii) in the second column (ii), "BIP", the BIP 1H 2018 Interim Financial Statements;

(iii) in the third column (iii), "Combined", the amounts resulting from the sum of the two preceding columns (i) and (ii);

(iv) in the fourth column (iv), "Adjustments", the pro-forma adjustments regarding: (1) the tax effects relating to the placement costs and other listing expenses, (2) the costs from ordinary operations, net of the tax effect, (3) the reclassification of deferred listing expenses in order to represent these as if they had already been settled in cash, (4) the recognition of the tax effect resulting from the economic growth benefit scheme (ACE) and the recognition of the deferred taxes resulting from the tax loss of SPAXS;

(v) in the fifth column (v), "Withdrawal", the pro-forma adjustments arising from the effects of the exercising by the holders of SPAXS Ordinary Shares of their withdrawal right;

(vi) in the sixth column (vi), "Acquisition", the pro-forma adjustments arising from the effects resulting from the purchase by SPAXS of 99.2% of the shares of BIP;

(vii) in the seventh column (vii), "Consolidation and reverse merger", the pro-forma adjustments arising from the effect of consolidating BIP in SPAXS and of the reverse merger of SPAXS into BIP;

(viii) in the eighth column (viii), "PRO-FORMA", the pro-forma figures of illimity resulting from the sum of the preceding columns (iii) to (vii).

Pro-forma statement of financial position as of 30 June 2018

(Thousands of euros)	**SPAXS (i)**	**BIP (ii)**	**Combined (iii)**	**PRO-FORMA ADJUSTMENTS**				**illimity PRO-FORMA (viii)**
				Adjustments (iv)	**Withdrawal (v)**	**Acquisition (vi)**	**Consolidation and reverse merger (vii)**	
Cash and cash equivalents	0	16,811	16,811	0	0	0	0	16,811
Financial assets	613,698	996,733	1,610,431	(6,667)	(37,679)	(44,739)	(9,161)	1,512,185
Equity investments	0	0	0	0	0	55,532	(55,532)	0
Tangible and intangible assets	6	1,862	1,868	0	0	0	21,643	23,511
Other assets	9	20,415	20,424	3,474	0	(4,483)	3,030	22,445
Total assets	**613,713**	**1,035,821**	**1,649,534**	**(3,193)**	**(37,679)**	**6,310**	**(40,020)**	**1,574,952**
Financial liabilities	0	965,909	965,909	0	0	0	0	965,909
Other liabilities	9,825	18,614	28,439	(6,667)	0	0	10,616	32,388
Provisions	0	287	287	0	0	0	0	287
Net equity	603,888	51,011	654,899	3,474	(37,679)	6,310	(50,636)	576,368
Total liabilities and equity	**613,713**	**1,035,821**	**1,649,534**	**(3,193)**	**(37,679)**	**6,310**	**(40,020)**	**1,574,952**

The main pro-forma adjustments regard the following items:

- financial assets: this item shows a net decrease of EUR 98.2 million, attributable to bank commissions of EUR 6.7 million relating to deferred listing costs, the payment of EUR 37.7 million made on the exercising of withdrawal rights and the portion of the price settled in cash relating to the acquisition of BIP amounting to EUR 44.7 million;
- intangible assets: this item includes the recognition of goodwill of EUR 21.6 million arising from the provisional accounting for the excess of the price paid for the purchase of BIP and the fair value of the assets (including the identifiable intangible assets) acquired and the liabilities and contingent liabilities assumed;

- <u>other assets</u>: this item increases by EUR 2.0 million due to the recognition of deferred tax assets of EUR 6.5 million, of which EUR 3.3 million arising from temporary differences on the commissions paid to the placement banks, EUR 0.2 million from temporary differences on the consultancy costs incurred for the placement of the Ordinary Shares and EUR 3.0 million from temporary differences on the value adjustments made to financial assets represented by HTC and HTCS instruments, partially offset by a reversal of EUR 4.5 million for other assets relating to the consultancy costs charged to BIP as part of the search for new investors;
- <u>other liabilities</u>: this item includes a net reduction of EUR 98.2 million arising from the reversal of the liability for bank commissions relating to deferred listing costs for EUR 6.7 million considered already paid, and an entry to reconcile the difference between the book value of BIP's equity at 31 December 2017 and the corresponding amount at the acquisition date, following the criteria established for the preparation of the pro-forma statements.

Pro-forma income statement for the six months ended 30 June 2018

	SPAXS (i)	BIP (ii)	Combined (iii)	PRO FORMA ADJUSTMENTS				Illimity PRO-FORMA (viii)
				Adjustments (iv)	Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
Net profit (loss) from banking activities	245	7,340	7,585	0	0	0	794	8,379
Operating expenses	(3,889)	(6,264)	(10,153)	(2,409)	0	(4,483)	0	(17,045)
Profit (loss) on the sale of investments	0	(2)	(2)	0	0	0	0	(2)
Profit (loss) from continuing operations before taxes	**(3,643)**	**1,074**	**(2,569)**	**(2,409)**	**-**	**(4,483)**	**794**	**(8,668)**
Income tax	0	(393)	(393)	3,073	(78)		(263)	2,340
Profit (loss) for the period	**(3,643)**	**681**	**(2,962)**	**664**	**(78)**	**(4,483)**	**531**	**(6,328)**
of which non-recurring				*247*	*(78)*	*(4,483)*	*0*	*(4,314)*

The main pro-forma adjustments regard the following items:

- <u>net profit (loss) from banking activities</u>: this item includes interest income of EUR 0.8 million in order to reflect the effective interest rate of the adjustment of HTC and HTCS instruments to fair value made on the allocation of the price paid to acquire BIP;
- <u>operating expenses:</u> these increase by EUR 6.9 million, the difference being attributable to personnel expenses of EUR 1.5 million regarding costs of a non-recurring nature arising from the extraordinary transaction carried out during the period, other administrative expenses of EUR 0.9 million relating to the costs incurred for the Ferrante Aporti leasing fees and costs of EUR 4.5 million arising from the consultancy fees charged to BIP as part of the search for new investors;
- <u>income taxes</u>: a positive effect of EUR 3.0 million was made to this item attributable to income of EUR 0.7 million arising from the tax effects of the preceding points, the recognition of deferred tax income of EUR 1 million on the tax losses of SPAXS and the recognition of a tax benefit of EUR 1.3 million resulting from the economic growth benefit scheme (ACE).

Pro-forma statement of cash flows for the six months ended 30 June 2018

	SPAXS (i)	BIP (ii)	Combined (iii)	Adjustments (iv)	PRO-FORMA ADJUSTMENTS			Illimity PRO-FORMA (viii)
					Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
Net cash from (used in) operating activities	369	(10,432)	(10,063)	1,939	(78)	(4,483)	531	(12,154)
Net cash from (used in) investing activities	(607,900)	317	(607,583)	–	37,679	–	–	(569,904)
Net cash from (used in) financing activities	607,531	–	607,531	–	(37,679)	–	–	569,852
Changes to the income statement not reflected in the pro-forma statement of financial position	–	–	-	(1,939)	78	4,483	(531)	2,091
NET CASH GENERATED (USED) IN THE PERIOD	-	**(10,115)**	**(10,115)**	**–**	**–**	**–**	**–**	**(10,115)**
Cash and cash equivalents at the beginning of the period	–	26,926	26,926	–	–	–	–	26,926
Net cash generated (used) in the period	-	(10,115)	(10,115)	–	–	–	–	(10,115)
Cash and cash equivalents: effect of changes in exchange rates	–	–	-	–	–	–	–	-
Cash and cash equivalents at the end of the period	-	16,811	16,811	–	–	–	–	16,811

The adjustments reflect the effects of the adjustments made in the previous section on cash generated or used. In addition, the item "changes to the income statement not reflected in the pro-forma statement of financial position" contains the cash flows not reflected in the pro-forma statement of financial position in order to adjust the figure for cash and cash equivalents at the end of the period to the figure presented in the pro-forma statement of financial position; as already stated, the pro-forma statement of financial position reflects the Transaction as if carried out at 30 June 2018, while the pro-forma statement of cash flows presents the effects as if carried out at 1 January 2018, in accordance with the requirements of Consob Communication no. DEM/1052803 of 5 July 2001.

Pro-Forma Statements at 30 September 2018

The pro-forma statements present, respectively:

(i) in the first column (i), "Consolidated SPAXS", the SPAXS 9M 2018 Interim Consolidated Financial Statements;

(ii) in the second column (ii), "Adjustments", the pro-forma adjustments regarding: (1) the tax effects relating to the placement costs and listing expenses, (2) the costs from ordinary operations, net of the tax effect, (3) the reclassification of deferred listing expenses in order to represent these as if they had already been settled in cash, (4) the recognition of the tax effect resulting from the economic growth benefit scheme (ACE) and the recognition of the deferred taxes resulting from the tax loss of SPAXS;

(iii) in the third column (iii), "Withdrawal", the pro-forma adjustments arising from the effects of the exercising by the holders of SPAXS Ordinary Shares of their withdrawal right;

(iv) in the fourth column (iv), "Reverse merger", the pro-forma adjustments arising from the effect of the reverse merger of SPAXS into BIP;

(v) in the fifth column (v), "PRO-FORMA", the pro-forma figures of illimity resulting from the sum of the preceding columns (i) to (iv).

Pro-forma statement of financial position as of 30 September 2018

(Thousands of euros)	**Consolidated SPAXS (i)**	**PRO-FORMA ADJUSTMENTS**			**Illimity PRO-FORMA (v)**
		Adjustments (ii)	**Withdrawal (iii)**	**Reverse merger (iv)**	
Cash and cash equivalents	76,596	0	0	0	76,596
Financial assets	1,360,126	(6,667)	(37,679)	0	1,315,780
Equity investments	0	0	0	0	0
Tangible and intangible assets	23,490	0	0	0	23,490
Other assets	29,306	3,475	0	0	32,781
Total assets	**1,489,518**	**(3,192)**	**(37,679)**	**0**	**1,448,647**
Financial liabilities	845,601	0	0	0	845,601
Other liabilities	83,657	(6,667)	(50,909)	0	26,081
Provisions	443	0	0	0	443
Net equity	559,532	3,475	13,230	285	576,522
Liabilities and equity	**1,489,233**	**(3,192)**	**(37,679)**	**285**	**1,448,647**

The main pro-forma adjustments regard the following items:

- financial assets: this item shows a net decrease of EUR 44.4 million, attributable to bank commissions of EUR 6.7 million relating to deferred listing costs and payments of EUR 37.7 million made on the exercising of withdrawal rights
- other assets: this item increases by EUR 3.5 million due to the recognition of deferred tax assets of EUR 6.5 million, of which EUR 3.3 million arising from temporary differences on the commissions paid to the placement banks and EUR 0.2 million from temporary differences on the consultancy costs incurred for the placement of the Ordinary Shares;
- other liabilities: this item includes a net reduction of EUR 57.6 million arising from the reversal of the liability for bank commissions relating to deferred listing costs for EUR 6.7 million and the liability recognised for the exercising of withdrawal rights of EUR 50.9 million, which is considered already paid.

Pro-forma income statement for the nine months ended 30 September 2018

	Consolidated SPAXS (i)	PRO FORMA ADJUSTMENTS			Illimity PRO-FORMA (v)
		Adjustments (ii)	Withdrawal (iii)	Consolidation and reverse merger (iv)	
Net profit (loss) from banking activities	0	(1,357)	0	1,191	(166)
Operating expenses	(8,247)	(16,748)	0	0	(24,996)
Profits (losses) from the disposal of investments	0	(2)	0	0	(2)
Profit (loss) from continuing operations before taxes	**(7,846)**	**(18,107)**	**0**	**1,191**	**(24,762)**
Income tax	(393)	3,073	(78)	(263)	2,340
Profit (loss) for the period	**(7,846)**	**(9,035)**	**(117)**	**797**	**(16,200)**
of which non-recurring		*(4,124)*	*(117)*	*0*	*(4,241)*

The main pro-forma adjustments regard the following items:

- the recognition of BIP's income statement for the first nine months of 2018, which presents a net loss of EUR 1.4 million from banking activities, operating expenses of EUR 15.7 million and a net loss of EUR 12.5 million, as well as additional adjustments to the following items;
- an increase in interest income of EUR 1.2 million to reflect the effective interest rate of the adjustment of HTC and HTCS instruments to fair value made on the allocation of the price paid to acquire BIP;
- an increase other administrative expenses of EUR 1.3 million relating to recurring costs for ordinary operations, such as those for the Ferrante Aporti leasing fees;
- a decrease in income taxes of EUR 9.1 million to reflect the tax effects of the adjustments at the preceding points for EUR 0.4 million, the recognition of deferred tax income of EUR 2.2 million arising from the tax losses of SPAXS, the recognition of a tax benefit of EUR 1.9 million resulting from the economic growth benefit scheme (ACE) and a tax charge of EUR 4.6 million on the result of BIP's interim results at 30 September 2018.

Pro-forma statement of cash flows for the nine months ended 30 September 2018

	Consolidated SPAXS (i)	PRO-FORMA ADJUSTMENTS			Illimity PRO-FORMA (v)
		Adjustments (ii)	Withdrawal (iii)	Reverse merger (iv)	
Net cash from (used in) operating activities	(400,009)	(9,035)	(51,025)	797	(459,272)
Net cash from (used in) investing activities	(28,309)	–	37,679	–	9,370
Net cash from (used in) financing activities	504,914	–	13,229	–	518,143
Changes to the income statement not reflected in the pro-forma statement of financial position	–	9,035	117	(797)	8,355
NET CASH GENERATED (USED) IN THE PERIOD	**76,596**	**–**	**-**	**–**	**76,596**
Cash and cash equivalents at the beginning of the period	–	–	–	–	–
Net cash generated (used) in the period	76,596	–	–	–	76,596
Cash and cash equivalents: effect of changes in exchange rates	–	–	–	–	–
Cash and cash equivalents at the end of the period	76,596	–	–	–	76,596

The adjustments reflect the effects of the adjustments made in the previous section on cash generated or used. In addition, the item "changes to the income statement not reflected in the pro-forma statement of financial position" contains the cash flows not reflected in the pro-forma statement of financial position in order to adjust the figure for cash and cash equivalents at the end of the period to the figure presented in the pro-forma statement of financial position; as already stated, the pro-forma statement of financial position reflects the Transaction as if carried out at 30 September 2018, while the pro-forma statement of cash flows presents the effects as if carried out at 1 January 2018, in accordance with the requirements of Consob Communication no. DEM/1052803 of 5 July 2001.

Reference should be made to Chapter 20, Paragraph 20.2 for further details of the pro-forma financial information that gives retroactive effect to the Business Combination.

4. RISK FACTORS

There are certain risk factors that investors must consider before making any decision to invest in financial instruments issued by the Issuer.

As such, investors are advised to read the risk factors carefully prior to any investment decision in order to understand the general and specific risks related to the Issuer and to the industry in which the Issuer operates as at the Prospectus Date and in which it will operate as a result of the Merger and implementation of management and organisational actions aimed at implementing the Strategic Plan, as well as the risk factors relating to the financial instruments issued by the Issuer.

The risk factors described below are to be read in conjunction with the other information contained in the Prospectus.

4.1 RISK FACTORS RELATED TO THE ISSUER

4.1.1 Risks related to the limited relevance of historical financial data regarding the Issuer and of pro-forma financial information

The Issuer has a limited history of operations in its current form, so investors are expected to take due account of the possible strategies and activities that the Issuer is changing or introducing as they assess financial information related to previous years (and provided in accordance with point 20.1 of Annex I of Regulation 809).

The business conducted by the Issuer during the periods to which the historical financial information included in the Prospectus refers is being expanded as a result of the Business Plan by way of the development of the Retail, SME, and NPL Investment & Servicing Divisions. More specifically, in September 2018, SPAXS completed the acquisition of the Issuer (the "Material Transaction"), at which point the members of the Board of Directors tendered their resignations. As of the Effective Date of the Merger, SPAXS is expected to be incorporated into the Issuer.

The Material Transaction between the Issuer and SPAXS, as approved by their respective shareholders and finalised on 20 September 2018, and the "reverse" Merger to be carried out by merging the parent, SPAXS, into the Issuer (for a description, reference should be made to Paragraph 5.1.5 below and Chapter 22), as authorised by the Bank of Italy on 11 December 2018 and approved by the shareholders of the Issuer and of SPAXS S.p.A. in extraordinary meetings held on 18 January 2019, represent a complex financial history as per Article 4a of Regulation (EC) 809/2004; therefore, the Prospectus must include the financial information of the Issuer and of SPAXS, and the pro-forma financial information of illimity, the company resulting from the Merger.

These consolidated pro-forma financial statements have been prepared, in accordance with the provisions of Regulation 809 and solely for the purpose of inclusion in the Prospectus, in order to present the expected configuration of the Issuer and its financial position, results and cash flows as a result of the Merger.

Given that the consolidated pro-forma financial statements are based on assumptions, there is the risk that, had the operations specified above actually taken place on the dates assumed when preparing the pro-forma figures rather than on their actual dates, the effects may have been significantly different from those shown in the consolidated pro-forma financial statements.

The consolidated pro-forma financial statements also do not reflect forecasts and are not intended as forecasts of the Issuer's future performance, given that they have been prepared solely for the purpose of presenting (purely for informational purposes) the objectively measurable effects of the operations described above on the main financials of the Issuer.

Finally, given the different purpose of the consolidated pro-forma financial statements compared to the historical financial statements, as well as the different methods for calculating effects, the pro-forma figures are to analysed and interpreted separately from the historical figures, and one should not seek to identify accounting connections or base investment decisions on these pro-forma statements.

Therefore, it should be noted that, had the Issuer taken on the form established following the Relevant Transaction during the periods to which the consolidated pro-forma statements refer, it may not necessarily have posted the financial performance and standing depicted in the pro-forma statements themselves. As such, the consolidated pro-forma financial statements do not represent the actual financial performance and standing of the Issuer and should not be treated as forecasts.

It should further be noted that the consolidated pro-forma financial statements related to the year ended 31 December 2017 and to the interim periods ended 30 June 2018 and 30 September 2018 were approved by the Issuer's Board of Directors on 30 November 2018 and were examined by the auditing firm KPMG, which issued its related reports on 30 November 2018.

For further information, reference should be made to Chapter 20, Paragraph 20.2, of the Prospectus.

4.1.2 Risks related to the Issuer's negative economic performance for 2018

The Issuer incurred a loss at 30 September 2018, a decline in performance compared to the result for the corresponding period of the previous year. More specifically, the loss for the period of EUR 12.5 million should be compared with the profit for the period ended 30 September 2017 of EUR 3.2 million. Further, on the basis of the Issuer's preliminary results at 31 December 2018, approved by the Board of Directors on 11 February 2019 for supervisory reporting purposes, the Issuer incurred a loss for the year of EUR 29.1 million, in line with the performance envisaged in the 2018-2023 Business Plan, which includes the contribution of BIP for the period from the date of the Business Combination (20 September 2018) to 31 December 2018.

This negative performance as at 30 September 2018 was affected by losses of EUR 8.7 million on government securities within a context of de-risking against the rising Italian spread, and by increased non-recurring administrative expenses arising from the business combination, the most significant component of which relates to the success fees of approximately EUR 4.5 million paid to the Bank's advisor, MC Square Capital LLC, as well as costs of EUR 1,052,085.00 for the golden parachute paid to the outgoing General Manager on the occurrence of the conditions, plus social security charges of EUR 289,765.97 which have already been settled.

In consideration of the business combination completed on 20 September 2018, by way of SPAXS acquiring the Issuer, the pro-forma, post-merger consolidated loss recognised by Illimity as at 30 September 2018 comes to EUR 16.2 million.

On 11 February 2019, for supervisory reporting purposes, the Issuer's Board of Directors approved the preliminary results for the year ended 31 December 2018 (the "2018 Preliminary Results"), which show a loss of EUR 29.1 million, in line with the performance envisaged in the 2018-2023 Business Plan, which includes the contribution of BIP for the period from the date of the Business Combination (20 September 2018) to 31 December 2018, against a loss for the first nine months of 2018 of EUR 12.5 million.

With respect to 30 September, the increase in the loss (EUR +16.6 million) was primarily caused by:

- non-recurring components consisting of the reduction in risk exposure to Italian government bonds (which resulted in a loss of EUR 6.3 million in the fourth quarter),
- the substantial increase in operating costs (EUR +15.1 million in the fourth quarter) against costs incurred for the conclusion of the business combination and the increase in personnel expenses as a result of the increase in resources in the fourth quarter,
- the increase in net adjustments to receivables against the increase in positions classified as non-performing in the fourth quarter (EUR +4.6 million in the fourth quarter) and
- the increase in net accruals to provisions, amounting to EUR 2.6 million, which also include one-off costs recorded in the fourth quarter), referring to the early cancellation of the outsourcing contract relating to the accounting and reporting systems used by the Bank.

These changes were partially offset by:

- positive flows from the interest margin (EUR +4.7 million compared to 30 September 2018) and fee and commission margin (EUR +1 million compared to 30 September 2018) and
- the recognition of deferred tax assets (EUR +6.4 million compared to 30 September 2018) on losses realised by the Bank.

Furthermore, on 11 February 2019, the Issuer's Board of Directors, acknowledging the indications disclosed by SPAXS, also communicated that overall liquidity, including available amounts of SPAXS, is estimated at EUR 384 million, consisting of the aggregate value of Cash and cash equivalents included in the 2018 Preliminary Results of Banca Interprovinciale and the estimated readily usable Accounts and Bank deposits of SPAXS as at 31 December 2018.

With regard to the 2018 Preliminary Results, reference should be made to the report of KPMG, attached in the Appendix to the Prospectus, which certifies that in the view of KPMG, the accounting basis used for such results is consistent with the accounting standards adopted by the Issuer.

For further information reference should be made to Chapter 13, Paragraphs 13.6.1 and 13.6.2 of the Prospectus, as well as the Appendix to the Prospectus.

RISK FACTORS

4.1.3 Risks related to the 2018-2023 Business Plan of the Issuer, in the start-up phase at the Prospectus Date

The Issuer's ability to reach results and pursue future plans and objectives, while achieving adequate levels of profitability, depends on the success of implementation of its commercial and financial strategy. Please recall that, at the Prospectus Date, the Issuer is in the start-up phase with reference to the new business segments it intends to launch and develop, which are identified in detail in the 2018-2023 Business Plan. The same Business Plan notes that the Issuer expects to reach and surpass the break-even point with a positive economic result in 2020.

The Business Plan calls for the development of a new bank focused on three synergistic, integrated lines of business as follows: (i) the SME Division, focused on loans to enterprises with high potential but with a non-optimal financial structure and/or with a low or no rating, including the segment of unlikely-to-pay ("UTP") SMEs; (ii) the NPL Investment & Servicing Division, dedicated to the purchase of corporate secured and unsecured NPLs; and (iii) the Retail Division, the digital bank serving retail and corporate customers directly with an offering of products dedicated to the direct channel and with innovative approaches to relationship management.

Should the aforementioned Business Plan not be implemented in the expected manner and/or within the expected time frames and/or if the guidelines and assumptions on which the Issuer based this strategy prove to be correct and/or the Issuer is unable to pursue the new initiatives envisaged in the expected manner and within the expected time frames and/or these initiatives should not generate the expected revenues, or if the strategy does not otherwise achieve the expected results, the Issuer's business and growth prospects may be negatively affected, which could have negative effects on the Issuer's financial position, results and cash flows.

The Business Plan is based on both general and hypothetical assumptions of a discretionary nature related to the effects of specific operational and organisational actions that the Issuer intends to undertake within the time frame covered by the Business Plan. The Issuer's ability to perform these actions and to meet the objectives of the Business Plan depends on a set of hypotheses, estimates and forecasts based on the realisation of future external events and actions to be undertaken by management and by the Issuer's Board of Directors over the period 2018-2023, which include, among others, hypothetical assumptions of various nature relating to future events and subject to the risks and uncertainties that characterise the current macroeconomic and regulatory landscape, to the actions of administrators and of management that will not necessarily occur, and to events, actions and other assumptions, including those regarding the performance of the main financial or other factors that influence its development and on which the directors and management cannot, or can only partially, influence. The assumptions underlying the Business Plan may be inaccurate and/or such circumstances may not occur, or may occur only in part or in a different manner, or, finally, may change during the period of the Business Plan. It should also be noted that, due to the uncertainty surrounding the realisation of any future event, in terms of both the actual occurrence of the event and of the extent or timing of the event itself, differences between actual figures and forecasts may be significant even if the expected events on which the assumptions are based should actually occur.

Furthermore, in accordance with the Business Plan particularly as concerns the SME Division related to the restructuring of unlikely-to-pay positions and the NPL Investment & Servicing Division, the Issuer intends to operate in a competitive marketplace and will, therefore, by exposed to risks related to the competitiveness of these markets, which, in recent years, have seen the entry of specialised, non-banking players from abroad. Should the Issuer not be able to acquire enough single-name (UTP or NPL) accounts or entire NPL portfolios to meet expectations, revenues from operations could be lower than expected, which would have a negative effect on the Issuer's business and outlook. It should also be noted that the Business Plan, as part of the activities of digital banking, calls for the acquisition of 200,000 new customers, so the Issuer will be exposed to risks related to competition in direct funding products by other banks and financial institutions operating in Italy.

Finally, it should be noted that the historical figures and the forecasts concerning the size of the market concerned have, unless otherwise indicated, been provided by the Issuer and have not been subject to verification by an independent party.

More specifically, and in light of the growing interest among specialist players in acquiring and managing non-performing loans (NPLs), it cannot be excluded that the Issuer may be involved to a lesser extent than expected in any significant operations in Italy concerning the sale of NPL portfolios or in the outsourced management of these NPLs to specialist servicers, which could have a negative impact on the Issuer's financial position, results and cash flows.

For further information concerning the competitiveness of the market in which the Issuer operates and expects to operate, reference should be made to Chapters 6 and 13 of the Prospectus.

Finally, for the sake of thoroughness, it should be noted that, under the assumption of improvements in Italy's macroeconomic landscape, there could be a reduction in the rate of loans being classified as non-performing. Such a situation could limit the ability of the Issuer to implement future plans and strategies.

Given the above, the market price of the Ordinary Shares and of the Conditional Share Rights following their admission for trading on Italy's Electronic Stock Market (MTA) could decrease should the Issuer's performance be lower than expected or should operations not provide the results and benefits expected by the market, by investors, and/or by financial analysts within the time frames expected or as specified in the Issuer's Business Plan.

As a result, investors could incur losses on their investments, and the Issuer's ability to raise risk capital in the future, as necessary, could be negatively affected.

For information regarding the Issuer's future plans and strategies, reference should be made to Chapter 13, Paragraph 13.2 of the Prospectus.

Provided below are descriptions of the main risk factors related to and/or deriving from the Business Plan.

4.1.4 Risks related to prospective data

The ability of the Issuer to execute and to reach the objectives of the Business Plan depends on Assumptions, some of which are beyond the Issuer's control, such as variables related to the economy, to developments in the legislative landscape, and to the effects of specific actions or concerning future events over which the Issuer may have only partial influence.

The Business Plan contains certain objectives to be reached by 2020 and by 2023 (the "Forecasts") based on general and hypothetical assumptions of a discretionary nature (the "Assumptions") related to the effects of specific operational and/or organisational actions that the Issuer intends to undertake within the time frame covered by the Business Plan.

The Business Plan includes the Forecasts specified below:

Main Statement of Financial Position data *(billions of euros)*	**Pro-forma 30 September 2018**	**2020E**	**2023E**
		(range)	**(approx.)**
Net loans to SME division customers	0.3	1.2-1.4	3.3
Net loans to NPL Investment & Servicing division customers	0.0	1.8-2.2	2.6
Liquidity and securities readily converted into cash	0.5	0.5-0.6	0.7
Interbank	0.5	0.0	0.0
Other assets	0.0	0-0.1	0.0
Total Assets	**1.4**	**3.5-4.3**	**6.6**
Direct deposits from retail customers	0.0	0.7-0.8	1.9
Direct deposits from corporate customers	0.6	0.4-0.5	1.0
Direct deposits from open banking platform	0.0	0.3-0.5	1.2
Wholesale and interbank direct deposits	0.3	1.5-1.8	1.4
Equity	0.6	0.6-0.7	1.1
Total Liabilities	**1.4**	**3.5-4.3**	**6.6**

Main Income Statement data *(millions of euros)*	**Pro-forma 30 September 2018**	**2020E**	**2023E**
		(range)	**(approx.)**
Net interest and other banking income	3	250-310	675
Operating expenses	25	110-140	160
Operating profit (loss)	-22	140-170	515
Impairment losses	3	50-63	95
Profit (loss) before taxes	-25	90-107	420
Net profit (loss)	-16	55-70	280

Main Financial Indicators *(billions of euros)*	**2020E**	**2023E**
	(range)	**(approx.)**
Return on Equity (ROE)	9%-10%	25.0%
Cost/income ratio	<50%	<30%
Cost of Risk (bps)	185-225	170
Gross Organic NPE ratio (excluding Turnaround)(3)	5%-7%	7%
Gross NPE Ratio incl. Turnaround	6%-8%	10%
Liquidity Coverage Ratio (LCR)	>130%	>130%
Common Equity Tier 1 Ratio	>15%	>15%
Risk Weighted Assets (RWA), billions of euros	3.4-4	6.5
Full-time equivalent (FTE)	410 - 510	610

At 20 February 2019 the Issuer had 189 employees.

(3) Ratio between gross doubtful loans and total gross receivables from factoring activities, crossover, new lending, BIP and NPL financing, with the exclusion of NPL receivables and UTP receivables acquired as part of Turnaround activities, which are transferred to non-performing status in the period considered.

RISK FACTORS

The data provided above have been subjected to a sensitivity analysis, the results of which are provided in Paragraph 13.6.3 of the Prospectus.

The KPMG report on forecast data, including the results of the sensitivity analysis, is attached in the Appendix to the Prospectus.

The circumstances underlying these Assumptions may not occur, may occur only in part or in a manner different from the Business Plan, or, finally, may change during the period covered by the Business Plan. It should also be noted that, due to the intrinsic uncertainty of any future event—in terms of whether it will occur at all and in relation to the extent, timing and actual effects—differences between actual performance and forecasts can be significant, even when the events underlying the Assumption do actually occur when and in the manner expected.

Finally, it should be noted that the Issuer cannot exclude the possibility that the Assumptions underlying the estimates of the Business Plan may prove to be unreliable or may not occur in whole or in part.

For further information on the Assumptions and on the data underlying the Business Plan, reference should be made to Chapter 13, Paragraphs 13.3 and 13.4, of the Prospectus.

4.1.5 Risks related to disclosures of key information and information concerning market trends and competitive positioning

The Prospectus contains forward-looking statements and estimates of the size of the target market, as well as market assessments and comparisons with competitors conducted by the Issuer based on past experience, specific knowledge of the industry, and the processing of data available on the market.

This information is, for example, included in the descriptions of the characteristics of the industries in which the Issuer operates and of future plans and strategies, and in the information concerning expected trends. This information has not been verified by independent third parties.

Certain forward-looking statements are based less on quantitative data than on qualitative parameters, such as the intrinsic characteristics of the services that the Issuer provides to its customers.

The Prospectus also contains information on trends in the market in which the Issuer intends to operate.

Industry trends could be different from the hypotheses underlying these statements due to known or unknown risks, uncertainties, and other factors included in these risk factors.

For further information, reference should be made to Chapter 6, Paragraph 6.2, of the Prospectus.

4.1.6 Risks related to the Issuer's dependence on key members of management

The Issuer's performance and the future success of its operations depend to a significant extent on its ability to attract, keep, and motivate qualified staff with significant experience in the industry segments in which the Issuer intends to operate.

In particular, the Issuer's operations depend to a significant extent on certain key members of its management, including the Issuer's Managing Director, who have significant experience in the industry in which the Issuer operates.

The loss of one or more of these key figures, the inability to promptly replace these figures with other individuals able to quickly begin making the same contribution, or the inability to attract and keep other qualified personnel or to include within its organisation people able to manage the growing operational complexity of the Issuer after the Merger could result in a reduction in the ability of the Issuer to compete and to reach its objectives, which could have a negative effect on the Issuer's financial position, results and cash flows.

Finally, it should be noted that, as of the Prospectus Date, the Issuer had not established any non-compete agreements with members of senior management. In the event of the termination of employment of one or more of the key figures specified above, this could have a negative effect on the Issuer's financial position, results and cash flows.

For further information, reference should be made to Chapter 14, Paragraph 14.1 of the First Section of the Prospectus.

4.1.7 Risks related to oversight by the Bank of Italy

As a bank, the Issuer is subject to a complex set of regulations and to the oversight of various authorities, including the Bank of Italy in particular. Audits and inspections may concern the organisation of the Bank and its processes, including those that govern the management, recognition and measurement of the Bank's assets and liabilities.

Specifically, an inspection conducted by the Bank of Italy and completed on 30 June 2017, the outcome of which was "partially favourable", resulted in certain observations concerning aspects of management with particular reference to the business model as well as to the areas of governance and internal controls and also on credit risk and operational and compliance risks (transparency and anti-money laundering). As at the Prospectus Date, and following discussions between the Bank and the supervisory authority, there remain certain aspects that will also need to be dealt with by implementing appropriate measures, some of which the Bank has already put into place. For further information regarding the issues subject to study and requests for changes, reference should be made to Paragraph 5.1.6 of the Prospectus. With regard to the remedial actions that have yet to be completed, the following are of particular note: the hiring of the head of Compliance , which is expected to be completed in the first quarter of 2019; the reinforcement of the Internal Audit function, which is to be completed within the first quarter of 2019; the updating of operating policies and provisioning of the loans, which is expected to be completed within the first half of 2019; the development of the platform to manage the banking book, which is expected within the first half of 2019.

In its letter authorising the repurchase of treasury shares within the context of the merger of SPAXS into the Bank, the Bank of Italy stated as follows: [E]xecution of the planned initiatives falls within a context of total innovation of the bank's business model, which, based on the business plan, is to focus on new areas of operations, such as financial and advisory services for SMEs, the management of NPLs, and highly digital banking services. Within this process, the internal control functions play a central role in the bank's governance, as they represent an important lever in measuring and mitigating the risks taken on and in constantly verifying the sustainability of the company's business. As such, it is essential for the corporate bodies to have sufficient and timely knowledge of the results of the activities conducted by the internal control functions and of any dysfunctions encountered, so as to be able to implement the necessary corrective actions in an equally timely manner. In relation to this, the heads of the bank's internal control functions, each within the scope of their respective responsibilities, are required to provide the Board of Directors and Board of Statutory Auditors with quarterly reports(4) summarising the outcome of:

- the analyses conducted by risk management concerning: the degree of the bank's exposure to the various types of risk (e.g. credit, operational, ICT, liquidity, market, interest rate, concentration, etc.); trends in asset quality; the consistency of the risk actually taken on with the limits set by the risk appetite framework; and current and future capital adequacy, taking account of the (first and second pillar) risks taken on and any increase in operating volumes;
- the audits conducted by the compliance and internal auditing functions, including indications of any deficiencies encountered and their severity, any corrective action taken or to be taken, the people responsible for the actions to be taken, and the time frame for their completion.

After the corporate bodies have examined these reports, they are to be provided to the Bank of Italy in a timely manner. The first is to be submitted beginning with the report related to 31 December 2018. The content and layout of the reports may be the subject of future discussion with the supervisory authority.". Reference should be made to Paragraph 4.1.9 for further information on the risks related to the management and control system.

It should also be noted that the Bank of Italy periodically subjects the Bank to various ordinary and extraordinary inspections and audits that feed the annual Supervisory Review and Evaluation Process (SREP) aimed at verifying that the financial institution has adequate capital and organisational mechanisms in place to manage the risks being incurred.

Although the Bank believes to have adopted, as of the Prospectus Date, the measures deemed appropriate in order to manage these risks and the critical issues pointed to the supervisory authority during the aforementioned inspections, it cannot be known with certainty whether these measures have, in whole or in part, been effective, whether they will be seen to be effective in further audits or inspections.

For further information, reference should be made to Paragraph 5.1.6 and Chapter 6, Paragraphs 6.1.2 and 6.1.3 of the Prospectus.

4.1.8 Risks related to the risk management process

The Bank is exposed to risks related to the improper design or functioning of its risk management processes.

(4) As of 31 March, 30 June, 30 September and 31 December.

More specifically, the Bank has an organisational structure, company processes, human resources, and competencies in identifying, monitoring, controlling, and managing risks and in controlling the performance of lending that the Bank conducts as a part of its operations, and this risk comes mainly in the following forms: credit and counterparty risk, liquidity risk, market risk, interest rate risk, concentration risk, operational risk, and technology risks. As of the Prospectus Date the Issuer has created the CRO Division, which at the same date consists of 23 members of staff. The Issuer believes that the current number of staff and the make-up of skills are suitable for providing adequate second level controls, given the structure of the business envisaged by the Business Plan. Further information on the Business Plan can be found in Chapter 13, Paragraph 13.5 of the Prospectus.

For the purposes of the above, the Bank has developed specific policies and procedures that establish corrective mechanisms to be adopted in the event such risks should approach certain thresholds set by the Bank of Italy or by the Bank's Board of Directors. Certain approaches to monitoring and managing risk call for observing historical market trends and using statistical models to identify, monitor, control and manage risks.

As of the Prospectus Date, structures and processes were being revised, and dedicated offices were being expanded in response to the new business and markets in which the Bank intends to operate. During this transition period, the risk of delays in analysing any critical issues could increase, and this could have negative effects on the financial performance and standing of the Bank and of the Group. Furthermore, the new company processes and new methods for measuring risk may not be fully effective in promptly identifying and quantifying the risks to which the Bank is exposed, and this could have negative effects on financial standing and future profitability.

Should the policies and procedures aimed at identifying, monitoring and managing risk prove to be inadequate, or should the measurements and assumptions underlying these policies and procedures prove to be incorrect or statistical models prove to be inaccurate, or should the data underlying these measurements and assumptions lose their relevance in predicting future events, the occurrence of certain events—which cannot currently be predicted or measured (given, in part, the uncertainty and volatility that characterise current market trends)—that lead to an increase in risk (or a greater concentration of risk) without the Issuer being able to adequately respond or implement appropriate corrective measures could result in significant losses for the Issuer, and this could have negative effects on the Issuer's business, its outlook and its financial position, results and cash flows.

In 2017, the Bank of Italy conducted an audit that, on the whole, had a partially favourable outcome, but pointed to areas for improvement in Risk Management. With regard to the corrective actions that have yet to be completed and are also deemed adequate by the Issuer's control body, the following are of particular note: the hiring of the head of the Compliance unit, which is expected to be completed in the first quarter of 2019; the reinforcement of the Internal Audits unit, which is to be completed within the first quarter of 2019; the updating of operating policies and provisioning of the loans, which is expected to be completed within the first half of 2019; development of the platform to manage the banking book, which is expected within the first half of 2019.

For further information regarding the issues subject to study and requests for changes, reference should be made to Paragraph 5.1.6 of the Prospectus.

It is additionally noted that the Issuer is in the process of implementing certain additional internal procedures connected with its operating activities; in this respect reference should be made to Paragraph 6.1.2 of the Prospectus.

4.1.9 Risks related to the system of control and management

As of the Prospectus Date, the Issuer has a reporting system used to monitor the Issuer's financial performance and standing by way of management control procedures, which make it possible to verify the objectives set in the annually approved budget. The Planning & Control office periodically provides reports to management and to the Issuer's Board of Directors regarding financial performance and standing, the various risks, and liquidity.

Although the Issuer feels that, as of the Prospectus Date, the system of management control is, on the whole, adequate and able to provide management with a timely and sufficiently thorough picture of the Issuer's financial performance and standing, it cannot be excluded that, within the scope of the development process described above to revise and update the process for the purpose of implementing the additional activities envisaged for the new businesses in line with the Business Plan, the process of implementing the final version of the management control system could be subject to the risk of delays, and this could cause management to receive incorrect information concerning potentially significant issues that could require prompt action. It should be noted that, during the last audit conducted by the Bank of Italy from 27 April 2017 to 30 June 2017, no recommendations concerning the reporting system were received.The Planning & Control office periodically provides reports to management and to the Issuer's Board of Directors regarding financial performance and standing, the various risks, and liquidity.

It should also be noted that the process of defining operations for the Issuer's three divisions in their final form is currently under way; therefore, the activities actually being performed as of that date are being managed by way of a transitory structure deemed to be adequate by the directors and the Issuer's control body in managing the Issuer's operations as of the Prospectus Date.

More specifically, as of the Prospectus Date, integrations have been made to the System of Management Control aimed at the approval, management and monitoring of the operations conducted by the NPL Investment & Servicing Division as well as the new activities conducted by the SME Division (UTP and factoring), which call for the use of the information systems currently used by the Issuer, and provided by the outsourcer Consorzio Servizi Bancari (CSE), but supplemented by those of external providers for the management of the new activities.

A formal process for the consolidation of information related to the various divisions has also been adopted and makes use of CSE's application Daisy, which manages the reporting packages received from external providers.

Finally, a programme aimed at the implementation of the other activities envisaged under the Business Plan, which are to be started by the Issuer, and the coordinated development of the new information systems within the scope of the System of Management Control is currently being implemented.

In this regard, migration from CSE to the new provider, subject to prior notification and the authorisations required by law from the supervisory authority, and following early termination of the agreement with CSE and the signing of the agreement with a different outsourcer, is expected to take place in the coming months.

Finally, it should be noted that development of information systems will go hand in hand with the launch of new businesses as envisaged in the Business Plan.

For further information, reference should be made to Chapter 6 of the Prospectus.

4.1.10 Risks related to the deterioration of credit quality

One of the factors on which the Issuer's business, financial performance and standing, and ability to generate profits depend is the credit worthiness of its customers. As such, the Issuer is exposed to the risk that an unexpected change in a counterparty's credit worthiness could result in a consequent change in the value of the expected exposure and lead to the full or partial cancellation of said exposure. Within the scope of lending operations, this risk entails the possibility that contractually bound counterparties default on their payment obligations or that credit has been granted based on incomplete, inaccurate, or false information such that the Issuer would not have otherwise granted the credit or would have done so at a different set of conditions.

The main causes of default are related to the inability of the borrower to autonomously ensure repayment of the debt (due to a lack of liquidity, insolvency, etc.) or to other factors independent from financial circumstances, such as country risk, or the effect of operational risks.

In order to manage this risk, the Issue has established procedures, rules and principles aimed an monitoring and managing credit risk at the level of individual counterparties and of entire portfolios. Despite these measures, there remains the risk that the Issuer's exposures could, in the future, increase and/or exceed predetermined levels set within the scope of these procedures, rules and principles. Therefore, a worsening in the credit worthiness of certain, particularly significant customers, as well as any defaults or irregularities in payment generally, reduction in economic value and/or the inability to successfully and promptly enforce guarantees, and any errors in assessing customers, could have negative effects on the business, on operations and on the Issuer's financial position, results and cash flows.

Finally, it is assumed that the continuation of the crisis on the credit markets, the deterioration of conditions on the capital markets, the continuing slowdown of the global economy seen in recent years, and any measures adopted by the authorities of the various nations could further decrease household disposable income and business profits and/or have an additional negative impact on the ability of the Bank's customers to honour their commitments, which would result in a significant deterioration in credit quality and could have negative consequences on the Bank's financial position, results and cash flows.

The tables below provide a number of indicators of the credit quality of the Issuer's customers compared with the corresponding industry figures at 31 December 2018.

%	31 December 2018					
	Bank			Total for less significant Italian banks*		
	Percentage of gross loans	Percentage of net loans	Coverage	Percentage of gross loans	Percentage of net loans	Coverage
Bad loans	4.00%	1.92%	54.05%	8.20%	3.00%	66.10%
Unlikely-to-pay exposures	3.36%	2.38%	32.23%	5.00%	3.60%	33.70%
Overdue and/or past-due exposures	0.08%	0.05%	35.74%	0.70%	0.70%	11.70%
Non-performing loans	7.44%	4.35%	44.00%	13.90%	7.30%	51.70%
Performing loans	92.56%	95.65%	0.97%	86.10%	92.70%	0.80%

(*) Figures at 30 June 2018. Source: Bank of Italy, Report on Financial Stability, no. 2, November 2018 page 37.

The percentages of non-performing loans to total gross loans (excluding purchased NPLs and securities classified as HTC) were lower than the industry averages for the same sample, and at 31 December 2018 amounted to 7.4%, an increase of 5.4% over the previous period.

The level of coverage for the non-performing loans portfolio was lower than the industry averages, while the level of coverage of the performing loans portfolio was higher than the market represented by "Less significant Italian banks" at 30 June 2018, the most recent date for which figures are available.

This difference is due to the specific characteristics of the non-performing loans in the portfolio, particularly regarding the guarantees underlying those instruments which are subject to careful assessment by the Issuer as part of its estimate of outlooks for recovery.

The tables below provide a number of indicators of the credit quality of the Issuer's customers compared with the corresponding industry figures at 30 September 2018, 31 December 2017, 31 December 2016 and 31 December 2015.

%	30 September 2018					
	Bank			Total for less significant Italian banks*		
	Percentage of gross loans	Percentage of net loans	Coverage	Percentage of gross loans	Percentage of net loans	Coverage
Bad loans	4.54%	2.26%	52.17%	8.20%	3.00%	66.10%
Unlikely-to-pay exposures	1.74%	1.21%	32.90%	5.00%	3.60%	33.70%
Overdue and/or past-due exposures	0.13%	0.12%	11.09%	0.70%	0.70%	11.70%
Non-performing loans	6.42%	3.59%	46.11%	13.90%	7.30%	51.70%
Performing loans	93.58%	96.41%	0.80%	86.10%	92.70%	0.80%

(*) Figures at 30 June 2018 Source: Bank of Italy, Financial Stability Report, no. 2, November 2018, p. 37

The level of coverage for the non-performing loans portfolio was lower than average industry figures represented by "Less significant Italian banks" at 30 June 2018, the most recent date for which figures were available, while the level of coverage for the performing loans was in line.

This difference is due to the specific characteristics of the non-performing loans in the portfolio, particularly with reference to the guarantees underlying those instruments which are subject to careful assessment by the Issuer as part of its estimate of outlooks for recovery.

%	31 December 2017					
	Bank			Total for less significant Italian banks*		
	Percentage of gross loans	Percentage of net loans	Coverage	Percentage of gross loans	Percentage of net loans	Coverage
Bad loans	3.12%	1.51%	53.33%	10.70%	4.50%	61.30%
Unlikely-to-pay exposures	2.29%	1.58%	33.45%	6.10%	4.70%	31.10%
Overdue and/or past-due exposures	0.04%	0.04%	4.13%	0.70%	0.70%	9.80%
Non-performing loans	5.44%	3.12%	44.64%	17.50%	9.90%	48.50%
Performing loans	94.56%	96.88%	1.08%	82.50%	90.10%	0.60%

(*) Figures at 31 December 2017 Source: Bank of Italy, Financial Stability Report, no. 1, April 2018, p. 28

At 31 December 2017, the Bank's percentages of non-performing loans to total gross and net loans were lower than the industry averages in the category of "Less significant Italian banks". At the same time, the Bank had levels of coverage for non-performing loans that were lower than the averages for these categories, whereas coverage levels for performing loans were higher than the averages for the Italian banking industry.

This difference is due to the specific characteristics of the non-performing loans in the portfolio, particularly with reference to the guarantees underlying those instruments which are subject to careful assessment by the Issuer as part of its estimate of outlooks for recovery.

%	31 December 2016					
	Bank			Total for less significant Italian banks *		
	Percentage of gross loans	Percentage of net loans	Coverage	Percentage of gross loans	Percentage of net loans	Coverage
Bad loans	2.80%	1.27%	56.04%	11.50%	5.40%	57.80%
Unlikely-to-pay exposures	3.06%	1.80%	43.73%	7.00%	5.60%	27.90%
Overdue and/or past-due exposures	0.13%	0.13%	5.47%	0.90%	0.90%	9.40%
Non-performing loans	6.00%	3.20%	48.60%	19.40%	11.80%	44.80%
Performing loans	94.00%	96.80%	1.06%	80.60%	88.20%	0.70%

(*) Figures at 31 December 2016 Source: Bank of Italy, Financial Stability Report, no. 1, April 2017, p. 22

At 31 December 2016, the Bank's percentages of non-performing loans to total gross and net loans were lower than the industry averages in the category of "Less significant Italian banks". At the same time, the Bank had levels of coverage of non-performing loans and performing loans that were higher than the averages for the Italian banking industry[5],

(5) It was not possible to make the same comparison with reference to the figures at 31 December 2015 as comparative average sector figures for less significant Italian banks were not available with the same degree of detail.

RISK FACTORS

%	31 December 2015		
	Bank Percentage of gross loans	Percentage of net loans	Coverage
Bad loans	0.86%	0.30%	66.40%
Unlikely-to-pay exposures	2.70%	1.60%	42.00%
Overdue and/or past-due exposures	0.10%	0.10%	8.80%
Non-performing loans	3.66%	2.00%	46.75%
Performing loans	96.33%	98.00%	1.00%

At 30 September 2018, net loans to customers amounted to EUR 333.2 million; at 31 December 2017, the aggregate totalled EUR 326 million, an increase of 9% compared to the EUR 299.4 million of 31 December 2016, while at 31 December 2015, it totalled EUR 222.7 million.

Within this aggregate, net performing loans to customers as at 30 September 2018 came to EUR 321.2 million and net impaired loans totalled EUR 12 million, equal to 96.4% and 3.6%, respectively, of total loans to customers. At 31 December 2017, net performing loans to customers accounted for 96.9% of the total, while net impaired loans represented 3.1% of total loans to customers.

More specifically, as at 30 September 2018, impaired loans before adjustments totalled EUR 22.2 million and accounted for 6.4% of total gross lending to customers, increasing compared to 31 December 2017, when they represented 5.44% of the total.

In terms of the various categories before adjustments as at 30 June 2018, bad loans totalled EUR 13.2 million; unlikely-to-pay (UTP) positions totalled EUR 6.7 million, and past-due impaired loans came to EUR 2.7 million.

It should be noted that, at 30 September 2018, the Bank's percentages of impaired loans to total gross and net lending were lower than the industry averages as at 30 June 2018 in the category of "Less significant Italian banks". At the same time, the Bank had levels of coverage of impaired loans that were lower than the averages for this category, whereas coverage levels for performing loans were in line with the averages for the Italian banking industry.

Within this aggregate, net performing loans to customers as at 31 December 2017 came to EUR 315.9 million and net impaired loans totalled EUR 10.2 million, equal to 96.9% and 3.1%, respectively, of total loans to customers. At 31 December 2016, net performing loans to customers accounted for 96.8% of the total, while net impaired loans represented 3.2% of total loans to customers.

More specifically, as at 31 December 2017, impaired loans before adjustments totalled EUR 18.4 million and accounted for 5.4% of total gross lending to customers, decreasing compared to 31 December 2016, when they represented 6% of the total.

In terms of the various categories before adjustments as at 31 December 2017, bad loans totalled EUR 10.5 million; unlikely-to-pay (UTP) positions totalled EUR 7.7 million, and past-due impaired loans came to EUR 0.1 million.

It should be noted that, at 31 December 2017, the Bank's percentages of impaired loans to total gross and net lending were lower than the industry averages as at 31 December 2017 in the category of "Less significant Italian banks". At the same time, the Bank had levels of coverage of impaired loans that were lower than the averages for these categories, whereas coverage levels for performing loans were greater than the averages for the Italian banking industry.

- Forborne exposures

On 9 January 2015, the European Commission approved Implementing Regulation (EU) 2015/227 transposing the implementing technical standard (ITS) issued by the EBA regarding the definition of non-performing exposures and forbearance activities. Following this approval, and in order to apply the new definitions established in this ITS, the Bank of Italy published the seventh update to its Circular no. 272, in which it establishes the reporting standards to follow for the purpose of classifying credit quality effective as of 1 January 2015.

In accordance with Regulation 2015/227, renegotiations of exposures due to financial difficulties of the customer are those positions in which the bank grants the customer:

- a change in previous terms and conditions because the borrower will not be able to repay the debt due to financial difficulties and which would not have been granted under other circumstances;
- a partial or total refinancing of the debt that would hot have been granted if the borrower were not experiencing financial difficulties, with refinancing meaning a new contract that enables the borrower to repay the original loan in whole or in part.

As at 30 September 2018, net forborne performing loans to customers totalled EUR 4.2 million, whereas they totalled EUR 2.4 million at 31 December 2017.

For the sake of full disclosure, as at the Prospectus Date, the Bank has filed 78 credit-collection suits related, almost entirely, to mortgage loans and/or lines of credit for a total exposure of over EUR 15.1 million. As at 31 December 2017, a large part of the loans for which credit collection efforts had begun had been written down based on expected cash flows. The Bank is not able to ensure that, based on future events that cannot be foreseen at this time, these provisions will be sufficient to fully cover the risk of loss and potential negative effects on the Issuer's activity and its financial position, results and cash flows.

4.1.11 Risks related to a possible further increase in competition in the sector in which the Issuer intends to operate

The Business Plan calls for the development of a new bank focused on three synergistic, integrated lines of business as follows: the SME Division, focused on loans to enterprises with high potential but with a non-optimal financial structure and/or with a low or no rating, including the segment of unlikely-to-pay ("UTP") SMEs; the NPL Investment & Servicing Division, dedicated to the purchase of corporate secured and unsecured NPLs; and the Retail Division, the digital bank serving retail and corporate customers directly with an offering of products dedicated to the direct channel and with innovative approaches to relationship management. In each of these areas, the Issuer will be competing in markets in which competitive pressures have been increasing in recent years and could further increase as a result of changes in legislation, of the actions of competitors, of consumer demand, of technological changes, of mergers and acquisitions involving other financial players, of the entrance of new competitors, and of other factors not necessarily under the Issuer's control.

More specifically, as concerns the NPL Investment & Servicing Division, Italy's NPL industry, as of the Prospectus Date, is seeing increasing interest among specialist players both foreign and domestic. For the Retail Division, competitive pressures come in the form of both customer demand for new, technologically sophisticated services, resulting in a need for dedicated investment, and specific competitive actions being undertaken by other financial institutions. In recent years, the market has seen an increase both in the number of banks in Italy that provide online banking services and in the number of more traditional banks that provide online and mobile services alongside their traditional channels.

Finally, with regard to the SME Division, in recent years we have seen a gradual disintermediation of the banking industry with the entrance of new players and introduction of new, technologically sophisticated products, as well as through specific competitive efforts of various financial institutions. Some of these players are not actual banks and are not subject to the same strict regulation as banks. New players such as private debt funds or other alternative lenders may also provide alternative financial solutions that are more accessible and cost less.

Should the Issuer prove to be unable to deal with these increasing competitive pressures, the Issuer may not be able to achieve the objectives of the business plan in manner and within the time frames expected, and the Issuer's businesses and outlook for growth could be negatively affected, which could have a negative effect on the Issuer's financial position, results and cash flows.

For further information, reference should be made to Chapter 6, Paragraph 6.1, of the Prospectus.

4.1.12 Risks related to NPLs

The Issuer's main risks related to its non-performing loan (NPL) business are described below.

For further information on the risks of the industry and on the NPL segment in which the Issuer intends to operate specifically, reference should be made to Chapter 4, Paragraph 4.2, below.

4.1.12.1 Risks related to the purchase of securities within the scope of securitisation operations

The Issuer's operations in the segment of the NPL Investment & Servicing Division calls for investment in portfolios of NPLs by way of the full subscription of the securities issued by the securitisation vehicle Aporti SPV S.r.l. (and/or from other securitisation vehicles), by way of which the NPL portfolios are purchased from the various counterparties within the scope of competitive and/or restricted processes.

As of the Prospectus Date, the Issuer's portfolio invested in securities issued by the securitisation vehicle Aporti SPV S.r.l. was equal to the gross book value (GBV) of approximately one billion euros. These investments result in the Issuer taking on all risks and rewards deriving from the securitised NPL portfolio and, at the same time, the need for the Issuer to consolidate credit positions underlying the securitisation vehicle; therefore, the Issuer is exposed directly to the performance of the credit positions themselves.

RISK FACTORS

At 25 February 2019, the Bank had concluded the acquisition of a number of NPL portfolios, including: (i) on 21 September 2018, the acquisition, by way of a securitisation vehicle, of a portfolio of non-performing loans with a gross book value of EUR 155 million and composed mainly of corporate positions backed mainly by commercial and industrial assets with an average value per position of EUR 250,000. The acquisition was completed with the issue of the related notes, which were subscribed entirely by the Bank on 29 October 2018; (ii) on 8 October 2018, the acquisition on the secondary market, by way of Aporti SPV, of an NPL portfolio with a gross book value of EUR 262 million, 74% of which in unsecured positions. The acquisition was completed with the issue of the related notes, which were subscribed in their entirety by the Bank on 16 November 2018; (iii) on 15 November 2018, the acquisition, by way of Aporti SPV and with the simultaneous subscription of the notes by the Bank, of a portfolio with a GBV of EUR 347 million, 80% of which in unsecured corporate positions; (iv) on 26 November 2018, the acquisition, by way of Aporti SPV and with the simultaneous subscription of the notes by the Bank, of a portfolio with a gross book value of EUR 206 million, made up entirely of unsecured loans to Italian undertakings with an average value per loan of EUR 2.7 million; (v) on 21 December 2018, the acquisition on the secondary market, by way of Aporti SPV and with the simultaneous subscription of the notes by the Bank, of a portfolio with a gross book value of approximately EUR 110 million; (vi) on 28 December, the acquisition of three more portfolios of secured and unsecured loans for a total gross book value of EUR 40 million. These operations were finalised by way of Aporti SPV by the Bank simultaneously subscribing the notes; (vii) again on 28 December, the first single-name operations with a gross book value of approximately EUR 25 million. These are five NPLs with corporate borrowers that are secured by industrial and commercial assets in the region of Lombardy. The operation was completed by way of Aporti SPV with a bank that operates mainly in northern Italy; and lastly (viii) on 22 February 2019, the Bank purchased an NPL portfolio, of which 68% consisted of secured corporate loans, having a total nominal value of approximately EUR 31.6 million from a bank in the small and medium-sized category. This acquisition was concluded through Aporti SPV, with simultaneous subscription of the notes by the Bank. The analysis of these positions was conducted with the assistance of a consultancy firm expert in the analysis of NPLs, that is not related to the Issuer. The engagement was granted by the Head of the NPL Division, holding the necessary powers.

Following these transactions, the total gross book value of the NPL portfolio held by the Bank reached approximately EUR 1.18 billion. The amount paid for the NPL portfolios acquired was approximately EUR 97 million.

For further information, reference should be made to Paragraphs 5.1.5, 5.2.1.1 and Chapter 13, Paragraph 13.2, of the Prospectus.

The assessment underlying acquisition of NPL portfolios is based on models of future returns that take account of the expected timing of collection of the individual loans and related amounts in consideration of the ability of the borrowers to meet their obligations or the possibility of enforcing the underlying mortgages and other guarantees.

Although the Issuer believes its assessment models to be appropriate for the activities conducted in the NPL Investment & Servicing Division, it cannot be excluded that, when purchasing the NPLs, the Issuer may be in possession of imprecise information. In such cases, the ability of the Issuer to set the purchase price of the loans and the ability to collect on them could be compromised, and it cannot be excluded that the Issuer may incur losses. It should be noted that the Issuer's assessments are based on data that is publicly available from various sources and/or provided by credit-rating agencies or other providers of information services for the banking industry. Should information of public domain and/or provided by way of assessments of credit worthiness and/or from other providers prove to be (wholly or partially) imprecise or should providers of information to the Issuer terminate or suspend operations for any reason and/or terminate their relationship with the Issuer, thereby terminating or suspending the provision of information, or should said parties significantly increase the price charged for their services, this could have a negative effect on the Issuer's financial position, results and cash flows.

The Issuer's activities in the segment related to the NPL Division include financing third-party investors within the scope of operations to acquire NPLs or investments in NPL portfolios by subscribing senior securities (redemption of which takes priority over the junior tranches) issued by securitisation vehicles governed by Italian law no. 130/1999, including by way of co-investment with leading financial investors (i.e. SPV financing). In certain operations of this nature, the Issuer may act as the sponsor, as defined by Regulation (EU) 2017/2402, and be required to maintain a "material net economic interest" in the securitisation in accordance with Article 6 ("Risk retention") of said regulation.

Although focused on operations with a more limited risk/return profile that acquisitions of NPL portfolios, the SPV financing conducted by the Issuer also exposes the Issuer to risks deriving from actual performance in terms of the collection of the underlying loans. In particular, this activity could generate lower levels of revenue than expected or even losses (within the limits of the financing provided or the shares subscribed).

The assessment underlying SPV financing is based on models of future returns that take account of the expected timing of collection of the individual loans and related amounts in consideration of the ability of the borrowers to meet their obligations or the possibility of enforcing the underlying mortgages and other guarantees. Although by subscribing securities issued by securitisation vehicles the Issuer does not directly purchase the underlying loans, holding the financial instruments indirectly exposes the Issuer to the performance of the credit positions (to an extent no greater than the percentage of securities subscribed).

Therefore, should collections from defaulted borrowers prove to be significantly less than estimate implicit in the forecasting models adopted by the issuer or the enforcement of guarantees take place within different time frames than expected in the forecasting models are at substantially different collection amounts, the actual return on the securities subscribed by the Issuer could be significantly less than expected, which could have negative effects on the Issuer's operations and outlook as well as on its financial position, results and cash flows.

For further information, reference should be made to Chapter 6, Paragraph 6.1, of the Prospectus.

For further information on the organisational structure of the Issuer, reference should be made to Chapter 7, Paragraph 7.1 of the First Section of the Prospectus.

4.1.12.2 Risks related to the lack or inadequacy of the statistical models used by the Issuer in operations

The assessment underlying acquisition of NPL portfolios is based on models of future returns that take account of the expected timing of collection of the individual loans and related amounts in consideration of the ability of the borrowers to meet their obligations or the possibility of enforcing the underlying mortgages and other guarantees.

The risks related to this assessment are mainly tied to the potentially incorrect appraisal of the assets, mortgages and other guarantees underlying the loans, to the potentially incorrect estimation of the time needed to collect the loans related to the timing of settlement proceedings or legal action under way or to be initiated, and to insufficient guarantees and other coverage in the agreements signed with the parties selling the NPL portfolios.

These risks can be partially mitigated by way of proper due diligence for the loans and guarantees assessed when pricing the portfolios, including by way of comparative analysis and with the help of law firms specialised in agreements regarding the sale of NPL portfolios.

Should the estimates calculated by the Issuer using the forecasting models adopted prove to be different from what actually occurs, this could have negative effects on the Issuer's operations and outlook and on its financial position, results and cash flows.

For further information, reference should be made to Chapter 6, Paragraph 6.1, of the Prospectus.

4.1.13 Risks related to implementation of the IT platform

As of the Prospectus Date, the Issuer is working to implement the digital platform needed in order to achieve the objectives set in the Business Plan. Although the expected timing of the process has been respected as of the Prospectus Date, the Issuer cannot exclude the possibility that the implementation process could require more time than expected or that difficulties could arise when implementing the platform that could have negative effects on the Bank's financial position, results and cash flows.

Since September 2018, the Issuer has been carrying out the following activities:
- implementation of the systems of the Retail, SME and NLP divisions by taking advantage of artificial intelligence and machine learning;
- preparing for migration to the target core banking system;
- implementing the customer data management architecture.

The Issuer has begun monitoring and controlling operational risks by way of a framework of controls designed in a manner consistent with the business model and with a particular focus on managing information systems and monitoring decision-making processes and mechanisms.

For further information, reference should be made to Chapter 6, Paragraph 6.1, of the Prospectus.

4.1.14 Risks related to credit/customer concentration

As of the Prospectus Date, while respecting the limits of internal policies, the Bank held a portfolio of loans to customers characterised by a significant levels of concentration in terms of both individual customer and groups of connected customers.

Below, the Issuer provides details regarding risks related to the concentration of loans/customers by rating, industry, and geographical area.

- Concentration by rating class

As at 30 September 2018, the Bank's total gross exposure to its top 30 loans to customers by individual customer totalled EUR 117.4 million (EUR 113.7 million as at 31 December 2017) and represented 34% (34% as at 31 December 2017) of the total gross exposure of the customer portfolio.

For further details, the placement of customers within the internal rating classes as at 30 September 2018 is provided below:

30 September 2018	TOP 10 CUSTOMERS			TOP 20 CUSTOMERS			TOP 30 CUSTOMERS			REMAINING CUSTOMERS			TOTAL		
	Gross exposure	%% of total		Gross exposure	%% of total		Gross exposure	%% of total		Gross exposure	%% of total		Total gross exposure	%	No. of customers
AAA - B	50,672	91%	15%	76,703	83%	22%	99,639	85%	29%	165,746	73%	48%	265,386	77%	1,147
CCC	4,890	9%	1%	12,062	13%	3%	12,062	10%	3%	10,528	5%	3%	22,590	7%	67
CC - C	0	0%	0%	3,265	4%	1%	5,722	5%	2%	27,043	12%	8%	32,765	9%	94
D	0	0%	0%	0	0%	0%	0	0%	0%	23,209	10%	7%	23,209	7%	116
NO RATING	0	0%	0%	0	0%	0%	0	0%	0%	2,046	1%	1%	2,046	1%	231
Total	**55,562**	**100%**	**16%**	**92,030**	**100%**	**27%**	**117,423**	**100%**	**34%**	**228,572**	**100%**	**66%**	**345,995**	**100%**	**1,655**

Given the concentration in customers to which the Bank is exposed, any deterioration in the credit worthiness of these leading customers could have negative effects on the Bank's financial performance and standing. However, the concentration of credit risk appears to be gradually reducing thanks to the setting of quantitative limits on big ticket exposures.

The sustained rate of new loans indeed resulted in a lower level of loan concentration (by group of connected customers) and a general improvement in the ratings assigned to the borrowers by Sistema S.A.r.a., resulting in an overall improvement in the quality of the portfolio of loans outstanding.

- Concentration by industry

In order to provide a detailed picture of the concentration of assets in each industry, the tables below provide information on the composition of the Issuer's loans to customers (at book value) as at 30 September 2018.

Industry	30 September 2018	%	of which bad loans	of which other impaired exposures	Total impaired	Percentage %
Manufacturing	109,036	33%	953	1,912	2,865	2.63%
Consumers	53,057	16%	1,534	658	2,192	4.13%
Real estate	35,650	11%	696	297	993	2.79%
Construction	41,193	12%	2,612	917	3,529	8.57%
Commerce	29,188	9%	934	48	982	3.36%
Professional, scientific and technical fields	14,633	4%	61	-	61	0.42%
Other Fields	26,173	8%	432	246	678	2.59%
Transport & Logistics	2,463	0.7%	29	11	40	1.62%
Financial services	-	0%	-	-	-	0.00%
Mining	579	0.2%	-	-	-	0.00%
Agriculture, forestry and fishing	14,925	4%	270	352	622	4.17%
Other	6,286	2%	-	-	-	0.00%
Total	**333,183**	**100%**	**7,521**	**4,441**	**11,962**	**3.59%**

RISK FACTORS

As at 30 September 2018, loans to customers, totalling EUR 333.2 million, were mainly attributable to the following industries: manufacturing (33%), consumers (16%), construction (12%), real estate (11%), commerce (9%), and other fields (8%).

Total impaired loans came to EUR 12 million (3.6% of the total) at 30 September 2018, EUR 3.5 million (8.6% of the total) of which related to the construction industry.

Due to the sector concentration of the Bank's loans, any issues linked to trends in the reference industry could have negative effects on the Issuer's financial position, results and cash flows and on its outlook.

For further information, reference should be made to Chapter 6 of the Prospectus.

- Concentration by geographical area

Completing the analysis of the concentration of lending, shown below is a breakdown of the Bank's exposures by geographical area, net of exposures to sovereign debt securities as at 30 September 2018. In particular, as at 30 September 2018:

- Net exposures to Italy amount to EUR 821.5 million (of which EUR 809.5 million performing and EUR 12 million impaired).
- Net exposures to other European countries amount to EUR 0.2 million, all performing;
- Net exposures to the US amount to EUR 0.01 million, all performing.

With reference to Italy, furthermore:

- net exposures to North-West Italy amount to EUR 88.7 million (of which EUR 88.2 million performing and EUR 0.3 million impaired);
- net exposures to North-East Italy amount to EUR 318.5 million (of which EUR 307.7 million performing and EUR 10.8 million impaired);
- net exposures to Central Italy amount to EUR 413.3 million (of which EUR 412.8 million performing and EUR 0.5 million impaired);
- net exposures to Southern Italy and the Islands amount to EUR 1 million (of which EUR 0.7 million performing and EUR 0.3 million impaired).

An analysis of the geographical distribution of the Bank's customers as at 30 September 2018 shows that loans to customers are mainly concentrated in the north-eastern and central regions of Italy. Due to the Bank's close ties to its home region, banking operations are particularly concentrated in Emilia Romagna. Financing efforts for customers mainly target households, small and medium enterprise, and professionals operating, above all, in the provinces of Modena, Bologna, and Reggio Emilia.

In terms of risk related to geographical concentration as at 30 September 2018, the Bank has a commercial network located in the region of Emilia Romagna. More specifically, the Bank has seven branches located in the provinces of Modena, Bologna and Reggio Emilia.

Although the economy and production in Emilia Romagna are in line with the overall national landscape, there is still the possibility that the specific regional landscape could change and worsen, including relative to the Italian economy as a whole, and this could have negative effects on the Bank's business and on its financial position, results and cash flows.

For further information, reference should be made to Chapter 6 of the Prospectus.

4.1.15 Risks related to the collection, storage and processing of personal data, to violations of the security and confidentiality of the information systems used by the Bank, and to the outsourcing of related services

As of the Prospectus Date, CSE provides the Bank with most of its digital services. On 25 June 2014, the Bank signed an agreement with CSE for the provision of a range of services that includes the following: (i) management of the Bank's online banking system; (ii) provision of virtual server services (including disaster recovery); (iii) provision of the mobile banking app; (iv) document storage; (v) provision of ATM and POS services; (vi) management of the data transmission network; and (vii) sale of online accounts.

On 20 December 2018 the Bank notified CSE, which had already received advance notice, that for strictly business-related reasons it would need to begin a process of migration to a new outsourcer, thus resulting in the early termination of existing agreements.

The Issuer cannot exclude the risk that delays or other failures in the provision of digital services by the new outsourcer compared to the terms of the agreement could have negative effects on the Bank's financial position, results and cash flows.

As of the Prospectus Date, the Bank completed the process of adapting to the General Data Protection Regulation 2016/679. In this regard, it should be noted that Article 83 of the GDPR lists the "General conditions for imposing administrative fines" and sets the maximum fine at EUR 20,000,000 or, for undertakings, 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher.

Any destruction, damage, loss, unauthorised use or dissemination of customer data, as well as any fines for failure to comply with the GDPR in a timely manner, could have negative effects on the Bank, including in terms of its reputation, and could result in fines being assessed by Italy's data protection authority, which could have negative effects on the Bank's financial position, results and cash flows.

For further information, reference should be made to Chapter 6, Paragraph 6.1, of the Prospectus.

4.1.16 Risks related to employees and post-employment benefits

The Issuer has a workforce of employees in order to conduct its operations. For further information, reference should be made to Chapter 17 of the Prospectus. At the Prospectus Date the Issuer does not have a General Manager (taking into account that a Chief Executive Officer of the Bank has instead been appointed) or a Deputy General Manager in its organisational chart.

With reference to the Bank's former Deputy General Manager, Mr Giuliano Davoli, at the Prospectus Date on staff in the SME Division with the role of head of the "Customer Operation Management" unit, on 11 January 2018 the Bank's Board of Directors, with the favourable opinion of the Risks and Controls Committee, approved the following amendments to the labour agreement in place between the Bank and the executive: (i) the consolidation, as of 1 January 2020, of the remuneration (EUR 40,000.00 gross) recognised every year for the stability pact (expiring on 31 December 2019); (ii) the payment, in the case of dismissal without justified reason or just cause during the stability period, of monthly salaries until 31 December 2019, as well as the payment of indemnity in lieu of prior notice (9 months of pay) and compensation (from 7 to 22 months of pay), as set forth in the national collective bargaining agreement.

Withdrawal prior to the expiry by the former Deputy General Manager in all circumstances other than those mentioned above, will require him to provide compensation for damages due to breach to the extent corresponding to the remuneration due for the entire duration of the pact by way of penalty (EUR 120,000.00 gross). The amount shall in this case be due from the former Deputy General Manager by the date of disbursement of his residual compensation, with his authorisation to the Bank to partially or fully offset the relative amounts.

Otherwise, in the case of dismissal without justified reason or just cause within the stability period, as specified above, the Bank would instead be required to pay the monthly salaries referred to above in addition to indemnity in lieu of prior notice (9 monthly salaries) and compensation (from 7 to 22 monthly salaries) as set forth in the national collective bargaining agreement.

For further information, reference should be made to Chapter 17, Paragraph 17.1, of the Prospectus.

4.1.17 Risks related to extraordinary transactions (prior to the Business Combination)

In recent financial years, the Issuer has carried out a number of extraordinary transactions and could be exposed to liabilities that did not emerge during the pre-acquisition due diligence processes or that may not be covered by contract provisions, and other assessments conducted prior to an acquisition may not have been entirely correct.

In recent years, the Issuer's operations have been reinforced by way of the acquisition (and subsequent merger) of BEV. (For further information regarding extraordinary transactions carried out by the Issuer in recent years, reference should be made to Paragraph 5.1.5 of the Prospectus.)

Because of this, as well as the complexity of such transactions, it cannot be excluded that tax authorities or the courts could, in the future, come to conclusions or interpretations that are different from those of the Issuer, and this could have negative effects on its financial position, results and cash flows.

In particular, on 18 July 2016, BIP completed the acquisition of a majority interest (54.6%) in BEV at a price of EUR 8.1 million. Acquisition of this controlling interest was preparatory to the merger, which took place in the second half of 2017 following the receipt of authorisation from the Bank of Italy on 14 April 2017.

As part of the acquisition process, the Issuer conducted due diligence with the help of outside consultants in order to identify any critical issues regarding the portfolio of loans to customers and other aspects. Nonetheless, there can be no guarantee that the analyses conducted as part of this due diligence by the Issuer and/or its consultants, or other subsequent analyses conducted by the Issuer, have been able to identify all risks or liabilities connected with the acquisition or the actual extent of such risks and liabilities.

Although the Issuer believes that this due diligence was conducted in line with market best practices for similar operations, there can be no guarantee that the analyses conducted by the Issuer and/or its consultants, or other subsequent analyses conducted by the Issuer, have been able to identify all risks or liabilities connected with the acquisition or the actual extent of such risks and liabilities.Therefore, there could be significant risks or liabilities that, as of the Prospectus Date, have not been discovered and/or have not yet materialised.

Should the Issuer, within the scope of the transactions described above, have underestimated or failed to identify all risks and liabilities connected with the acquisitions, or should any guarantees or other clauses negotiated by the Issuer in the agreements to purchase shares prove to be insufficient—in consideration of the limits set in terms of the indemnities and/or duration of the provisions and guarantees—in safeguarding the Issuer, financially or otherwise, under such circumstances, this could have negative effects, directly or indirectly, on the Issuer's business and outlook and its financial position, results and cash flows.

It should lastly be noted that the Bank's Board of Directors approved bringing an action of liability (which expires five years from the end of the term in office) against the former directors of Banca Emilveneta S.p.A. (now being merged into the Bank) for the alleged damages caused to the Bank by their extensive maladministration from 2010 to 2016; as of the Prospectus Date, the Bank has been offered a settlement payment of EUR 170,000.00 to resolve the dispute.The Bank has rejected this settlement offer, and the legal proceedings against the defendants are moving forward. By way of this action of liability, the Bank is calling for the former directors of Banca Emilveneta S.p.A. to be sentenced jointly for compensation for damages, in an amount to be determined, incurred by Banca Emilveneta S.p.A. as a result of their maladministration and crimes committed.The court filing states that the value of the claim has yet to be determined.The outcome of the case cannot be predicted at this time.

For further information, reference should be made to Chapter 5, Paragraph 5.1.5, of the Prospectus.

4.1.18 Risks related to relations with counterparties (both customers and borrowers)

The Issuer is exposed to risks related to relations with customers and borrowers that include, inter alia, the possibility that these counterparties could terminate their contractual relationships and turn to other financial institutions for financing and for deposit and current accounts.

Although the Issuer has consolidated customer relationships over time, it cannot be excluded that customers could decide to turn to other financial institutions, nor can it be excluded that there could be a future reduction in volumes of customer lending or funding, which could have negative effects on the Bank's financial position, results and cash flows.

RISK FACTORS

The tables below show the Bank's financial assets and liabilities with customers as at 30 September 2018 and as at 31 December 2017, 2016 and 2015, broken down by contract maturity.

Thousands of euros at 30 September 2018	Item/Time scale	Sight	From more than 1 day to 1 year	From more than 1 year to 5 years	More than 5 years
Financial assets due from customers	Financing to customers	116,025	72,225	98,048	177,718
	% of total financing to customers	25.0%	15.6%	21.1%	38.3%
Financial liabilities due to customers	Deposits and current accounts	443,494	36,032	896	-
	Debt securities	399	45,273	54,713	-
	Total financial liabilities due to customers	443,893	81,305	55,609	-
	% of total financial liabilities due to customers	76.4%	14.0%	9.6%	0.0%

Thousands of euros as at 31 December 2017	Item/Time scale	Sight	From more than 1 day to 1 year	From more than 1 year to 5 years	More than 5 years
Financial assets due from customers	Financing to customers	106,304	66,491	108,793	51,890
	% of total financing to customers	31.9%	19.9%	32.6%	15.6%
Financial liabilities due to customers	Deposits and current accounts	399,377	21,102	4,792	-
	Debt securities	444	34,957	60,399	-
	Total financial liabilities due to customers	399,821	56,059	65,191	-
	% of total financial liabilities due to customers	76.7%	10.8%	12.5%	-

Thousands of euros as at 31 December 2016	Item/Time scale	Sight	From more than 1 day to 1 year	From more than 1 year to 5 years	More than 5 years
Financial assets due from customers	Financing to customers	92,530	70,434	100,494	42,497
	% of total financing to customers	30.2%	23.0%	32.8%	14.0%
Financial liabilities due to customers	Deposits and current accounts	376,995	16,429	3,933	-
	Debt securities	18	62,161	46,812	-
	Total financial liabilities due to customers	377,013	78,590	50,745	-
	% of total financial liabilities due to customers	74.5%	15.5%	10.0%	-

RISK FACTORS

Thousands of euros as at 31 December 2015	Item/Time scale	Sight	From more than 1 day to 1 year	From more than 1 year to 5 years	More than 5 years
Financial assets due from customers	Financing to customers	75,037	59,560	66,602	26,807
	% of total financing to customers	32.9%	26.1%	29.2%	11.8%
Financial liabilities due to customers	Deposits and current accounts	280,029	16,800	2,704	-
	Debt securities	8	33,960	68,272	-
	Total financial liabilities due to customers	280,037	50,760	70,976	-
	% of total financial liabilities due to customers	69.7%	12.6%	17.7%	-

As at 30 September 2018, financing to customers with maturities of less than one year represented 40.6% of total financing to customers, while financing to customers with maturities of greater than one year accounted for 59.4% of the total.

Financial liabilities to customers with maturities of less than one year represented 90.4% of total financial liabilities due to customers, while financial liabilities due to customers with maturities of greater than one year accounted for 9.6% of the total.

As at 31 December 2017, financing to customers with maturities of less than one year represented 51.8% of total financing to customers, while financing to customers with maturities of greater than one year accounted for 48.2% of the total.

Financial liabilities to customers with maturities of less than one year represented 87.5% of total financial liabilities due to customers, while financial liabilities due to customers with maturities of greater than one year accounted for 12.5% of the total.

As at 31 December 2016, financing to customers with maturities of less than one year represented 53.2% of total financing to customers, while financing to customers with maturities of greater than one year accounted for 46.8% of the total.

Financial liabilities to customers with maturities of less than one year represented 90.0% of total financial liabilities due to customers, while financial liabilities due to customers with maturities of greater than one year accounted for 10.0% of the total.

As at 31 December 2015, financing to customers with maturities of less than one year represented 59.0% of total financing to customers, while financing to customers with maturities of greater than one year accounted for 41.0% of the total.

Financial liabilities to customers with maturities of less than one year represented 82.3% of total financial liabilities due to customers, while financial liabilities due to customers with maturities of greater than one year accounted for 17.7% of the total.

For further information, reference should be made to Chapter 6, Paragraph 6.1, of the Prospectus.

4.1.19 Interest rate risk: banking book

The Issuer is exposed to the risk of significant fluctuations in interest rates.

This risk concerns the assets, liabilities, and off-balance sheet items the value of which is affected by changes in interest rates and, in particular, any misalignment in maturities or pricing (indexed rate and repricing frequency) between interest-bearing assets and liabilities. Because these items are far and away the most prevalent component of the Issuer's balance sheet, interest rate risk is of great relevance.

Risks connected with fluctuations in interest rates depend, in turn, on various factors not directly under the Issuer's control, such as monetary policies, macroeconomic trends, etc. The performance of banking and financing operations depend on the management and sensitivity of the Issuer's exposure to interest rates and the effects that changes in interest rates on the markets concern have on net interest income and on the Issuer's economic value.

More specifically, an increase in interest rates can increase the Issuer's cost of financing more quickly than it increases the return on assets due, for example, to a mismatch between the maturities on assets and liabilities that are affected by changes in interest rates or a mismatch between sensitivities to interest rates of assets and liabilities with similar maturities. In the same way, a decrease in interest rates could lead to a reduction in the return on the Issuer's assets that may not be met with an equivalent decrease in the cost of funding.

Changes in interest rates specifically impact:
- net interest income and, consequently, net profits (i.e. cash flow risk);
- the net present value of assets and liabilities and the present value of future cash flows (i.e. fair value risk).

Exposure to interest rate risk is measured using gap analysis and sensitivity analysis models for all financial instruments, both assets and liabilities, not included in the trading portfolio in accordance with supervisory regulations.

RISK FACTORS

The table below shows the distribution by remaining duration of the Issuer's banking book at 30 September 2018 (in euros).

Type *(Thousands of euros)*	BIP							
	30 September 2018							
	On demand	Up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than 5 years up to 10 years	More than 10 years	Indefinite term
1. Cash assets	**169,944**	**435,945**	**82,592**	**12,213**	**49,887**	**66,468**	**4,652**	**-**
1.1 Debt securities	-	223,277	78,451	9,265	39,652	63,445	-	-
1.2 Financing to banks	37,130	37,299	-	-	-	-	-	-
1.3 Financing to customers	132,814	175,369	4,141	2,948	10,235	3,023	4,652	-
2. Cash liabilities	**452,740**	**280,561**	**26,983**	**25,719**	**56,508**	**691**	**2,398**	**-**
2.1 Due to customers	448,378	7,994	16,610	11,404	1,402	691	2,398	-
2.2 Due to banks	4,008	253,595	-	-	-	-	-	-
2.3 Debt securities	354	18,973	10,373	14,315	55,106	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-35,430**	**-2,139**	**11,636**	**21,250**	**3,650**	**816**	**-**
3.1 With underlying security	-	9,137	-9,354	-	-	-	-	-
3.2 Without underlying security	-	-44,567	7,215	11,636	21,250	3,650	816	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-

The table below shows the distribution by remaining duration of the Issuer's banking book at 31 December 2017 (in euros).

Type *(Thousands of euros)*	BIP							
	At 31 December 2017							
	On demand	Up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1year	More than 1 year up to 5 years	More than 5 years up to 10 years	More than 10 years	Indefinite term
1. Cash assets	**168,146**	**258,407**	**445,816**	**8,099**	**82,114**	**64,955**	**3,940**	**-**
1.1 Debt securities	-	42,349	434,030	-	69,527	61,890	-	-
1.2 Financing to banks	49,294	43,835	5,000	-	-	-	-	-
1.3 Financing to customers	118,852	172,223	6,786	8,099	12,587	3,065	3,940	-
2. Cash liabilities	**410,338**	**180,812**	**11,856**	**256,619**	**136,824**	**419**	**1,355**	**-**
2.1 Due to customers	405,650	12,803	5,865	2,467	5,107	419	1,355	-
2.2 Due to banks	4,260	160,862	-	234,170	70,830	-	-	-
2.3 Debt securities	428	7,147	5,991	19,982	60,887	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-39,533**	**7,081**	**7,171**	**20,680**	**3,830**	**770**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-39,533	7,081	7,171	20,680	3,830	770	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-

In order to measure, monitor and manage pricing and interest rate risk on all banking book cash flows, the impact of any unexpected changes in market conditions on profits is analysed, and the various risk-return alternatives are assessed in order to make operating decisions.

The mitigation of exposure to interest rate risk is pursued mainly by indexing assets and liabilities to money market parameters, typically Euribor for the Bank, and by seeking balance in the duration of assets and liabilities.

The Issuer periodically measures exposure to interest rate risk related to the assets and liabilities in the banking book that are relevant to the measurement of capital for this risk using the simplified approach described in Annex C of Circular 285. In order to monitor observance of the limit established within the Risk Appetite Framework and to ensure that this limit remains below 20% of the ratio between the change in economic value and own funds, analyses of the value of the banking book are conducted periodically, both under assumptions of stress with a parallel interest rate shock of +/-200 bps and under normal conditions with an interest rate shock in the 99th percentile (for rising interest rates) or 1st percentile (for falling interest rates) based on empirical data over the previous 12 month and for a total observation period of 6 years, while ensuring interest rates are not negative under either scenario. The analysis is also extended to a scenario selected by the Bank in order to complete the assessment using a bank-specific scenario more suited to the specific characteristics and historical experience of the Bank.

The sensitivity analysis of economic value conducted as at 30 September 2018 under a stress scenario with a parallel shift in the yield curve of +/-200 basis points resulted in a risk that was always negative, i.e. a increase in value that was always prudently assumed to be zero. As described above, risk is analysed both under normal conditions and under conditions of stress based on various scenarios and is also assessed based on a specific scenario better suited to the specific operations of the Bank.

The table below shows the distribution of assets and liabilities (offset by date of interest-rate repricing and by residual life). In short:

- assets and liabilities are classified based on the interest rate repricing date and placed in the appropriate maturity range;
- assets and liabilities are offset when classified in the same maturity range.

FASCIA DI SCADENZA	ATTIVO	PASSIVO	POSIZIONE NETTA
A vista e a revoca	224,826,869	119,607,579	105,219,290
oltre 1 giorno a 7 giorni	52,994,893	40,733,889	12,261,003
da oltre 7 giorni a 1 mese	260,256,985	182,651,433	77,605,552
da oltre 1 mese a 3 mesi	218,904,256	131,326,658	87,577,598
da oltre 3 mesi fino a 6 mesi	91,641,303	53,536,940	38,104,363
da oltre 6 mesi fino a 12 mesi	28,924,855	60,856,583	-31,931,728
da oltre 12 mesi a 18 mesi	24,390,130	57,748,430	-33,358,300
da oltre 18 mesi a 24 mesi	12,244,360	64,361,226	-52,116,867
da oltre 2 anni a 3 anni	25,369,347	132,385,667	-107,016,320
da oltre 3 anni a 4 anni	5,847,439	73,924,719	-68,077,279
da oltre 4 anni a 5 anni	8,827,054	73,242,778	-64,415,724
da oltre 5 anni a 7 anni	24,525,343	268,392	24,256,951
da oltre 7 anni a 10 anni	46,062,803	422,710	45,640,093
da oltre 10 anni a 15 anni	2,613,288	759,655	1,853,633
da oltre 15 anni a 20 anni	1,989,409	834,842	1,154,567
oltre 20 anni	971,789	803,964	167,825
irredimibile	-	-	-
durata indeterminata	2,130,494	-	2,130,494
	1,032,520,616	**993,465,464**	**39,055,152**

Residual life by interest rate repricing date shows an imbalance towards assets in the sight and evergreen range due to the high level of liquidity on the fixed-rate HAM account (i.e. the account held at the Bank of Italy), as well as an imbalance towards liabilities in the 2 to 3-year range attributable to the fixed-rate operations with the ECB (TLTRO II).

Exposure to interest rate risk is measured using gap analysis and sensitivity analysis models for all financial instruments, both assets and liabilities, not included in the trading portfolio in accordance with supervisory regulations. In addition to sensitivity analysis, an estimate of the change in net interest income is also calculated. Sensitivity of net interest income is measured using an approach that makes it possible to estimate the expected change in income following a shock in the yield curve generated by items that are susceptible to a revision of the interest rate within a gapping period of 12 months starting from the analysis date. This analysis takes account of the change in income on both sight items and items with a maturity. This measures the effect of changes in market rates on net interest income over the following 12 months, based on a simplistic scenario of constant levels of assets and liabilities, there excluding the potential effects of new operations or future changes in the mix of assets and liabilities. Under the scenario of a positive shock of 200 bps, the change in net interest income would be approximately EUR 5.6 million, whereas under a shock of -200 bps and on the condition that rates cannot be negative, there would be no change. A scenario with the constraint of non-negativity equal to the 3-month Euribor (which is a more realistic assumption given the current trend in interest rates) was also developed, and here, too, there would be no effect on net interest income of a shock of -200 bps.

At 31 December 2017, too, the sensitivity analysis for economic value conducted for all hypothetical scenarios resulted in risk that was always negative for an increase in value that was prudently assumed to be zero. For 31 December 2017, the sensitivity analysis for net interest income under the scenario of a positive shock of 200 bps would result in a change in net interest income of approximately EUR 6.3 million, whereas under a shock of -200 bps and on the condition that rates cannot be negative, there would be no change. A scenario with the constraint of non-negativity equal to the 3-month Euribor (which is a more realistic assumption given the current trend in interest rates) was also developed, and in this case the effect on net interest income of a shock of -200 bps would be a negative EUR 0.1 million.

In the event of a parallel shift in the yield curve of +200 bps, there would be an increase in net interest income of around EUR 9 million. This impact on net interest income may be attributed mainly to the contribution of variable-yield securities (with the variable-yield portion totalling a nominal value of approximately EUR 452 million, i.e. 76% of all debt securities, as at 31 December 2017), which would benefit from rising interest rates.

It should be noted that no specific hedging by way of derivative financial instruments has been put in place in order to reduce exposure to adverse changes in fair value (i.e. fair value hedge) due to interest rate risk; there is no cash flow hedging in place, and there are no operations in place to hedge foreign investments.

Although the Issuer monitors risks related to trends in the financial markets, it cannot be excluded that market volatility, potential restrictions in market liquidity, or changes in investor preferences towards certain product types could have significantly negative effects on the Bank's operations and its financial position, results and cash flows.

For further information, reference should be made to Chapter 20 of the Prospectus.

4.1.20 Risks related to sovereign debt

At 20 February 2019 the Issuer's exposure to governments and central banks consisted almost entirely of government bonds issued by the Italian state that remain in the Issuer's portfolio following the de-risking process conducted after the Business Combination for a nominal value of EUR 122 million at amortised cost (HTC portfolio) and for a nominal value of EUR 15 million at fair value (HTC&S portfolio), and represented approximately 15% of the Issuer's total assets at 31 December 2018.

The investments in government bonds issued by the Italian state classified in the HTC&S portfolio (namely financial assets at fair value through comprehensive income) are characterised by a volatility that mainly depends on trends in sovereign risk (which can typically be inferred from the spread between the yields of Italian BTPs and those of German Bunds), which may have a negative effect on the Bank's financial position, results and/or cash flows.

To limit the risk involved in the owned securities portfolio and in view of the additional volatility that could have persisted on Italy's sovereign debt in the fourth quarter of 2018 and the first few months of 2019, due to the scheduled deadlines that involved the Italian government arising from the 2019 finance bill and the conclusion of Quantitative Easing and the ECB's accommodative policy, in the third quarter of 2018 the Issuer's management took a series of steps to de-risk the portfolio designed to reduce the exposure to debt securities issued by the Italian state and the relative risk profile.

De-risking activities led to a reduction in the exposure to government bonds issued by the Italian state from nominal EUR 552.5 million at 31 December 2017, to nominal EUR 137 million at 20 February 2019, leading to a reduction of approximately 75% in the exposure.

RISK FACTORS

Reference should be made to Chapter 9, Paragraph 9.1.1 for further information regarding these de-risking efforts.

The table below summarises the Bank's exposures in sovereign debt securities at 31 December 2018, 30 September 2018 and 31 December 2017, 2016 and 2015, measured on the basis of the parameters for the category to which the instruments belong:

Securities *Millions of euros*	**Data prospetto**	**30.09.2018**	**31.12.2017**	**31.12.2016**	**31.12.2015**
	261	**443**	**608**	**594**	**547**
- of which financial assets at fair value through profit or loss (FVTP&L ex-IFRS 9)	29	29	-	-	-
- of which financial assets ex AFS IAS 39 (HTC&S ex-IFRS 9)	108	289	608	594	547
- *of which governments and central banks*	*81*	*262*	*565*	*543*	*498*
- *of which the public administration*	-	-	-	-	-
- *of which banks*	*27*	*27*	*40*	*43*	*47*
- *other issuers*	-	-	*3*	*8*	*2*
- of which financial assets at amortised cost (HTC ex-IFRS 9)	124	125	-	-	-
- *of which governments and central banks*	*124*	*125*	-	-	-

At 31 December 2018, the carrying amount of the Bank's exposures in securities issued by the Italian government totalled EUR 205 million, of which EUR 81 million categorised as held to collect and sell (HTC&S, formerly "AFS" under IAS 39) and EUR 124 million categorised as held to collect (HTC).

At 30 September 2018, the Bank's exposures in securities issued by the Italian government totalled EUR 387 million, of which EUR 262 million categorised as held to collect and sell (HTC&S, formerly "AFS" under IAS 39) and EUR 125 million categorised as held to collect (HTC). These exposures represented 26% of total pro-forma consolidated assets at 30 September 2018 and around 87.4% of financial lending at that date.

The following is of note with regard to the performance of securities management at 30 September 2018:

- interest earned on debt securities (including non-governmental securities) totalled EUR 3.2 million;
- the net loss on the management of debt securities (including non-governmental securities) was EUR 8.6 million;
- the net effect described above is a loss of EUR 5.4 million, as compared to a net loss for the period of EUR 17 million.

At 31 December 2017, the carrying amount of the Bank's exposures in Italian government securities came to EUR 565 million, classified entirely as financial assets available for sale (AFS under the former IAS 39). These exposures represent 60.5% of total assets and around 93% of financial lending as at that date.

At 31 December 2016 and 2015, the carrying amount of these exposures, classified as financial assets available for sale (AFS under the former IAS 39) was EUR 543 million for 2016 and EUR 498 million for 2015, representing 60.7% and 64.6%, respectively, of total assets.

At 20 February 2019, the HTC&S portfolio featured risk, in terms of credit risk sensitivity (i.e. the loss in response to a 1 basis point change in the credit spread), of EUR 30,482 (whereas for the Italian governmental component, this sensitivity falls to EUR 4,952).

The following are the indications of any negative effects on pro-forma consolidated equity at 30 September 2018 and the Issuer's Common Equity Tier 1 at 31 December 2018 resulting from an increase of 100 basis points in the BTP-Bund spread):

- EUR 558 thousand in terms of the effect on the Issuer's Common Equity Tier 1 at 31 December 2018 and on pro-forma consolidated net equity at 30 September 2018 for the government bond component (the effect is EUR 854 thousand if the whole HTC&S portfolio is considered);
- 0.1% in terms of the effect on the Issuer's CET 1 Ratio at 31 December 2018 for the government bond component (0.5% in terms of the effect on the Issuer's CET 1 Ratio at 31 December 2018 if the whole HTC&S portfolio is considered).

The following table provides a summarised comparison between the ratings assigned by Moody's, Fitch, Standard & Poor's and DBRS that were in force at 20 February 2019:

	Moody's		Fitch		S&Ps		DBRS	
	Rating	**Outlook**	**Rating**	**Outlook**	**Rating**	**Outlook**	**Rating**	**Outlook**
Italy	Baa3	Stable	BBB	Negative	BBB	Negative	BBB (high)	Stable
France	Aa2	Positive	AA	Stable	AA	Stable	AAA	Stable

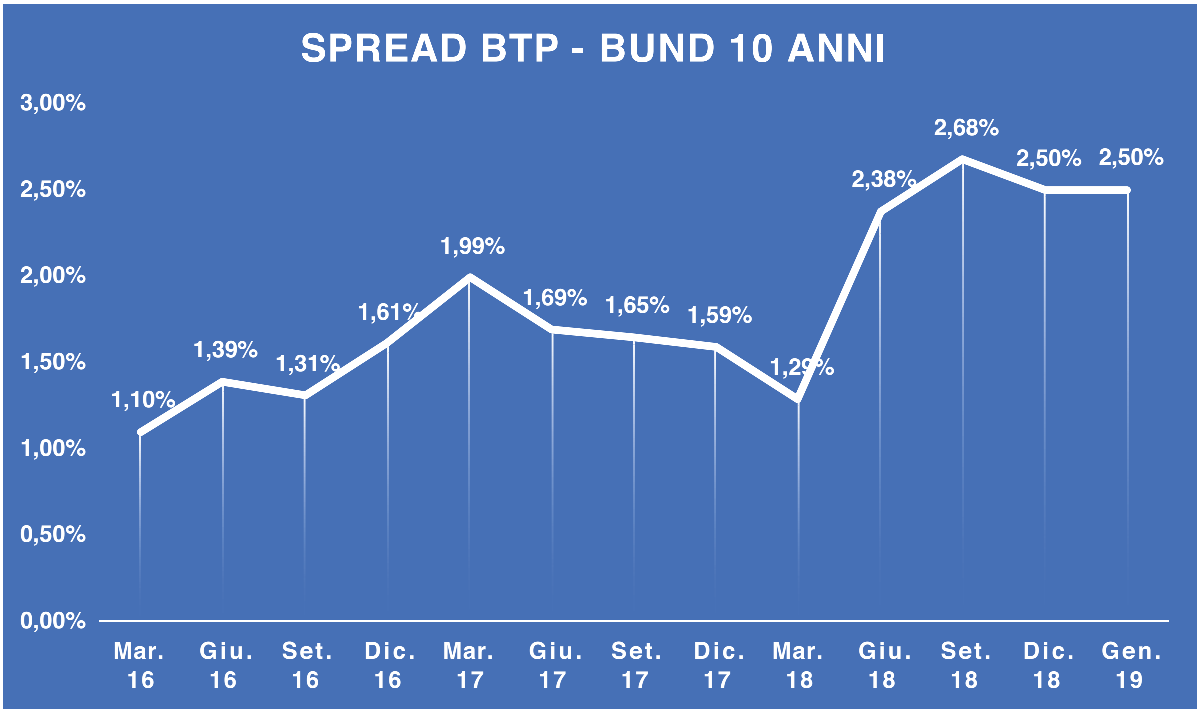
The risk related to an issuer's ability to meet its obligations following the issue of debt or money-market instruments is typically determined by looking at the credit ratings assigned by independent ratings agencies. These assessments and related research can help investors analyse the credit risk related to financial instruments in that they provide an indication of the issuer's ability to meet its obligations. The lower the rating on the given scale, the higher the risk, in the agency's view, that an issuer will be unable to meet its obligations upon maturity, or that it will fail to do so fully and/or in a timely manner. The outlook, in turn, is a parameter that indicates the expected near-future trend in the rating assigned to an issuer.

A rating does not represent a recommendation to buy, sell, or hold a financial instrument and can be suspended, reduced, or withdrawn at any time by the ratings agency that assigned it. A suspension, reduction, or withdrawal of a rating may have a negative impact on the market price. Therefore, these changes in rating may not promptly reflect changes in the solvency of the issuer.

The ongoing tensions on the government securities market or the volatility of such securities could have significantly negative effects on the Issuer's business and its financial position, results and cash flows.

Furthermore, a worsening of the credit rating of the Italian government, together with a consequent reduction in the value of its securities, could lead to a revision of the calculation of risk-weighted assets (RWAs) and a consequent negative impact on the Bank's capital ratios and/or a revision of the haircuts applied by counterparties in refinancing operations (e.g. the ECB's TLTROs), and this could result in an increase in collateral required or a reduction in the liquidity received on the collateral provided. In this regard, it should be noted that, following a downgrading by Moody's and Standard & Poor's, the Bank's exposure to Italian government securities eligible to back European Central Bank refinancing operations saw an increase in the haircuts applied at the various maturities for these operations. This resulted in a reduction in the value of this collateral in terms of the amount of liquidity actually receivable by the ECB once allocated for the Bank's participation in the refinancing operations.

In order to better understand the dynamics of sovereign risk, the trend in the 10-year BTP-Bund spread from 2016 to 20 February 2019 is shown below:



For further information, reference should be made to Chapter 20 of the Prospectus.

The following is of note with regard to encumbered assets, net of haircuts applied, for a total of EUR 83 million, at 20 February 2019:

- asset encumbrance in operations with the European Central Bank totalled EUR 53 million, equal to the amount still involved in the TLTRO II;
- asset encumbrance in repurchase agreements with market counterparties totalled approximately EUR 25 million;
- asset encumbrance against cheque guarantee deposits with the Bank of Italy totalled EUR 5 million.

Available assets that could be allocated to back lending both on the market and within the scope of refinancing operations with the ECB (net of haircuts applied) total approximately EUR 101 million (which includes securities that are not eligible with the ECB for refinancing operations but can be readily liquidated).

It should also be noted that, in order to meet additional collateral needs under situations of stress (i.e. contingent encumbrance), at 20 February 2019, a total of EUR 63 million in available cash was available at the central bank. Available cash at SPAXS at the same date totalled approximately EUR 205 million.

For further information, reference should be made to Chapter 20, Paragraph 20.1, of the Prospectus.

4.1.21 Risks related to provisions of the Bylaws that provide the right for holders of Special Shares to present a list of candidates for the election of the Issuer's corporate bodies

Pursuant to Articles 6, paragraph 4, point (b), 14, paragraph 2, point 2.3 and 29, paragraph 2 of the Post-merger Bylaws (similar to what is set forth in the current bylaws of SPAXS), it is currently established that the Special Shares (which, pursuant to the same Post-merger Bylaws do not have voting rights in the ordinary and extraordinary shareholders' meetings of the Issuer) have the right to submit a list of candidates for the election of the corporate bodies. This right is not provided by Article 147-ter of the TUF and the relative implementing provisions set forth in the Issuer's Regulation, the lists may be submitted by holders of shares representing at least the minimum proportion of the share capital established, over time, by Consob, with "share capital" being defined pursuant to Article 144-ter, points a) and b) of the Issuer's Regulation, as "the capital consisting of listed shares" that grants the right to vote on shareholders' meeting resolutions involving the appointment of members of the management and control bodies.

In this regard, it is noted that: (i) on 18 January 2019, a communication was received from holders of SPAXS Special Shares (also in their capacity as future holders of the Special Shares) whereby they declared that they waived the right to submit their own lists of candidates for the appointment of the corporate bodies of the Issuer; and (ii) the special meeting of SPAXS Special Shareholders (also in their capacity as future holders of the Special Shares), which met on 24 January 2019, unanimously decided to waive, until the date of conversion of all Special Shares into Ordinary Shares, the right to submit their own lists for the appointment of the corporate bodies of the Issuer, also irrespective of any future amendments of the Post-merger Bylaws intended to eliminate the above-mentioned right, with respect to which, moreover, the holders of all SPAXS Special Shares (also in their capacity as future holders of the Special Shares) declared, at the above-mentioned shareholders' meeting and for all intents and purposes, that they were favourable.

On the basis of the above-mentioned waivers expressed by the SPAXS Special Shareholders (also in their capacity as future holders of the Special Shares) and the above-mentioned resolution passed by the special shareholders' meeting and registered at the competent Companies Register, at the time of the re-election of the Issuer's corporate bodies, the mechanism for the submission of the list of candidates for the election of the Board of Directors and the Board of Statutory Auditors by the special shareholders will not apply and, as a result, neither will the mechanism of automatic conversion of the Special Shares into Ordinary Shares linked to the submission by Special Shareholders of their own list of candidates for the office of member of the Issuer's Board of Directors, as set forth in Article 6, paragraph 4, point (f) of the Post-merger Bylaws, should the candidates presented in the above-mentioned list not be appointed.

In light of the foregoing, the Issuer will undertake the necessary activities, as soon as possible after the listing of its financial instruments on the MTA with methods and timing compatible with applicable supervisory, Bylaw and other regulations, to make amendments to the text of the Post-merger Bylaws intended to eliminate the right for Special Shareholders to submit their own lists for the appointment of the corporate bodies and the resulting possibility of conversion of the Special

Shares into Ordinary Shares, also for the purpose of the formal incorporation within the Bylaws of the above-mentioned waiver of the future holders of Special Shares, in any case already validly expressed by them and, as noted, disclosed to the Issuer during the shareholders' meetings of SPAXS and the Bank on 18 January 2019 and approved by the SPAXS special shareholders' meeting.

Despite this, also taking into account that a specific timetable for making such changes to the bylaws has not been established, the risk exists that if the Issuer's bylaws are not amended with the formal elimination of the above right, disputes could arise for the Issuer in relation to the potential advantages of the owners of Special Shares in case of the submission of a list over the holders of Ordinary Shares.

For further information related to all of the above, reference should be made to Chapter 21, Paragraphs 21.2.3 and 21.2.5 of the Prospectus.

4.1.22 Risks related to outsourcing services

The Bank has entered into outsourcing agreements that are of relevance to supervisory regulations regarding the outsourcing of important operational functions. Specifically:

- on 25 June 2014, the Bank signed a three-year agreement with tacit renewal for a further three (3) years with Consorzio Servizi Bancari soc. coop. r.l. ("CSE") for the outsourcing of digital services functional to bank operations and related activities;
- on 1 July 2015, the Bank signed an agreement with Coopservice s.c.p.a. for the provision of services concerning the transport and reporting of money and valuables. This is a one-year contract that is automatically renewed from year to year;
- on 1 April 2016, the Bank signed a three-year agreement with Caricese S.r.l. regarding the provision of services concerning the data collection and processing and the management of accounting and other administrative services.

Given the existence of these outsourcing agreements, and despite the fact that they include clauses and guarantees for the Bank that are typical of such agreements, the Bank is exposed both to the risks typical of activities related to accounting, administration and related services and to the risk of errors, omissions, or delays in the services provided by CSE that could result in service discontinuity beyond the levels allowed by contract.

Service continuity could also be compromised by events with a negative impact on the providers, such as bankruptcies or similar proceedings, which could have negative effects on the Bank's financial position, results and cash flows.

It should be noted that, as of the Prospectus Date, CSE provides the Bank with a large part of the digital services with which the aforementioned agreement was signed. However, on 20 December 2018 the Bank notified CSE, which had already received advance notice, that for strictly business-related reasons it would need to begin a process of migration to a new outsourcer, thus resulting in the early termination of existing agreements.

Provisional figures at 31 December 2018 include net provisions of EUR 2.6 million accrued for one-off costs for the early termination of agreement for the outsourcing of accounting and reporting systems used by the Bank, corresponding to the penalty and the costs of migrating to the new platform.

Subject to advance notifications and supervisory authorisations, and following early termination of the agreement with CSE and subsequent signing of the agreement with the new outsourcer, information systems will be migrated from CSE to this new provider in the coming months.

Nonetheless, the Issuer cannot exclude the possibility that this process may take longer than expected or that difficulties may arise during the migration that could lead to the loss of certain data or its disclosure to the public in breach of confidentiality and security obligations, and this could have negative effects on the Bank's financial position, results and cash flows.

The migration is expected to be completed by around the end of March 2019.

For further information, reference should be made to Chapter 6, Paragraph 6.1, of the Prospectus.

4.1.23 Risks related to capital adequacy

As an institution authorised to provide banking services in Italy, the Issuer is subject to Italian laws and regulations applicable to the banking industry that are aimed at ensuring bank stability and solidity and limiting exposure to risk. The rules concerning capital adequacy for banks establish prudent minimum capital requirements, capital quality standards and mechanisms for mitigating risk.

Capital adequacy is one of the primary strategic objectives. As a result, outlooks and analyses are constantly conducted in order to maintain adequate levels of capital both to meet the minimum capital requirements and to ensure adequate margins for growth. Own funds, risk-weighted assets, and solvency ratios are determined in accordance with the new harmonised legislation for banks and investment firms established under Directive 2013/363/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose for the European Union the standards defined by the Basel Committee on Banking Supervision (Basel III), as well as in compliance with Bank of Italy Circular nos. 285 and 286 (issued in 2013 and subsequently amended) and no. 154 (also updated in 2013).

It is generally assumed that assessments of regulatory capital adequacy are based on a constant monitoring of own funds and risk-weighted assets (RWAs) and on a comparisons with regulatory minimums, including the additional capital reserves called for under applicable laws and regulations.

The table below provides information on the Issuer's own funds and on capital and supervisory ratios, which have been calculated as at 30 September 2018 in accordance with the provisions of the CRR and of Circular no. 285.

Banca Interprovinciale *(Thousands of euros)*	**At 30 September 2018**
A. Common Equity Tier 1 (CET1) before application of prudent filters	90,306
– of which CET1 instruments subject to transitional measures	-
B. Prudent filters for CET1 (+/-)	-
C. CET1 before components to be deducted and the effects of transitional measures (A+/-B)	90,306
D. Components to be deducted from CET1	(4,340)
E. Transitional measures - Impact on CET1 (+/-)	-
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	85,966
G. Additional Tier 1 capital (AT1) before components to be deducted and effects of transitional measures	-
of which AT1 instruments subject to transitional measures	-
H. Components to be deducted from AT1	-
I. Transitional measures - Impact on AT1 (+/-)	-
L. Total Additional Tier 1 capital (AT1) (G-H+/-I)	-
M. Tier 2 capital (T2) before components to be deducted and effects of transitional measures	-
of which T2 instruments subject to transitional measures	-
N. Components to be deducted from T2	-
O. Transitional measures - Impact on T2 (+/-)	-
P. Total Tier 2 capital (T2) (M-N+/-O)	-
Q. Total own funds (F+L+P)	85,966

RISK FACTORS

The table below provides information on the Issuer's own funds and on capital and supervisory ratios, which have been calculated as at 31 December 2017, 2016 and 2015 in accordance with the provisions of the CRR and of Circular no. 285.

(Thousands of euros)	BIP At 31 December		
	2017	**2016**	**2015**
A. Common Equity Tier 1 (CET1) before application of prudent filters	60,070	51,841	53,828
– of which CET1 instruments subject to transitional measures	2,631	–	–
B. Prudent filters for CET1 (+/-)	(34)	(46)	–
C. CET1 before components to be deducted and the effects of transitional measures (A+/-B)	60,036	51,795	53,828
D. Components to be deducted from CET1	(7)	(373)	(278)
E. Transitional measures - Impact on CET1 (+/-)	(2,460)	(2,547)	(6,916)
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	57,569	48,875	46,634
G. Additional Tier 1 capital (AT1) before components to be deducted and effects of transitional measures	–	224	–
of which AT1 instruments subject to transitional measures	–	–	–
H. Components to be deducted from AT1	–	38	–
I. Transitional measures - Impact on AT1 (+/-)	–	(262)	–
L. Total Additional Tier 1 capital (AT1) (G-H+/-I)	–	–	–
M. Tier 2 capital (T2) before components to be deducted and effects of transitional measures	–	299	–
of which T2 instruments subject to transitional measures	–	–	–
N. Components to be deducted from T2	–	–	–
O. Transitional measures - Impact on T2 (+/-)	27	–	2
P. Total Tier 2 capital (T2) (M-N+/-O)	27	299	2
Q. Total own funds (F+L+P)	57,596	49,174	46,636

Information related to the Issuer's capital requirements as at 30 September 2018, in accordance with prudential measures in effect at that date, is provided below.

RISK ASSETS AND REGULATORY RATIOS	**BIP At 30 September 2018**
Risk-weighted assets (RWAs)	360,813
Common Equity Tier 1 to Risk-Weighted Assets (CET1 capital ratio)	23.83%
Tier 1 Capital to Risk-Weighted Assets (T1 capital ratio)	23.83%
Total Own Funds to Risk-Weighted Assets (Total Capital Ratio)	**23.83%**

Information related to the Issuer's capital requirements as at 31 December 2017, 2016 and 2015, in accordance with prudential measures in effect at that date, is provided below.

RISK ASSETS AND REGULATORY RATIOS	BIP At 31 December		
	2017	2016	2015
Risk-weighted assets (RWAs)	333,038	327,950	255,888
Common Equity Tier 1 to Risk-Weighted Assets (CET1 capital ratio)	17.29%	14.90%	18.22%
Tier 1 Capital to Risk-Weighted Assets (T1 capital ratio)	17.29%	14.90%	18.22%
Total Own Funds to Risk-Weighted Assets (Total Capital Ratio)	**17.29%**	**14.99%**	**18.23%**

With regard to the Supervisory Review and Evaluation Process (SREP), on 13 March 2017, by way of protocol no. 0323739/17, the Bank of Italy notified the Issuer of a planned change in the phase-in of the Capital Conservation Buffer to be applied for 2017. This SREP communication contained indications of areas of improvement for credit risk control and the need to contain the level of concentration.

The levels for the Overall Capital Requirement (OCR) ratio as defined by the EBA/GL/2014/13 Guidelines, being the sum of the mandatory constraints represented by the Total SREP Capital Requirement (TSCR) ratio and the Capital Conservation Buffer (CCB), were supplemented by a communication of 1 March 2018. This update reflects the change envisaged for the phase-in of the Capital Conservation Buffer (rising in 2018 from 1.25% to 1.875%).

While waiting to receive further information from the supervisory authority, the regulatory ratios applicable to Banca Interprovinciale are summarised in the table below, calling for OCR CET1 and TCR ratios of 6.775% and 10.625%, respectively.

	CET1	Tier 1	Total Capital
Requisiti minimi regolamentari	4.500%	6.000%	8.000%
Requisiti aggiuntivi	0.400%	0.550%	0.750%
Total SREP Capital Requirement (TSCR)	**4.900%**	**6.550%**	**8.750%**
Capital Conservation Buffer	1.875%	1.875%	1.875%
Overall Capital Requirement (OCR)	6.775%	8.425%	10.625%

Regulations call for the full application of the Capital Conservation Buffer (equal to 2.5%) in 2019 and thus - with additional requirements being equal - the OCR ratios are expected to rise by 0.625% in 2019.

To determine its risk-weighted assets, the Issuer uses the standard method to calculate capital requirements for credit risk.

On approval of the preliminary results for 2018, the CET1 Capital Ratio was 42% at 31 December 2018, the Tier 1 Capital Ratio 42% and Total Capital Ratio 42%, all above the minimum SREP Overall Capital Requirements for the Bank, notified by the Bank of Italy on 1 March 2018.

Applying the transitional measures in effect and including earnings for the period in line with regulatory conditions, own funds as at 30 September 2018 total EUR 85.97 million against risk-weighted assets of EUR 360.81 million.

The Total Capital Ratio as at 30 September 2018 came to 23.83%, which is above the regulatory minimum. The CET1 ratio is also above both the regulatory limit and the minimum threshold required.

Applying the transitional measures in effect and including earnings for the period in line with regulatory conditions, own funds as at 31 December 2017 totalled EUR 57.60 million against risk-weighted assets of EUR 333.04 million.

The Total Capital Ratio as at 31 December 2017 came to 17.29%, which is above the regulatory minimum. The CET1 ratio is also above both the regulatory limit and the minimum threshold required.

As at 31 December 2016, own funds totalled EUR 49.10 million against risk-weighted assets of EUR 327.9 million. As at that same date, the Total Capital Ratio came to 14.90%.

As at 31 December 2015, own funds totalled EUR 46.60 million against risk-weighted assets of EUR 255.9 million. As at that same date, the Total Capital Ratio came to 18.22%.

Despite the fact that at the Prospectus Date the capital ratios exceed the minimum limits established by prudent regulations, investors must consider that it is still possible that, in the future, the Bank could, in response to external factors and other events that are unpredictable and/or out of its control and/or following further requirements by the supervisory authority, find itself with the need to further strengthen capital. It also cannot be excluded that the Bank could be unable to establish or maintain the minimum capital requirements established at any given time by the supervisory authority in a timely manner, and this could have significantly negative effects on the Issuer's business and on its financial position, results and cash flows.

For further information, reference should be made to Chapter 3, Paragraph 3.1 and Chapter 9, Paragraph 9.1.3.

4.1.24 Operational risks

Operational risk is the risk of incurring losses due to the dysfunction or other inadequacies in procedures, human resources, or internal systems, or due to external factors. This type of risk includes losses due to fraud, human error, interruptions in operations, the unavailability of systems, breaches of contract, or natural disasters. It does not include strategic or reputation risk, but does include legal risk related to the violation of applicable laws and regulations, to the failure to meet contractual and other obligations, and to other disputes that may arise with counterparties in the course of conducting operations.

Operational risk, which is a highly diverse category is risk, is not typical of the banking industry or of enterprise generally. The origin of these risks can be either internal or external, and the scope of their impact can extend beyond the confines of the organisation.

Operational risk is characterised by cause-and-effect relationships such that one or more factors trigger the compromising event or effect that can be directly connected to a financial loss. An operational loss is the set of negative financial effects caused by events of an operational nature and recognised for accounting purposes that have an impact on the income statement.

The main sources of operational risk are the following: the insufficient reliability of operating processes in terms of efficiency and efficacy; internal and external fraud; operating errors; the quality of logical and physical security; an information system not suited to the size of the organisation's operations; an increasing reliance on automation; the outsourcing of company functions; the use of a limited number of suppliers; changes in strategy; incorrect policies for human resources management and training; and social and environmental factors.

Operational risk management is a component of the integrated risk management strategy that seeks to mitigate global risk in part by preventing the propagation and transformation of risk. Operational risk management is based on the following guiding principles:

- increasing overall operational efficiency;
- preventing or reducing the likelihood of events that could result in operating losses by way of appropriate regulatory and organisational measures;
- mitigating the expected effects of such events;
- transferring risks by way of insurance policies;
- protecting the company's brand and reputation.

The process of identifying, assessing and monitoring of risks leads to the implementation of mitigating measures by way of insurance policies that provide coverage for a wide range of potentially harmful events in order to transfer specific types of risk.

The Issuer gathers data in a structured, systematic manner regarding losses coming from the various areas of the company, analyses this data, and assesses operational risks with an appropriate frequency in order to recommend appropriate mitigation and management efforts. The model for assessing and measuring operational risks is based on internal data on operating losses, which is collected from the network of company contacts and is used solely for internal management purposes.

In order to calculate regulatory requirements, the Bank uses the Basic Indicator Approach (BIA), which calls for calculating the capital requirement applying a regulatory coefficient of 15% to an indicator of the volume of operations determined as the three-year average of the relevant indicator calculated in accordance with Article 316 of Regulation (EU) no. 575/2013.

The management of critical issues includes a disaster recovery plan, which establishes the technical and organisational measures for managing events the result in the unavailability of data processing centres. This plan, which aims to ensure the functioning of relevant information systems at alternative sites, is an integral part of the business continuity plan approved by the Bank's Board of Directors on 15 January 2014.

It cannot be excluded that the measures adopted by the Bank to mitigate operational risks and prevent and/or limit any potentially negative effects may not be sufficient to handle all types of risk that may arise or that one or more of these risks may arise again in the future as a result of unforeseeable events that are wholly or partially beyond the Bank's control (including fraud or losses caused by employee infidelity and/or violations of control processes). The occurrence of one or more of these risks could have negative effects on the Bank's business, outlook and operating profits and its financial position, results and cash flows.

For further information, reference should be made to Chapter 6, Paragraph 6.1, of the Prospectus.

4.1.25 Risks related to related party transactions

As at 30 September 2018 and 31 December 2017, 2016 and 2015, and ongoing as of the Prospectus Date, the Issuer has had transactions with related parties as described in the tables below: Although the Bank believes that these relations take place at arm's length, it cannot be guaranteed that, had the transactions executed by the Bank with related parties been executed between or with unrelated parties, they would have entered into the related agreements or executed the transactions governed by them at the same terms and conditions.

At 30 September 2018

Thousands of euros	30/09/2018		
	Carrying amount	**of which with related parties**	**Related party percentage**
Assets			
Loans to customers	457,926	31	0.01%
Representative			
Other		31	0.01%
Liabilities and Equity			
Due to customers	488,877	670	0.14%
Representative		230	0.05%
Other		440	0.09%
Securities issued	99,121	297	0.30%
Representative		111	0.11%
Other		186	0.19%
Other liabilities	18,520	1,506	8.13%
Representative		1,506	8.13%

The balance with related parties under the item "Other liabilities" mainly relates to the liability arising from the settlement with the former General Manager; in this respect reference should be made to Chapter 15, Paragraph 15.1.1 of the Prospectus.

Thousands of euros	30/09/2018		
	Carrying amount	**of which with related parties**	**Related party percentage**
Costs			
Personnel expenses	6,240	2,456	39.36%
Representatives		2,456	39.36%
Other			0.00%

The transactions with related parties under the item "Personnel expenses" mainly relate to settlement costs with the former General Manager and directors' fees; in this respect reference should be made to Chapter 15, Paragraph 15.1.1 of the Prospectus.

The transactions with related parties in the item "Due to customers" refer to deposits of company representatives and other related parties.

RISK FACTORS

The transactions with related parties in the item "Securities issued" refer to bonds issued by the Bank and certificates of deposit of company representatives and other related parties.

The transactions with related parties in the items "Other liabilities" and "Personnel expenses" refer primarily to the remuneration of company representatives.

The transactions with related parties in the item "Other administrative expenses" refers to company benefits recognised to key personnel.

Given the equity investment relationship between SPAXS and the Issuer as of the Prospectus Date, the Merger is a related party transaction in accordance with the procedures for related party transactions adopted by SPAXS and with the rules for transactions of personal interest and with related parties adopted by BIP in compliance with Bank of Italy Circular no. 263 of 27 December 2006, both as in effect as of the date of approval of the Merger Plan. For further information regarding the Merger and the Draft Merger Terms, reference should be made to Chapter 22, Paragraph 22.1 of the Prospectus.

With respect to the Merger, it should be noted that the Bank has approved the signing of an agreement with Andrea Clamer and Andrea Battisti for the purchase of the entire share capital of Neprix (a related party transaction, but given the immaterial consideration involved – determined as net equity at the agreement date which at 31 December 2018 is estimated in EUR 23 thousand – this will not be subject to the Related Party Transaction Procedure, and an information document in this respect pursuant to laws and regulations on related party transactions and the relative procedure adopted by the Bank is also not envisaged), and a servicing agreement for the outsourcing of services related to the Bank's investment in portfolios of non-performing loans (the execution of which will entail the establishment of a banking group which, pursuant to the applicable Bank of Italy regulation, is subject to the successful completion of the procedures set forth for that purpose by the regulation itself).The efficacy of this latter agreement is subordinate to completion of the Bank's aforementioned acquisition of Neprix and will replace the related consulting agreement. Furthermore, on 22 November 2018, the Bank signed a consulting agreement with Neprix, in effect as of the Prospectus Date, concerning the provision, by Neprix, of due diligence activities concerning the portfolios of non-performing loans for the purposes of investment by the Bank. For further information, reference should be made to Paragraphs 5.2.2, 6.1, 19.3 and 22.3 of the Prospectus.

Losses on assets or liabilities resulting from transactions with related parties could have negative effects on the Bank's business and performance.

Finally, it should be noted that, as of the Prospectus Date, both the Bank and SPAXS had procedures in place for related party transactions in accordance with applicable laws and regulations. As of the Trading Start Day, a procedure will go into effect for transactions with related and affiliated parties in accordance with applicable laws and supervisory regulations, as approved by the Issuer's Board of Directors on 17 December 2018.

For further information regarding the Bank's related party transactions as of the Prospectus Date, reference should be made to Chapter 19 of the Prospectus.

RISK FACTORS

4.1.26 Liquidity risks

The availability of liquidity and access to long-term financing markets are essential to carrying out the core businesses of banks and other financial institutions and to achieving strategic objectives. More specifically, liquidity and long-term financing are fundamental in order for a bank to be able to meet expected or unexpected payment needs in a manner that does not compromise current operations or the Bank's financial position, results and/or cash flows.

Liquidity risk refers to a bank's inability to meet its payment obligations that are either known or expected with a reasonable degree of certainty. This may occur when internal causes (a specific emergency) or external factors (macroeconomic conditions) require the bank to deal with an unexpected reduction in liquidity or a sudden need to increase funding.

There are two typical types of liquidity risk as follows:
- market liquidity risk, which is related to the possibility that the bank is unable to liquidate an asset without incurring a capital loss or within a sufficient time frame due to limited liquidity or inefficiencies on the market in question; and
- funding liquidity risk, which is the possibility that the bank is unable to meet its expected or unexpected payment needs in a cost-effective manner without compromising its core business or its financial standing.

The Bank has implemented strategies, policies, processes, and systems to identify, measure, manage and monitor liquidity risk. Deposits have continued to show gradual growth. As at 30 September 2018, funding from customers totalled EUR 588 million for growth of EUR 59 million (+11%) compared to the financial year ended 31 December 2017. The reference framework for the system of measuring, monitoring and managing liquidity risk is defined the Bank's liquidity risk management policies, strategies, processes and related emergency plan as approved by the corporate bodies. This risk management policy is supplemented by the Contingency Funding Plan (CFP), the main goal of which is to protect the Bank's capital in situations of low liquidity by defining crisis management strategies and procedures for raising funding in the event of an emergency. This document establishes the rules for pursuing and maintaining a sufficient level of diversification in funding sources and an adequate structural balance in funding and lending by way of coordinated, efficient funding and lending policies. The system of governance of short-term liquidity risk established by the policy is based on a system of early-warning threshold and other limits consistent with the general principles on which liquidity management is based. The policy also defines the functions and bodies involved in liquidity management.

The Bank seeks to maintain low levels of exposure to liquidity risk by establishing a system of mechanisms and limits set based on an analysis of gaps in cash inflows and outflows by range of residual life. The primary objective of liquidity risk management is to meet payment obligations and raise additional funding on the market, while minimising costs without compromising future profitability.

More specifically, liquidity risk management involves the measurement, monitoring and management of broad-based liquidity needs by way of a model of analysing the net liquidity balance, along with stress tests to assess the Bank's ability to manage crises of increasingly levels of severity.

Liquidity risk management process and measurement approaches call for measuring and controlling:

- operating liquidity (on a weekly basis): this is the area in which operational activities to manage short-term (1 day to 3 months) liquidity risk are conducted with the goal of ensuring the Bank's ability to meet any short-term payment commitment;
- structural liquidity (on a quarterly basis): the objective here is to maintain an adequate balance between cash inflows and outflows over various time horizons in the medium to long-term.

The net liquidity balance is obtained from the operational liquidity ladder comparing, over a 3-month time period, projected cash flows with the counterbalancing capacity. The sum of expected cash flows and the counterbalancing capacity for each time period quantifies liquidity risk under various stress scenarios.

The objectives of these stress tests is to assess the Bank's vulnerability to extraordinary but plausible events, and they allow for a better assessment of liquidity risk exposure, of the related systems for controlling and mitigating liquidity risk, and of the survival period under adverse scenarios. When defining the stress scenarios, which include a basic scenario and an internal scenario, a series of risk factors that can have an impact on either a cumulative imbalance in cash inflows and outflows or on the liquidity buffer are taken into account, and mainly:

- Retail funding risk, i.e. the volatility of sight and term deposits (on securities issued) with ordinary customers;
- Off-balance sheet liquidity risk, i.e. the use of available margins on irrevocable lines of credit granted;
- Market liquidity risk, i.e. a reduction in the value of the securities that make up the liquidity buffer;
- Deterioration of credit risk.

Monitoring of the coverage of expected liquidity needs by way of an adequate liquidity buffer is supplemented by daily monitoring of exposure on the interbank market. The Contingency Funding Plan is triggered when the aforementioned early-warning thresholds and other limits are breached.

Finally, the management of structural balance is pursued by using models that assess the stability of funding and the liquidity of assets in order to limit the risk associated with transforming maturities within the tolerance level deemed to be acceptable by management. Assessment of the stability of funding and the liquidity of assets is based mainly on parameters related to residual life.

At 20 February 2019, the Bank had no significant risk profiles in terms of liquidity needs. As of that date, counterbalancing capacity came to EUR 452 million, of which:

- EUR 83 million related to asset encumbrance (EUR 53 million of which in operations with the European Central Bank, EUR 25 million in repurchase agreements with market counterparties, and EUR 5 million in bank draft deposits with the Bank of Italy);
- EUR 101 million in available assets that could be provided as loan guarantees both on the market and within the scope of refinancing operations with the ECB (which includes securities that are not eligible with the ECB for refinancing operations but can be readily converted to cash or used in financing transactions with market counterparties);

- EUR 268 million related to available liquidity in the accounts of the Bank and of SPAXS (at 20 February 2019 there was available liquidity of EUR 463 million at the Bank and EUR 205 million at SPAXS).

In accordance with the principles of sound and prudent management and in the expectation of growth in business volumes, the Bank has taken steps to establish adequate mechanisms for measuring this risk.

a) Liquidity ratios

The following are the main indicators used to assess the Bank's liquidity profile:

- Liquidity Coverage Ratio (LCR), an indicator of short-term liquidity as the ratio between the amount of high-quality liquid assets and net cash outflows over the subsequent 30 calendar days. Beginning in January 2018, this ratio is subject to a 100% minimum regulatory requirement;
- Net Stable Funding Ratio (NSFR), which seeks to reduce long-term funding risk by requiring a bank to finance its assets using sufficiently stable sources of funding in order to limit the risk of future tensions on funding. This indicator is the ratio between the amount of available stable funding (via liabilities) to required stable funding (for assets). In effect since January 2018, this ratio is to be maintained at a constant level of 100%; and
- Loan-to-Deposit Ratio, which represents the ratio of loans to customers to direct customer deposits.

Shown below are the trends in these three indicators as at 30 September 2018, 31 December 2017, and 31 December 2016.

LIQUIDITY COVERAGE RATIO (LCR)

12/2016	12/2017	09/2018
223%	251%	192%

NET STABLE FUNDING RATIO (NSFR) (*)

12/2016	12/2017	09/2018
168%	122%	180%

(*) *Management figure derived from internal simulations based on the Basel Committee consultation paper on banking supervision "Basel III: International framework for liquidity risk measurement, standards and monitoring", December 2010. Since 30 June 2018, the simulation has been conducted based on the Basel Committee consultation paper on banking supervision "Basel III: the Net Stable Funding Ratio – consultative document", January 2014.*

LOAN-TO-DEPOSIT RATIO (**)

12/2016	12/2017	09/2018
58%	62%	78%

(**) *Calculated as Loans to customers/(Due to customers + Securities issued + Financial liabilities measured at fair value) using data taken from the annual reports for 2016 and 2017 and the interim financial statements as at 30 September 2018.*

The ratios as at 31 December 2016, 31 December 2017 and 30 September 2018 have been calculated based on data taken from the 2016 and 2017 annual reports and the interim financial statements as at 30 September 2018.

The short-term Liquidity Coverage Ratio (LCR) as at 30 September 2018 is 192%, which is above the applicable regulatory minimum of 100% for 2018.

As at 31 December 2017, the LCR was 251%, which is above the applicable regulatory minimum of 80% for 2017.

The LCR is exposed to the risk of further negative changes connected with tensions in commercial funding, to which the Issuer is exposed, and to other potential events with a negative impact on liquidity (e.g. a downgrading of the Bank or a reduction in the counterbalancing value) that could arise in the near future.

The medium to long-term Net Stable Funding Ratio (NSFR) was 180% at 30 September 2018, which is an increase compared to the 122% at December 2017.

As at 31 December 2017, the NSFR was 122%, decreasing from the 168% of December 2016. This reduction is mainly attributable to approaching maturities on long-term TLTRO I deposits in September 2018 (with a residual duration of less than 12 months and so not included in the indicator as funding availably beyond 12 months):

At 30 September 2018, the Loan-to-Deposit Ratio was at 78%, as compared to 62% as at 31 December 2017 and 58% as at 31 December 2016.

The Bank periodically monitors concentration risk in the sources of funding.The Bank does show some concentration risk in sources of funding, mainly towards the European Central Bank.

As at 30 September 2018, interbank funding accounted for 30% of total funding, of which 17% related to the European Central Bank alone.

At the end of December 2017, interbank funding accounted for 47% of total funding, of which 40% related to the European Central Bank alone.

The additional liquidity monitoring metrics (ALMMs) supplementing the main regulatory ratios (i.e. LCR and NSFR) are reported to the supervisory authorities on a quarterly basis. The goal is to provide the supervisory authorities with a thorough view of a bank's liquidity risk profile by providing further details related to aspects that are not (entirely) represented in LCR and NSFR in order to identify potential difficulties for banks by way of any downward trends and/or anomalous levels in these metrics.

This metrics are as follows:

- Concentration of funding by counterparty;
- Concentration of funding by product type;
- Prices for various lengths of funding, which provides information on the average volume of transactions and the prices paid by the banks for financing during the period;
- Roll-over of funding, which provides information on the volume of term funding and new financing received daily over the course of a month;
- Concentration of counterbalancing capacity by issuer/counterparty;
- Maturity ladder, which is a long-term report on liquidity.

RISK FACTORS

In this regard, it cannot be excluded that a crisis in liquidity due to the uncertainties inherent in the current macroeconomic landscape, to current market trends and, more generally, to other events beyond the Bank's control could have an impact on the Bank's liquidity profile and require the adoption of measures that could have a negative effect on the Bank's financial position, results and/or cash flows.

For further information, reference should be made to Chapter 20 of the Prospectus.

4.1.27 Risks related to proceedings concerning certain members of the Issuer's organisation

As of the Prospectus Date, the Managing Director, Corrado Passera: (i) is a defendant, together with other parties, in criminal proceedings (no. 852/15 R.G. of the Court of Ivrea and no. 2748/2017 R.G. of the Turn Court of Appeals) concerning the crimes under articles 590 and 589 of the criminal code and violation of laws concerning health and safety in the workplace in relation to exposure to asbestos by two workers at the company Ing. C. Olivetti & C. S.p.A. An appeal filed based on the roles played in the aforementioned company during the period of 25 September 1992 to 4 July 1996. In the ruling on the appeal concerning Corrado Passera (and the other defendants), the appeals court of Turin overturned the ruling of the court of first instance with an acquittal due to a lack of evidence. The ruling is not yet final. On 21 December 2018, the Prosecutor General filed an appeal pursuant to article 606 of the code of criminal procedures of the ruling of the Turin Court of Appeals; (ii) is named in a preliminary investigation by the Public Prosecutor of the Court of Ivrea, for which there has been a notice of extension of the deadline for preliminary investigations (therefore, criminal proceedings have not moved forward nor has a notice of completion of the preliminary investigations been issued). The investigation concerns damages due to exposure to asbestos suffered by certain workers of the company Ing. C. Olivetti & C. S.p.A. other than those involved in the aforementioned proceedings (at present, the hypothesis of a provisional offence subject to registration is as defined under articles 589 and 590 of the criminal code); (iii) is named in a preliminary investigation by the Public Prosecutor of Turin, for which there has been a notice of extension of the deadline for preliminary investigations (therefore, criminal proceedings have not moved forward nor has a notice of completion of the preliminary investigations been issued), which concerns an acquisition of a foreign bank by the Intesa Sanpaolo Group (at present, the hypothesis of provisional offence subject to registration is as defined under articles 110, 648-bis and 648-ter of the criminal code);

It cannot be excluded that, should one or more of the above proceedings have an unfavourable outcome, the Bank could suffer significant damages, including to its reputation, which could have negative effects on the Bank's business, its outlook and its financial position, results and cash flows.

For further information, reference should be made to Chapter 14, Paragraph 14.1, of the Prospectus.

4.1.28 Risks related to the distribution of dividends

At the Prospectus Date, the Issuer does not have a dividend distribution policy. The 2018-2023 Business Plan does, however, envisage an increasing dividend from financial 2022, with a pay-out of approximately 20% in 2022 and approximately 25% in 2023. In this respect reference should be made to Chapter 13, Paragraph 13.6.1 of the Prospectus.

The distribution of dividends could be excluded or limited by the need to respect the capital requirements established by applicable laws and regulations or set by the Bank of Italy. Capital requirements set for banks could restrict the ability to distribute a dividend. Even in the event of having earnings available to be distributed, the Bank of Italy has recommended that all banks adopt dividend distribution policies that make it possible to maintain adequate current and future financial performance and stability, at both the separate and consolidated levels, for the set of risks taken on in order to facilitate alignment with the capital requirements set by the CRD IV and the CRR and to ensure coverage of the levels of internal capital calculated within the scope of the Internal Capital Adequacy Assessment Process (ICAAP). Therefore, these measures could limit, in whole or in part, the distribution of dividends by the Issuer.The distribution of dividends could also be excluded or limited in the future by the need to respect the capital requirements established by applicable laws and regulations or set by the supervisory authority or by future changes in applicable legislation. In this regard, it should also be noted that, even in the event of having earnings available to be distributed, the ECB, in its Recommendation of 7 January 2019, required all banks to adopt dividend distribution policies based on conservative, prudent assumptions that would make it possible to maintain adequate (current and future, taking account of the fully loaded capital ratios) capital at both the separate and consolidated levels consistent with the overall risks taken on in order to facilitate alignment with the capital requirements set by the CRD IV and the CRR and to ensure coverage of the levels of internal capital calculated within the scope of the SREP.

It cannot be guaranteed that, in the future, the Issuer will recognise distributable earnings or that the competent corporate bodies will authorise the distribution of dividends to shareholders.

In this regard, it should be noted that pursuant to the Post-merger Bylaws, the Special Shares are not entitled to receive earnings. However, they do give holders the right to the distribution of available reserves; therefore, the Ordinary Shares and the Special Shares would participate in any distribution of reserves, to be approved by the Shareholders' Meeting with the legal majorities referred to in the Post-merger Bylaws.

For further information, reference should be made to Paragraph 20.7 of the Prospectus.

4.1.29 Risks related to the applicability of new accounting standards

The Issuer prepares its financial reports in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union as applicable at the time of preparation. In this regard, it should be noted that, in general terms, the Bank could, in the future, need to revise the way it treats certain assets, liabilities, income, or expenses for accounting or regulatory purposes, and this could have negative effects, also significant, on its financial reporting.

In particular, the new IFRSs issued by the IASB—and IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in particular—have had an impact on the Bank since 2018 as described below.

RISK FACTORS

IFRS 9 Financial Instruments

The new IFRS 9:

- introduces significant change to the rules for classifying and measuring the financial assets that are based on the business model and on the characteristics of the financial instrument's cash flows (Solely Payments of Principal and Interest, or "SPPI"), which could result in different ways of classifying and measuring financial instruments compared to IAS 39;
- introduces a new model for calculating the impairment of financial instruments for those instruments that are measured at amortised cost and at fair value with changes posted to equity (other than equity instruments), for which a model based on the concept of expected loss has been introduced in place of the incurred-loss model under IAS 39, so as to recognise losses in a more timely manner.

  More specifically, introduction of the new impairment rules calls for:
  - the allocation of performing financial assets in different credit risk stages, for which adjustments are based either on the expected losses over the next 12 months (Stage 1) or over the remaining lifetime of the instrument (Stage 2), in the event of a significant increase in credit risk (SICR) measured by comparing the probabilities of default at the date of first recognition and at the balance sheet date;
  - the allocation of impaired financial assets to Stage 3 and also adjusted based on the lifetime expected losses;
  - the inclusion of forward-looking information related to factors such as macroeconomic trends in the calculation of expected credit losses (ECLs).
- introduces change in hedge accounting by which the new hedging model, which does not concern "macro-hedging", tends to align financial reporting with risk management and to reinforce the disclosure of the risk management efforts undertaken by the reporting entity.

It should be noted that the standard envisages the option for the entity to continue applying IAS 39 to hedge accounting until the IASB completes its project to define the rules related to macro-hedging.

The date of first application of IFRS 9 is 1 January 2018; therefore, the effects on equity of the introduction of this standard will begin on that date, given that application of the transitory rules of IFRS 9 calls for the effects of transition to the new standard to be recognised in a specific equity reserve.This is essentially aimed at reconstructing the effects that would be seen on equity in the event the provisions of the new standards are adopted on an ongoing basis.

Introduction of the new standard had a positive impact on the book value of equity at 1 January 2018 of EUR 2.3 million net of tax effects, consisting of:

- EUR 1.5 million related to application of the new rules of classification and measurement;
- EUR 0.8 million related to the reduction in the impairment provisions based on the new provisions concerning impairment.

The adoption of IFRS 9 could have an effect of an accounting nature on the presentation in the Issuer's financial statements of financial instruments and the quantification of the related economic effects, including value adjustments to receivables. In particular, the adoption of the new impairment accounting model, which is based on an expected losses approach, could lead to an increase in the write-downs of the Issuer's assets.

IFRS 15 Revenue from Contracts with Customers

This standard alters the current set of International Accounting Standards (IAS) by replacing the standards and interpretations concerning the recognition of revenue in effect as at the Prospectus Date, and IAS 18 in particular.

IFRS 15 calls for:

- two approaches of revenue recognition (i.e. at a point in time and over time);
- a new five-step model for analysing transactions that focuses on the transfer of control; and
- greater information to be included in the explanatory notes of financial reports.

Revenue from contracts with customers recognised as fee and commission income have been analysed by Banca Interprovinciale, with a particular focus on asset management, payment services, services related to current accounts and other operating income. This analysis has shown that the recognition of these transactions is already in line with the new standard, so there is no impact on equity of the introduction of IFRS 15.

IFRS 16 Leases

The new IFRS 16, adopted in 2017 by way of Regulation (EU) 2017/1986 and applicable as of 1 January 2019, introduces significant changes to the recognition of leases by the lessee/tenant.

The main change concerns abolition of the distinction under IAS 17 (which is to be replaced by IFRS 16) between operating and finance leases, such that all leases will now need to be recognised in the manner of finance leases. This will tend to result in lessees/tenants recognising—all things being equal in terms of earnings and final cash flows—an increase in assets (the assets being leased), an increase in liabilities (the payable for the assets being leased), a reduction in operating costs (the lease payments), and an increase in finance costs (for the repayment and remuneration of the liability).

In terms of disclosures, the minimum information required to be disclosed by the lessee includes:

- a breakdown of the various classes of leased assets;
- an analysis by duration of the liabilities related to the lease agreements;
- all other information that could help to better understand the undertaking's business in relation to the lease agreements (e.g. early repayment or extension options).

There are no particular changes, though, beyond a few requirements for more information, for the lessor, for which the current distinction between operating and finance lease remains.

Analyses are under way in order to determine the impact on the Bank of application of the new principle, aimed mainly at defining the perimeter and related recognition of the assets used by the Bank based on lease agreements.

For further information, reference should be made to Chapter 20 of the Prospectus.

4.1.30 Risks related to the administrative liability of legal persons

The Bank has had a Model of Organisation, Management and Control, in accordance with Legislative Decree 231/2001, since 26 July 2018 in order to establish a system of rules aimed at preventing the commission of crimes by senior management or other individuals with decision-making powers or subject to the oversight and direction of senior management and deemed relevant for the purposes of application of the aforementioned legislation.

Nonetheless, it should be noted that adoption of this model may not, in and of itself, be sufficient to be considered an exemption condition should the judiciary authorities, in the event of the commission of a crime envisaged under Legislative Decree 231/2001, be called upon to verify maintenance of the model itself.

It should also be noted that, should a crime be committed without the Bank being exonerated from liability for the crime, Legislative Decree 231/2001 calls for the assessment of a fine against the company involved in the crimes committed. Legislative Decree 231/2001 also envisages liability for the company that exercises direction or oversight on the company involved in the crimes under certain conditions.

In accordance with the recommendation of the Bank of Italy, on 26 July 2018, the Issuer's Board of Directors appointed the Board of Statutory Auditors to play the role of Supervisory Body as required under article 6, paragraph 1, point b), of Legislative Decree 231/2001 and in accordance with the provisions of Bank of Italy Circular no. 285, Title IV, Chapter 3, Part II, sub-section 4. With regard aspects concerning the composition, terms in office, and causes for ineligibility, incompatibility and replacement of members, this body follows the provisions in effect for the Board of Statutory Auditors and the conditions and procedures established by law. In accordance with the provisions of article 6, paragraph 1, point b, of Legislative Decree 231/2001, this body is responsible for the functioning, respect and updating of the Model and has the autonomous powers of action and oversight for such purposes.

For further information on the model of organisation and management, reference should be made to Chapter 16, Paragraph 16.4, of the First Section of the Prospectus.

4.1.31 Risks related to changes in fiscal law

The Bank is required to pay Italian corporate income taxes (**IRES**), as per Title II of Italian Presidential Decree no. 917 of 22 December 1986 (i.e. the Consolidated Income Tax Law, or "**TUIR**"), and the Italian regional business tax (**IRAP**), as per Legislative Decree no. 446 of 15 December 1997. Any legislative changes applicable to the calculation of the aforementioned taxes could have an impact on the Bank's financial position, results and cash flows.

(i) Abrogation of "economic-growth allowances"

The Bank currently benefits from the stimulus provisions introduced by way of article 1 of Italian Law Decree no. 201 of 6 December 2011, as amended and converted into Law no. 214 of 22 December 2011, concerning "economic-growth allowances" (*aiuto alla crescita economica*, or "**ACE**"), which allows for the deduction from net revenues for the purposes of IRES of a notional return calculated on qualified increases in capital as compared to the level existing at the end of the financial year under way on 31 December 2010. This notional return on capital is currently set at 1.5% for the financial year under way as at 31 December 2018.

In accordance with article 3 of the Italian Ministerial Decree of 3 August 2017, revising the implementing provisions of the ACE legislation, the amount of the notional return that exceeds net revenue declared for a given fiscal period (the "**Excess ACE**") may be (i) calculated as an increase to the amount deductible in subsequent fiscal periods, or (ii) converted into a tax credit calculated by applying the IRES tax rate, as per article 77 of the TUIR, to the excess ACE amount and then used in five annual instalments of equal amount as an offset to IRAP up to the amount of tax due for the period.

Law no. 145 of 31 December 2018 (the "**2019 Draft Budget**") established the abrogation of ACE effective as of the fiscal period subsequent to that under way as at 31 December 2018. In any event, the 2019 Draft Budget is without prejudice to the provision set forth in Article 3, paragraph 2 of Ministerial Decree of 3 August 2017 regarding carrying forward the amount of the notional return that exceeds total net revenues for the fiscal period under way as at 31 December 2018. The Excess ACE that was unused at 31 December 2018 may therefore be, alternatively:

(i) carried forward with no time limits in order to be calculated as a deduction from taxable income in the subsequent fiscal periods; or
(ii) limited to the Excess ACE arising in the 2018 fiscal period, transformed into a tax credit to be used to offset IRAP.

As a result, beginning in 2019 or from the year following that in which the Excess ACE is definitively used up, the Bank will be exposed to an increase in the level of taxation over what would have been recognised in application of the ACE legislation as shown in the pro-forma figures.

<u>(ii) Changes in the deductibility of certain significant negative components of a bank's financials</u>

The draft budget calls for a squeeze on the deductibility of certain significant negative components in a bank's financials, which could result in an increase in the Bank's current income tax expense, both IRES and IRAP.

This concerns the following measures in particular:

- <u>Article 1, paragraphs 1056 and 1065 of the 2019 Draft Budget</u>: deferment, to the fiscal year under way at 31 December 2026, of the 10% deduction, for the purposes of IRES and IRAP for the fiscal year under way at 31 December 2018, of the portion of the impairment and losses on loans on the balance sheet up to the fiscal year under way at 31 December 2014 and not yet deducted in accordance with article 106, paragraph 3, of the TUIR and article 6, paragraph 1, point c-bis, of Legislative Decree no. 446/1997, in the version prior to the amendments brought by way of article 16 of Law Decree no. 83 of 27 June 2015;
- <u>Article 1, paragraphs 1067-1069 of the 2019 Draft Budget</u>: the fractioning, into ten annual instalments of equal amount, of the deductibility, for the purposes of IRES and IRAP, of income-statement components recognised at the time of first adoption of IFRS 9 and resulting exclusively from adoption of the model for recognising the provision to cover expected losses on lending pursuant to paragraph 5.5 of IFRS 9. The measure regards in particular losses recognised *at the start of the period of initial application of IFRS 9* (thus excluding those recognised at the end of the year which are ordinarily deductible on the basis of Article 7, paragraph 1 of the Ministerial Decree of 10 January 2018) on *loans to*

customers (item 40 of the balance sheet assets, sub-item "*loans to customers*") that were also classified as such in application of the previous IAS 39 (otherwise the transitional rules set forth in Article 3 of the Ministerial Decree of 10 January 2018 would be applicable).

4.1.32 Risks related to the provisional purchase price allocation for the acquisition of BIP by SPAXS

Completion of the Material Transaction by which, on 20 September 2018, SPAXS acquired a 99.165% interest in BIP resulted in SPAXS recognising goodwill on a provisional basis of EUR 21.6 million on its consolidated financials as at 30 September 2018, effective as of the acquisition date. Below are the assessments conducted by the management with respect to the compliance of these provisional accounting methods with IFRS 3. According to IFRS 3, goodwill represents the excess cost paid for the acquisition over and above the fair value of the assets (including identifiable intangible assets) acquired and the liabilities and contingent liabilities assumed. The Issuer's net book value as at 30 September 2018, the closing date nearest to the relevant date for the application of IFRS 3 (20 September 2018), was used to provisionally determine the goodwill. The Issuer's net book value as at 30 September 2018 was used to provisionally determine the goodwill. This value was not adjusted to represent the fair value of the assets and liabilities recognised in the balance sheet of BIP as at 30 September 2018 at values other than fair value (such as loans to customers and banks, securities issued and other financial liabilities), as it is believed that the book value of these items is a reasonable approximation to their fair value. In addition, in order to calculate goodwill, the significant accounting effects between the acquisition date of 20 September 2018 and the reference date of the financial situation of 30 September 2018, were considered.

In detail, the significant effects regarded the change in fair value of HTCS securities between the two dates. Such securities, which did not experience any changes in the period between 20 and 30 September 2018, and were already accounted for at fair value in the reference statement at 30 September 2018, were adjusted to fair value at 20 September 2018. Due to the deterioration in the spread on Italian government bonds from 20 to 30 September 2018 and the resulting decline in market prices, this adjustment had a positive effect on the value at which the net assets were initially recognised in SPAXS's consolidated financial statements as at 30 September 2018, amounting to EUR 1,496 thousand net of the relative tax effect.

Likewise, the value of initial recognition of HTC securities was adjusted to the fair value inferable from market prices on 20 September 2018. The above-mentioned HTC securities were identified on a preliminary basis as the most significant component of the net assets acquired, and were not recognised in the reference accounting statement at fair value. The HTC securities that did not experience any fluctuation between 20 and 30 September 2018 are indeed accounted for in the reference statement at amortised cost; the recognition of the relative fair value, considering the prices of Italian government bonds, thus had a negative effect on the net assets at the acquisition date equal to EUR 7,628 thousand net of the relative tax effect.

The cost for the acquisition of 99.165% of the shares of Banca Interprovinciale was determined considering the consideration in cash (EUR 44.7 million) as well as the fair value of the component settled through SPAXS shares (EUR 10.9 million).

At 30 September 2018, the partial goodwill method was used to determine goodwill on a provisional basis.

Following the transactions described above, and taking into account that no contingent liabilities were identified in the provisional purchase price allocation process, goodwill of EUR 21,643 thousand was provisionally recognised. This accounting item may change if adjustments arise upon completion of the purchase price allocation process currently under way, due to the redetermination of the fair value of the other net assets acquired.

In accordance with IFRS 3, the purchase price allocation (PPA) process to allocate the portion of the price in excess of the net fair value assets of the entity acquired, thereby determining the definitive value of goodwill, is to be completed within 12 months of the acquisition. With reference to the 12 month measurement period, paragraph 45 of IFRS 3 expressly states that "... If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete...". In January 2019, activities were completed relating to the determination of the fair value of loans to customers, which consist of fixed-rate and variable-rate mortgages, as well as the fair value of the liabilities represented by securities issued and certificates of deposit. The results of this activity confirmed that the fair value of loans to customers at the acquisition date of the liabilities represented by securities issued and certificates of deposit does not vary significantly from the relative carrying amount in the accounting statements at the reference date.

The Issuer expects to conclude the process of allocating the purchase price to net assets acquired when it prepares its consolidated financial statements as at 31 December 2018.

Furthermore, recognition of the reverse merger of SPAXS into BIP is to be done in accordance with established principle of continuity in values in mergers between a parent and its subsidiary.

At the end of each financial year, as impairment test of the recoverability of the amount recognised as goodwill is to be conducted in order to determine any impairment losses in accordance with IAS 36 "Impairment of Assets". Should the Issuer, in the future, experience a worsening in its ability to generate cash flows and or recognise financial performance that is significantly worse than estimates and forecasts, it may become necessary to recognise adjustments to the carrying amount of goodwill. These adjustments, equal to the difference in the recoverable value of goodwill and its carrying amount, could lead to the recognition of impairment losses, which would have a negative effect on the Issuer's financial position, results and cash flows.

4.1.33 Risks related to outstanding disputes and the adequacy of provisions

The Bank operates within a legal and regulatory landscape that exposes it to a wide range of legal disputes related, for example, to the terms and conditions granted to customers, the nature and characteristics of the financial products and services provided, administrative irregularities, bankruptcy claims and labour-law suits.

As of the Prospectus Date, there are two disputes pending for which the Bank deems an outlay of financial resources is likely, for which the claims total EUR 1,310 thousand and provisions for risks and charges in the amount of EUR 120 thousand have been allocated. Risks relating to

RISK FACTORS

the legal disputes indicated above are subject to careful analysis by the Bank's Directors, with reference to the principle that, if there are disputes for which an outlay is likely and it is possible to make a reliable estimate of the relative amount, Provisions are always recognised.

The amount recognised as a provision, totalling EUR 120 thousand, thus represents the best estimate of the expenditure required to fulfil the existing obligations at the reporting date, which will likely entail the use of resources embodying economic benefits.

In particular, the Bank is involved in a pending suit in the amount of EUR 152.1 thousand filed by receiver of Aesse S.r.l. aimed at obtaining a declaration of ineffectiveness of the compensation pursuant to article 56 of Italian bankruptcy law executed by the Bank on the lease payments related to the property in Formigine (MO), Italy, which was being leased at the time by the company for a total annual lease payment of EUR 45,000.00, as adjusted each year.

The second dispute was filed by the receiver of Termosanitari Corradini S.p.A. claiming the claw-back as per article 67, paragraph 2, of the Italian bankruptcy law within the limit of EUR 1,158 thousand of the remittances added to the correspondence account of the insolvent undertaking. The first hearing for the case is to be held on 5 March 2019.

In addition, the Bank has three other disputes for which it believes an unfavourable outcome is likely. These positions have a total claim value of EUR 676 thousand.

With regard to disputes, given the risk inherent in court rulings and although the Bank feels it is unlikely to incur adverse rulings in the disputes outstanding as at the Prospectus Date, it cannot be excluded that adverse rulings or additional disputes could have negative effects on the Bank's reputation or its financial position, results and cash flows.

For further information, reference should be made to Chapter 20, Paragraph 20.8, of the Prospectus.

4.1.34 Risks related to alternative performance measures

In order to facilitate interpretation of the Issuer's financial performance and standing, management has defined a number of Alternative Performance Measures (APMs). This indicators provide investors with supplemental information that facilitate interpretation of the Issuer's financial performance and standing, while also enabling the Issuer to identify trends in operations, to make investment and operating decisions, and to allocate resources.

These APMs are not replacements for the indicators required by the IASs and IFRSs, so they may not be comparable to the alternative indicators of other issuers, and there may be the risk of differences in the definition of these indicators.

With regard to interpretation of these alternative performance measures, it should be noted that:

- the indicators are calculated based on historical data on the Issuer and are not indicative of future trends;
- the APMs are not required by international standards (IAS/IFRS), so they are not subject to audit, although they are based on the separate and consolidated financial statements;

- the APMs are to be interpreted in conjunction with the financial information found in the Issuer's interim financial statements as at 30 September 2018, the separate financial statements for 2017, the consolidated financial statements for 2016, and the separate financial statements for 2015;
- the APMs used by the Issuer have been calculated and presented in a similar manner for all periods for which financial information has been provided in the Prospectus.

For further information on the APMs, reference should be made to Chapter 3 and Chapter 9 of the Prospectus.

4.1.35 Risks related to the new "illimity" and "illimity bank" trademarks and completion of the registration process

It should be noted that certain processes for registration of the "illimity" trademark, which SPAXS began in 2018 and which will transfer to the Issuer as a result of the Merger, concerning the various graphic design elements and for the various classes of products and services, are still under way. On 17 January 2019, the Issuer was notified by the European Union Intellectual Property Office (EUIPO) of the filing of a dispute by the Belgian company Elimity, which operates in the field of information security software for banks and financial service firms. In this regard, based in part on the advice of external consultants, the Issuer believes that, even if these objections—which could have an impact on certain classes of products and services involved in the request for trademark protection that do not, in any event, directly concern banking services—are accepted or a favourable settlement of the dispute is not reached, it would not result in significant damages to the Issuer in terms of how it will be able to conduct its business considering, in part, the various areas and industries in which the Belgian firm operates; therefore, this should not have a significant impact on the Issuer's operations. Considering, too, that the final outcome of these objections with the EUIPO, based on the dispute filed, could be known during the third quarter of 2019, the Issuer believes that a settlement could be reached in the interests of both parties involved, given the different businesses performed and products and services provided by each, without actual detrimental effects for the Issuer. Nonetheless, given the novelty of the "illimity" trademark, it cannot be excluded that an unfavourable outcome for the Issuer or failure to reach a favourable settlement of the dispute could have a negative effect on the Issuer's operating income or its financial position, results and cash flows.

4.1.36 Risks related to the ability of the Issuer, as the surviving entity of the Merger, to carry forward tax losses and ACE excesses

The ability for the surviving company of the Merger to carry forward certain tax assets of the merging companies, and specifically the fiscal losses and ACE excesses of the merged company SPAXS totalling EUR 3.2 million, is subordinate to passing certain tests (i.e. tests of "financial vitality" and of equity) required by Article 172, paragraph 7, of the TUIR. Specifically, in order to carry forward these tax assets, the following conditions must be met:

- the income statements of the companies involved in the merger for the financial year prior to that in which the merger was authorised need to include revenues and expenses from their core businesses as well as employee benefit expense and related withholdings of no less than 40% of the average for the two previous financial years (i.e. the test of financial vitality);

- the tax assets of the companies that pass the test of financial vitality must not exceed the book value of equity as shown on the most recent financial statements or, if less, on the extraordinary balance sheet prepared in accordance with article 2501-quater of the Italian civil code, excluding, in both cases, payments and contributions made during the twenty-four months prior to the balance sheet date (i.e. the test of equity); the amount in excess of equity cannot be carried forward.

In the case at hand, the tests of financial vitality and equity will not be passed by SPAXS:

- with regard to the test of financial vitality, this is because, as a newly established enterprise, the company does not have financial statements related to prior years with which to conduct the test;
- with regard to the equity limit, this is because, if payments/contributions made during the previous 24 months are deducted from equity, the company would be without equity (given, as mentioned, that the company is a newly established enterprise).

Recognition of these tax assets is also subject to assessment by the inland revenue office of a request for non-applicability (as per article 11, paragraph 2, of the Italian law), the outcome of which will be known in 2019. The Bank's management believes that a positive outcome of this process is likely. It should be noted that, should there be significant changes to fiscal legislation or should future taxable income be less than the forecasts of the Business plan, this could have negative effects on the Issuer's financial position, results and cash flows resulting from failure to reabsorb the aforementioned tax assets.

4.2 RISK FACTORS RELATED TO THE MARKET IN WHICH THE ISSUER OPERATES

4.2.1 Risks related to competition and operations in the banking and financial services industry

The Issuer operates in a highly competitive marketplace and is therefore exposed to risks related to the competitiveness of the banking industry and the NPL marketplace in particular.

Competition between industry players has increased in recent years, and it cannot be excluded that it could continue to increase as a result of regulatory changes, the conduct of competitors, consumer demand, changes in technology, mergers and acquisitions of financial service providers, the entrance of new competitors, innovations introduced by financial-technology companies, and other factors not necessarily within the control of the Issuer. The worsening of the macroeconomic landscape could also result in an increase in competitive pressure as a result, for example, of increasing pressure on lending margins or in the purchase prices of NPL portfolios, of increases in the cost of funding, or lower business volumes.

Should the Issuer be unable to respond to these increasing competitive pressures by, for example, offering innovative, profitable products and services able to meet the needs of the customer, the Issuer may be unable to achieve the strategic objectives of its Business Plan, and this could have negative effects on the Issuer's business and on its financial position, results and cash flows.

For further information on the Issuer's competitive positioning, reference should be made to Chapter 6, Paragraphs 6.1 and 6.2, of the Prospectus.

4.2.2 Risks related to market volatility and the performance of financial instruments

Market risk is the risk caused by losses in the value of the financial instruments held by the Issuer due to fluctuations in market variables (by way of example, but not limited to, interest rates, security prices, exchange rates, commodity prices, volatility and correlated effects) or to other factors that could compromise the Issuer's ability to redeem these instruments (credit spread), which could result in a deterioration of the Issuer's capital solidity. These fluctuations could be caused by a change in the general performance of the Italian and international economy, by trends in investment and divestment by (qualified) investors, by changes in monetary and fiscal policies, by global market liquidity, by the availability and cost of capital, by actions taken by ratings agencies, by local and international political events or by conflicts or terrorist attacks. As such, the Issuer is exposed to potential changes in the value of the financial instruments held due to fluctuations in interest rates, exchange rates, stock prices, commodity prices, credit spreads, and other risks.

The Bank constantly works to improve its management of market risk through changes in both technology and approach.

For the sake of completeness, it is noted that at the Prospectus Date the Ordinary Shares and the Conditional Share Rights of SPAXS, the company that will be absorbed into the Issuer as a result of the merger, have been admitted to trading on the AIM Italia multilateral trading facility. The Ordinary Shares and the Conditional Share Rights began trading on the AIM Italia on 1 February 2018.

From the start of trading on the AIM Italia until 8 February 2019, the market value of the SPAXS Ordinary Shares declined by approximately 32%. Also considering the value of the free of charge Conditional Share Rights, in the ratio of 5 (five) Rights for every 10 (ten) shares held, incorporated into the price of the ordinary share at the time of listing on the AIM market and detached on 12 November 2018, the security's performance would have been down by around 25%. In the same period, the reduction in the FTSE AIM Italia index was approximately 11%. This is compared with a 37% drop in the reference European banking index.

For further information, reference should be made to Chapter 6 of the Prospectus.

4.2.3 Risks related to policy and economic decisions by European Union and eurozone nations and to the United Kingdom leaving the EU ("Brexit")

On 23 June 2016, the United Kingdom passed a referendum to leave the European Union (a move known as "Brexit"). It is a process that has no precedent in the history of the European Union and could require months of negotiations in order to define and approve the deal for the United Kingdom to leave in accordance with Article 50 of the Treaty on European Union.

Regardless of the timing and terms of the United Kingdom's exit from the European Union, the outcome of the June 2016 referendum has created a great deal of uncertainty concerning the political and economic outlook of both the United Kingdom and the European Union. The potential exit of the United Kingdom from the European Union, the potential exit of Scotland, Wales, or Northern Ireland from the United Kingdom, the possibility that other EU member states could pass similar referendums to that of the United Kingdom and the possibility that one or more nations that have adopted the euro as their national currency could decide, over the long term, to adopt an alternative currency, or extended periods of uncertainty surrounding these possibilities could have significantly negative impacts on international markets, including further declines in stock-market indexes, a weakening of the British pound, an increase in exchange rates between the pound and the euro and/or greater market volatility generally due to this heightened uncertainty, and this could have adverse consequences on the Issuer's operating income and on its financial position, results and cash flows.

In addition to the above, and given the fact that, as of the Prospectus Date, there are no legal procedures or standard practices aimed at facilitating the exit of a member state from the eurozone, the consequences of such a decision are heightened by the uncertainty regarding how an outgoing member state could manage its current, euro-denominated assets and liabilities and the exchange rate between the euro and the newly adopted currency. A disaggregation of the eurozone could lead to a deterioration of the economic and financial landscape of the European Union and could have a significantly negative effect on the entire financial services industry, thereby creating further difficulties in the granting of sovereign loans and loans to businesses and significantly altering financing activities both in terms of the market and at the retail level. Such a situation could have a significantly negative impact on the Issuer's operating income and on its financial position, results and cash flows.

4.2.4 Risks related to changes in regulations of the banking industry and other laws and regulations that concern the Issuer

As a bank, the Issuer operates in a highly regulated industry, and the laws and regulations applicable to the Issuer are subject to constant changes.

More specifically, the Issuer is subject to a wide range of regulations and oversight by the Bank of Italy, by the European Central Bank, and by the European System of Central Banks. The laws and regulations applicable to the Issuer govern the activities that banks may perform and seek to preserve the reliability and capital solidity of banks and limit their exposure to risk. The Issuer must also observe laws and regulations regarding financial services, which govern the commercialisation and sale of the services provided.

The supervisory authorities specified above govern various aspects of the Issuer's business, which may include liquidity levels and capital adequacy, the prevention of money laundering, and data protection, while ensuring transparency and proper conduct in relations with customers and observance of registration and reporting obligations.

In order to operate in accordance with industry laws and regulations, the Issuer has specific internal policies and procedures and believes that it operates in accordance with applicable legislation. It can also not be excluded that, despite the existence of these policies and procedures, the Issuer could (a) violate various applicable laws and regulations—particular as concerns money laundering and customer relations—or (b) fail to adapt to supervisory interpretations of laws and regulations in a timely manner, all of which could have a negative impact on the Issuer's business and on its financial position, results and cash flows.

As of the Prospectus Date, certain laws and regulations concerning the industry in which the Bank operates have been approved recently (and related methods of application are currently being defined) or are currently being reformed, thereby increasing the risk that the Issuer may fail to adapt in a timely manner and could, consequently, violate said laws or regulations.

In particular, the European Parliament is currently revising Regulation (EU) no. 575/2013 (the Capital Requirements Regulation, or CRR), which could include a prudential supervisory backstop approach (i.e. the introduction, for solely prudential purposes, of certain progressive coverage levels for impaired loans of recent issue, in line with the proposal of the European Commission). As of the Prospectus Date, discussions are ongoing within the European Parliament and with the European Council and the European Commission. The revision of the CRR could have effects on the Issuer and on the banking industry as a whole.

For further information, reference should be made to Paragraph 6.2 of the Prospectus.

4.2.5 Risks related to macroeconomic and political uncertainty

As a bank, the Issuer's performance is significantly influenced by the general economic landscape, by trends in the financial markets, and particularly by economic performance in Italy (due to factors such as solidity as perceived by investors, prospects for economic growth, and the reliability of lending), given that it is the sole country in which the Issuer operates.

As a result of the crisis that began in August 2007, global economies and financial markets were forced to operate under challenging, unstable conditions that called for action to be taken by governments, central banks, and supranational bodies in order to support financial institutions, including by injecting liquidity into the system and taking direct action in the recapitalisation of certain industry players. This landscape has had adverse consequences on financial markets around the world.

In addition to contributing to an acceleration in the deterioration of the state of public finance within the European Union, it has particularly penalised the banking systems most exposed to sovereign debt (i.e. the sovereign debt crisis), thereby causing a gradual worsening of the crisis, which continued, within Italy and throughout Europe, throughout 2012 and resulted in a reassessment of the credit risk of sovereign nations and of financial institutions. Despite the actions of the ECB, there has been widespread fear among investors and industry players of a potential default by certain eurozone nations, resulting in a generalised reduction in financing, greater market volatility, and critical issues in raising liquidity internationally. Within this context, there has been some fear that the European Monetary Union could be disbanded or that individual countries could seek to exit.

As of the Prospectus Date, there remains great uncertainty in the macroeconomic landscape, and the signs of an end to the economic and financial crisis that has caused this deterioration in the economy and collapse in consumption since 2008 remain weak, particularly for Italy but also for the rest of the European Union, although there has been a more marked return to growth for certain countries, and it remains uncertain whether these economies will be able to make a significant, structural turnaround over the medium to long term. As concerns Italy, Italian GDP in 2017 grew by 1.5% (source: ISTAT). For 2018, GDP was expected to grow by 1.5%, but this forecast has recently been revised downward to 1.3%, and GDP growth for 2019 and 2020 is expected to be just 1% and 1.2%, respectively (source: Bank of Italy Economic Bulletin no. 3/2018). It should be noted that these forecasts could be revised, including downward, in the near future.

Should the economic landscape continue to worsen and the Italian economy in particular continue to stagnate, this could result in significant losses, further slow ordinary operations, and make it more difficult and more costly to obtain the liquidity needed to conduct business, and this could have negative effects on the Bank's financial position, results and/or cash flows.

For further information, reference should be made to Chapter 6 of the Prospectus.

4.2.6 Risks related to changes in laws and regulations applicable to the business the Issuer intends to conduct in the NPL industry segment

The Issuer intends to operate in the NPL industry segment by acquiring, managing and restoring portfolios of impaired loans, including by entrusting ancillary activities to specialist parties.

The legislative framework concerning the collection of defaulted loans is mainly defined within Book III of the Italian Code of Civil Procedure, which governs the entire executive process (with the sole exception of certain special executive procedures, such as those that concern fiscal matters) and actions filed in opposition of forced collection (articles 615-616 of the Code of Civil Procedure), in opposition of the formal regularity of the implementing acts (articles 617-618 of the Code of Civil Procedure), and opposition filed by a third party (articles 619-622 of the Code of Civil Procedure). Title II, in particular, is dedicated to collection by repossession generally (articles 483-512 of the Code of Civil Procedure) and in its various forms (repossession of moveable property: articles 513-542 of the Code of Civil Procedures; repossession from third parties: articles 543-554 of the Code of Civil Procedure; repossession of real estate: articles 555-598 of the Code of Civil Procedure). Certain provisions concerning repossession may also be found in the Italian civil code and concern this process in relation to its function and its result (articles 2910-2928 of the civil code).

This legislative framework has been amended by Italy's parliament, which passed law decree no. 83 of 27 June 2015 ("Law Decree 83/2015"), which was converted into Italian law no. 132 of 6 August 2015 ("Law 132/2015"), and law decree no. 59 of 3 May 2016 ("Law Decree 59/2016"), which was converted into law no. 119 of 30 June 2016 ("Law 119/2016"). These legislative actions—within a broader reform effort by the Italian government aimed at improving the efficiency of the civil justice system, with a particular focus on safeguarding and developing credit collections—have sought to reduce the length of collection proceedings, both of individuals and in bankruptcy proceedings, aimed at ensuring greater transparency of information of relevance in the collection of impaired loans and to increase the mechanisms safeguarding creditors through increasingly flexible real guarantees that make it possible to collect on loans more quickly without, in certain cases, having to resort to legal action.

Credit collection efforts also include the bankruptcy proceedings governed by Italian Royal Decree no. 267 of 16 March 1942 ("Bankruptcy Law"). Finally, it should be noted that, on 9 October 2017, Italy's parliament passed Law no. 155 of 2017 granting the government the power to implement extensive reforms of this Bankruptcy Law.

RISK FACTORS

As such, it cannot be excluded that any changes in the legislative landscape that could make the collection of defaulted loans less effective with regard to borrowers or that could alter the methods and time frames as compared to current legislation could have negative effects on the Issuer's business and on its financial position, results and cash flows.

For further information, reference should be made to Paragraph 6.2 of the Prospectus.

4.2.7 Risks related to the bail-in

Legislative Decree nos. 180/2015 and 181/2015 transposed Directive 2014/59/EU of the European Parliament and of the Council, known as the Banking Resolution and Recovery Directive (BRRD), into Italian law, thereby establishing a framework for the redevelopment and resolution of lenders and defining the powers and mechanisms that the authorities responsible for resolving banking crises can adopt in the event of a crisis or collapse of a bank.

In particular, it has been established that, when the conditions have been met for initiating procedures to manage a bank's crisis, the supervisory authorities (i.e. the European Central Bank or the Bank of Italy, depending on the circumstances) may order: (a) the reduction or conversion of shares, of other equity investments, or of equity instruments issued by the bank in question when this would correct the bank's crisis or risk of collapse; or, when such measures would not correct the crisis or avoid the risk of collapse, (b) the adoption of measures for the bank's resolution or winding up.

One such resolution measure includes the "bail-in", which went into effect in Italy on 1 January 2016 and involves reducing the rights of shareholders and of creditors or converting these rights into equity in order to absorb the losses and recapitalise the bank in crisis or new entity that would continue its essential functions. This bail-in process is applied by following a hierarchy based on a principle that states that investors in riskier financial instruments must incur any losses or conversions of shares before others. Only after exhausting all resources of the category of highest risk do you move on to the next category. Based on this hierarchy: (i) the "owners" of the bank, i.e. the existing shareholders, are called upon to make the first sacrifice by reducing or nullifying their shares; and then (ii) other categories of creditor are involved, with their assets potentially being transformed into shares—in order to recapitalise the bank—and/or reduced in value should the zeroing of the value of the shares not be enough to cover the losses. Therefore, under a bail-in, the hierarchy of participating in the losses is as follows: (i) shareholders; (ii) holders of other equity-based securities; (iii) holders of hybrid capital instruments; (iv) holders of subordinated bonds; (v) bondholders and other creditors; (vi) holders of deposits in excess of EUR 100,000.00.

Excluded from the bail-in are the liabilities specified under article 49 of Legislative Decree no. 180/2015, including, by way of example, bonds backed by bank assets (such as covered bonds) and deposits protected by the deposit guarantee fund up to a limit of EUR 100,000.00 per deposit holder (although deposits specified under article 96-bis of the TUB are not protected by the fund). Should a bail-in be ordered for a bank, the deposit guarantee fund will intervene by paying said bank an amount sufficient to cover the protected deposits up to the limit of EUR 100,000.00 per deposit holder, so long as the amount needed does not exceed 50% of the fund's assets (or a greater amount set by the competent supervisory authority).

As a result of offering of its ordinary shares on Italy's AIM stock market, SPAXS raised EUR 600 million, and only a limited portion of those funds have been used as of the Prospectus Date. Therefore, as of the Prospectus Date, the cash of SPAXS and, as a result of the Merger, of illimity has been deposited with a leading credit institution. Should the bank with which the cash of SPAXS is deposited find itself in a situation of collapse and subject to the bail-in mechanism as per Legislative Decree no. 180/2015, it cannot be excluded that the Issuer may experience difficulties or the inability to obtain all or a part of the funds deposited with that bank.

Furthermore, should a crisis arise for which the Bank is then subject to resolution proceedings, the Bank's shares could be written down and/or the Bank's receivables could be cancelled or substantially reduced. As a bank, the Issuer is also potentially subject to bail-in. Therefore, should a crisis arise for which the Issuer is then subject to resolution proceedings, the Issuer's shares could be written down and/or the Issuer's receivables could be cancelled or substantially reduced. In addition, the Issuer's shareholders could see their investments severely diluted in the event in which other liabilities are converted into shares at conversion rates that are particularly unfavourable to them. The receivables of the parties other than shareholders could participate in the losses based on the hierarchy described above. Therefore, investment in the Issuer's shares implies taking on the risks typically related to an investment in risk capital, such as the risk of loss, in whole or in part, of the capital invested should the Issuer be subject to bankruptcy proceedings or find itself in a situation or crisis or risk of collapse that results in application of resolution mechanisms such as the bail-in process.

For further information, reference should be made to Chapter 6 of the Prospectus.

4.2.8 Risks related to efforts to support system liquidity

The financial market crisis led to a reduction in available liquidity and an increase in risk premium, followed by growing tensions surrounding the sovereign debt of a number of countries. These factors, together with increasing liquidity and capital requirements under Basil 3 and the outcome of the comprehensive assessment, created a need for extensive efforts to support the banking system, which directly involved both governments (in part through direct actions concerning the capital of certain banks) and central banks (initially, mainly through refinancing operations backed by suitable securities as guarantees and subsequently also through repurchase operations on the financial markets). Within this context, the competent authorities took action to ensure that the banking industry had adequate liquidity in order to survive the severest phases of the crisis in the eurozone, particularly beginning around mid-2011, by granting guarantees on issues of medium-term debt securities and by expanding the types of securities that could be used to guarantee financing with the ECB. On 6 September 2012, in order to combat the increasing spreads between yields on government securities, the Executive Council of the ECB announced a plan (the Outright Monetary Transaction) to repurchase government securities without setting amount limits. Within the scope of this plan, the ECB purchased securities on the secondary market that had maturities of between one and three years without setting a limit beforehand, but respecting certain conditions.

At its meeting in June 2014, the ECB also launched a plan to purchase asset-backed securities (ABSs) and covered bonds in order to increase its assets by one trillion euros by the end of 2016. This purchase plan, which called for joint market initiatives by the ECB and national central banks, was then extended to other assets, including national government securities and bonds issued by local and regional governments, as announced at the ECB's final meeting of 2015, as well as to euro-denominated, investment-grade bonds issued by non-banking undertakings in the eurozone, as announced at its meeting of 10 March 2016. Finally, in addition to further cuts to its reference rates, the ECB launched a series of new targeted longer-term (4-year) refinancing operations (TLTROs) just a few months prior to the expiration of the LTROs issued in 2011 in order to encourage banks to increase lending to stimulate the economy. These operations began between September and December 2014 and continued for two years in amounts that were correlated with the loans granted by banks within the private sector. At its meeting of 10 March 2016, the ECB launched four more new targeted longer-term refinancing operations (TLTRO II), also for four-year periods. These operations took place on a quarterly basis between June 2016 and March 2017.

The Issuer participated in the various tranches of the ECB's first TLTRO, and the balance as at 30 September 2018 is approximately EUR 142 million net of repayments made. With regard to the TLTRO II series, the balance is approximately EUR 70 million with maturities ranging between 2020 and 2021.

In a press release on 25 October 2018, in reference to unconventional measures of monetary policy, the ECB Executive Council announced that it would continue to conduct net purchases within the scope of the asset purchase programme (or APP, under which the ECB purchases a series of financial instruments such as government securities, securities issued by European supranational bodies, corporate bonds, securities related to securitisations, and covered bonds) at a new monthly rate of EUR 15 billion until the end of December 2018 and that, if the numbers confirm the outlook for medium-term inflation, the purchases would end at that time.

Nonetheless, there is no certainty concerning the duration or intensity with which the operations to support liquidity may be proposed again in the future, based on trends in the economy and the circumstances of the market.

4.2.9 Risks related to trends in the real estate industry

Within the scope of its lending operations, the Bank is exposed to the risks of the real estate industry related both to the effect of lending to companies in the real estate industry, whose cash flows are generated mainly by leasing or selling commercial real estate, and, indirectly, to the effect of granting mortgage loans backed by real estate to individuals, should it become necessary to foreclose in the event of a default.

As at 30 September 2018, the carrying amount of the Issuer's lending within the real estate industry totalled EUR 76.8 million (representing 23% of total gross loans to customers), of which EUR 41.2 million in loans in the construction industry and EUR 35.6 million in loans to customers operating in other segments of the real estate industry.

It should also be noted that, independent from these exposures within the real estate industry, total lending backed by real estate as at 30 September 2018 came to EUR 207 million, which is almost entirely covered by the value of the underlying guarantees (EUR 125 million, calculated by limiting, for fully backed exposures, the fair value of the guarantee to the value of the exposure).

The table below shows the distribution of these covered exposures by type of guarantee as at 30 September 2018.

	BIP				
	At 30 September 2018				
	Net exposure value	Collateral			
		Real estate mortgages	Real estate financial leases	Securities	Other real guarantees
1. Other covered loans to customers	**207,174**	**124,678**	-	**4,199**	**12,530**
1.1 fully guaranteed	192,968	123,441	-	3,549	11,006
- of which impaired	3,572	1,929	-	-	-
1.2 partially guaranteed	14,206	1,236	-	649	1,525
- of which impaired	2,032	83	-	-	-
2. Covered "off-balance sheet" lending:	59,119	5,394	-	11,802	7,158
2.1 fully guaranteed	38,727	5,394	-	6,012	5,256
- of which impaired	15	-	-	-	-
2.2 partially guaranteed	20,392	-	-	5,791	1,902
- of which impaired	-	-	-	-	-

As at 31 December 2017, the carrying amount of the Issuer's lending within the real estate industry totalled EUR 74.8 million (representing 22.9% of total gross loans to customers), of which EUR 38.3 million in loans in the construction industry and EUR 36.5 million in loans to customers operating in other segments of the real estate industry.

It should also be noted that, independent from these exposures within the real estate industry, total lending backed by real estate as at 31 December 2017 came to EUR 210 million, which is almost entirely covered by the value of the underlying guarantees (EUR 122 million, calculated by limiting, for fully backed exposures, the fair value of the guarantee to the value of the exposure).

The table below shows the distribution of these covered exposures by type of guarantee as at 31 December 2017.

	BIP				
	At 31 December 2017				
	Net exposure value	Collateral			
		Real estate mortgages	Real estate financial leases	Securities	Other real guarantees
1. Other covered loans to customers	**210,137**	**122,097**	-	**5,971**	**11,512**
1.1 fully guaranteed	190,284	118,360	-	5,499	10,542
- of which impaired	4,756	3,242	-	-	-
1.2 partially guaranteed	19,853	3,737	-	472	970
- of which impaired	2,613	182	-	-	-
2. Covered "off-balance sheet" lending:	13,130	87	-	2,085	5,245
2.1 fully guaranteed	11,896	87	-	1,821	4,691
- of which impaired	33	-	-	33	-
2.2 partially guaranteed	1,234	-	-	264	554
- of which impaired	-	-	-	-	-

As at 31 December 2016, the carrying amount of the Issuer's lending within the real estate industry totalled EUR 77.2 million (representing 25.8% of total gross loans to customers), of which EUR 39.6 million in loans in the construction industry and EUR 37.5 million in loans to customers operating in other segments of the real estate industry.

It should also be noted that, independent from these exposures within the real estate industry, total lending backed by real estate as at 31 December 2016 came to EUR 185.3 million, which is almost entirely covered by the value of the underlying guarantees.

The table below shows the distribution of these covered exposures by type of guarantee as at 31 December 2016.

	BIP				
	At 31 December 2016				
	Net exposure value	Collateral			
		Real estate mortgages	Real estate financial leases	Securities	Other real guarantees
1. Other covered loans to customers	**185,343**	**97,386**	**-**	**11,806**	**11,833**
1.1 fully guaranteed	170,534	96,906	-	11,500	11,182
- of which impaired	5,171	3,330	-	-	21
1.2 partially guaranteed	14,809	480	-	306	651
- of which impaired	666	180	-	-	-
2. Covered "off-balance sheet" lending:	11,376	225	-	1,017	4,381
2.1 fully guaranteed	7,849	225	-	582	3,207
- of which impaired	15	-	-	-	15
2.2 partially guaranteed	3,527	-	-	435	1,174
- of which impaired	-	-	-	-	-

As at 31 December 2015, the carrying amount of the Issuer's lending within the real estate industry totalled EUR 50.7 million (representing 22.76% of total gross loans to customers), of which EUR 22.4 million in loans in the construction industry and EUR 28.3 million in loans to customers operating in other segments of the real estate industry.

It should also be noted that, independent from these exposures within the real estate industry, total lending backed by real estate as at 31 December 2015 came to EUR 139 million, which is almost entirely covered by the value of the underlying guarantees.

	BIP				
	At 31 December 2015				
	Net exposure value	Collateral			
		Real estate mortgages	Real estate financial leases	Securities	Other real guarantees
1. Other covered loans to customers	**139,596**	**72,064**	**-**	**8,795**	**13,403**
1.1 fully guaranteed	124,970	71,764	-	8,212	12,418
- of which impaired	3,753	3,650	-	-	-
1.2 partially guaranteed	14,626	300	-	583	985
- of which impaired	221	180	-	-	-
2. Covered "off-balance sheet" lending:	7,779	799	-	1,232	1,923
2.1 fully guaranteed	6,029	799	-	1,222	1,330
- of which impaired	250	181	-	-	-
2.2 partially guaranteed	1,750	-	-	10	593
- of which impaired	-	-	-	-	-

In recent years, the real estate industry has been hit especially hard by the economic and financial crisis, which has led to a drop in market prices and in the number of transactions executed, as well as by the increasing cost of debt and difficulties in accessing credit, which has resulted in a reduction in volumes and in margins for companies operating in the industry, as well as an increase in finance costs and greater difficulties in refinancing. This has had negative effects on the profitability of their businesses, which could adversely affect their ability to repay the loans granted by the Issuer.

The Italian real estate market has seen a decline in investment in recent years, both in residential and non-residential construction, along with a parallel reduction in property sales due mainly to general economic uncertainty, to the difficult outlook of the job market, to reductions in disposable income, and to an increase in the tax burden on various types of property. For mortgage lending to individuals, declining property prices could translate into a reduction in the potential realisable value of the underlying guarantees in the event of default by the borrower.

Finally, being active in the NPL industry, the Issuer is subject to changes in the real estate market in relation to non-performing loans that are backed by real estate.

Given the above, a future worsening of the real estate market could require the Issuer to make further adjustments to the value of loans issued to companies in the real estate industry and/or to individuals and/or of loans backed by real estate, and this could have significantly negative effects on the Bank's financial position, results and cash flows.

For further information, reference should be made to Chapter 20 of the Prospectus.

4.3 RISK FACTORS RELATED TO FINANCIAL INSTRUMENTS

4.3.1 Characteristics typical of investments in financial instruments

Investments in the Bank's financial instruments are to be considered investments intended for expert investors who are aware of the characteristics of the financial markets and, above all, of the type of business the Bank conducts, which is characterised by a particular set of business risks.

As such, the risk profile of such investments cannot be considered to be in line with investments typically pursued by investors with a low appetite for risk.

For further information on the characteristics of the Issuer's financial instruments, reference should be made to Chapter 4, Paragraphs 4.1 and 4.2 of the Second Section of the Prospectus.

4.3.2 Risks related to trading on the MTA stock market, to market liquidity, and to the potential volatility of the Bank's financial instruments - Performance of the SPAXS Ordinary Shares and the SPAXS Conditional Share Rights

As of the Prospectus Date, the SPAXS Ordinary Shares and the Conditional Share Rights were listed on the AIM Italia market.

As a result of the Merger and approval of the listing of illimity (the surviving entity of the Merger) on the MTA market, the Issuer's Ordinary Shares and Conditional Share Rights, issued in service of the Merger to holders of SPAXS Ordinary Shares and Conditional Share Rights and to the Issuer's other shareholders (for more information on the Merger, reference should be made to Chapter 22 of the Prospectus), are to be traded on the MTA market, and holders of these Ordinary Shares and Conditional Share Rights may liquidate their investments by selling their shares on this market.

However, even if Borsa Italiana authorises the start of trading of the Issuer's Ordinary Shares and Conditional Share Rights on the MTA, it cannot be guaranteed that a liquid market for the Company's Ordinary Shares and Conditional Share Rights will form or be maintained.

The Company's Ordinary Shares and Conditional Share Rights could be subject to significant fluctuations in price or suffer ordinary, generalised problems of liquidity, and offers to sell may not find suitable buyers in a timely manner. Furthermore, once the process for listing on the MTA market has been completed, the market price of the Company's Ordinary Shares and Conditional Share Rights could fluctuate significantly in response to a series of factors, some of which are beyond the Issuer's control, and this price could, therefore, not reflect the Company's actual operating performance.

From the start of trading on the AIM Italia (on 1 February 2018) until 8 February 2019, the market value of the SPAXS Ordinary Shares declined by 31.8% compared to a fall of 10.7% on the FTSE AIM Italia and 37.1% in the Euro Stoxx Banks index.

Lastly, from the start of trading on the AIM Italia until 8 February 2019, the market value of the SPAXS Conditional Share Rights decreased by 25%.

For further information, reference should be made to Chapter 5, Paragraph 5.3, of the Second Section of the Prospectus.

4.3.3 Risks related to the dilution of shares

As of the Prospectus Date, the Sponsors hold all of the 1,440,000 SPAXS Special Shares, which are not traded on the AIM Italia market and are convertible into SPAXS Ordinary Shares in accordance with the SPAXS bylaws at a ratio of 8 SPAXS Ordinary Shares for each SPAXS Special Share (for a total of 11,520,000 SPAXS Ordinary Shares) in the event that, by 20 September 2022, the average price of the SPAXS Ordinary Shares traded on the AIM Italia market (or other regulated market in Italy), for at least 22 consecutive trading days, be greater than or equal to EUR 13.9663866 per SPAXS Ordinary Share (for more information on the conversion of SPAXS Special Shares, reference should be made to Chapter 4, of the Second Section of Prospectus).

In service of the Merger, the Issuer will issue 1,440,000 Special Shares (as per the Post-merger Bylaws) with the same characteristics as the SPAXS Special Shares (including the conversion), which are to be allocated to the Sponsors in a 1:1 exchange for the SPAXS Special Shares held as of the Prospectus Date (reference should be made to Chapter 22, Paragraph 22.1, of the Prospectus for more information). For information about the Special Shares, reference should be made to Chapter 21, Paragraph 21.2, of the Prospectus.

It should also be noted that any conversion of the Special Shares into Ordinary Shares will result in a dilution of the interests of holders of Ordinary Shares.

As of the Prospectus Date, the merged company SPAXS has issued 28,492,827 SPAXS Conditional Share Rights, which are traded on the AIM Italia market and give the right to receive one 1 SPAXS Ordinary Share for every five 5 SPAXS Conditional Share Rights held by 20 September 2019, for a maximum total of 5,698,565 SPAXS Conversion Shares.

In service of the Merger, the Issuer will issue 28,492,827 Conditional Share Rights (as per the Conditional Share Rights Regulation), which will be assigned to the holders of the SPAXS Conditional Share Rights in a 1:1 ratio. The illimity Conditional Share Rights will have the same features as the SPAXS Conditional Share Rights, including the right to conversion into Ordinary Shares of the Issuer by 20 September 2019 (reference should be made to Chapter 4, of the Second Section of the Prospectus for more information).

It should also be noted in this respect that conversion of the Issuer's Conditional Share Rights into Ordinary Shares will result in a dilution of the interest of holders of the Issuer's Ordinary Shares, represented by voting rights. Conversely, should any shareholders transfer their Conditional Share Rights by the aforementioned date of 20 September 2019, their interest in the Bank will be diluted.

Given the above,

(i) and the conversion of 360,000 SPAXS Special Shares into 2,160,000 SPAXS Ordinary Shares on 21 November 2018;

(ii) upon completion of the Merger and taking account of the procedures for achieving it (reference should be made to Chapter 22 of the Prospectus for more information);

(iii) in the event the aforementioned conditions for conversion of the Issuer's Special Shares into Ordinary Shares are met and a total of 1,440,000 of the Issuer's Special Shares are converted into 11,520,000 Ordinary Shares;

(iv) following allocation of all 5,698,565 of the Issuer's Conversion Shares resulting from all 28,492,827 of the Issuer's Conditional Share Rights issued as at the Prospectus Date;

the Issuer's ordinary shareholders, i.e. (a) the ordinary shareholders of SPAXS, other than the Sponsors, as at the Prospectus Date and (b) the Bank's ordinary shareholders, other than SPAXS, as at the Prospectus Date, would hold a total equity interest in the Issuer of 82.2%, which represents a dilution of 17.8% of the Issuer's shares with voting rights. This dilution would correspond to 17.9% for just the SPAXS ordinary shareholders, other than the Sponsors, as at the Prospectus Date and a dilution for the Issuer's shareholders, other than the Sponsors and the SPAXS shareholders, as at the Prospectus Date from a 0.08% share of the Issuer's voting rights to 0.06%.

With regard to the above, it should also be noted that the increase in the number of Ordinary Shares outstanding could have a negative impact on the value of the Ordinary Shares themselves.

4.3.4 Risks related to availability restrictions on the shares held by the shareholders

Tetis and AC Valuecreation have undertaken a lock-up commitment towards Banca IMI and Credit Suisse Securities (Europe) Limited, as the joint global coordinators of SPAXS in the restricted offer aimed at admitting the company to the AIM Italia market and concerning the SPAXS Ordinary Shares resulting from the conversion of the SPAXS Special Shares, of ownership of said shares to Tetis and AC Valuecreation and/or other companies they control either directly or indirectly. This lock-up commitment has been confirmed upon completion of the Merger and so in relation to the Issuer's Ordinary Shares. The commitment has a duration of 12 months from the conversion date, i.e. until 21 November 2019 (12 months after conversion of the first tranche of SPAXS Special Shares on 21 November 2018), for the 2,138,400 SPAXS Ordinary shares held by Tetis and 21,600 SPAXS Ordinary Shares held by AC Valuecreation, which will be swapped into the same number of Ordinary Shares in the Issuer.

For further information, reference should be made to Chapter 14 of the Prospectus.

4.3.5 Potential conflicts of interest for the Issuer's directors and senior management

To the best of the Company's knowledge, as of the Prospectus Date, no members of the Board of Directors or of senior management has a conflict of interests in relation to their obligations in their roles held within the Issuer's organisation.

RISK FACTORS

It should also be noted that: (i) board member Alessandro Gennari holds 4,500 SPAXS Ordinary Shares, equal to approximately 0.0076% of the company's voting rights; (ii) Tetis S.p.A. ("**Tetis**", 98.67% of which is held by Metis S.p.A. ("**Metis**"), in which the Managing Director, Corrado Passera, holds a 90% interest and board member Brambilla holds a 5% interest) holds 1,425,600 SPAXS Special Shares and 2,138,400 SPAXS Ordinary Shares (equal to 3.60% of SPAXS shares with voting rights); (iii) board member Diamond is the majority shareholder, indirectly, of Atlas Merchant Capital Fund LP, which, in turn, holds 100% of the shares in AMC Metis SARL. AMC Metis SARL holds 7.75% of the SPAXS shares with voting rights; (iv) board member Diaz della Vittoria Pallavicini holds, indirectly - through the subsidiary SDP Holding di Partecipazioni S.r.l., a company of which he is Sole Director, and whose entire share capital is held directly and indirectly by board member Diaz - 100% of SDP Capital Management Ltd., of which Diaz is a board member, the alternative investment fund manager (AIFM) of SDP RAIF – Genesis (of which, however, neither the board member himself nor parties related and/or associated with him are unitholders), which holds 9.88% of the SPAXS shares. In addition, at the Prospectus Date, the fund SDP RAIF – Genesis is the majority shareholder relative to SPAXS (and following the Merger, the Issuer) with a holding of 9.88% in the share capital and this situation could also continue in case of the conversion of the Special Shares into Ordinary Shares under the minimum conversion ratio (1:1). Despite the existence of these holdings, the Issuer's Board of Directors has expressed its belief, most recently on 11 February 2019, that these do not act as an impediment in qualifying board member Diaz as an Independent Director pursuant to Article 148 of the TUF and Article 3 of the Corporate Governance Code. Further information can be found in Chapter 14, Paragraph 14.1.1.1 and Paragraph 18.1 of the Prospectus; (v) AC Valuecreation S.r.l. ("**AC Valuecreation**", held in its entirety by Andrea Clamer) holds 14,400 SPAXS Special Shares and 21,600 SPAXS Ordinary Shares (equal to 0.04% of SPAXS shares with voting rights); and (vi) the senior managers Andrea Clamer (by way of AC Valuecreation), Carlo Panella, Enrico Fagioli, and Francesco Mele hold special-category shares in Tetis and served as members of the Tetis board of directors as of the Prospectus Date. These shares, which may be owned solely by directors of the company, do not have voting rights and grant the right to receive a return on the investment made by the company by assigning Ordinary Shares (totalling a 4.8% interest in the Bank) on the condition that the SPAXS Special Shares held by Tetis are fully converted upon achieving the objectives set in the SPAXS bylaws and subordinate to the fact that all holders of Tetis ordinary shares have achieved a certain return on their investment in that company. All of the above shall be understood to refer to the Issuer and to the Issuer's Ordinary and Special Shares upon completion of the Merger.

In relation to the above, it should be noted that, on 21 November 2018, following the effective date of the Material Transaction and in accordance with the SPAXS bylaws in effect at the time, the first tranche of 360,000 SPAXS Special Shares was converted in to SPAXS Ordinary Shares at the established ratio of 1:6, thereby resulting in 2,160,000 SPAXS Ordinary Shares. The Bylaws also establish that the remaining 1,440,000 SPAXS Special Shares: (i) will be converted automatically into SPAXS Ordinary Shares at a conversion ratio of 1:8 in the event that, by 20 September 2022 (the "Deadline"), the average price of the SPAXS Ordinary Shares traded on the AIM Italia market or, if applicable, another regulated market in Italy, for at least 22 consecutive trading days, is greater than or equal to EUR 13.9663866 per SPAXS Ordinary Share; and (ii) will be converted automatically into SPAXS Ordinary Shares at a conversion ratio of 1:1 if none of the above-mentioned conditions for automatic conversion have been met by the Deadline. Similar provisions have been established in the Post-Merger Bylaws as described in Chapter 21, Paragraph 21.2 of the Prospectus.

It should also be noted that, within the scope and in service of the Merger, the SPAXS Ordinary and Special Shares are to be swapped for an equal number of Ordinary and Special Shares.

For further information on the Ordinary Shares, on the Special Shares, and on the Merger, reference should be made to Section 1, Chapter 21, and Section 2, Chapter 4, of the Prospectus. For further information related to all of the above, reference should be made to Chapter 14, Paragraphs 14.2.2 and 14.2.3, of the Prospectus.

Finally, to the best of the Issuer's knowledge as at the Prospectus Date, in December 2018 Metis S.p.A. (of which Corrado Passera is the chairman and controlling shareholder) and Atlas Merchant Capital Fund LP signed a term sheet agreement that establishes, inter alia, that, when certain conditions are met, including the conversion of SPAXS Special Shares (and, following the Merger, of Special Shares), the equity interest in the Bank held by Atlas Merchant Capital Fund LP by way of the subsidiary AMC Metis S.a.r.l., a shareholder of the Issuer following the Merger, can increase—by way of Tetis S.p.A., a shareholder of the Issuer following the Merger—by no more than 1% (on a fully diluted basis). This term sheet, the detailed provisions of which had not yet been finalised by the parties as at the Prospectus Date, also establishes a general understanding between the parties concerning representation of Atlas Merchant Capital Fund LP on the Issuer's Board of Directors at conditions that had yet to be define by the parties as of the Prospectus Date.

4.3.6 Relations with the Sponsor and potential conflicts of interest of the Sponsor

As Sponsor, Banca IMI will be paid a fee for services rendered pursuant to the sponsorship agreement entered into with the Issuer on 22 November 2018.

In addition, Banca IMI has acted as Nomad, Specialist, Joint Global Coordinator and Joint Bookrunner, receiving the relative fees and commissions, by placing the ordinary shares and conditional share rights that are the subject of the SPAXS offer made in connection with the listing on the AIM which took place on 1 February 2018. In relation to such roles, Banca IMI received another placement fee on the finalisation of the Material Transaction.

Fideuram – Intesa Sanpaolo Private Banking S.p.A., a member of the Intesa Sanpaolo Group, was engaged by SPAXS as Placing Agent and received a fee for its services.

As part of its ordinary operations, Banca IMI and/or one of the other companies belonging to the Intesa Sanpaolo Group might in future render trading, lending, investment banking, asset management or corporate finance services, also on a continuous basis, in favour of the Issuer, for which it will receive fees, and operate, on its own behalf or on behalf of its customers, on financial instruments issued by the Issuer.

Finally, at the Prospectus Date, Banca IMI holds 1,247,900 SPAXS Ordinary Shares, corresponding to 2.10% of the ordinary share capital of SPAXS, and 1,360 SPAXS Conditional Share Rights. As a consequence, due to the Merger, Banca IMI will hold an equal number of Ordinary Shares and Conditional Share Rights.

5. INFORMATION ON THE ISSUER

5.1 HISTORY AND EVOLUTION OF THE ISSUER

5.1.1 Legal and business name of the Issuer

At the Prospectus Date the Issuer is called "Banca Interprovinciale S.p.A." or in abbreviated form "BIP S.p.A.".

Starting from the effective date of the Merger, the Issuer will take the name "illimity Bank S.p.A." or in abbreviated form "illimity S.p.A.".

5.1.2 Place of registration and registration number of the Issuer

At the Prospectus Date the Issuer is registered in the Modena Companies Register at number 03192350365.

At the Prospectus Date SPAXS is registered in the Milan Companies Register at number 10147580962.

5.1.3 Date of incorporation and duration of the Issuer

The Issuer was incorporated on 5 March 2008, with deed under the hand and seal of Notary Aldo Barbati, index no. 35525, register no. 9404, and pursuant to the bylaws effective at the Prospectus Date has duration until 31 December 2050.

Pursuant to Article 3 of the post-Merger Bylaws (effective starting on the effective date of the Merger), the Issuer has duration until 31 December 2100.

SPAXS was incorporated as a joint-stock company on 5 March 2008, with deed under the hand and seal of Notary Carlo Marchetti, index no. 14216, register no. 7514. Pursuant to the bylaws of SPAXS in force at the Prospectus Date has duration until 31 December 2100.

5.1.4 Domicile and legal form of the Issuer, legislation under which the Issuer operates, country of incorporation, address and telephone number of registered office

The Issuer is joint-stock company incorporated in Italy and operating under Italian legislation.

Starting from the effective date of the Merger, the Issuer will have its registered office at Via Soperga 9, Milan, Italy and website www.illimity.com.

At the Prospectus Date the Bank has its registered office at Via Emilia Est 107, Modena, Italy, telephone number +39 059 2932200.The Issuer's website is www.bancainterprovinciale.it.

In addition, at the Prospectus Date the Issuer qualifies as an SME (small and medium-sized enterprise) within the meaning of article 1, paragraph 1, letter w-quater of the TUF. The Issuer claims qualification as an SME for purposes of such provision because, based on the audit conducted on its annual financial statements at 31 December 2017, the Bank's turnover calculated in accordance with the criteria provided in paragraph 1.1 of the Annex to the Regulation on the Sanctioning Procedure adopted by Consob by way of Resolution no. 18750 of 19 December 2013, as referred to by article 2-ter, point 1(b) of the Issuers' Regulation, is below the threshold of EUR 300 million, in that its turnover, represented by net interest and other banking income (the brokerage margin) plus other operating income, amounted to approximately EUR 26.1 million. For more information on the main provisions applicable to SMEs, reference should be made to Chapter 16, Paragraph 16.4 of the Prospectus. At the Prospectus Date SPAXS is a joint-stock company incorporated in Italy and operates under Italian law, has its registered office at Via Mercato 3, Milan, Italy and telephone number +39 02 36596000 and its website is www.spaxs.it.

The Business Combination between the Issuer and SPAXS, approved by the respective general shareholders' meetings and concluded on 20 September 2018 (a description of which can be found below), and the reverse Merger to be carried out by merging the parent SPAXS into the Issuer (a description of which can be found in Paragraph 5.1.5 and Chapter 22), authorised by the Bank of Italy on 11 December 2018 and approved by the extraordinary general meetings of the shareholders of the Issuer and of SPAXS S.p.A. on 18 January 2019, are examples of complex financial history as per Article 4a of Regulation (EC) no. 809/2004, from which the need additionally arises to include the financial information for the Issuer and SPAXS and pro-forma financial information for illimity, the company arising from the Merger.

Further information on the pro-forma financial information that gives retroactive effect to the Business Combination can be found in Chapter 20, Paragraph 20.2. For a better understanding of the activities carried out by illimity, reference should also be made to the prospective figures extracted from illimity's 2018-2023 Business Plan presented in Chapter 13.

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Description of SPAXS and the Material Transaction

SPAXS was formed as a special purpose acquisition company (SPAC), namely a company whose scope is to carry out a combination (the Material Transaction) and to develop another entity (the target) to be identified by performing prior search and selection activities.To this end it obtained funds on the market by way of a reserved offer for a total of EUR 600 million, to be used for the Material Transaction; following this offer, trading in SPAXS Ordinary Shares and the SPAXS Conditional Share Rights began on the AIM Italia on 1 February 2018.

From the start of its admission to the AIM Italia and as part of the process of fund-raising on the market, SPAXS presented its investment project for realisation through the creation of an Italian operator in the banking and/or financial sector acting mainly:

(i) in providing banking and/or financial services to performing and unlikely to pay corporate customers, above all mid-corporates (including those with a low rating or no rating), including invoice lending, crossover lending and turnaround services;
(ii) in the NPL market through the purchase of secured and unsecured bad loans (loan portfolios and single loans) and the management of these, including by creating an advanced servicing platform that can additionally be used for servicing portfolios owned by other operators; and
(iii) in offering banking and/or financial services with a high digitalisation rate to retail savers.

This project envisages business combinations (through the purchase of majority or 100% holdings, mergers or other extraordinary transactions) with one or more unlisted medium-sized Italian companies authorised to operate in the banking and/or financial services market and the subsequent deployment of the financial resources of SPAXS to carry out a significant capitalisation of the target, and support a growth and development strategy for the entity also though external lines.

Following the search and selection activities conducted by SPAXS, on 12 April 2018 the latter and almost all of the Bank's shareholders (to the best of the Bank's knowledge and belief, all third parties with respect to SPAXS and having no relationship with such), signed an agreement governing the Material Transaction, whose subject matter was the acquisition by SPAXS of an almost 100% interest in the Bank's share capital, to be carried out partially through the purchase in cash of ordinary shares and partially through the contribution in SPAXS of the Bank's ordinary shares, to be submitted to the examination and approval of the shareholders of SPAXS pursuant to and in accordance with the bylaws of SPAXS.

On 8 August 2018, the Shareholders' Meeting of SPAXS approved the Material Transaction and the amendment to the bylaws of SPAXS required to execute the Material Transaction; any shareholders of SPAXS who did not take part in the approval of the Material Transaction were granted a withdrawal right pursuant to Article 2437 of the Italian civil code and the bylaws.

At the end of the withdrawal period and the subsequent offer in option of the shares of the withdrawing shareholders, pursuant to law, on 20 September 2018, in accordance with the agreements reached, SPAXS carried out the Material Transaction by acquiring 99.07% of the Issuer's share capital through:

(i) the purchase of a total of 34,655 of the Bank's ordinary shares at a unit price of EUR 1,291, for an overall total of EUR 44,739,605, from 203 of the Bank's shareholders, of whom 12 are contributors as explained in further detail below; and
(ii) the contribution of a total of 8,360 of the Bank's ordinary shares by 31 of the Bank's shareholders (equal to approximately 19.27% of share capital) in order to execute and discharge the reserved capital increase resolved by the Shareholders' Meeting of SPAXS and carried out for a total of EUR 10,792,584,00 (including share premium) through the issue of 981,144 new ordinary SPAXS shares at a unit price of EUR 11.00 (including share premium), in favour of the Bank's contributing shareholders.

None of the selling or contributing shareholders of BIP held a material interest in either BIP or SPAXS within the meaning attributed by Bank of Italy regulations, and namely at least 10% of the capital or shares with voting rights.

The economic value attributed to the Bank for the purposes of the Material Transaction was determined by the parties on drawing up the agreement on the basis of a simple net equity valuation, which was considered appropriate for representing its economic value, albeit in the absence of an independent third party expert's report, and this amounted to EUR 55,999,707 for the share capital as a whole and therefore Euro 1.291,00 for each ordinary share, both for the purchase in cash and for the portion to be acquired by way of the contribution of the Bank's shares to SPAXS.

As regards the contribution, the Board of Directors performed the necessary analyses and valuations to ensure the reasonableness of the value of the assets being contributed compared to the corresponding increase in the Issuer's share capital. More specifically, in order to verify this value, reference was made to the report on the valuation of BIP drawn up by the independent expert as part of the engagement granted pursuant to and in accordance with Article 2343-ter, paragraph 2b), of the Italian civil code.

As a result of the Material Transaction, SPAXS became the holder of 43,015 of the Bank's ordinary shares (corresponding to approximately 99.17% of share capital), which represents the interest held by SPAXS in the Issuer at the Prospectus Date.

5.1.5 Important events in the evolution of the Issuer's business

Important events in the evolution of BIP's business are described below:

- Banca Interprovinciale was incorporated on 5 March 2008 and operations began on 6 July 2009;
- in 2012, the Bank purchased an equity investment in Cassa di Risparmio di Rimini S.p.A., which was partially written down in 2016.This investment was then written off in 2017 and sold for EUR 126 thousand in 2018;
- in July 2016, the Bank concluded the purchase of an equity investment amounting to 54.50% of the share capital of Banca Emilveneta S.p.A, subsequently merged by incorporation into BIP by a resolution of 25 May 2017, with legal effect from 1 October 2017 (reference should be made to Chapter 22 of the Prospectus for further information);
- on 12 April 2018, and by means of subsequent participations in the agreement as referred to below, almost all of the shareholders of the Issuer and SPAXS signed an agreement whose subject matter was the purchase of the Bank by SPAXS (an entity operating as a special purpose acquisition company and, thus, whose corporate purpose is the realisation of an combination – the Material Transaction – and the development of another entity – the target – to be identified after conducting search and selection activities), to be conducted by the purchase by SPAXS of ordinary shares of the Bank in cash and the contribution of the Bank's shares by certain shareholders to execute and discharge a capital increase resolved for the purpose by SPAXS;
- on 20 September 2018, the Material Transaction was carried out in the following way: (i) the purchase by SPAXS of 34,655 ordinary shares of the Bank against payment of approximately

EUR 44.7 million and (ii) the simultaneous contribution of 8,360 ordinary shares of the Bank (approximately 19.27% of share capital) to execute and discharge the reserved capital increase, resolved by the Shareholder Meeting of SPAXS on 8 August 2018 and conducted by means of the issuance of 981,144 new SPAXS ordinary shares to the Bank's allocating shareholders. By effect of such transaction, SPAXS held 43,015 ordinary shares of the Bank, amounting to approximately 99.17% of its share capital, representing the equity investment held by SPAXS in the Bank at the Prospectus Date; (in this respect reference should be made to Paragraph 5.1.4, subsection "Description of SPAXS and the Material Transaction");

- on 21 September 2018, through the securitisation vehicle under Article 130/1999 Aporti S.r.l ("**Aporti SPV**"), the Bank purchased from Cassa di Risparmio di Volterra S.p.A. a portfolio of non-performing loans with a gross nominal value of EUR 155 million, composed primarily of corporate positions mainly secured on business and industrial assets with an average value per position of EUR 250,000. The purchase was concluded with the issuance of notes wholly subscribed by the Bank on 29 October 2018;
- on 28 September 2018, on 6 December 2018 and on 14 February 2019, in its capacity as a shareholder of the Issuer, SPAXS made three payments on account of future capital increases for the exchange ratio amounting to EUR 50 million, EUR 150 million and EUR 110 million respectively, as part of the corporate merger between SPAXS and the Bank. These payments were made as a means of initiating the activities envisaged in the Business Plan by ensuring that the Bank had adequate capital resources;
- on 8 October 2018, through Aporti SPV, the Bank purchased from Istituto Finanziario del Mezzogiorno S.p.A., on the secondary market, an NPL portfolio with a gross nominal value of EUR 262 million, 74% of which consisted of unsecured positions. The purchase was concluded with the issuance of notes wholly subscribed by the Bank on 16 November 2018;
- on 30 October 2018, the Issuer's Board of Directors and the Board of Directors of SPAXS approved the Draft Merger Terms for the Merger to be carried out through the incorporation of SPAXS into the Bank, prepared pursuant to and in accordance with Article 2501-ter of the Italian civil code. For the purposes of the Merger, the economic value of SPAXS was determined on the basis of its net equity at 30 September 2018, amounting to EUR 559,531,964, on the basis of IFRS international accounting standards and taking account of the number of SPAXS Ordinary Shares and SPAXS Special Shares outstanding at that date, having considered the results of the procedure established by law for the liquidation of the ordinary shares of SPAXS subject to withdrawal in connection with the Material Transaction having as object the purchase of SPAXS, as well as the conversion under the provisions of the bylaws of the first tranche of SPAXS Special Shares (360,000 Ordinary Shares into 2,160,000 SPAXS Ordinary Shares). The adjusted net equity of SPAXS at 30 September 2018 after considering the above-mentioned effects and used for valuation purposes amounted to EUR 572,761,444, with the SPAXS Ordinary Shares totalling 59,373,241 in number and the SPAXS Special Shares 1,440,000, with a resulting economic value of EUR 9.4184 each. As for the Bank, in light of the completion of the Material Transaction on 20 September 2018, the Bank has been assigned the same value as that assigned for the purpose of such transaction, namely EUR 55,999,707 for the share capital as a whole and therefore EUR 1,291.00 per share;
- in the fourth quarter of 2018 and up to 20 February 2019 the Issuer concluded the purchase of ten NPL portfolios having a gross nominal value of approximately EUR 1.18 billion, equal to a total net investment of approximately EUR 97 million. Further information in this respect can be found in Paragraph 5.2.1.1 of the Prospectus;

- by way of provision no. 1444641/18 of 11 December 2018, notified to the Issuer on 12 December 2018, the Bank of Italy authorised the Merger, pursuant to Article 57, paragraph 1, of the TUB, having verified, pursuant to Article 56, paragraph 1, of the TUB, that the proposal to amend the Bank's bylaws as part of the Merger, did not contrast with the principle of sound and prudent management and authorised the Bank to purchase own shares as a result of the Merger. In this respect it is noted that in its communication providing notification of the authorisation provision, given the Bank's new business model envisaged by the Business Plan and recalling the central role performed by the internal control functions in measuring and containing risks, to ensure that such control functions provide adequate information to the corporate bodies, the Bank of Italy in particular requested that the heads of these functions should submit a "tableau du board" to the Bank's Board of Directors and Board of Statutory Auditors on a quarterly basis, also to be submitted to the Supervisory Authority, concerning the results of the analyses conducted by risk management as to the level of exposure of the Bank to the various types of risk, the evolution of asset quality, the consistency of the risks actually assumed with the limits set in the RAF, the adequacy of current capitalisation and prospective capital taking account of the risks assumed and any increase in operating volumes, as well as the results of the procedures performed by the compliance and internal audit functions (with an indication of possible weaknesses and the relative level of the issues, and corrective measures and the relative people responsible and timing). Lastly, the Bank of Italy authorised the Issue to repurchase its own shares in the maximum amount of EUR 467,342 as part of the Merger;
- on 18 January 2019, the Issuer's extraordinary shareholders' meeting and the extraordinary shareholders' meeting of SPAXS approved the Draft Merger Terms. At the same date, the relative resolutions adopted by these meetings were registered with the Modena and Milan Companies Registrar, and accordingly the legal period of 15 days for opposition by creditors (pursuant to the combined provisions of Article 57, paragraph 3, of the TUB and Article 2503 of the Italian civil code as well as pursuant to Article 2505-bis, first paragraph of the Italian civil code) and for the Bank's minority shareholders (meaning the shareholders other than SPAXS) to exercise any rights they may have to sell the issuer's shares that they hold to the Bank (pursuant to Article 2505-bis, first paragraph, of the Italian civil code) at a unit price of EUR 1,291 determined pursuant to law and corresponding to the same value attributed to the BIP share for the purposes of the Material Transaction and for the purposes of the Merger, lapsed;
- on the expiry of the above-mentioned term on 2 February 2019, 7 of BIP's shareholders had exercised their right to sell, with 74 of the Issuer's shares they held being sold at a total price of EUR 95,534;
- on 15 February 2019, the Issuer and SPAXS stipulated the merger deed relating to the Merger, from whose effective date the dissolution of SPAXS will be determined. The transactions performed by SPAXS will be recognised in illimity's financial statements from the Effective Date of the Merger while the accounting and fiscal effects will be brought forward to 1 January 2019.

* * *

As regards the Merger, as stated in the Draft Merger Terms and in the illustrative reports prepared on a voluntary basis by the Boards of Directors, the following points are noted:

- the Merger should be seen in the broader context of the SPAXS investment project which led to the acquisition of the Bank by SPAXS (see above), representing its final step, with the aim of achieving full integration between SPAXS and the Bank (and the resulting dissolution of SPAXS, the vehicle created for carrying out the project), as well putting all the funds collected by SPAXS on admission to the AIM Italia at the Bank's disposal in order to fully realise the above-mentioned operation. The Merger additionally achieves the objective of making the Bank's organisational and operational processes more efficient, by simplifying the structure and reducing the costs and inefficiencies involved in maintaining two separate corporate structures;

- since at the date of the Draft Merger Terms SPAXS held approximately 99.17% of the Issuer's share capital, unchanged at the Prospectus Date, the Merger is in effect a reverse merger (namely the merger of the parent, SPAXS, into its subsidiary, the Bank) to which, in accordance with the prevailing interpretative doctrine of legislation in this respect, the "simplified procedure" is applicable, as provided and governed by Article 2505-bis of the Italian civil code, which states that in the case of the merger of one or more companies into another company that holds at least 90% of their shares, the requirements for balance sheet situations, reports of management bodies, expert's reports and the filing of documents shall not apply if the other shareholders of the merged company are granted the right to have their shares purchased by the merging company for consideration determined under the same criteria as those used for withdrawal. For the Merger, therefore, the Bank's shareholders other than SPAXS were granted the right to sell their shares to the Bank at a unit price of EUR 1,291, to be exercised within 15 days of the registration of the last resolutions adopted by shareholders (which as mentioned took place on 18 January 2019). This period therefore expired on 2 February 2019;
- pursuant to the Draft Terms of Merger, on the cancellation of all the Bank's outstanding shares and the elimination of the nominal value of the Issuer's shares, the current shareholders of SPAXS will be allocated in exchange 1 newly-issued illimity Ordinary Share for each SPAXS Ordinary Share held, 1 newly-issued illimity Special Share for each SPAXS Special Share held and 1 newly-issued illimity Assignment Right of illimity for each illimity Assignment Right held. The Bank's current shareholders will be assigned 137.0726 newly-issued illimity Ordinary Shares for each 1 ordinary share of the Bank held.

Reference should be made to Chapter 22 of the Prospectus for further details of the Merger.

5.1.6 Bank of Italy inspections

As far as inspections carried out by the Bank of Italy or other authorities are concerned, during the period to which the financial information included in the Prospectus refers, it should be noted that the Bank of Italy performed one inspection between 27 April and 30 June 2017, with the Bank receiving an inspection report on 12 October 2017, to which it replied on 9 November 2017. The Bank of Italy subsequently replied to this on 21 February 2018, acknowledging the remedial action taken by the Bank in the meantime, recalling the need for corrective measures on the questions still open and requesting two specific procedures to be carried out by Internal Audit and the Board of Statutory Auditors. The Bank provided its feedback on 27 April 2018, forwarding the results of these specific procedures.

On 10 August 2018 the supervisory authority requested the head of the Anti-Money Laundering Function by email to perform detailed procedures in an area of potential theoretical risk (more specifically dishonoured cheques), for which a response was provided on 30 November 2018 containing the results of the internal procedures which indicated a low risk (dishonoured cheques less than 0.5%).

The inspection that was completed on 30 June 2017 led to the emergence of partially favourable results, which should be seen as the consequence of the regular prudential audit process, and certain observations relating to aspects of management, with particular reference to the business model, as well as to the areas of governance and internal controls and also to credit risk and operational and compliance risks (transparency and anti-money laundering). On the other hand a number of weaknesses emerged that called for the adoption of corrective measures.

To sum up, the Bank believes that it has remedied almost all of the findings, mainly by virtue of the wide shareholding structure that requires a detailed revision of the business, governance and risk control model. In particular, the purchase by SPAXS and the approval of the new business plan have remedied the fragility of the previous business model, which constituted the main finding of the supervisory authority. The significance of customers causing conflicts of interest has accordingly been reduced, also by strengthening internal related and associated party transaction policies. The risk control, compliance and anti-money laundering functions have been amply reinforced, both in terms of staffing and in roles and responsibilities. The Bank's management structures and first level controls have also been strengthened.

In one or two cases specific remedial action has commenced and implementation is in progress. The following are noted in respect of remedial action not yet completed: the employment of a head of compliance, a step which is expected to be concluded by the end of the first quarter of 2019; the strengthening of the internal audit function, which will also be completed by the end of the first quarter of 2019; the updating of credit management and credit provisioning policies, which is expected to be concluded by the end of the first half of 2019; and the evolution of the operating platform for managing the banking book, also expected by the end of the first half of 2019.

More specifically, with reference to business, governance and control models, the findings regarded the following:

- the fragility of the 2017/2019 business plan, especially in terms of a lack of clarity as to development prospects: this finding should be considered remedied following the approval of the business combination with purchaser SPAXS on 20 September 2018 and the preparation of the new business plan;
- the need for a better definition of the organisational framework controlling related party transactions and remuneration policies, in particular given the expected significance of transactions with customers causing conflicts of interest: in this respect the importance of these transactions can be considered reduced given the new organisational structure and business plan, and in any case a new organisational structure and new internal procedures have been adopted, on their way to precise detailing and activation which will be concluded by the date of the Bank's admission to listing (and effective date of the Merger). In particular, new internal committees have been set up within the Board of Directors of which the following are noted for the matters in question: the Related and Associated Party Transaction Committee and the Remuneration Committee; internal regulations on Related Parties (and "Associated Parties") have also been entirely revised through the approval of the new Regulation for managing transactions with parties forming part of the Bank's Sole Perimeter and transactions of personal interest, which will have effect from

the first day of trading of the Bank's Ordinary Shares and Conditional Share Rights on the MTA. This Regulation contains a definition of the scope of application of the legislation together with the exceptions, as well as the size thresholds used to determine whether a transaction is classified as being "of greater significance" or "of lesser significance". In addition, this Regulation governs the preliminary and authorisation procedures required when such transactions are performed, with particular emphasis on the role of the Related and Associated Party Transaction Committee. As regards remuneration policies, it should be noted that a new Remuneration Policy was approved by the Shareholders' Meeting of 18 January 2019, which governs a remuneration and incentive system consistently structured as part of an annual planning, management and control cycle; this cycle involves the corporate bodies and functions, consistent with regulatory provisions, the requirements of the bylaws and the responsibilities assigned to the various functions, ensuring that every decision is adopted by the bodies and the functions responsible for such. Lastly, a specific finding regarding the lack of claw-back clauses concerning a senior executive was remediated by implementing such clauses; a finding raised in connection with the unclear determination of the setting up and control of employment relationships was resolved by defining the duties and responsibilities of the new HR function (Regulation on Duties and Responsibilities approved by the Board of Directors in December 2018);

- the centralisation of too many control functions (compliance, risk management, anti-money laundering, credit control) and operating functions (disputes, legal, accounting) under the responsibility of a single person in charge supported by four members of staff has been remediated by establishing a CRO Division with 25 people, structured in such a way as to ensure the proper oversight of the various controlling activities, whose duties exclude operating functions (which are performed by the competent business functions), by establishing two heads of business control functions within the meaning of Circular 285 (the head of the risk control function and the head of compliance and anti-money laundering). The finding raised in connection with the lack of adequately detailed checks performed by the compliance function (for example on remuneration and transparency policies) has been dealt with by strengthening the functions in terms of staff and positioning in the personnel organisation chart, with the future head being selected for the position after a selection procedure carried out on the market. Regarding the finding concerning the weakness of the work performed by Internal Audit, a new head of function has been appointed and the function itself is being strengthened in terms of staff (five people planned compared to a single person allocated at the time of the inspection) and methodological structure. In particular, in 2019 Internal Audit will additionally structure their work to a greater extent by adopting for the purpose a specific methodological structure for the various areas, with particular reference to planning activities, reporting the results of the procedures performed, formulating recommendations with the respective due dates for completing mitigating activities and the resulting monitoring and periodic reporting of such. Concerning the Board of Statutory Auditors, a more active role in the control function that its members perform is planned, also as the result of the introduction of the new business model, and this will additionally regard the segregation of duties in accordance with the requirements of the newly-established "Risk Committee", whose duties are determined by the new regulation approved by the Board of Directors. For the sake of completeness, it is also noted that a new Board of Statutory Auditors was appointed at the Shareholders' Meeting of 18 January 2019.

With reference to the weaknesses emerging in the area of credit risk, the supervisory authority identified aspects of improvement regarding the following matters:

- concentration risk, not negligible – albeit in line with internal policies – in single name and sector terms (real estate); in this respect it is noted that the reduction in single name concentration risk continued throughout 2018 and that new credit policies have been introduced on the subject; in addition, communication has been made to the network that considerable attention should be given to the real estate sector, with a clear exclusion of that sector from new credit transactions; and the "Credit risk mitigation process and profiles" and "Monitoring unusual positions and bad debts" were updated in September 2018 in the light of the changes occurring in the Bank's organisational structure, consistent with the new business model;
- the (preliminary) authorisation procedure where assessments are generally made by single position and at a group level for connected customers; a number of specific analyses were found to be insufficiently detailed and in a few cases control of the conditions laid down in the authorisation was incomplete; untimely updates were found with the resulting expiry of the preference period: in this respect it is noted that the radical qualitative and quantitative strengthening of the Bank's management structure will enable an improvement to be achieved in the assessment of positions at the preliminary stage, together with a timely information update. The portfolio of preference creditors has been subject to a complete overhaul and suitable classification to ensure a timely and effective monitoring of the expiry dates;
- although impairment policies are applied using prudent criteria as a whole, they are not supported by statistical analyses: in this respect the impairment policies have in part been updated but will be completely reviewed in order to include any changes in new accounting and prudential regulations.

With reference to the weaknesses emerging in the area of sector laws and regulations and operating risks, the supervisory authority identified aspects of improvement regarding the following matters:

- transparency (procedural and organisational weaknesses relating, in particular, to manoeuvres of mass change to the economic conditions applicable to customers): in this respect a specific amendment on the matter has been included in the internal Regulation, moreover already reported to the supervisory authority when providing a response to the inspection report;
- anti-money laundering, where the supervisory authority detected one or two weaknesses in the controls (the failure to assign a "high" score to certain customers connected with high risk persons; cataloguing the effective holders sometimes incomplete in situations of multiple shareholders and for companies in which trust companies hold interests), also due to the multiplicity of duties and high workloads of the staff in the central function: on the one hand the Bank has remedied this by significantly strengthening its compliance and anti-money laundering function, identifying a dedicated workforce of six people (including the person in charge), and on the other all the specific positions identified by the inspection team had been remedied before the inspection report was received. In addition, implementation of the automatic block for positions lacking the name of the effective owner has been made operative, while the policy for cataloguing the effective owners has been strengthened;
- management of owned portfolio (absence of operating blocks on exceeding the limits and poor integration with the consequent need to do this manually): as part of the overhaul of its business model, the Bank is currently working on a migration project for the IT

outsourcer, and is in the process of selecting a new position-keeping provider. As well as being integrated with the Bank's IT system permitting a reduction in operating risks, the new position-keeping application will enable the Bank to do the following: (1) define operating and risk limits consistent with its Risk Appetite Framework and internal regulations; (2) establish blocking setting controls with respect to the asset classes (consistent with the Bank's investment policy) and compliance with operating and risk levels; (3) determine escalation and authorisation procedures for deals consistent with the system of delegations and powers approved by the Board of Directors; (4) enable VaR limits, lines of credit and operating limits to be monitored in real time by introducing operating blocks in the event of potential overruns. In addition, the current organisational overhaul envisages the complete revision of the deal validation chain and in particular permits the segregation of front office from middle office activities consistent with the operating and risk limits and with the operating power structure.

5.1.7 Lack of a rating

At the Prospectus Date the Company has not requested, nor in any other way has it been subject to, a rating assessment by external parties.

5.1.8 Requests for the intervention of the Board of Statutory Auditors

As part of its ordinary control activities in the period to which the Prospectus refers, the Board of Statutory Auditors carried out its procedures by inviting the various competent functions to assume appropriate initiatives to deal with non-serious anomalies or weaknesses. These were in particular ordinary measures, designed mainly to:

- rectify the regulatory category of specific and limited credit relations;
- strengthen the procedures and adequacy of the documentation concerning consultancy provided to customers for security brokerage services;
- strengthen the procedure regarding requests for information made to the Risk Centre;
- hold discussions with outsourcers in order to urge them to take measures to strengthen the IT procedures recommended by the group auditors;
- provide more analytical support for the reason for mass changes to the conditions for customers;
- strengthen the process for taking out insurance policies to mitigate risk;
- avoid delays in reporting suspicious transactions (anti-money laundering - AML);
- rationalise reporting to the management body (Board of Directors);
- improve procedures relating to "Personal data processing"; and
- monitor excesses by customers in the use of overdraft limits more closely.

With respect to the matters reported by the Board of Statutory Auditors for the period from 2016 to 2018, the Issuer believes that at the Prospectus Date the observations made may be considered to be essentially superseded or no longer relevant or current, and in any case adequately taken into account as part of the revision of the Issuer's business model that commenced following the acquisition by SPAXS at the end of 2018, including therein the adoption of new processes and procedures in order to implement the Business Plan and the new business model.

For the sake of completeness, it is noted that with reference to the results of the inspection conducted by the Bank of Italy which was concluded on 30 June 2017, the previous Board of Statutory Auditors:

- agreed the reply resolved by the Board of Directors in which clarifications were provided, which in part significantly reduced the extent of the findings or eliminated this altogether or otherwise provided assurances that the ascertained need for the strengthening of certain processes had either already been superseded or was planned to be superseded;
- adopted resolutions on strengthening its activities; and
- adopted resolutions on the procedure for reporting suspicious transactions.

The Board of Statutory Auditors has not subsequently adopted resolutions that specifically regard this issue, without however detecting anomalies regarding the process of strengthening the procedures reported by the Bank of Italy; this also in light of the future reorganisation resulting from the Merger.

5.2 INVESTMENTS

5.2.1 Description of main investments by the Company in the three-year period 2015-2017 and in the period ended 30 September 2018

This paragraph provides an analysis of the Issuer's investments in tangible and intangible assets in the nine months ended 30 September 2018 and in the years ended 31 December 2017, 2016, and 2015. This information has been extracted from the BIP nine-month interim financial statements for 2018 and from the BIP financial statements for 2017, 2016, and 2015.

The following balance sheet and financial information should be read together with Chapters 3, 9, 10, and 20 of Section One of the Prospectus.

The following tables present BIP's investments in tangible and intangible assets, analysed by type, in the nine-month period ended 30 September 2018 and in the years ended 31 December 2017, 2016, and 2015.

(Thousands of euros)	**30 September 2018**	**31 December 2017**	**31 December 2016**	**31 December 2015**
Furniture	143	130	6	4
Electronic systems	8	24	23	26
Buildings	–	,	1,197	-
Other	181	202	–	15
Tangible assets	332	356	1,226	45
Intangible assets	–	1	331	4
Total	**332**	**357**	**1,557**	**49**

The following is a brief description of the main investments made by the Issuer in the above-specified periods.

30 September 2018

At 30 September 2018, total investments in tangible and intangible assets amounted to EUR 332 thousand. Purchases of EUR 293 thousand relate to the renewal of the layout of the Formigine branch, EUR 27 thousand to the relative furniture and functional equipment at the Modena offices and EUR 12 thousand to the furnishing of the Milan offices.

31 December 2017

At 31 December 2017, total investments in tangible and intangible assets amounted to EUR 357 thousand, mainly attributable to purchases of buildings and other tangible assets for EUR 13 thousand and EUR 202 thousand respectively.

31 December 2016

At 31 December 2016, total investments in tangible and intangible assets amounted to EUR 1,557 thousand, mainly attributable to buildings of EUR 1,197 thousand resulting from the acquisition of Banca Emilveneta by Banca Interprovinciale. Intangible assets amounted to EUR 329 thousand, of which EUR 327 thousand relating to the recognition of goodwill arising from the above-mentioned acquisition.

31 December 2015

At 31 December 2015, total investments in tangible and intangible assets amounted to EUR 49 thousand, mainly attributable to purchases of electronic systems for EUR 26 thousand, to other tangible assets for EUR 15 thousand and to intangible assets for EUR 4 thousand.

Lastly, with regard to the NPL Investment & Servicing Division, it should be noted that in the third quarter of 2018 and up to 25 February 2019 the Issuer commenced operations by concluding the purchase of a number of NPL portfolios, and more specifically: (i) on 21 September 2018, through a securitisation vehicle, the purchase of a portfolio of non-performing loans having a nominal value (gross book value) of EUR 155 million, consisting primarily of corporate positions secured mainly on commercial and industrial assets, having an average value of EUR 250,000 per position. The purchase was concluded through the issue of notes, wholly subscribed by the Bank on 29 October 2018; (ii) on 8 October 2018, through Aporti SPV, the purchase on the secondary market of an NPL portfolio with a nominal value (gross book value) of EUR 262 million, of which 74% consisting of unsecured positions. The purchase was concluded with the issuance of notes, wholly subscribed by the Bank on 16 November 2018; (iii) on 15 November 2018, through Aporti SPV, the purchase of a portfolio with a gross book value of EUR 347 million, over 80% of whose nominal value consisted of unsecured corporate positions. The purchase was concluded through Aporti SPV by means of the simultaneous subscription of notes by the Bank; (iv) on 26 November, through Aporti SPV, the purchase, with simultaneous subscription of the notes by the Bank, of a portfolio with a gross book value of EUR 206 million consisting entirely of unsecured corporate loans made to Italian businesses having an average loan agreement value of EUR 2.7 million; (v) on 21 December 2018, through Aporti SPV, the purchase on the secondary market, with simultaneous subscription of the notes by the Bank, of a portfolio with a gross book value of approximately EUR 110 million; (vi) in

December 2018 the Bank concluded the purchase of new NPLs having a total gross book value of approximately EUR 175 million and (vii) on 22 February 2019, through Aporti SPV, the purchase, with simultaneous subscription of the notes by the Bank, of a portfolio with a gross book value of EUR 31.6 million consisting mainly of secured corporate loans.

On 29 November, the first deal in the NPL Financing segment was announced. The Bank entered an agreement for the disbursement of a loan to an affiliate company of funds managed by the Fortress Investment Group for approximately EUR 50 million, secured by a portfolio of secured non-performing corporate loans with a gross nominal value of EUR 1.2 billion.

5.2.1.1 Investments made by the NPL Investment & Servicing Division in the third quarter of 2018 and up to the Prospectus Date

During the third quarter of 2018 and up to 25 February 2019 the Issuer commenced operations by concluding the purchase of ten NPL portfolios as described in the following:

- on 21 September 2018, through the securitisation vehicle under Article 130/1999, Aporti S.r.l ("**Aporti SPV**"), the Bank purchased from Cassa di Risparmio di Volterra S.p.A. a portfolio of non-performing loans with a gross nominal value of EUR 155 million, consisting primarily of corporate positions secured mainly on business and industrial assets with an average value per position of EUR 250,000. The purchase was concluded with the issuance of notes wholly subscribed by the Bank on 29 October 2018. The Issuer was assisted by an external advisor to carry out the analysis, an entity specialised in valuing and managing NPL portfolios and not related to the Issuer. The advisor was engaged by the Head of the NPL Division, holding the necessary powers to take such action;
- on 8 October 2018, through Aporti SPV, the Bank purchased from Istituto Finanziario del Mezzogiorno S.p.A., on the secondary market, an NPL portfolio with a nominal value (gross book value) of EUR 262 million, 74% of which consisted of unsecured positions. The purchase was concluded with the issuance of notes wholly subscribed by the Bank on 16 November 2018. The Issuer was assisted by an external advisor to carry out the analysis, an entity specialised in valuing and managing NPL portfolios and not related to the Issuer. The advisor was engaged by the Head of the NPL Division. Lastly, it is noted that as part of contractual negotiations, the Issuer undertook to guarantee in the seller's interest that the acquirer Aporti SPV will fulfil all the obligations it assumed in relation to the payment of the price. It is emphasised that this guarantee was given by the Issuer up to the limit of the sums due by the acquirer with respect to the price;
- on 15 November 2018, the Bank concluded the purchase of a third NPL portfolio with a gross book value of EUR 347 million. Over 80% of the nominal value of the portfolio, sold by Banca Popolare di Puglia e Basilicata S.p.A., consisted of unsecured corporate positions. The purchase was concluded through Aporti SPV by means of the simultaneous subscription of notes by the Bank. The Issuer was assisted by an external advisor to carry out the analysis, an entity specialised in valuing and managing NPL portfolios and not related to the Issuer. The advisor was engaged by the Head of the NPL Division;
- on 26 November 2018, the Bank purchased from Unicredit S.p.A. a fourth NPL portfolio having a gross book value of EUR 206 million, consisting entirely of unsecured loans to Italian businesses, having an average loan agreement value of EUR 2.7 million. In this case too the agreement was concluded through Aporti SPV through the simultaneous subscription of notes by the Bank. To carry out the analysis the Issuer was assisted by various external

advisors and law firms specialised in valuing and managing NPL portfolios, and not related to the Issuer.These consultants were engaged by the Head of the NPL Division, holding the necessary powers to take such action;

- on 21 December 2018, a portfolio with a gross book value of approximately EUR 110 million was purchased from Oasis Securitisation S.r.l., on the secondary market through Aporti SPV, with simultaneous subscription of the notes by the Bank. Due diligence procedures were performed exclusively by employees of the Bank;
- on 28 December 2018, three additional portfolios were purchased having a total nominal value of EUR 40 million from a series of small and medium-sized banks. More specifically, the first portfolio, of which 54% consisted of unsecured loans, was purchased for a total nominal value of approximately EUR 23 million; the second portfolio, of which 90% consisted of secured loans, was purchased for a total nominal value of approximately EUR 7 million; the third portfolio, of which 68% consisted of secured loans, was purchased for a total nominal value of approximately EUR 10 million.These purchases were concluded through Aporti SPV, with simultaneous subscription of the notes by the Bank. The analysis of the portfolios was carried out with the assistance of a consulting firm expert in the analysis of NPL portfolios and not related to the Issuer.This consulting firm was engaged by the Head of the NPL Division, holding the necessary powers to take such action;
- again on 28 December 2018, the first single name transaction was carried out for a nominal value of EUR 25 million, consisting of five NPL positions with corporate debtors secured on industrial and business assets in Lombardy.The transaction was concluded through Aporti SPV with a bank operating mainly in northern Italy.The analysis of these positions was conducted with the assistance of a company specialised in the analysis of property assets and a law firm expert in the legal analysis of NPLs. The engagement was granted by the Head of the NPL Division, holding the necessary powers. Neither of the two advisors is related to the Issuer;
- astly, on 22 February 2019, the Bank purchased an NPL portfolio, of which 68% consisted of secured corporate loans, having a total nominal value of approximately EUR 31.6 million from a bank in the small and medium-sized category.This acquisition was concluded through Aporti SPV, with simultaneous subscription of the notes by the Bank. The analysis of these positions was conducted with the assistance of a consultancy firm expert in the analysis of NPLs, that is not related to the Issuer.The engagement was granted by the Head of the NPL Division, holding the necessary powers.

Following these transactions, the total nominal value of the NPL portfolio held by the Bank reaches approximately EUR 1.18 billion.

A price of approximately EUR 97 million was paid for the NPL portfolios acquired.This amount was from time to time paid by Aporti SPV to the selling counterparties on the receipt of such price by the Issuer as subscriber to the notes.The Issuer exclusively used its own cash to settle the payment.

From an accounting standpoint the notes of these securitisations are recognised in the Issuer's balance sheet as receivables from customers at amortised cost, on the basis of the Bank's Held to Collect ("HTC") business model. In addition, it is noted that in accordance with applicable laws and regulations, these acquired portfolios are required to be consolidated - despite the absence of any holding in the vehicle's quota capital- as the result of a 100% subscription to said notes, and are recognised under financial assets in the consolidated financial statements as receivables from customers at amortised cost.

As support for the NPL investment portfolio activity carried out up to the Prospectus Date, the Issuer used the services of primary advisors - such as CRIBIS Credit Management, Deloitte, Ernst & Young Transaction Services, Studio Legale Radice & Cereda and PriceWaterhouseCoopers – who are specialised in assessing and managing the various asset classes in which the investments were being made. These advisors put at the disposal of the Bank's pricing team the results of analyses performed on propriety databases or those obtained from models developed during the service activities carried out on behalf of third parties, as well as those resulting from due diligence work and assessments carried out over the years on comparable portfolios (further details of the purchase of NPL portfolios can be found in Chapter 13 of the Prospectus). In addition, as further support for this activity the Issuer used the services of Neprix S.r.l. under a consultancy agreement in force at the Prospectus Date (a description of this can be found in Chapter 19, Paragraph 19.3 of the Prospectus). Neprix S.r.l. provided consultancy, due diligence and pricing services and coordinated the consultants involved from time to time.

For a description of the ways in which the NPL portfolios purchased by the Issuer were identified and acquired, reference should also be made to Chapter 6, Paragraph 6.1.4 of the Prospectus

5.2.2 Description of main current investments

At the Prospectus Date, implementation of the target architecture of the Issuer's digital platform was launched in "open platform" for integration with third parties, "completely digital" for best "user experience," and "data driven" by aggregating internal and external data to feed advanced artificial intelligence motors. Specifically, the Issuer is self-financing investments to design and develop the new Multichannel architecture and to implement core banking on the target information system. To achieve this, a first part of current investments for a total of approximately EUR 8 million has been resolved, of which approximately EUR 2.5 million will be recognised as operating expenses and the remainder capitalised. The objective of these investments is as follows: (i) operating analyses for the tools supporting the NPL and factoring businesses; (ii) technical steps preliminary to the commencement of the target information system; (iii) the design of the offer and pricing for the retail customer segment, with detailing of the concept and functional analyses; (iv) the definition of the applications design and the customer user experience; (v) the design and development of the architecture and functionality of the Web application and mobile app of the Front End Retail.

On 30 October 2018 the Issuer's Board of Directors approved the purchase of a 100% interest in Neprix S.r.l., the company in which NPL servicing activities will be centralised and which on 22 January 2019 was granted the licence per Article 115 of the TULPS, at a fixed and unchangeable price corresponding to the value of the net equity of Neprix S.r.l. at the date on which the purchase and sale agreement will be signed. In this respect it is noted that it is not planned to obtain a valuation report for the purpose of establishing the price and that to the best of the Issuer's knowledge and belief, and on the basis of the latest information available, the estimated net equity of Neprix S.r.l. at 31 December 2018 was EUR 23 thousand. It is also noted that although the acquisition of this company by the Issuer will constitute a related party transaction the procedures envisaged in the Related Party Transaction Procedure will not be applied given the immaterial consideration (as described above), and that it is also not planned to prepare an information document in this respect pursuant to laws and regulations on related party transactions and the relative procedure adopted by the Bank. In addition, at the Prospectus Date the Issuer has not yet purchased this company, as conducting this transaction will lead to the formation of a banking group and the need to make the related amendments to the bylaws (to be adopted by the Shareholders' Meeting with the majorities established by law, as stated in the Post-merger Bylaws), and will also depend on the successful completion of the procedures for the purpose required by Bank of Italy regulations and the registration of the Issuer in the banking group roll. Once acquired, the company will form part of the banking group. At the Prospectus Date, it is believed that it will be possible to commence such operation on conclusion of the Merger, and that subject to and compatible with the above-mentioned procedures it can be completed by the end of the third quarter of 2019. In this respect reference should be made to Chapter 22, Paragraph 22.3 of the Prospectus.

5.2.3 Description of main future investments

As part of the Business Plan, it is planned to make future investments of approximately EUR 115 million in an information technology platform, these consisting of capital expenditure and operating expenses accumulated over the whole of the period covered by the Plan, of which approximately EUR 45 million will be capitalised. The aim of these investments is the constant evolution and integration of new technologies on the Issuer's digital platform to allow the provision of new services or business models essentially linked to the "user experience," to the use of artificial intelligence engines and machine learning, and to integration with third-party vertical solutions. To achieve this, a first portion of current investments for a total of approximately EUR 8 million has been resolved. For further information reference should be made to Chapter 13 of the Prospectus.

The Plan also includes investments of approximately EUR 52 million in marketing and communication over the period covered, and these will be fully expensed as operating expenses.

Lastly, regarding the NPL Investment & Servicing Division, the Bank estimates that the pipeline of potential transactions will remain substantial in the next few months. As described in further detail in Chapter 13, the Issuer's objective is to make a comprehensive investment of approximately EUR 3.0 billion in net book value in both secured and unsecured NPL portfolios over the Plan period, of which EUR 97 million euros already purchased at the Prospectus Date. Due to the dynamic nature of the market, the Issuer intends to concentrate more than half of such investments in the first part of the planning horizon.

In addition, the Issuer proposes to disburse senior loans to non-banking operators on the NPL market (a market that is only moderately managed and is experiencing growing demand), with a target of comprehensive disbursements throughout the Plan horizon of approximately EUR 900 million, corresponding to approximately EUR 250 million in net receivables from customers on expiry of the Plan.

The development of future activities of the NPL Investment & Servicing Division calls for full implementation of the proprietary IT system in the first half of 2019 and the commencement of servicing activities on third-party NPL portfolios in the second half of 2019.

6. OVERVIEW OF ACTIVITIES

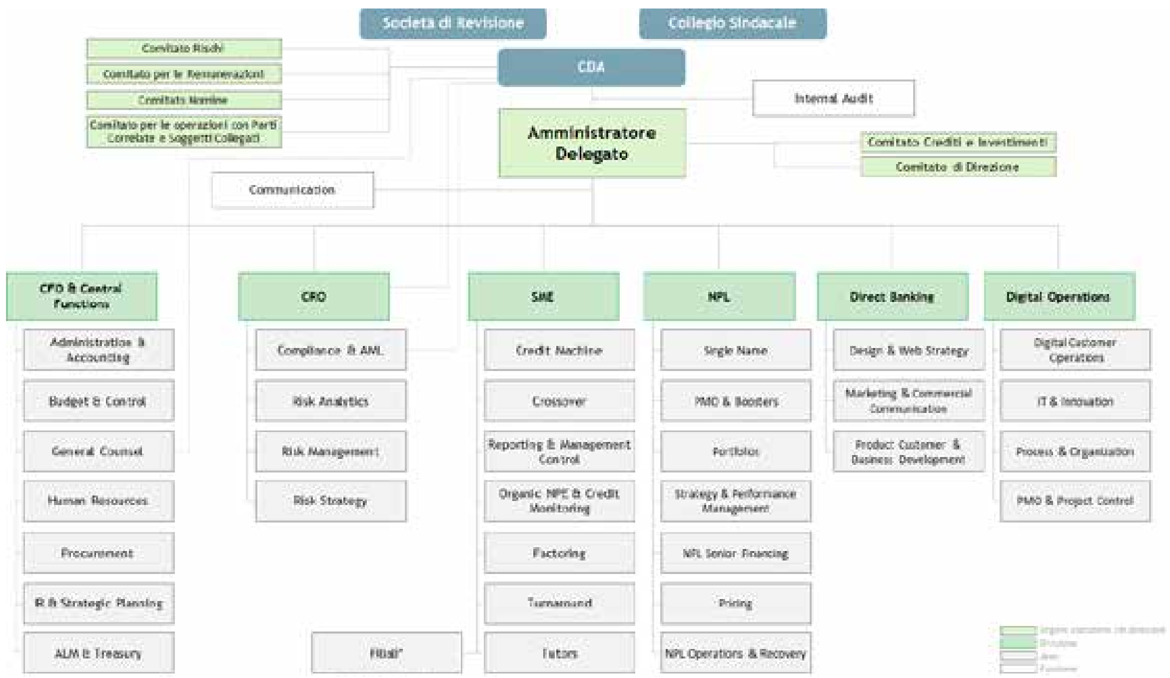
6.1. Principal activities

6.1.1. Description of the nature of the Issuer's operations and of its principal activities, and relative key factors, stating the main categories of products sold and/or services provided in each financial year for the period to which financial information regarding past years refers.

At the Prospectus Date, the Issuer is a company operating in the banking sector throughout Italy and with a geographic focus on the Emilia-Romagna region. After verification of the existence of the conditions envisaged by Article 14 of the (TUB) and Article 19 of the (TUF), designed to ensure sound and prudent management, the Issuer was authorised to perform banking activities (authorisation dated 13 February 2009), investing activities as per Article 1, paragraph 5, letters b), c-bis), e) and f) of the TUF (authorisation dated 13 February 2009) and brokerage activities (authorisation dated 12 December 2011).

The Issuer operates with a commercial bank model with retail deposit, its reference customers being SMEs and small investors.

The Issuer's organisation chart at the Prospectus Date is as follows:



The main products offered by the Issuer at the Prospectus Date consist of short and long term secured and unsecured corporate loans, overdraft loans, retail mortgage loans, corporate and retail current accounts and term deposit accounts with home banking and mobile banking services. The commercial offer is completed with loans to insolvency proceedings with prior distribution rights and with a high level of security, secured current accounts, credit facilities for the disposal of trade receivables and certain externally managed products (i.e. import/export advances, letters of credit and other forms of international financing).

In line with its Business Plan, the Issuer's strategy envisages the development of new businesses concentrating on the following market segments:

(i) corporate loans made to businesses with a high potential but having a non-optimal financial structure and/or low rating or no rating, including the non-performing SME segment (Unlikely-to-Pay or "UTP"), through the offer of the skills, products and services of the SME Division;
(ii) secured and unsecured corporate Non-Performing Loans, through the vertical skills of the NPL Investment & Servicing Division;
(iii) digital direct banking for retail and corporate customers through the Retail Division, with an offer of products dedicated to the direct channel with innovative means of interfacing.

For information about the new products and services offered by the Bank reference should be made to Paragraph 6.1.4.

It is additionally noted that in order to perform the above-mentioned activities the Issuer has entered outsourcing service agreements with Consorzio Servizi Bancari CSE and companies headed by CSE, and in particular an agreement signed in June 2014 under which the Bank uses CSE to provide a large part of its IT services. However on 20 December 2018, as already advised earlier to CSE, the Bank notified the outsourcer of the need, for strictly business reasons, to initiate a process of migration to a different outsourcer, with the resulting early termination of the agreement. It is therefore envisaged that information services will migrate from CSE to the new provider in the upcoming months, subject to advance notices and legislative authorisations involving the supervisory authority and in any case following the early termination of the agreement with CSE and the subsequent stipulation of an agreement with a different outsourcer.

For the opportunities and threats expressed by the market within which the Issuer operates, the Issuer's strengths and the weaknesses which reduce or could reduce its competitive positioning, reference should be made to Chapter 13 of the Prospectus.

6.1.2. Internal Control System and Risk Management

The Issuer has an organisational model in which the structure of the internal control system consists of several levels in which the corporate bodies and the Bank's personnel are positioned, in accordance with applicable laws and regulations.As far as the corporate bodies are concerned, the duties of the Board of Statutory Auditors are mainly to ensure that there is adequate, actual and effective coordination of the control functions, to check the effectiveness and efficiency of the structures and functions involved, to express opinions on the determination of the essential elements of the control systems and on the appointment of the heads of function and to oversee the internal capital adequacy process. As a result of the assessments made by the Board of Statutory Auditors, the Board of Directors is also required to approve the work-programmes of the Risk Management, Compliance, Anti Money-Laundering and Internal Audit functions on an annual basis in advance. These functions also submit a post hoc report to the corporate bodies that sets out the activities performed, the weaknesses detected and the measures suggested to resolve these. In addition, the Board of Statutory Auditors also draws up reports on the subjects envisaged in the annual work programmes, reviewed in advance by the Risk Committee, together with the plans and post hoc reports. The result of this review is reported to the Board of Directors.

The main objective has been to strengthen the internal control system in order to control the risks generated by the Bank's operations in its new business lines to the greatest possible extent, and in particular those of the NPL Investment & Servicing Division, the SME Division (new products such as Turnaround, Invoice Lending and Crossover Lending) and the Retail Division (managing retail customers through digital channels).

The objectives of the internal control system have been designed to ensure full compliance with applicable regulatory requirements, with particular reference to Circular 285 and orientations and guidelines at a European level (e.g. the EBA's guidelines on internal governance).

In addition to the above there is the risk management process, which acts as a reference model in organisational and process development and in the systematic performance of all the operating and business activities set up by the Bank which lead to the assumption and management of risks in the risk continuum, consistent with the assigned mission and pursued objectives. It also represents a mandatory reference in the structuring and performance of all activities of a non-systematic character or contingent nature. At a general level, the Bank implements its business model by way of an organisational model that ensures the coordinated deployment of human resources, technologies and methodologies on the basis of an internal regulatory framework that determines the structure of the operational controls, policies (rules, powers and limits) and processes within which activities are performed, including control activities.

In order to contribute to the efficient and effective functioning of a risk management process that is capable of covering all the risks that have been, or may be assumed, by the Bank as a whole, and also in compliance with the requirements of supervisory regulations, the Bank has implemented a risk objective system (Risk Appetite Framework(6)), an Internal Capital Adequacy Assessment Process (ICAAP) and an Internal Liquidity Adequacy Assessment Process (ILAAP).

The Bank assures the completeness, adequacy, functionality and reliability of the internal control system. In this respect, it formalises the framework of reference for the determination of risk propensity, the policies for governing risks and the risk management process, ensures that these are being applied and performs a periodic review to ensure their efficiency over time.

On the basis of the requirements of the Issuer's current internal regulations, compliance with the internal control requirements also takes into account the suitable involvement of the corporate bodies, each for its own area of competence, so as to assure the maximum segregation of duties and responsibilities, the completeness, adequacy, functionality and reliability of the internal control system and an adequate information flow structure.

(6) The Issuer's Risk Appetite Statement formalises the objectives of risk or propensity to risk (Risk Appetite) and the respective limits. Calibrating the indicators, the perimeter of action is identified within which the Operating Function and its organisational structure implement the strategic guidelines on the basis of the mission and objectives assigned in accordance with the established business model. The "tableau de bord" is monitored and agreed with the corporate bodies and subsequently sent to the supervisory authority on a quarterly basis.

The internal control system as a whole, which consists of several levels in which the corporate bodies and the business functions are positioned, is structured as follows:

- line controls ("first level controls"), designed to ensure that transactions are performed properly. These are performed by the operating structures themselves (for example hierarchical-type controls, systematic controls and controls by sampling), through units exclusively dedicated to control duties, which report to the heads of the operating structures, or are performed within the back office; to the extent possible these are built into the IT procedures.

The operating structures are first in line for having responsibility for risk management: during daily operations, these structures must identify, measure or assess, monitor, implement and report the risks deriving from ordinary business activities in accordance with the risk management process, and must comply with the operating limits assigned to them consistent with the risk objectives and with the procedures which detail the risk management process;

- risk and compliance controls ("second level controls"), have the objective of ensuring that, inter alia:

a) the risk management process is properly implemented;
b) the operating limits assigned to the various functions are complied with;
c) business operations comply with laws and regulations, including self-regulation.

The functions in charge of these controls are separate from the production functions; they are involved in the determination of the risk government policies and the risk management process;

- Internal Audit ("third level controls"), set up to detect breaches of procedures and regulations as well as to carry out regular assessments of the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and the IT system (ICT audit), with a pre-set frequency based on the nature and intensity of the risks. The rules of the individual business control functions establish in detail:

- the duties and responsibilities of such functions;
- the information flows between these functions and between these and the corporate bodies.

The heads of Risk Management, Compliance and the Anti-Money Laundering Function are required to inform the head of Internal Audit of any critical matters they have identified in their control procedures which could be of interest for audit activities.

Internal Audit is required to inform Risk Management, Compliance and the Anti-Money Laundering Function of any inefficiencies, weaknesses or irregularities emerging during the audit procedures for which they are responsible and regarding specific areas or subjects of their competence. The Board of Statutory Auditors ascertains whether the coordination of the control functions is adequate, effective and efficient.

First level controls

These are performed by the operating structures themselves, which carry out the various activities and provide the services to the Bank. To the extent possible the controls are built into the IT structure, as the existence of automatic controls ensures a considerable reduction of the risks, at least as far as operations are concerned. Internal regulations then set out a series of controls that each office must perform. The fact that the controls have been performed is then checked by the functions to which the higher level controls are delegated.

Second and third level controls

The Bank has for some time had a control department structured by identifying two separate areas, of which one - Internal Audit – is dedicated to third level controls and one – Control Area – is in charge of all second level controls. For each of these the Board of Directors has appointed a head of area who has a good educational and professional background and is independent, so as to ensure that the functions of their competence are performed properly and adequately.

At the Prospectus Date, Mr. Fabio Marchesi is in charge of the former function (Internal Audit) while Mr. Claudio Nordio (on an acting basis) is in charge of the latter (Compliance)[7]. Further information on the head of Internal Audit can be found in Chapter 16 of the Prospectus.

With the support of suitable staff, both preside constantly over the matters of their competence, organising and following all the necessary activities on a regular basis, as required by the annual plans approved by the Board of Directors.

Both functions prepare an annual work programme that is approved in advance by the Board of Directors and the Board of Statutory Auditors and a post hoc report describing the work performed, the weaknesses identified and the suggested measures to resolve them. In addition, they prepare detailed reports on the matters envisaged by the annual work programme, which are examined in detail in advance by the Risks Committee. The results of this examination are duly communicated to the Board of Directors so as to keep senior management constantly informed about each risk faced and any critical matters that may have emerged, also for the purpose of assessing the need for them to perform a specific review of the individual document themselves. The internal organisation of the activities for which the control functions are responsible has the following aims:

- to ensure the necessary segregation between operating and control functions;
- to avoid conflicts of interest in assigning responsibilities;
- to perform control activities at every operating level;
- to enable duties and responsibilities to be identified;
- to ensure the existence of proper and reliable information systems and procedures;
- to enable every event and transaction to be recorded in a suitable level of detail;
- to ensure that every anomaly is properly reported, managed and swiftly corrected.

(7) Claudio Nordio holds the position of Chief Risk Officer and has held the position as head of the Compliance function on an acting basis since 30 November 2018; in addition, it is noted that on 18 January 2019 the Board of Directors approved the appointment of a new head of the Compliance function, who is expected to commence duties in March 2019.

For this purpose,

- considerable importance is given to the production of detailed internal manuals to facilitate operators in performing their activities properly and to regulate and foster this approach;
- the reliability of the operating system is constantly monitored;
- a business culture is developed that is based on providing customer assistance within total respect for the rules;
- the customer is assured of receiving information concerning membership of the "Banking and Financial Ombudsman" scheme (Arbitro Bancario Finanziario – A.B.F.) as per the relative Regulation by making staff aware of the Bank's internal complaint procedures in order to be able to direct customers correctly in the use of such services.

In accordance with the provisions of the 15th revision of Circular 263, both functions have the possibility to converse directly with the Chairmen of the Board of Directors and Board of Statutory Auditors. Above all, in order to make the whole control structure more efficient, as stated above every report issued by these functions is subject to prior examination by the Risks Committee.The functioning of all the bodies and all the functions involved in the various control processes is duly governed by internal regulations regarding the system as a whole, structured as follows.

Compliance Function

The responsibilities of this function are governed by national legislation on controls over compliance with banking activity regulations, to be found in Articles 12 and 16 of the joint Bank of Italy – Consob Regulation issued pursuant to Article 6, paragraph 2-bis of the TUF and further clarified in the joint Bank of Italy – Consob communication of 8 March 2011 (on the segregation of the responsibilities of Compliance and Internal Audit when providing investment and collective asset management services), and again clarified in the 15th revision to Circular 263, transposed into Circular 285 (11th revision).

The Compliance Function is attributed the responsibility of identifying, controlling and assessing in a seamless manner:

1. the primary and secondary regulations that the Bank is required to apply;
2. the conduct that may give rise to breaches of laws and regulations, operating standards, and deontological and ethical principles as the result of the activities performed by the Bank as an intermediary;
3. the adequacy and effectiveness of the measures and procedures of a structural nature adopted by the Bank to prevent the conduct described in point 2) above;
4. the adequacy and effectiveness of the measures and procedures envisaged to remediate any weaknesses in fulfilling internal and external provisions.

More specifically, the Compliance Function is required to perform the following activities:

- identify on a continuous basis the laws and regulations applicable to the Bank and measure/assess their impact on business processes and procedures;
- make proposals for organisational and procedural changes designed to ensure adequate control over the identified risks of non-compliance;

- prepare information flows directed at the corporate bodies and the structures involved, on the basis of their responsibilities;
- verify the effectiveness of the organisational changes (structures, processes, procedures, also those of an operational and commercial nature) recommended to prevent compliance risk;
- perform any other procedure that may be indicated by law and/or supervisory regulations.

This function accordingly has an action – both preventive and concurrent – that is designed to ensure that current laws and regulations are properly applied as a means of avoiding that inadequate procedures or conduct may lead to administrative or criminal responsibilities.

In addition, the Compliance Function provides constant advice and assistance to the various persons in charge of the services offered by the Bank, including those of an investment nature, ensuring that complete information is available to foster informed financial decisions.

Chief Risk Officer (CRO) Division

The risk control function accordingly has the objective of collaborating in the determination and implementation of the Risk Appetite Framework and the relative risk government policies by means of a suitable risk management process.The CRO Division is therefore the owner of the process by which risk is measured or estimated and subsequently by which the strategies for governing/mitigating risk are developed:

- it supports the Chief Executive Officer and Top Management in corporate governance to ensure an integrated approach is taken in the process of identifying, assuming and managing the Bank's risks, consistent with the business model and business strategy, with the business plan and budgets and with the established risk policies, all in accordance with applicable internal and external laws and regulations;
- as part of the Risk Appetite Framework, it determines the underlying process and proposes the quantitative and qualitative parameters required to establish this in ordinary business situations and stress situations, ensuring their suitability over time in relation to internal and external changes;
- it proposes measurable and unmeasurable risk government policies that do not form part of the responsibilities of other control functions (restricted to the sections relating to risk management and to exposure and operating limits) and collaborates in implementing such, ensuring consistency of the various phases of the risk management process with the Risk Appetite Framework;
- it develops and assures the updating of the methodologies, processes and tools needed to manage the risks of competence (through identification, measurement/assessment, monitoring, control and reporting procedures), ensuring that they are adequate over time, also through the development and application of indicators designed to avoid anomalies and inefficiencies. More specifically it:
  - determines common measures for assessing operating risks (including IT risks) consistent with the RAF, coordinating with the Compliance Function and the IT Function;
  - determines the means for assessing and controlling reputational risks, coordinating with the Compliance Function and the more exposed business functions;

  - assists the corporate bodies in assessing strategic risk, monitoring the significant variables;
- it develops and maintains internal systems for measuring and controlling risks, ensuring compliance with legislative and regulatory provisions and consistency with business operating requirements and the evolution of the reference market;
- it adopts methodologies for the development and validation of models in line with legislative and regulatory principles based on two control levels;
- it monitors the actual risk assumed in relation to the risk objectives established as part of the Risk Appetite Framework, determining the operating limits on assuming the various types of risk, verifying that they are constantly adequate and compliant and reporting any excesses to the corporate bodies;
- it supports the Chief Executive Officer in implementing the ICAAP/ILAAP, preparing the report to be sent to the Supervisory Authority, coordinating the various stages in the process and performing those of its competence;
- it verifies the adequacy and effectiveness of the measures adopted for remediating the weaknesses encountered in the risk management process;
- it provides preventive opinions on consistency with the Risk Appetite Framework of Transactions of Greater Significance, obtaining, depending on the nature of the transaction, the opinions of any other functions that may be involved in the risk management process;
- it analyses the risks resulting from new products and services and those resulting from entry into new operating segments of the market;
- it is involved in determining and updating the criteria for classifying outsourcers, assessing the related risks;
- it is involved in the process of determining and managing remuneration policies and staff incentives;
- it performs second level controls on the credit chain, ensuring the existence of effective monitoring controls on credit exposures (especially non-performing loans), the right classification, the reasonableness of the provisions and the overall adequacy of the credit recovery process;
- it coordinates activities preliminary to the preparation and updating of the Resolution Plan, prepared by the Resolution Authority, directly performing the stages for which it is responsible;
- it assists in updating internal business regulations for the areas for which it is responsible;
- it presides over the public disclosure process (financial statements, notes to the financial statements, Pillar 3, etc.) for the areas for which it is responsible;
- it supports training in determining and implementing training courses, for the areas for which it is responsible;
- it conducts the activities for which it is responsible regarding the implementation of the 231 organisational model;
- it contributes to updating the Operational Continuity Plan to the extent of its responsibility.

Internal Audit function

Internal audit activity in the Bank is designed to control operational regularity and risk trends, through the use of in loco or remote procedures, and to assess the adequacy of the organisational structure and in particular the functionality of the overall internal control system, with the aim of bringing any improvements that can be made to risk management policies, measurement tools and procedures to the attention of the corporate bodies and top management.

In this respect, the Internal Audit Function carries out the following, inter alia:

- it verifies compliance - in the various operating sectors – with the limits set by the delegation mechanisms as well as the full and proper use of the information available in the various activities;
- it checks the reliability of the IT systems, including the automatic data processing systems, and the accounting entry systems, verifying the levels for logical security, integrity and confidentiality in the automatic data processing procedures as well as their technical and functional requisites;
- it verifies that when providing investment services the procedures adopted ensure compliance in particular with the applicable provisions on administrative and accounting segregation, the segregation of customer assets and the rules of conduct;
- it performs periodic tests on the functioning of operating and internal control procedures;
- it also carries out detection tests with regard to specific irregularities when requested by the Board of Directors, by top management or by the Board of Statutory Auditors;
- it verifies that any anomalies found in the operation and functionality of controls have been eliminated;
- it performs fact-finding contributions as to the levels of reliability, functionality and consistency of organisational components by carrying out analyses and factual testing designed to assess the suitability of the internal control systems and a systematic monitoring of the various types of risk;
- it assesses the business operational continuity plan, reviewing the verification programmes, attending the testing and checking the results.

Finally, it is noted that at the Prospectus Date the Issuer is in the process of implementing certain additional internal procedures connected with its operating activities.

6.1.3. Risk management process

The Risk Management Process (RMP) is a component of the organisational model, it runs across all the operating departments in which risks are assumed and managed, and provides that each department must identify, assess (measure), monitor, prevent and mitigate risks, additionally establishing the ways (the criteria, methods and means) by which such activities are conducted.

The PGR consists of the following five stages, whose order forms an integral part of the macro-process in question and which represent the general organisational structure of the Issuer's framework for risk assumption and management:

- **Identification of the risks (knowledge):** this assumes that each business process and/or operating and business activity that leads to the assumption of risks or the on-going management of such should envisage a phase for identifying the underlying types of risk and the factors that determine the respective dynamics. This phase assumes particular importance when commencing new activities and implementing new strategies (business, organisational development, etc.), but also in the case of on-going pre-existing activities when changes occur in the applicable context (market, operational, legislative, etc.).

- **Assessment/measurement of the identified risks (awareness):** this assumes that for each of the various types of risk identified the risk levels connected with the activity involved are assessed/measured. This phase assumes particular importance from the standpoint of the dynamics of the risks themselves and therefore from the standpoint of a forecast (or estimate) of how they will evolve as a function of the dynamics of the underlying factors and the possibility that adverse events will occur which may jeopardise achieving the expected results or cause losses. This also underpins the existence of a methodological framework for assessing/measuring each type of risk assumed and/or managed that has been established and implemented consistent with internal regulatory provisions and in accordance with the relative applicable regulatory framework (and for this purpose mention is made of the role performed in this ambit by the Business Control Functions, each for its respective area of competence).
- **Prevention and attenuation of the risks (strategy):** this consists in the prior identification, in both the start-up and current performance phases of operational and business activity, of the possible ways of preventing and implementing adverse developments in the dynamics of the risks assumed and/or managed. This phase presupposes that, on the basis of a cost/benefit analysis in a risk/result trade-off, actions or techniques are introduced that are capable of preventing the occurrence of internal or external adverse events or attenuating the effect in case of the occurrence of the event or an adverse dynamic; in any case such actions are aimed at dealing with the evolution, in the possible scenarios, of the risks underpinning operations within the Risk Appetite levels established for the specific operating or business department.
- **Monitoring and reporting (follow-up and control):** this is represented by the set of monitoring and constant assessment (measurement) activities of the evolutionary dynamics underpinning the operating and business activities set up in each department, by means that are consistent with the established methodological valuation structure, providing for reporting with a timing and at the levels established in the department's internal regulatory framework, and first of all act functionally as a preliminary, in terms of timing, precision and effectiveness, to the decision-making process underlying the management and mitigation activities included in the subsequent phase (in this respect mention is also made here of the role performed in this respect by the Business Control Functions, each for its respective area of competence).
- **Management and mitigation of the risks (reaction and pro-activity):** this phase is representative of the set of activities and actions that must be envisaged in each operating and business department in order to manage the evolutionary dynamics of the risks assumed and mitigate any negative impact on expected results in the case of the actual or expected (estimated) occurrence of an adverse dynamic, with the additional assumption that there is a constant monitoring of the results deriving from the activities performed. It is envisaged that the more sizeable operating and business departments will have developed entire business processes dedicated to such activities with the corresponding explicit organisational controls set-up to perform such activities. The existence of a decision-making process directed at identifying risk management and mitigation activities or the evolutionary/corrective maintenance of such, which rests solidly on the results of monitoring and reporting activities, as per the previous phase, represents a critical success factor for the effectiveness of such activities.

From an implementation standpoint, and with reference to each operational and business department, the practical structure of the general model represented by the RMP is reflected in the regulatory structure established and developed internally by the Issuer (regulations, policies, procedures, manuals, etc.), as well as in the resulting implementation of the various infrastructures (organisational, IT, methodological) designed to support the activities performed by the organisational control structure set up for the purpose.

In relation to the above, in its letter authorising the repurchase of treasury shares within the context of the Merger, the Bank of Italy stated as follows: [E]xecution of the planned initiatives falls within a context of total innovation of the bank's business model, which, based on the business plan, is to focus on new areas of operations, such as financial and advisory services for SMEs, the management of NPLs, and highly digital banking services. Within this process, the internal control functions play a central role in the bank's governance, as they represent an important lever in measuring and mitigating the risks taken on and in constantly verifying the sustainability of the company's business. As such, it is essential for the corporate bodies to have sufficient and timely knowledge of the results of the activities conducted by the internal control functions and of any dysfunctions encountered, so as to be able to implement the necessary corrective actions in an equally timely manner. In relation to this, the heads of the bank's internal control functions, each within the scope of their respective responsibilities, are required to provide the Board of Directors and Board of Statutory Auditors with quarterly reports[8] summarising the outcome of:

- *the analyses conducted by risk management concerning: the degree of the bank's exposure to the various types of risk (e.g. credit, operational, ICT, liquidity, market, interest rate, concentration, etc.); trends in asset quality; the consistency of the risk actually taken on with the limits set by the risk appetite framework; and current and future capital adequacy, taking account of the (first and second pillar) risks taken on and any increase in operating volumes;*
- *the audits conducted by the compliance and internal auditing functions, including indications of any deficiencies encountered and their severity, any corrective action taken or to be taken, the people responsible for the actions to be taken, and the time frame for their completion.*

After the corporate bodies have examined these reports, they are to be provided to the Bank of Italy in a timely manner. The first is to be submitted beginning with the report related to 31 December 2018. The content and layout of the reports may be the subject of future discussion with the supervisory authority.".

6.1.4. Indication of new products and/or services introduced (if significant) and, if the development of new products or services has been made public, indication of the state of development.

The Issuer intends to achieve success as a specialised operator in the Italian SME sector, with specific focus on difficult loans, and in the offer of highly digitised direct banking services.

As indicated in the 2018-2023 Business Plan (see Chapter 13 below), the Bank intends to offer its target customers specialised and dedicated products and services, as described below with reference to each division of the Bank.

(8) As of 31 March, 30 June, 30 September and 31 December.

In addition, the Issuer intends to adopt a business model characterised by high specialisation in the various operating stages involved in the provision of such products and services. The following is a brief description of the models and internal procedures that currently typify, and will in the future typify, the Issuer's activities, at full capacity, in its key operating sectors. For further information reference should be made to Chapter 13 of the Prospectus.

SME Division

The SME Division will conduct the following activities:

- loans to businesses with high potential but with a non-optimal financial structure and/or low rating or no rating: the Issuer will offer these parties, in cooperation with the banks in which they have accounts, credit products in different technical forms, both short- and medium-long term, to be linked consistently to processes of strategic/operative repositioning and corporate strengthening;
- *acquisition finance:* short- and medium-term loans with different technical forms, to be offered to corporate investors or to financial sponsors (mainly private equity funds), to finance business combination projects and acquisitions and, in general, to support external growth projects;
- turnaround services: purchase of loans from SMEs classified as Unlikely-to-Pay, with the objective of restoring them and returning them to performing status by identifying optimum financial solutions. In addition, the Issuer's strategy calls for adding to the credit activities of companies undergoing restructuring and turnaround a fronting activity of bank services (such as current asset management and financing services, transaction services, etc.) targeted to non-banking operators who invest in credit positions classified as "Unlikely-to-Pay (UTP);
- new finance: disbursement of loans in various technical forms to companies classified as "Unlikely-to-Pay (UTP) in the context of restructuring and restoration projects, in which the Issuer is also involved as the purchaser of all or part of the existing Net Financial Position of such companies;
- factoring: offer, by means of a digital channel, of a wide range of factoring products with the objective of fully exploiting the potential of this instrument to optimise supply chain financing methods for operators in Italian chains and industrial clusters.

At the Prospectus Date, an agreement is in place between the Issuer and Credimi, a European operator in the digital factoring sector, that governs the guidelines for collaboration between the two companies and which consists in the use by the Bank of the services, processes and systems of the Credimi platform for the Issuer's factoring operations, integrating them with its own IT platform. The agreement with Credimi has an initial term of six months, renewable on a monthly basis at the Issuer's request and subject to acceptance by Credimi, and provides for the retrocession of a portion of revenues by the Issuer in favour of Credimi (interest margin and commissions) actually received by the Issuer in respect of the factoring operations concluded through the Credimi platform.

At the Prospectus Date, the Issuer has completed the process for selecting the heads of the business segments managing the offer of the SME Division - Turnaround and New Finance, Crossover Lending, Acquisition Financing, and Invoice Lending – all of which are fully operative at such date. The Issuer has also recruited the head of the credit machine activity, who will be in charge of data analysis to support the assessment and monitoring of the loans granted and/or acquired by the Division. In addition, at the Prospectus Date, six tutors have begun analysis activities to identify possible investment opportunities. The current IT system's compatibility with organisational and business initiatives already undertaken enabled business activities to be launched in late 2018.

Lastly, in the context of the Bank's new operations, on 21 December 2018 the Issuer acquired from Fondo IDeA Corporate Credit Recovery (CCR) a financial exposure with nominal value of approximately EUR 30 million through Gruppo Clerprem, an industrial enterprise that designs, manufactures, and markets car and train seating systems and is involved in an ambitious business development plan. At the same date, the Bank concluded a EUR 15 million financing transaction with OWL, the holding company of the TAS Group.

For further information reference should be made to Chapter 13 of the Prospectus.

NPL Investment & Servicing Division

The Issuer's objective is to become one of the foremost operators in the Corporate NPL sector, specifically by means of the following three activities:

(i) the purchase of secured and unsecured corporate NPL portfolios from time to time by means of participation in competitive procedures or off-market purchases, on both the primary and secondary market;
(ii) the servicing of corporate NPL portfolios on its own account and for third parties, based on an internally developed, specialised servicing structure or through business agreements with specialised operators;
(iii) the provision of financing services, primarily through senior financing, to non-banking NPL investors.

At the Prospectus Date, the Issuer has already begun NPL portfolio purchase activities. In September, October, November and December, the Issuer's NPL Investment & Servicing Division concluded the following purchases:

- on 21 September 2018, through Aporti S.r.l ("**Aporti SPV**"), the securitisation vehicle under Article 130/1999, the Bank purchased from Cassa di Risparmio di Volterra S.p.A. a portfolio of non-performing loans with a gross nominal value of EUR 155 million, consisting primarily of corporate positions mainly secured on business and industrial assets with an average value per position of EUR 250,000. The purchase was concluded with the issuance of notes wholly subscribed by the Bank on 29 October 2018 (for further information reference should be made to Chapter 13 of the Prospectus);
- on 8 October 2018, through Aporti SPV, the Bank purchased from Istituto Finanziario del Mezzogiorno S.p.A., on the secondary market, an NPL portfolio with a gross nominal value of EUR 262 million, 74% of which consisting of unsecured positions. The purchase was concluded with the issuance of notes wholly subscribed by the Bank on 16 November 2018 (for further information reference should be made to Chapter 13 of the Prospectus);
- on 15 November 2018, the Bank concluded the purchase of a third NPL portfolio with a gross nominal value of EUR 347 million. Over 80% of the gross nominal value of the portfolio,

sold by Banca Popolare di Puglia e Basilicata S.p.A., consisted of unsecured corporate positions. The purchase was concluded through Aporti SPV by means of the simultaneous subscription of notes by the Bank;

- on 26 November 2018 the Bank purchased from Unicredit S.p.A. a fourth NPL portfolio with a gross nominal value of EUR 206 million, consisting entirely of unsecured loans to Italian companies, with an average value of EUR 2.7 million per loan agreement. In this case too the purchase was concluded through Aporti SPV by means of the simultaneous subscription of notes by the Bank;
- on 28 December 2018 a further three portfolios were purchased for a total nominal value of EUR 40 million from a series of small and medium-sized banks. More specifically, the first portfolio, 54% of which consisted of unsecured loans, was purchased for a total nominal value of approximately EUR 23 million; the second portfolio, of which 90% consisted of secured loans, was purchased for a total nominal value of approximately EUR 7 million; the third portfolio, of which 68% consisted of secured loans, was purchased for a total nominal value of approximately EUR 10 million. These purchases were concluded through Aporti SPV, with simultaneous subscription of the notes by the Bank. The analysis of the portfolios was carried out with the assistance of a consulting firm expert in the analysis of NPL portfolios and not related to the Issuer. This firm was engaged by the Head of the NPL Division, holding the necessary powers;
- again on 28 December 2018, the first single name transaction was carried out for a nominal value of EUR 25 million, consisting of five NPL positions with corporate debtors secured on industrial and business assets in Lombardy. The transaction was concluded through Aporti SPV with a bank operating mainly in northern Italy. The analysis of these positions was conducted with the assistance of a company specialised in the analysis of property assets and a law firm expert in the legal analysis of NPLs. The engagement was granted by the Head of the NPL Division, holding the necessary powers. Neither of the two advisors is related to the Issuer;
- lastly, on 22 February 2019, the Bank purchased an NPL portfolio, of which 68% consisted of secured corporate loans, having a total nominal value of approximately EUR 31.6 million from a bank in the small and medium-sized category. This acquisition was concluded through Aporti SPV, with simultaneous subscription of the notes by the Bank. The analysis of these positions was conducted with the assistance of a consultancy firm expert in the analysis of NPLs, that is not related to the Issuer. The engagement was granted by the Head of the NPL Division, holding the necessary powers.

Following these transactions, the total gross nominal value of the NPL portfolio held by the Bank was approximately EUR 1.18 billion. A price of approximately EUR 97 million was paid for the NPL portfolios acquired.

It should be noted that as far as the operations of the Bank's NPL Investment & Servicing Division are concerned, the decisions for the selection and purchase of the NPL portfolios are the responsibility of the Issuer, while the execution of these purchases is usually carried out by means of securitisation structures pursuant to applicable legislation. More specifically, the purchases of the above portfolios were concluded through Aporti S.r.l. (Aporti SPV), a securitisation vehicle within the meaning of Law no. 130/99 set up by Centotrenta Servicing S.p.A., a third party with respect to the Issuer, which is a financial intermediary and master servicer for securitisations, meaning the entity that has the task of monitoring the activities performed by the servicers and ensuring that a securitisation complies with applicable law. The Issuer subscribed notes issued by Aporti SPV to carry out the above transactions. It is additionally noted with respect to these portfolios that consistent with the Issuer's business model, as at the Prospectus Date special servicer activities are performed by Neprix S.r.l., which may also avail itself of third party providers. At 20 February 2019, Neprix S.r.l. had 15 staff. Special servicer activities were performed by CRIBIS Credit Management (CRIF group) before the authorisation of Neprix S.r.l. pursuant to Article 115 of the TULPS. Reference should be made to Chapter 5, Paragraph 5.2.2 as regards Neprix and to Chapter 7, Paragraph 7.2 as regards Aporti SPV. The Division's activity has been made possible by the selection of the information package, the implementation of the IT system for management of NPL portfolios and the engagement of the master servicer in the second half of 2018. In addition, at the Prospectus Date, in line with the Bank's business model, which with reference to NPLs calls for the internalisation of the entire value chain of NPL portfolio management and business agreements with servicers selected from time to time based on the specificities of purchased assets, there is a consulting agreement between the Issuer and Neprix under which Neprix provides consultancy for investments in NPL portfolios and for the related due diligence for the purposes of the Bank's investment activities.

For more information on the Bank's business model and on the above-mentioned agreements, reference should be made to Chapter 13, Paragraphs 13.3 and 13.5 and Chapter 19, Paragraph 19.3 of the Prospectus respectively.

Retail Division

The direct Bank will offer digital banking services to retail and corporate customers. By means of a platform supported by cutting edge technologies developed to comply with new regulations – for example account aggregations foreseen by the PSD2 - the Issuer intends to provide households and individuals with tools to manage the family budget.

An offer of digital CFO services to companies will be developed.

Specifically, the offer will focus on four product categories:
- deposits: with competitive rates and a simple and customisable product structure;
- payment services: using a platform that integrates the most innovative tools on the market, the Bank will offer payment systems and advisory services to manage the family budget;
- digital CFO dedicated to SME customers: services include reporting, cash flow analysis, and forecasting tools;
- advice on a complete range of other banking products for families (such as loans, personal loans and insurance), to be made available to customers through partnerships with selected operators.

Late in the year, the Retail Division completed the plan for its offer of products, related commercial features and pricing, defined the product architecture, the front-end and the user experience and designed the process for initiating relations with new customers. The communication plan and the development strategy for the "illimity" brand were also established.

For further information reference should be made to Chapter 13 of the Prospectus. .

6.2. PRIMARY MARKETS

As at the Prospectus Date, the Issuer is a small bank in the Emilia Romagna region of Italy with a business network of 7 branches in the province of Modena, Bologna, and Reggio Emilia. It operates with a commercial bank model with direct deposit, its reference customers being Small-Medium Enterprises and depositors.

In the period analysed in this Prospectus, the Issuer's direct deposits increased at an average annual rate of about 14.7%, reaching the amount of EUR 588 million as at 30 September 2018, up by 11% in only nine months of 2018. Over the same period, the number of customers of the Bank increased almost by 16.5%, 8% of which in 2018, as reassurance for the fact the announcement of the Business Combination agreement with SPAXS of 12 April 2018 has not resulted in any negative impact on the relations with previous customers of the Bank.

DIRECT CUSTOMER DEPOSITS BY TECHNICAL TYPE *(Thousands of euros)*	**30/09/2018**	**31/12/2017**	**31/12/2016**	**31/12/2015**
Current accounts	441,588	398,688	373,804	277,468
Savings deposits	1,905	1,558	4,708	4,693
Time deposits	36,905	25,932	19,881	19,181
Repurchase agreements	–	–	–	–
Certificates of deposit	72,806	68,073	62,956	56,292
Bonds	26,315	26,362	44,423	44,161
Financing	7,504	6,561	1,644	1,482
Other	975	1,804	524	292
Total Direct deposits	**587,998**	**528,978**	**507,940**	**403,569**

The table below shows the number of Customers (by direct deposits) as at 30 September 2018, and at the end of the financial years ended 31 December 2017, 2016 and 2015, respectively.

No. Customers (Direct deposits)	**30/09/2018**	**31/12/2017**	**31/12/2016**	**31/12/2015**
	6,774	6,256	5,206	4,450

The following table shows the Bank's income at 30 September 2018 and at the close of the financial years ended 31 December 2017, 2016, and 2015, respectively, with percentages of income for each type of product and service offered.

	30/09/2018	31/12/2017	31/12/2016	31/12/2015	2017 vs 2016	2016 vs 2015
Commission income	3,608	4,851	3,903	2,902	24%	34%
– guarantees issued	197	340	283	209	20%	35%
– management, brokerage, and consulting services	306	404	197	197	105%	0%
– deposit and payment services	669	901	886	604	2%	47%
– maintenance of management of current accounts	2,331	3,061	2,234	1,877	37%	19%
– other services	105	145	303	15	-52%	1920%
Commission expense	**(396)**	**(515)**	**(598)**	**(368)**	**-14%**	**63%**
– guarantees received	(28)	(73)	(83)	(28)	-12%	196%
– management and brokerage services	(40)	(50)	(42)	(38)	19%	11%
– deposit and payment services	(156)	(217)	(221)	(200)	-2%	11%
– other services	(172)	(175)	(252)	(102)	-31%	147%
Net commissions	**3,212**	**4,336**	**3,305**	**2,534**		

The table below provides an analysis of the Bank's intermediation margin as at 30 September 2018, and at the end of the financial years ended 31 December 2017, 2016 and 2015, respectively.

	30/09/2018	31/12/2017	31/12/2016	31/12/2015	2017 vs 2016	2016 vs 2015
Intermediation margin	1,451	19,346	16,946	16,492	14%	3%
– Interest income	7,588	11,118	9,638	9,904	15%	-3%
– Net commissions	3,212	4,336	3,305	2,534	31%	30%
– Dividends and similar income	-	-	-	-	-	-
– Net profit (loss) from trading activity	(792)	963	36	19	n,a,	89%
– Profit (loss) of sales or resales of:	(8,690)	2,961	3,966	4,035	(25%)	(2%)
a) receivables	-	(516)	(448)	11	15%	n,a,
b) financial assets at fair value through comprehensive income	(8,684)	3,444	4,412	4,016	(22%)	10%
c) financial liabilities	(6)	33	2	8	n.a.	(75%)

The table below provides an analysis of the Bank's interest margin as at 30 September 2018, and at the end of the financial years ended 31 December 2017, 2016 and 2015, respectively.

	30/09/2018	31/12/2017	31/12/2016	31/12/2015	2017 vs 2016	2016 vs 2015
Interest income	**10,689**	**15,752**	**15,423**	**16,346**	**2%**	**-6%**
– financial assets at fair value through profit and loss	-	-	-	-	-	-
– inancial assets at fair value through comprehensive income[9]	2,665	6,117	6,960	8,716	(12%)	(20%)
– financial assets at amortised cost including:	7,544	9,635	8,463	7,630	14%	11%
a) receivables due from banks	273	364	279	40	30%	n,a,
b) receivables due from customers	7,271	9,271	8,184	7,590	14%	8%
Interest expense	**(3,101)**	**(4,633)**	**(5,785)**	**(6,442)**	**(20%)**	**(10%)**
– financial liabilities at amortised cost, including:	(2,980)	(4,633)	(5,785)	(6,442)	(20%)	(10%)
a) payables to central banks	(43)	(235)	(225)	(225)	4%	0%
b) payables to banks	(109)	(87)	(50)	(7)	75%	n,a
c) payables to customers	(1,277)	(1,927)	(2,641)	(3,276)	-27%	-19%
d) debt securities	(1,551)	(2,384)	(2,869)	(2,934)	-17%	-2%
– financial assets	(121)	-	-	-	-	-
Net interest	**7,588**	**11,118**	**9,638**	**9,904**	**15%**	**-3%**

As at 31 December 2017, there were 92 banks in the Emilia Romagna region, of which 33 with administrative headquarters, for a total of 2803 bank branches. In the last three years, as a result of mergers and reorganisations, the region's credit sector has witnessed a decrease in the number of brokers operating in the territory and a reduction in the number of branches higher than the national average (overall reduction of approximately 10.7% compared with the national average of less than 10%)[10]. In June 2018[11], over 50% of loans to customers and deposits by customers in the region was concentrated in the province of Bologna, Modena, and Reggio Emilia, territories in which the Bank operates.

Since the end of 2015, the stock of direct existing customer deposits in deposits with agreed maturity, deposits deemable with notice, savings certificates and certificates of deposit in the Emilia-Romagna region increased by almost 4% on an average annual basis [12], for a total amount of about EUR 130 billion as at 30 September 2018.

(9) New item provided for by the new international accounting standard IFRS 9 Financial Instruments. For the years 2017, 2016 and 2015 (when the previous IAS 39 standard was in force) the interest income have been included in the Financial Assets Available for sale.

(10) Source: Bank of Italy, "Regional Economies – The economy of Emilia Romagna," June 2018 - http://www.bancaditalia.it/pubblicazioni/economie-regionali/2018/2018-0032/index.html

(11) Source: Bank of Italy, "Regional Economies – The economy of Emilia Romagna" Economic update, November 2018. http://www.bancaditalia.it/pubblicazioni/economie-regionali/2018/2018-0032/1832-emilia.pdf

(12) Source: Bank of Italy – Online statistical base - https://infostat.bancaditalia.it/inquiry

The trend of customer deposits in the Issuer's relevant historical territory is in line with the scenario of the Italian banking system as a whole. Over the same period, indeed, the customer deposits of all banks in Italy recorded an average annual growth rate of about 4%. The analysis of the different components shows a clear divarication between short-term and medium-long term sources. Deposits by resident customers from end 2015 to September 2018 showed an average annual increase of 4%; simultaneously, the bonds declined on average by almost 15% on an annual basis. Data of the last part of 2018 confirm this trend: in the last quarter of 2018, the direct existing customer deposits showed a growth on the previous quarter (+0.4%) as bonds further decreased by 5%(13),

As better described in Chapter 13 hereof, the Issuer seeks to develop an offer of sight and term current account products distributed through direct digital banking (mobile banking and web banking). The Issuer's objective is to acquire almost 75,000 customers by 2020 and 200,000 by 2023, and an overall stock of direct deposits (among the types of sight and term current account) of EUR 1,9 billion. Compared to the overall stock of deposits of the Italian banking system(14), the Issuer's objective amounts to a target market share of 0.1%.

The dynamics of bank loans from the end of 2015 to December 2018 showed a slight decrease, with loans to private sector firms and families down of EUR 91 billion, amounting for a negative average annual change of about 2%(15).

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As described in paragraph 6.1 above, in line with the Business Plan, the Issuer's strategic objective over the plan horizon is to develop its activities in specific market segments that are insufficiently served by traditional financial operators. The following is a description of these markets and of their main characteristics. For more information see Chapter 13, paragraph 13.3 of the Prospectus.

(13) Source: ABI Monthly Outlook - Economia e Mercati Finanziari-Creditizi", January 2019 - https://www.abi.it/DOC_Mercati/Analisi/Scenario-e-previsioni/ABI-Monthly-outlook/Sintesi%20gennaio%202019%20st.pdf

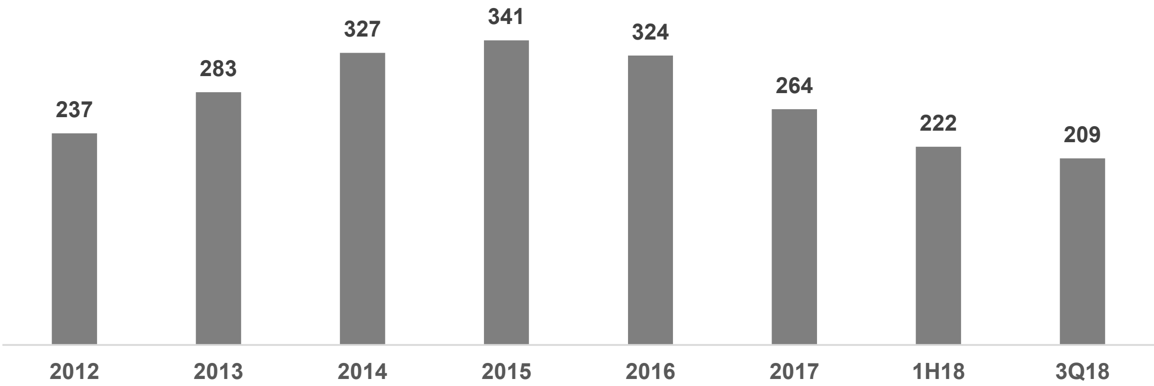
(14) Source: ABI Monthly Outlook - Economia e Mercati Finanziari-Creditizi", December 2018 https://www.abi.it/Pagine/Mercati/Analisi/Scenario-e-previsioni/ABI-Monthly-outlook.aspx

(15) Source: for data as at December 2018: ABI Monthly Outlook - Economia e Mercati Finanziari-Creditizi", January 2019 - https://www.abi.it/DOC_Mercati/Analisi/Scenario-e-previsioni/ABI-Monthly-outlook/Sintesi%20gennaio%202019%20st.pdf
For data as at December 2015: ABI Monthly Outlook - Economia e Mercati Finanziari-Creditizi", January 2016 - https://www.abi.it/DOC_Mercati/Analisi/Scenario-e-previsioni/ABI-Monthly-outlook/Sintesi_gennaio_2016.pdf

The Italian market in impaired loan transactions - NPLs and UTP

According to the last data available[(16)], as at September 2018, gross value of impaired loans in the Italian banking system (measured by the gross overall stock including NPLs, Unlikely-To-Pay, and past due/overdrawn exposures) totalled approximately EUR 209 billion, of which EUR 120 billion were classified as NPLs, EUR 83 billion as Unlikely-To-Pay or UTP, and EUR 5 billion as overdrawn/past due[(17)].

Evolution of gross impaired loans in the Italian banking system, 2012-Sept 2018



Source: Bank of Italy, Banks and financial institutions: conditions and riskiness of the loan by sector and territories, 31 December 2018

A downward trend characterised the impaired loans of the Italian banking system since 2015, when the total stock reached the peak of EUR 341 billion. Since then, the value of total gross value of impaired loans decreased by almost 39%, amounting for an annual average decline of16%. Within the category, the stock of NPLs decreased by 40% since 2015, accounting for EUR 120 billion as at September 2018; a similar trend concerned the UTP stock, down by 40% since 2015 to EUR 83 billion. This dynamic is mainly ascribable to the derecognition and/or sale of NPL portfolios over the last few years by some Italian banks[(18)].

As at September 2018, the stock of NPLs in the corporate and SME segment represented the largest share (about 77%) of total gross NPLs[(19)].

(16) Bank of Italy, Banks and Financial Institutions: Credit Conditions and Risk by Sector and Geographical Area, 31 December 2018 - http://www.bancaditalia.it/pubblicazioni/condizioni-rischiosita/2018-condizioni-rischiosita/statistiche_STACORIS_20181231.pdf

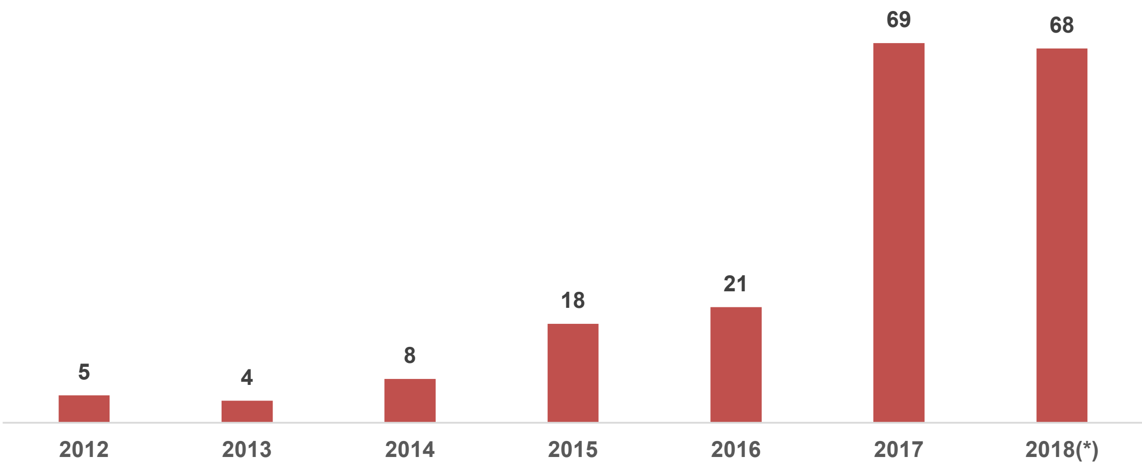
(17) Bank of Italy, Banks and Financial Institutions: Credit Conditions and Risk by Sector and Geographical Area, 28 September 2018 - http://www.bancaditalia.it/pubblicazioni/condizioni-rischiosita/index.html

(18) PwC – Italian NPL market, June 2018 - https://www.pwc.com/it/it/publications/npl-market.html

(19) Bank of Italy, Banks and Financial Institutions: Credit Condition and Risk by Sector and Geographical Area, 31 December 2018 - http://www.bancaditalia.it/pubblicazioni/condizioni-rischiosita/2018-condizioni-rischiosita/statistiche_STACORIS_20181231.pdf

After a slow start in the three-year period 2012-14, the Italian NPL market took off in 2015 and reached EUR 68[10] billion in gross nominal value of loans sold. EUR 373 billion were sold in 2018.

NPL market in Italy, 2012-Sept-2018*



Source: PwC – Italian NPL market, December 2018. Note:(*) Till the date of publication of the report, i.e. December 2018

As at September 2018, the gross stock of UTPs in the Italian banking sector amounted to EUR 83[11] billion, down by 12%) from December 2017 and 35% compared to the 2015 peak.Approximately 79% of the stock is represented by NPLs to companies and SMEs.

The UTP market took its first steps during 2017, in which almost EUR 16 billion in portfolios and single-name Unlikely To Pay[10] were transacted.

The introduction of the new IFRS 9 (in force from 1 January 2018) and the new ECB guidelines on the rules on provisions for impaired loans has already had an effect on how they are handled, as demonstrated by the fast increase in the numbers of NPL and UTP transactions occurred in the latest 18 months.

Based on those trends, it is estimated that over the next five years corporate NPLs amounting to a gross book value of 135 billion euros will be sold in Italy's primary and secondary markets. Sales on the primary market are those made by entities, such as banks and financial intermediaries, that have directly originated the loans (the "originators"). On the other hand, sales on the secondary market are those made by entities, such as for example securitisation vehicles or financial intermediaries, that have previously purchased the portfolio from originators on the primary market.The expertise required to invest in the two markets is the same.

With no analysis and prospects on the NPL transaction market in the next five years, the estimate of potential size of the market has been developed by the Issuer's Management based on the experience gained in the sector, and hence it is affected by discretionary assumptions.

In particular, the Issuer's management is expecting NPL portfolio transaction flows of over 100 billion euros on the Italian primary market, of which a prevalent part (around 90 billion euros) represented by corporate loans, consistent with their proportion of the Italian banking system's non-performing loans as a whole and on the assumption of an acceleration of the sale of this type of loan, consequent to a first phase of portfolio transaction dominated by the sale of retail loans

This opinion is based on the expectation that the de-risking steps being taken by players in the Italian banking sector will continue, given the emphasis placed by the supervisory authorities on a reduction of the existing stock of the system's non-performing loans, an emphasis confirmed by the guidelines on NPL coverage levels assigned by the ECB to European banking institutes as part of its recent Supervisory Review and Evaluation Process (SREP), as well as by supervisory regulations which have seen the recent introduction of the CRR dealing with the requirement for minimum provisioning levels for non-performing loans to be based on estimates consistent with their ageing (the Prudential Backstop).

In line with the evolution observed in countries with a mature NPL portfolio transaction market, taking place at the same time as the primary market, management is expecting a development of the secondary NPL portfolio transaction market, which took its first steps in 2018.

At the same time and for the above-stated reasons, it is expected that in the next five years there will be a spurt of growth in the UTP transactions market too.

The Italian Crossover market

At June 2018, the total stock of gross performing loans in the Italian banking system to companies and SMEs reached EUR 679 billion(20). The Issuer estimates that approximately 25% of such loans, amounting for a potential market of EUR 160-170 billion, are to companies with a low credit rating or no rating. With no analysis and prospects on the market of this loan segment within the broader category of loans to firms, the estimate has been developed by the Issuer's Management based on the experience gained in the sector and proprietary analyses, and hence it is affected by discretionary assumptions.

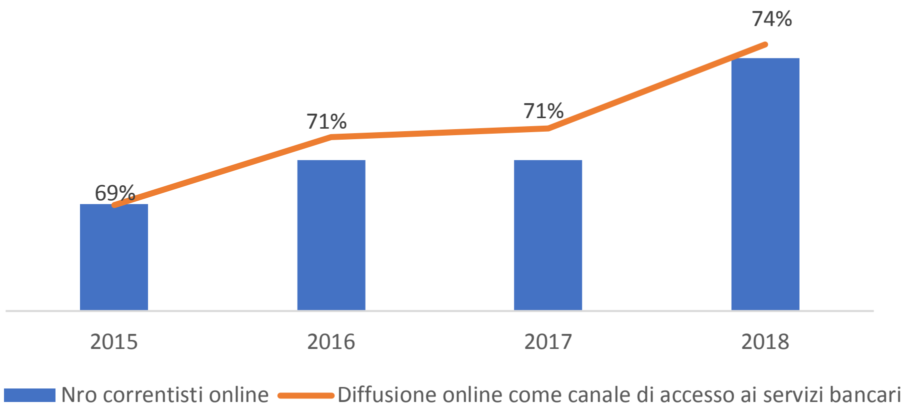
(20) Bank of Italy, Banks and Financial Institutions: Financing and Funding by Sector and Geographical Area, 31 December 2018 - http://www.bancaditalia.it/pubblicazioni/finanziamenti-raccolta/2018-finanziamenti-raccolta/statistiche_STAFINRA_20181231.pdf . Loans (excluding NPLs and PCT) of non-financial Companies and family businesses.

The Italian factoring market

The Italian factoring market represents approximately 13% of GDP(21). Based on the preliminary data disclosed by Assifact(22), in 2018, the market recorded turnover of almost EUR 238 billion with a cumulative increase of 7.7% over the previous year.This positive trend also characterised current loans (EUR 67 billion), which were up 8% compared to 2017, and advances and considerations disbursed to companies (EUR 54 billion), up 8% compared to the previous year.

Direct digital banking

According to a recent survey, the number of Italian account holders who use the online channel at least once a month to access banking services has increased by 19% in the last three years, reaching 19.2 million at the end of 2017(23),



In the same period, distribution of the online channel for banking services increased from 69% to74%.

The average number of online accounts per account holder was 1.3 times higher than the average number of accounts for traditional bank channel (bank teller) account holders[7].

Currently, 5.9 million customers do not use the online channel even though they have a current account and use the Internet on a regular basis, and are therefore a source of potential significant growth for digital banking services[7].

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(21) Source: Assifact, Press release: "Factoring never stops," data as at 31 December 2017 - http://assifact.it/wp-content/uploads/2018/02/CS-Assifact-Dati-al-31.12.17-16-feb-2018.pdf

(22) Source: Assifact CrediFact, "Factoring in figures", preliminary data as at 31 December 2018 - http://assifact.it/wp-content/uploads/2019/02/2018-12.pdf

(23) CheBanca! Digital Banking Index Italy, March 2018 - http://www.affaritaliani.it/static/upl2018_restyle/rice/ricerca_chebanca–digital-banking-index.pdf

6.2.1 Regulatory framework

Below is a brief description of some rules and regulations deemed as significant by the Issuer for the performance of its activity.

Recovery of past due receivables

Foreword

The legislative framework concerning the collection of defaulted loans is mainly defined within Book III of the Italian Code of Civil Procedure, which governs the entire executive process (with the sole exception of certain special executive procedures, such as those that concern fiscal matters) and actions filed in opposition of forced collection (Articles 615-616 of the Code of Civil Procedure), in opposition of the formal regularity of the implementing acts (Articles 617-618 of the Code of Civil Procedure), and opposition filed by a third party (Articles 619-622 of the Code of Civil Procedure).

In particular, the Title II is dedicated to collection by repossession generally (Articles 483-512 of the Code of Civil Procedure) and in its various forms (repossession of moveable property: articles 513-542 of the Code of Civil Procedures; repossession from third parties:Articles 543-554 of the Code of Civil Procedure; repossession of real estate:Articles 555-598 of the Code of Civil Procedure). Certain provisions concerning repossession may also be found in the Italian civil code and concern this process in relation to its function and its result (Articles 2910-2928 of the civil code).

This legislative framework has been amended by Italy's parliament, which passed law decree no. 83 of 27 June 2015 ("Law Decree 85/2015"), which was converted into Italian law no. 132 of 6 August 2015 ("Law 132/2015"), and law decree no. 59 of 3 May 2016 ("Law Decree 59/2016"), which was converted into law no. 119 of 30 June 2016 ("Law 119/2016"). These legislative actions—within a broader reform effort by the Italian government aimed at improving the efficiency of the civil justice system, with a particular focus on safeguarding and developing credit collections—have sought to reduce the length of collection proceedings, both of individuals and in bankruptcy proceedings, aimed at ensuring greater transparency of information of relevance in the collection of impaired loans and to increase the mechanisms safeguarding creditors through increasingly flexible real guarantees that make it possible to collect on loans more quickly without, in certain cases, having to resort to legal action.

The activity of past due debt recovery includes also the insolvency procedures, rules of which are contained in the Royal Decree no. 267 of 16 March 1942 ("Bankruptcy Law").

Amendments introduced by Law 132/2015

A) Reduced procedural timescales. The Law 132/2015 intervened, above all, on the rules of the forced foreclosure with the purpose of streamlining and accelerating the related procedure through reduced timescales assigned to the creditor for the start of the procedure and its continuation (e.g. the timescale assigned to the creditor to ask for the sale or assignment of the foreclosed property was reduced from 90 to 45 days from the foreclosure notice; the timescale to file the mortgage and cadastral documentation relating to foreclosed property was reduced from 120 to 60 days from filing the petition for sale; the timescale to schedule the hearing for the sale of foreclosed property was reduced from 120 to 90 days from filing the mortgage documentation).

B) The computerisation process of the loan recovery system. Always for the purpose of speeding up the foreclosure actions and facilitating the creditors, the Law 132/2015 introduced some provisions aimed at implementing the computerisation process of the loan recovery system, providing for the creation of a dedicated website handled by the Ministry of Justice where the documents of the foreclosure actions shall be published, as well as the implementation of a system which enables the creditor to search electronically the debtor's property to be foreclosed whilst having access to different databases.

C) The optimisation of the enforcement procedures on property assets. In order to reduce the duration of the property enforcement actions, the Law 132/2015 has introduced some measures aimed at facilitating the sale of foreclosed property assets, streamlining the related procedure and providing for mechanisms to extend the scope of potential buyers. In particular, the legislator determined that the purchase offer can indicate an amount that is lower than the price set by the judge (provided that it is not lower than 75%). Furthermore, the Law 132/2015 has provided that the sale price can be paid in instalments (provided that the buyer gives a personal guarantee for an amount of at least 30% of the price itself).

D) Tax benefits. The Law 132/2015 have introduced specific provisions aimed at making banks and financial intermediaries detect, in a more tax-efficient way, write-downs and receivables on the balance sheet. Based on the new regulation, losses from the sale for valuable consideration of loans, and write-downs on receivables from customers on balance sheet are fully deductible for the corporate income tax (IRES) in the financial year in which they are detected (without prejudice to the financial year of first application of the rule – tax year following the current one as at 31 December 2014 – in which the write-downs and losses other than those realised following sales for valuable consideration on balance sheet were deductible for 75% of their amount, while the remaining 25% is, as a general rule, deducible in instalments till the current tax period as at 31 December 2025). As for the write-downs and losses other than those realised through sales for valuable consideration, the Law 132/2015 provides that they are relevant net of revaluations of loans as resulting from the balance sheet.

Amendments introduced by Law 119/2016

A) The electronic register of the proceedings of property forced expropriation, insolvency and company crisis management The Law 119/2016, following on the 2015 reform, has above all continued the computerisation project of the loan recovery system, both individually and as insolvency procedure, with the purpose of improving the management of impaired loans providing a higher transparency of the system and facilitating the access for credit and financial brokers to data that are relevant for the debtors. In this respect, the Law 119/2016 established the creation, at the Ministry of Justice, of an electronic register of the procedures of property forced expropriation, insolvency and company crisis management, containing all relevant information and documents, by enabling creditors to constantly monitor the debtors' situation. Based on the Law 119/2016, the register will be totally digitalised and will be made up of a public access section and a limited-access section.

B) The implementation of electronic tools for the loans recovery In line with the Law 132/2015 and always in the context of streamlining the foreclosure procedure, the Law 119/2016 has made the use of electronic tools mandatory to perform many of the activities provided for within the scope of property forced expropriation proceedings (e.g. payment of deposit, submission of bids), unless the use of electronic methods affects negatively the interests of the creditors or the timely enforcement of the procedure (Article 569, paragraph 4, Italian Code of Civil Procedure). Said provision applies to forced sales of property assets ordered after 90 days from the publication on the Official Journal of the ministerial decree for the implementation of the Sales Portal (established with Ministerial Decree 31 October 2006 for the search and monitoring of data relating to ongoing forced sales) which shall be issued no later than 30 June 2017.

C) Speed-up timescales for loans recovery The Law 119/2016 has provided other amendments on the rules of the Code of Civil Procedure aimed at speeding up the foreclosure procedures, also by limiting the instrumental and misplaced initiatives that may be taken by the debtors to avoid or delay the settlement of the loan. In this respect, the legislator has introduced (i) a time-limit within which the debtor can base his opposition to the foreclosure, namely not later than the moment in which the expropriated asset is set to be sold or assigned (before these latest amendments, the debtor could base his opposition till completion of the foreclosure procedure); (ii) the obligation for the Judge to enforce or for the delegated professional to prepare a project for an early and partial allocation of the amounts arising from awarding the foreclosed asset, instead of waiting for the final allocation project (the only limit is that the partial project does not exceed 90% of said amounts); (iii) a maximum number of attempts at sale in the foreclosure procedures on movables (that is 3, while, before these latest amendments, the number was a minimum limit) to be made within 6 months (instead of the annual time-limit applied before these latest amendments). The Law 119/2016 has also further amended the rules governing the immovable foreclosure procedures with the aim of facilitating the sale of foreclosed property assets, providing that (i) if no bids were submitted at sale of the property asset, the creditor can ask for the assignment of the asset in his favour or indicate a third party to whom the asset ownership can be directly transferred upon completion of the assignment (while before the reform the creditor could only ask for the assignment of the property asset to his favour); (ii) after the first 4 attempts at sale with no bids, the sale price of the property asset can be reduced by 50% (instead of 25%); (iii) the power to order the release of the property asset is given to the custodian, without resorting to judicial officer.

D) Amendments of Article 2929-bis of the Italian Civil Code The Law 119/2016 has provided some amendments to Article 2929-bis of the Italian Civil Code that has been introduced with the Law 132/2015 with the specific purpose of favouring the creditors and optimising the foreclosure procedures on assets subject to restrictions of unavailability or disposal without compensation. In particular, the Article 2929-bis of the Italian Civil Code provides that, if the debtor takes actions aimed at harming the creditor in the foreclosure on registered movables or immovables (e.g. with a donation), the creditor can proceed with the forced foreclosure also before that these deeds or restrictions are declared as ineffective by the relevant Judge. The only conditions required are that (i) the creditor is vested with a valid enforcement order (e.g. public deed or authenticated private contract) and that (ii) the foreclosure deed is entered in the public register within one year after the recording date of the tortious deed. With the Law 119/2016, the legislator has further tightened the protection for the creditor by specifying that if the debtor's asset has been transferred to a third party, the creditor can propose the expropriation against the third-party owner and be satisfied with preference compared to personal creditors of the third party.

Furthermore, if with the deed of transfer of the asset to the third party, rights of easement, use and dwelling are established on the asset itself, the creditor can anyway foreclose the asset as it was with no restrictions.

E) The pledge on movable assets without dispossession and the transfer of an immovable asset subject to condition precedent (the so-called "Patto Marciano") The Law 119/2016 has tried to ease the management of outstanding debt also by introducing some significant security structures for debt recovery as aimed to offset the credit claims without resorting to the judicial authority. In this scenario, there is the arrangement of the "pledge without dispossession", whereby the physical delivery of the asset to the creditor is not required for the security to be valid and enforceable, by way of derogation from what is usually provided for in our legal system. Unless the parties agree otherwise, the pledgor, who retains the physical possession of the asset, is entitled to transform or sell the asset (Floating Charge). In this case, the pledge is alternatively transferred to the asset arising from the transformation, the sale proceeds or any new assets purchased with such proceeds. The pledge without dispossession can be formed to secure the financing (i) granted to companies registered at the Companies' Register, (ii) in connection to business activity, (iii) that are - present or future, short, medium or long term – provided that the maximum secured amount is indicated in the pledge contract. A pledge without dispossession is validly created by entering into a written document, on penalty of nullity, and, for the pledge to be enforceable against third parties and enforcement procedures, by filing that document in an electronic public register (the Register of pledges without dispossession, that will be kept at the Italian Tax Authority – i.e. Agenzia delle Entrate). In order to enforce a pledge without dispossession, the Law 119/2016 set forth that the creditor can proceed in any of the following ways: (a) by selling the pledged asset and retaining any sale proceeds up to the secured amount, with the obligation to return the exceeding amount; (b) by selling or assigning the pledged receivables up to the secured amount; (c) by leasing the pledged asset, using the rental to offset the debt up to the secured amount; (d) by becoming the owner of the pledged asset, namely, transferring the ownership to the creditor, up to the secured amount. With specific reference to the case of sale, the legislator has established that the creditor can proceed autonomously, through competitive procedures, based on the estimates made by experts appointed by agreement between the parties or, in case of discrepancy, by the judge. The Court shall be involved in case of insolvency of the debtor granting a pledge without dispossession or if assets or secured credit are subject to forced expropriation.

The Law 119/2016 has also introduced the Article 48-bis within the Consolidated Banking Law (TUB), providing for the new "Patto Marciano". According to the new rule, the loan agreement between the company and the bank (or other entity authorised to grant loans to the public) can be granted by transferring the ownership of an immovable asset to the creditor (with the only exception of immovable assets destined for main abode of the owner, spouse or relatives and in-laws up to the third degree), with the condition precedent of debtor default. The purpose of said provision is to enable the creditor to deal more quickly with the loan on the asset subject to security without having to initiate the complex procedure of sale or assignment of the asset before the relevant judicial authority as established under the Italian Code of Civil Procedure. In case of default by the debtor, indeed, the creditor can autonomously initiate the procedure set forth by Article 48-bis, without having to resort to the Court, whose involvement is foreseen only when the asset under Patto Marciano is subject to a forced expropriation or the debtor has been declared bankrupt.

Banking activity

The banking activity is mainly governed by the rules issued by the European Union institutions, by the TUB and related implementation provisions whose competence lies, inter alia, with: (i) Bank of Italy; (ii) CICR; and (iii) Minister of Economy and Finance. In relation to the Issuer, provisions of the following matters are particularly important: (a) authorisation to engage in banking activities; (b) banking groups; (c) banking supervision and capital adequacy requirements; (d) membership of Interbank Fund; (e) acquisition of interests in banks; (f) corporate governance and internal control systems; and (g) crisis recovery and resolution for credit institutions. a) Authorisation to engage in banking activities The Article 10 of TUB provides that collecting savings from the public and provision of credit, on a professional basis, shall be reserved to the banks. Pursuant to Articles 13 and 14 of TUB, the Bank of Italy establishes a dedicated register into which the authorised banks in Italy are entered, whereby specific requirements are fulfilled, including: (i) the legal form adopted by the company that is società per azioni or società cooperativa per azioni a responsabilità limitata; (ii) the fully paid up capital that is not less than the one established by the Bank of Italy; and (iii) the persons holding significant interest pursuant to Article 19 of TUB fulfil the requirements of integrity, competence and fairness laid down in the regulation of the Minister of Economy and Finance, after consulting the Bank of Italy, and persons performing administrative, management and control functions fulfil the requirements of professionalism, integrity and independence laid down in the regulation of the Minister of Economy and Finance, after consulting the Bank of Italy. b) Banking groups

Pursuant to Article 60 of TUB, the banking group consists of:

- the Italian parent bank company, and the banking, financial and related companies that are controlled by it;
- the financial company or Italian mixed financial holding company and the banking, financial and related companies that are controlled by it, when the investee companies include at least one controlled Italian bank and, according to what is set forth by the Bank of Italy, investments in banking and financial companies are deciding factors.

The Parent company can be a bank or financial company or mixed financial holding company with registered office in Italy, which controls the companies belonging to the banking group and that is not, in turn, controlled by another Italian bank or by another financial company or mixed financial holding company with registered office in Italy, that may be considered parent company. As parent company vested with management and coordination powers, it issues provisions to be applied by companies belonging to the group for the execution of instructions given by the Supervisory Authority in the interest of group's stability. Subsidiaries are required to provide data and information to the parent company, so that it can issue above provisions and to provide all cooperation necessary to comply with consolidated supervision rules. Transparency needs and awareness of group relations require the parent company and subsidiaries to include provisions in their by-laws describing the related positions within the group under consideration. Clear rules on corporate purpose, competence of corporate bodies and supervision shall be provided for. The parent company also plays the role of referring party of the Bank of Italy for consolidated supervision matters. The Article 64 of the TUB requires that the banking groups are entered into a dedicated register held by the Bank of Italy, containing the list and updated composition of banking groups operating in Italy. The registration confirms that the individual companies belong to a banking group and, hence, that they are subject to the management and coordination power of the relevant parent company, as well as to the related supervision regulation. c) Banking supervision and capital adequacy requirements Pursuant to Articles 51 et seq. of the TUB, banks are subject to reporting, regulatory and inspection requirement supervision by the Bank of Italy; in this respect, pursuant to Article 56 of the TUB, amendments to banks' by-laws cannot be approved by the relevant Shareholders' meeting and, then entered into the companies' register, if the Bank of Italy does not issue an order ascertaining that the amendment is not contrary to a sound and prudent management of the bank itself. Also in the context above, the Bank of Italy, as per Article 53 of the TUB, issues general provisions with regard to: capital adequacy; risk containment in its various configurations; holdings that may be held; corporate governance, administrative and accounting organisation, internal controls and remuneration and incentive-based systems; public disclosures on said matters. In relation to fulfilment of prudential and capital adequacy requirements, the supervision activity is carried out in compliance with the EU regulations implementing the international conventions and, in particular, the so-called "Basel agreements". The regulatory framework in this respect consists, currently, of the following regulations:

- the Capital Requirements Regulation; and
- the Capital Requirements Directive (jointly CRR, the CRD IV Package).

The CRD IV Package has introduced rules defined by Basel III agreement in the European Union and provided for a series of further important amendments to the banking regulatory framework with regard, inter alia, to remuneration, diversification of composition of management bodies, corporate governance and transparency. The new regulatory framework introduced with the CRD IV Package constitutes the implementation of the project defined by the European Council on the establishment of a single rulebook applicable to the financial institutions of the common market, i.e. a unitary legislation and harmonisation of prudential regulations of member states. In application of the CRD IV Package, on 17 December 2013 the Bank of Italy issued the Circular 285, which groups the supervision provisions applicable to Italian banks and banking groups, reviewed and updated to adapt the national regulation to the new regulations of the international regulatory framework (Supervision Provisions for Banks). The Supervision Provisions for Banks are broken down in four parts: (i) Part one is on the implementation of CRD IV in Italy through secondary provisions within the purview of the Bank of Italy; (ii) Part two contains rules needed for the CRR, in particular by way of national discretions; (iii) Part three contains prudential provisions on matters and types of risks that are not directly ruled by the CRD IV Package that, though not harmonised at European level, are necessary to align the Italian regulatory system to the best practices and requirements established by international bodies, including the core principles of the Basel Committee; and (iv) Part four sets forth provisions on particular intermediaries. The issuance of the Supervision Provisions for Banks is essential for the application of the CRD IV Package in Italy. In particular, in terms of capital requirements, the new regulation provides that: (i) the Common Equity Tier 1 Ratio is at least 4.5% of the total amount of the bank's risk exposure; (ii) the Tier 1 Ratio is at least 6% of the total amount of the bank's risk exposure; and (iii) the Total Capital Ratio is at least 8% of the of the bank's risk exposure. In addition to the Common Equity Tier 1 needed to satisfy the capital requirements, the banks are also required to retain a Capital Conservation Buffer with a ratio of 2.5% of the total exposure to the risk of the bank itself, made up of Tier 1 Capital. Furthermore, the regulation applicable to the Issuer provides for the application of the Liquidity Coverage Ratio (LCR) is a short-term liquidity indicator and corresponds to the ratio between the amount of high-quality liquid assets and the total net cash outflows in the subsequent 30 calendar days. The minimum threshold provided for by the CRR with reference to this indicator is 60% starting from 1 October 2015, 70% starting from 1 January 2016, and gradually increasing up to 100% from 1 January 2018. In order to move towards an increasingly greater unification of the European banking and financial market, on 15 October 2013, the Council of the European Union approved the Regulation (EU) no. 1024/2013, which establishes the so-called Single Supervisory Mechanism and governs principles and tasks with respect to the activity performed by the ECB and by other national Supervision Authorities. On 12 June 2015, the Legislative Decree 72/2015 was published on the Official Journal, implementing the CRD IV in our system, and amending the provisions of TUB and TUF. The new rules mainly relate to: (i) the integration of the regulation on the requirements for company members and participants to capital; (ii) the introduction of new actions and remedies by the Supervision Authorities; (iii) new mechanisms for reporting, both within the intermediaries and to the Supervision Authority, any regulatory breaches by the bank personnel (the so-called whistleblowing); (iv) the overall reform of the system of administrative penalties concerning the direct application of penalties to legal and natural persons, higher limits for pecuniary sanctions, new criteria for the quantification of the penalties and their publication as well as the introduction of non-pecuniary measures. Finally, the principle of direct penalty application by Italian Authorities has been implemented with regard to the breach of the directly applicable European regulation of the banking and financial sector, though limited (see Article 144-quinques of TUB and Article 194-ter of TUF), by acknowledging sanctionary powers only with reference to CRR requirements and related second level rules issued by the European Commission, and, given the limited number, to EBA and ESMA directly applicable measures. d) the Interbank Fund The Issuer is member of the Interbank Deposit Protection Fund (the “Interbank Fund”) in compliance with Article 96 TUB. The Interbank Fund was established in 1987 to protect the depositors from losing their funds in case of bank insolvency.

The Interbank Fund reimburses each depositor of the banks subject to compulsory winding-up up to the amount of EUR 100,000.00. Depositors’ claims relating to funds acquired by the banks under a pledge of reimbursement (in the form of deposits or similar), as well as bank drafts and other negotiable instruments are entitled to reimbursement. The following cases are indeed excluded from the protection of the Interbank Fund: a) deposits made in the name and on their behalf by banks, financial entities as per Article 4, paragraph 1, point 26), of CRR, investment companies, insurance companies, reinsurance companies, undertakings for collective investments, pension funds, as well as public entities; b) the own funds as per Article 4, paragraph 1, point 118), of CRR; c) deposits arising from transactions with a final conviction for offences referred to in Articles 648-bis and 648-ter of the Italian Criminal Code; this is without prejudice to Article 648-quater of the Italian Criminal Code; d) deposits whose holders, upon initiation of the compulsory winding-up, are not identified pursuant to the regulation on preventing the use of the financial system for the purposes of money-laundering arising from criminal activities and terrorism financing; e) bonds and liabilities arising from own acceptances, promissory notes and transactions in securities. It should be noted that the matter has been recently reformed with the Legislative Decree 30/2016, which implemented the Directive 2014/49/EU, of 16 April 2014, i.e. the so-called Deposit Guarantee Schemes Directive (DGSD). The DGSD’s purpose is to delete some discrepancies among the legislations of the member states as for the deposit guarantee schemes, by introducing important novelties in terms of standardisation of rules within the European Union. In particular, the most significant novelties of the DGSD include: (i) common minimum financial requirements for the deposit guarantee systems; (ii) a gradual reduction of terms for the payment of reimbursement in favour of depositors: through three steps, the deposit guarantee systems shall ensure this payment in 7 working days; (iii) the amount of the coverage, in case of unavailability, to be set at EUR 100,000.00 for each depositor, as the principle applies whereby the depositor, and not the single deposit, is to be protected. In implementing the DSGD, the Legislative Decree 30/2016 confirms in EUR 100,000.00 the maximum amount of the reimbursement due to depositors, determines the minimum financial resources for the national guarantee systems, identifies, in a timely manner, the way these latter are to be applied, harmonises the methods of reimbursement of the depositors in case of bank insolvency. Furthermore, the Regulation 2014/806/EU published on 30 July 2014 on the Official Journal of the European Union, with respect to common rules and a procedure for the resolution of credit institutions within the scope of the Single Resolution Fund (SRF) provides, inter alia, that all credit institutions authorised in each member state provide annual contributions to said Single Resolution Fund (if these contributions were not enough to cover the losses and costs borne by the SRF within the resolution actions, additional contributions can be collected). This latter entered into force on 1 January 2016 and will be gradually built in eight years till it reaches a pre-set level of about 1% of the amount of protected deposits of all credit institutions authorised in each member state. e) Acquisition of investments in banks The acquisition of holdings in banks is regulated, inter alia, by: (i) the TUB, as amended by Legislative Decree 21/2010, that in the parts relating to the purchase of relevant holdings in the banks' share capital, implements the provisions on procedural rules and evaluation criteria for the prudential assessment of acquisitions and increases of holdings in the financial sector required by the Directive 2007/44/EC; (ii) the CRD IV;(iii) the Regulation (EU) no. 1024/2013; and (iv) the order of CICR adopted by way of urgent decree no. 675 of the Minister of Economy and Finance – President of CICR, dtd. 27 July 2011.

Above mentioned regulations provide that the ECB, on proposal by the Bank of Italy, authorises in advance any acquisition, for any reason, of holdings in banks that: (i) entail control (as per Article 23 of the TUB) or the possibility to exercise a significant influence on them; or (ii) assign a quota of voting rights or capital at least of 10%, given the shares or quotas already owned. The authorisation by the ECB is needed also for the acquisition of control in a company that has holdings referred to under previous (i) and (ii). The authorisation in advance is required also in case of change in the holdings, when the quota of voting rights or capital reaches or exceeds the thresholds of 20%, 30% or 50% and, in any case, when the changes entail the control of the supervised undertaking. The authorisation is also required for the operations which imply firm commitments to the purchase of above qualifying holdings in supervised undertakings (e.g. participation in tender, promotion of public purchase or exchange offers, or exceeding the threshold which implies the obligation of promoting a public purchase offer). In accordance with applicable regulation, within the scope of the assessment process, requirements such as the suitability of the potential purchaser and the financial soundness of the acquisition project are considered. In accordance with Article 20 of the TUB, the Bank of Italy must also receive, according to terms and conditions provided for by the same article and by the Supervision Provisions for Banks, communication of any agreement whatsoever for the concerted exercise of the voting rights in a bank or in the company controlling this bank. If the bank is a listed company, the communication of this agreement must be sent also to Consob. f) Corporate governance, administrative and accounting organisation and internal controls The Bank of Italy issues provisions aimed at ensuring a more efficient organisation of the corporate governance structure of Italian banks in compliance with Article 53 TUB. To this respect, the supervisory authority issued – and then updated – the Supervision Provisions for Banks, with the aim of adapting the Italian regulation, inter alia, to: CRD IV; guidance of the EBA on the internal organisation of 27 September 2011; guidelines issued by Basel Committee for the banking supervision on: "Principles for enhancing corporate governance", October 2010; "Core Principles for Effective Banking Supervision", September 2012. In particular, specific provisions on the following matters have been amended and/or introduced: (i) composition and appointment of corporate bodies; (ii) establishment, composition and functions of committees within the body with strategic supervision function (the so-called "Board committees"); (iii) involvement of all Board members, to ensure that each of them acts with independence of mind and commit sufficient time to perform its duties; (iv) training plans of persons holding key roles within the bank; (v) succession plans for the general manager and the managing director; and (vi) public disclosure obligations. Banks are required to adapt, within 30 June 2017, to the rules set forth in the following fields: (i) quantitative limits to the composition of boards and committees; (ii) minimum number of members of the body with strategic supervision function that must fulfil the independence requirements; (iii) composition of Board committees (except for provisions on non-executive members of risk committee, remuneration committee and appointment committee); (iv) provisions on cooperative banks; and (v) prohibition for the chairman of the Board of Directors to be a member of the executive committee. Having regard to the banks issuing securities admitted to trading on the regulated market, the TUF and related implementation regulations provide, inter alia, for: (i) specific requirements for the composition of the administration and control bodies in order to protect the interests of investors and shareholders' minority; (ii) rules of transparency governing financial information that listed banks must disclose to market; and (iii) the publication of a report on corporate governance and ownership structure describing, among others, the governance model adopted and reports with and among its own shareholders. The Supervision Provisions for Banks also lay down specific rules on remuneration and incentive policies and practices in banks and banking groups, in order to implement the requirements of CRD IV, considering guidelines and criteria agreed upon at international level, including those of EBA and FSB. These are to be integrated in the regulatory technical standards (the so-called RTS) issued by the European Commission, on proposal of EBA, pursuant to CRD IV; these are binding and directly applicable in all member states. The CRD IV, in particular, embodies specific principles and criteria that the banks must abide by in order to: (i) ensure proper formulation and implementation of the remuneration systems; (ii) effectively manage the possible conflicts of interest; (iii) ensure that the remuneration system takes appropriate account of current and forward-looking risks, degree of capitalisation and liquidity levels of each intermediary; (iv) increase the degree of transparency towards the market; and (v) strengthen the oversight by Supervision Authorities. As for the Supervision Provisions for Banks, these provide, inter alia, for: (i) changed proportionality criteria with which the banks must adapt to regulation; (ii) a maximum limit of 1:1 for the ratio between the variable component and the fixed component of the remuneration, that may be waived by the Shareholders' Meeting which, where provided for by the by-laws, can establish a higher ratio, not exceeding 2:1; (iii) limits to the variable remuneration in case that banks do not fulfil the capital requirements; and (iv) specific criteria that banks must adhere to with reference to remuneration and incentive systems of their distribution networks. Furthermore, public disclosure obligations are required, including the obligation for the bank to publish information on the overall remuneration of the chairman of the body with strategic supervision function and of each member of the body with management function, of the general manager, co-general managers and deputy general managers on its website. There are also specific obligations of reporting data to the Bank of Italy and the Bank's Shareholders' Meeting. In line with the European approach, the requirements identified by the Supervision Provisions for Banks on remuneration and incentive policies and practices form integral part of the regulatory framework on the organisation and corporate governance of banks and banking groups.

The Issuer is also required to abide by the provisions governing the Internal Control System of the banks as referred to in the Supervision Provisions for Banks, which, in implementing the principles and rules contained in the CRD IV, aim to ensure, inter alia:

- the definition of a uniform regulatory framework that, in compliance with the proportionality principle, considers the nature of the activity performed, the type of services rendered, the complexity and operational dimension of the bank;
- the strengthened ability of the banks to manage the corporate risks;
- the central role of the Internal Control System as measure aimed at guaranteeing the sound and prudent management of bank and the solidity of the financial system;
- the efficiency and effectiveness of internal controls;
- the awareness on the part of the corporate bodies that are primarily responsible for defining an Internal Control System that is comprehensive, adequate, functional and reliable; and
- the knowledge and integrated management of all company risks on the part of the corporate bodies. g) crisis recovery and resolution for credit institutions On 16 November 2015 two legislative decrees were published on the Official Journal implementing the Directive 2014/59/EU ("Bank Recovery and Resolution Directive" or "BRRD"):
- the Legislative Decree 180/2015, mainly implementing provisions of the BRRD on the resolution;
- the Legislative Decree 181/2015, amending the TUB and TUF in order to implement the provisions of the BRRD on the recovery plans and introduce further amendments connected to the new resolution regime.The BRRD provides the authorities responsible for resolving the crises of credit institutions with suitable instruments to prevent and manage crisis situations, by safeguarding: (i) the solidity of the financial system, by minimising the public costs and economic distortions; and (ii) the going concern of the credit institution. Specifically, the BRRD provides for the introduction of different instruments to prevent and resolve potential banking crises to be adopted in the phases of: (i) preparation and prevention; (ii) early intervention; and (iii) crisis resolution. In compliance with BRRD provisions, the Legislative Decree 180/2015 identifies the Bank of Italy as the national authority for resolution that, in case of failure or likely failure of the institution and in presence of the other conditions required by applicable regulation, as well as after approval by the Ministry of Economy and Finance (MEF), is responsible for adopting a resolution program which, inter alia, identifies the specific applicable resolution instruments, whilst also defining the procedures to resort to the single resolution fund.The banks are required to prepare and update a recovery plan providing for the adoption of measures aimed at recovering the financial situation after a significant deterioration. Furthermore, the banks shall: (i) map its legal and business structure; (ii) identify the core business sectors that must be preserved in case of failure; (iii) identify the business lines that might be disposed of in case of failure; and (iv) outline the scenarios that the recovery plan is intended to address. In combination with these recovery plans, the Bank of Italy develops, after consultation with the ECB or Consob, on a case-by-case basis, a resolution plan entailing the resolution actions that the Bank of Italy can implement if a bank satisfies the conditions for the application of the resolution measures.To this end, the supervision authority will have a set of resolution instruments at disposal, including: (i) the transfer of assets and legal relationships to a third party; (ii) the transfer of assets and legal relationships to a bridge institution; (iii) the transfer of assets and legal relationships to an asset management vehicle; and (iv) bail-in measures, defined as "the write-down reduction or conversion of the shareholders' and creditors' rights in capital". This latter case, specifically, enables the supervision authority to provide

for the write-down and conversion of some liabilities of the institution subject to resolution, according to the absorption of losses incurred and recovery of capitalisation levels suitable to preserve market confidence. Some liabilities are excluded from the bail-in application, including guaranteed deposits (i.e., deposits up to EUR 100,000.00) and secured liabilities, including covered bonds. All liabilities that are not expressly exclude can be subject to bail-in. In implementing above resolution measures, debts recovered by shareholders and due to the bank could be cancelled or reduced significantly. Shareholders could also see their stake highly diluted if the bank's liabilities were converted into shares with conversion ratios that are particularly unfavourable for the shareholders. In addition to the above, on 17 January 2015 the Delegated Regulation 2015/63 of the Commission of 21 October 2014 was published on the Official Journal of the European Union, which supplements the BRRD with regard to the ex-ante contributions to the resolution financing mechanisms. This regulation provides, inter alia, for: (i) the methodology for the calculation of contributions that the institutions must pay to the resolution financing mechanisms and for their correction based on the institution's risk profile; (ii) the obligations of the institutions concerning information to be provided for the purposes of contribution calculation and payment of contributions to the resolution financing mechanisms; and (iii) the measures that enable the resolution authorities to check that contributions have been properly paid. Finally, on 21 February 2017, the law no. 15 of 17 February 2017, "Conversion into law, with amendments, of the Law Decree no. 237 of 23 December 2016, containing urgent provisions to protect savings in the credit sector". In particular, the law contains a series of measures protecting the credit sector, including: government guarantee on liabilities of Italian banks, financing by the Bank of Italy to credit institutions to address serious liquidity crises, and actions for banks' capital strengthening. h) Transparency of operations and banking and financial services The Bank of Italy Resolution of 29 July 2009 "Transparency of banking and financial transactions and services - fairness of relationships among intermediaries and customers", lastly updated on 30 September 2016 ("Resolution"), pursues the objective, in compliance with the general principle of good faith, that the essential elements of the contractual relationships (and their changes) concluded with banks are disclosed to customers, fostering also the competition in the banking and financial markets. Compliance with rules and principles of transparency and fairness in the relations with customers mitigates the legal and reputational risks and ensures the sound and prudent management of banks. The Resolution applies – as a general rule – to all banking and financial transactions and all services regulated under Title VI of the TUB and provided by intermediaries, even outside branches or by means of distance communication. It also supplements different regulatory provisions of other sectors of the Italian law on transparency and fairness of behaviours towards customers. In the performance of their activities, the intermediaries consider the set of these regulations as an integrated regulatory environment and comply with regulation as a whole, by adopting all necessary measures. In relation to the activity performed by the Issuer, it recognises, inter alia, what is provided for by the Resolution with regard to advertisements. To this respect, it is foreseen that these must be clearly recognisable as such and shall have the features and report the information specifically indicated by the regulation itself (such as the reference to the interest rate and TAEG). In relation to the advertisements, also provisions on advertising referred to in Legislative Decree 196/2003 and Consumer Code apply.

Anti-Money Laundering

The Issuer is subject to rules and regulations aimed at preventing phenomena of money laundering and terrorist financing. Said provisions are mainly contained:

- in the Legislative Decree no. 231 of 21 November 2007 ("Decree 231/2007") and subsequent amendments and supplements, implementing the Directive 2005/60/EC ("Directive 2005/60") on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, as well as the Directive 2006/70/EC ("Directive 2006/70") containing implementing measures;
- in the resolution concerning the implementation of organisational provisions, procedures and internal controls aimed at preventing the use of intermediaries and the other parties carrying out the financial activity for money laundering and terrorist financing, adopted by the Bank of Italy pursuant to Article 7, paragraph 2, of Decree 231/2007, on 10 March 2011;
- in the resolution concerning the implementation of provisions on the adequate verification of the customers, adopted by the Bank of Italy pursuant to Article 7, paragraph 2, of Decree 231/2007, on 3 April 2013; and
- in the resolution concerning the implementation of provisions on the management of the unified database (AUI) and the simplified procedures of registration under Article 37, paragraphs 7 and 8, of Decree 231/2007 issued by the Bank of Italy on 3 April 2013. Compliance with above regulatory framework provides that the Issuer meets, inter alia, the obligations of: (1) adequate verification of customers; (2) registration in the unified database; (3) reporting suspected transactions to the Financial Intelligence Unit (UIF) established within the Bank of Italy; (4) adequate training of personnel; (5) submittal of aggregate anti-money laundering reports (S.AR.A.) and (6) provisions to limit the use of cash and bearer instruments. It should be noted that the Law no. 170 of 12 August 2016 ("European Delegation Law") delegated to the Government: (i) the implementation of the Directive (EU) 2015/849, of 20 May 2015, relating to the prevention of the use of the financial system for money laundering and terrorist financing (the "Fourth Anti-Money Laundering Directive"), modifying regulation (EU) no. 648/2012 and repealing Directive 2005/60/EC and Directive 2006/70/EC, and (ii) the implementation of the Regulation (EU) 2015/847 of 20 May 2015, which relates to information accompanying the transfers of funds and repeals the Regulation (EC) no. 1781/2006. In particular, the Article 15 of the European Delegation Law sets forth principles and criteria to implement the Fourth Anti-Money Laundering Directive in Italy, which will introduce relevant novelties, including:
- a greater graduation of anti-money laundering controls and procedures according to the risk associated to the customer and the transaction;
- the provision of the central registry of actual holders referred to legal persons and entities;
- a review of the disciplinary system provided for the Italian implementing regulation.

The term provided for at European level for the implementation of the Fourth Anti-Money Laundering Directive by the member states is 26 June 2017.

Usury

The regulation on usury is contained in Articles 644, 644-bis and 644-ter of the Italian Criminal Code and in Law no. 108 of 7 March 1996, as subsequently amended ("Usury Law"), as well as in the Bank of Italy's Instructions for the detection of the global average rates pursuant to the usury law of 29 July 2016 ("Usury Instructions"). According to Article 644 of the Italian Criminal Code, the crime of "usury" applies to anyone who takes or promises benefits in cash or other advantages, in any form whatsoever, in return of a compensation. The same article specifies that the law establishes the limit beyond which the interest rates are always usurious and usury also relate to interest rates, even if lower to this limit, and the other advantages or compensation that, having regard to real modalities of the fact and the average rate applied for similar transactions, are anyway disproportionate compared to the benefits in cash or other advantages, or the mediation action, when the person that has taken them or was promised to receive them in economic or financial difficulties. Commissions, remuneration for whatever reason and expenses, excluding those for taxes and duties, connected to the lending process are considered to determine the usurious interest rate. Furthermore, pursuant to Article 1815, paragraph 2, of the Criminal Civil Code, if usurious interest rates are agreed upon, the clause providing for them is null and no interests are due. The Usury Law provides, in particular, that the Minister of the Treasury publishes on a quarterly basis a resolution ("Detection Decree") indicating the actual average global rate (TEGM) applied by banks and financial intermediaries, by classes of transactions broken down by types. The classification of transactions by homogenous categories considers, amongst others, the nature, subject matter, duration, risks and guarantees. The limit beyond which the interest rates are always considered usurious is established by the Usury Law and Usury Instructions by identifying certain thresholds ("Threshold Rates"), which coincide with the TEGM resulting from the last detection contained in the Detection Decree, relating to the category of transactions where the credit is included, increased by one fourth and a margin of further four points percentage; in any case, the difference between the threshold and the average rate cannot exceed eight points percentage.

GACS Law

Pursuant to the law decree no. 18 of 14 February 2016 (laying down urgent measures concerning the reform of cooperative banks, the guarantees on the securitisation of NPLs, the tax regime relating to crisis procedure and savings collective management), converted with amendments into Law no. 49 of 8 April 2016 ("GACS Law"), banks and financial intermediaries having registered office in Italy can – due to the transfer of pecuniary credits classified as NPLs, in the context of a securitisation transaction and in presence of certain requirements described in the GACS Law – ask to the Ministry of Economy and Finance (MEF) the granting of a guarantee to cover the payments contractually provided for the interest and capital on the senior tranche of the asset backed securities ("senior notes") issued in the context of this securitisation (GACS). The Article 4 of GACS Law provides for the following features of the securitisation transactions in order to benefit of the GACS: (i) the receivables shall be transferred to the SPV for a purchase price that is not higher than their net book value as at the date of transfer (gross book value net of depreciations); (ii) the securitisation transaction provides for the issuance of securities in at least two different tranches, according to the degree of subordination in the absorption of losses; (iii) the junior tranche of ABS shall be redeemed or repaid only if the other tranches have been redeemed in full; (iv) the SPV may issue one or more tranches of mezzanine notes that – with regard to the payment of interest – are subordinated to the payment of interests of senior notes and are paid in priority to the repayment of principal of the senior notes; (v) the SPV may enter into financial hedging agreements with market counterparties in order to reduce interest rate risks; and (vi) for the purpose of managing the risk of mismatch between the recoveries and the amount due as interests on the ABS, a credit facility can be provided for an amount sufficient to keep the minimum level of financial flexibility consistent with the creditworthiness of the senior tranche. As for the duration of the State guarantee, the GACS may be granted for a period of eighteen months from the date of entry-into-force of the law decree no. 18 of 14 February 2016 (i.e. 16 February 2016); The MEF may, with prior approval of the European Commission, extend such period up to a maximum of a further 18 months. For the purposes of issuing the GACS (according to provisions under Article 5 of GACS Law), the senior notes must have previously obtained a rating level, to be assigned by an external credit assessment institution ("ECAI") accepted by the ECB as at 1 January 2016, that is not lower than the rating at the bottom of the investment grade ladder. If the issuance of two credit assessments is required pursuant to applicable regulation, the second assessment on the same senior note can be released by an ECAI registered under the Regulation (EC) no. 1060/2009 of 16 September 2009, and even this one cannot be not lower than the rating at the bottom of the investment grade ladder. Alternatively, the assessment of the credit worthiness, in any case not lower than the rating at the bottom of the investment grade ladder, may be private and solely addressed to the MEF. In this case, the rating agency shall be proposed by the relevant selling company and approved by the MEF. In addition, the rule provides that the entity in charge of collecting the receivables transferred classified as NPLs must be other than the transferring company and must not belong to its group. Any decision by the selling company or the holders of securities issued within the scope of the securitisation to revoke the assignment of this entity must not result in a deterioration of the rating of senior notes by the ECAI. The Article 6 of the GACS Law provides that the senior notes and, if the mezzanine tranche is issued, must have the following features: a) a floating rate remuneration; b) he repayment of principal before the maturity date is linked to the cash flows deriving from the amount recovered and the collections arising from the portfolio of assigned receivables, net of all costs concerning the activity of recovery and collection of the assigned receivables; and c) the payment of interests is made in arrears quarterly, semi-annually or annually and it depends on the outstanding nominal value of the note at the beginning of the relevant interest period. In addition, it may be provided that the remuneration of the mezzanine notes may be deferred under certain conditions or may depend on performance targets in the collection or recovery activities in respect of the portfolio of assigned receivables. Article 7 of the GACS Law specifies that the issuer available funds in relation to the portfolio of assigned receivables, financial hedging agreements and uses of the credit facility (net of the amounts withheld by the NPL Servicer for its management activity according to the terms agreed with the SPV) are used, in the payment of the following items, according to the following order of priority: 1) taxes (if any); 2) amounts due to services providers; 3) payment of the amounts due by way of interest and fees in connection with the activation of the credit facility; 4) payment of the amounts due in respect of the granting of the GACS on the senior notes; 5) payment of the amounts due in respect of the granting of the GACS on the senior notes; 6) payment of the amounts due by way of interest on the senior notes; 7) replenishment of the credit facility (if drawn); 8) payment of the amounts due by way of interest on the mezzanine notes (if issued); 9) repayment of the principal of the senior notes until full repayment of such notes; 10) repayment of the principal of the mezzanine notes until full repayment of such notes; 11) payment of the amounts due as principal and interest or other form of remuneration on junior notes. The transaction may provide that payments under 2) and 5) above, may be depend on performance targets in the collection or recovery activities with respect to the portfolio of assigned receivables or may be - under certain circumstances – subordinated to full repayment of capital of senior notes. Finally, GACS becomes effective only when the relevant selling bank has transferred for consideration at least 50% plus 1 of the junior notes and, in any case, an amount of junior notes (and, if issued, mezzanine notes) which allows the de-recognition of the securitised receivables from the accounts of the bank and, at consolidated level, of the selling banking group, based on relevant accounting standards in force in the financial year of the transaction. The GACS is an unconditional, irrevocable and first demand guarantee for the benefit of the senior noteholders. The GACS shall cover the payments contractually provided in respect of interests and capital in favour of the senior noteholders. In addition, it has been provided that the Italian State, the public authorities and the companies controlled, directly or indirectly, by public authorities cannot purchase the junior or the mezzanine notes issued within the scope of securitisation transactions for which the GACS has been requested. The GACS may be enforced by the relevant noteholder within nine months following the maturity of the senior notes, in case of failure, also partially, of amounts due for capital or interests in compliance with the mandatory terms set out in Article 11 of the GACS Law. In the event that such failure to pay lasts for more than 60 days from the date for payment, the senior noteholders, with the agreement and also through the representative of the noteholders (RON), shall send to the SPV a request for the payment of the amount due and not paid; After 30 days and within 6 months from the date of receipt of such request, if the SPV has not made any of the relevant payments, the senior noteholders, with the agreement and also through the representative of the noteholders (RON), may request the intervention of the GACS. Within 30 days from the receipt of such relevant request from the senior noteholders, the MEF shall pay the relevant amount to the senior noteholders in compliance with the transaction documents, without any further interests or costs. By making the relevant payment, the MEF is subrogated to the rights of the senior noteholders and is entitled, subject to the contractual limitations set forth for the exercise of such rights and subject to payment of the amount due for interests to the senior noteholders, to recover the amount paid, the interests at the legal rate accrued from the payment date to the redemption date and the costs incurred for the recovery, also by way of the registration procedure in the register, pursuant to the Presidential Decree no. 602 of 29 September 1973, and the Legislative Decree 46/1999, and subsequent amendments. For the purposes referred to in the GAS Law, the MEF established a specific fund of EUR 120 million. The fund is further financed with the annual fees of the granted GACS, whose amounts are paid to State Treasury for subsequent reassignment to the same fund.

The Issuers considers to be compliant, as at the Prospectus Date, with applicable regulation.

6.3. Exceptional events.

On 20 September 2018, the merger by SPAXS of about 99.17% of the Issuer's share capital was completed. Then, after the authorisation by the Bank of Italy, as required by law, dated 15 February 2019, SPAXS and the Bank concluded the merger deed relating to the merger by incorporation of the controlling company SPAXS in the Issuer. With the acquisition of the Issuer, the latter initiated the new business model which, as provided for by the Business Plan, considers the Issuer as a specialised totally digital bank, with an innovative model and a clear focus on specific sectors of the market of high-return small and medium-sized enterprises and sub-optimally served by the traditional banking sector.

For more information on the acquisition, please refer to Chapter 5, Paragraph 5.1, with respect to the Merger please refer to Chapter 5, Paragraph 5.1 and Chapter 22, Paragraph 22.1, with respect to the business model and the business plan please refer to Paragraph 6.1 and Chapter 13 hereof.

Without prejudice to the transactions for the acquisition of NPL portfolios and to the financing transactions performed by the Bank in the last 2018 quarter, including investments, in line with what is provided for by the new business model (as referred to above) and the Business Plan, as at the Prospectus Date, no exceptional events influencing the Issuer's activities occurred.

6.4. Issuer's dependence on patents or licences, industrial, commercial or financial contracts or new manufacturing processes.

As at the Prospectus Date, the Company is not dependent on any patents, trademark or licences, on any commercial or financial contracts, or on any new manufacturing processes.

6.5. Basis for any statements made by the Issuer regarding its competitive position.

The Prospectus does not contain any statements by the Issuer regarding its competitive position as the Bank is in a start-up situation and hence has not yet developed a dimension that may be measured in the relevant segments and markets.

In the Prospectus, and in particular in Chapter 13, the Issuer refers to its ambitions in terms of market share and positioning in the competition arena. The Issuer's Management considers, indeed, that the markets to be entered into in each business area where it aims to operate are of significant size and still relatively little uncontrolled, and therefore provide growth opportunities to the new specialised operators. To fulfil its competitive ambitions, as better described in the following Chapter 13 hereof, Issuer's strategy is to recruit highly skilled and specialised resources for the origination of the operations and the development of the relationship with customers and counterparties (Tutors within the SME Division, origination team within the NPL Investment Division); to adopt proprietary pricing instruments in the NPL Investment activities and analysis instruments for loan provision and monitoring activities within the SME Division; to develop its own company dedicated to the management of the NPL portfolios purchased; to provide advanced systems of data analysis, developed with the most state-of-the-art technologies of Artificial Intelligence and Machine Learning, supporting all Bank activities.

7. ORGANISATIONAL STRUCTURE

7.1 Description of the group to which the Issuer belongs

At the Prospectus Date, approximately 99.17% of the Issuer's share capital (represented by 43,015 ordinary shares) is held by SPAXS; however, in accordance with Article 3.3 of SPAXS' by-laws, SPAXS does not perform the function of management and coordination of the Issuer.

Nonetheless, at the Prospectus Date the Issuer believes that it is not subject to management and coordination by SPAXS as defined in Articles 2497 et seq. of the Italian civil code since – considering the nature and purposes of the Bank and of SPAX, and in particular that the Bank conducts reserved activity as defined in the Consolidated Banking Law: (i) the Bank operates in conditions of corporate and entrepreneurial autonomy and possesses autonomous bargaining capacity in relations with customers and suppliers and in setting its own strategic, organisational and developmental guidelines, without any interference by parties external to the Company; (ii) SPAXS does not perform centralised functions at the group level affecting the Bank (e.g., strategic planning, control, corporate and legal affairs for the group); (iii) the Company's Board of Directors operates with full managerial autonomy; (iv) the Bank is not subject to any treasury service or other financial support or coordination functions performed by SPAXS; and (v) in respect of the Issuer, SPAXS merely exercises its administrative and financial rights arising from its status as shareholder (such as voting rights).

7.2 Description of the group headed by the Issuer

Aporti S.r.l. (Aporti SPV) is a securitisation vehicle within the meaning of Law no. 130/99, set up by Centrotrenta Servicing S.p.A., (a third party with respect to the Issuer), which is a financial intermediary and master servicer for securitisations, (meaning the entity that has the task of monitoring the activities performed by the servicers and ensuring that a securitisation complies with applicable law), under an "orphan" structure that is headed by Centrotrenta Servicing S.p.A.'s trust company, 130 Trust Company S.r.l.. Accordingly, this vehicle (Aporti SPV) has not been acquired by the Issuer and will not form part of the banking group. Further information can be found in Chapter 6, Paragraph 6.1.4 of the Prospectus.

Neprix S.r.l. operates in the non-performing loan sector, among others, availing itself of professionals with specific experience and know-how in assessing and managing non-performing loans. On 30 October 2018 the Issuer's Board of Directors approved the purchase of a 100% interest in Neprix S.r.l., within which the servicing of the NPLs purchased by the Bank will be centralised and which on 22 January 2019 was issued a licence pursuant to Art. 115 TULPS. On this point it is worth noting that the acquisition of Neprix by the issuer shall constitute a transaction between related parties, in relation to which, given that the fees foreseen for the same transaction will be of a limited amount pursuant to the OPC Procedure, the transaction shall not be subject to the procedures foreseen therein and no information document shall be provided pursuant to the regulations related to transactions with related parties and the relative procedure adopted by the Bank and that the same has yet to enter into effect on the Prospectus Date seeing as the execution of said sale shall entail the setting up of a banking group and the related changes to the Bylaws (to be adopted by the Shareholder's meeting by legal majority, as recalled in the Post-merger Bylaws), and is conditional on the positive fulfilment of the procedures foreseen to this end by Bank of Italy regulations and the registration of the Issuer in the Register of Banking Groups. Once acquired, the company will become a part of the banking group. On the Prospectus Date, it is expected that said operation may be embarked upon once the Merger is finalised and, subordinately and in line with the above procedures, may be completed within the third quarter of 2019.

Friuli Leaseco, a fully owned subsidiary of the Issuer, was formed by the Issuer on 12 December 2018 and operates pursuant to Art. 7.1 of Law No. 130/99 on securitisation.

The interest in Friuli Leaseco is strictly functional to a securitisation of leasing receivables by the Bank that remains ongoing at the Prospectus Date.

The Issuer will cease to hold an interest in Friuli Leasesco in accordance with applicable legislation following the conclusion of the overall securitisation transaction.

It should be noted that the said interest in Friuli Leaseco is within the Bank's scope of consolidation, but does not constitute a banking group under current banking regulations.

8. PROPERTY, PLANT AND EQUIPMENT

8.1 Tangible assets

8.1.1 Property owned

At the Prospectus Date, the Issuer owns property located at Viale Reiter, 34 in Modena, Italy. This property consists of rooms that can be used as a banking agency, executive offices, and representative offices. The property has been written up in the 2016 financial statements as a result of the acquisition of Banca Emilveneta and was subsequently acquired in 2017, through the merger of Banca Emilveneta with the Issuer, for EUR 1.7 million and has been depreciated by approximately 40% at the Prospectus Date. The property is used as a training centre for the Bank's personnel.

At the Prospectus Date, there are no encumbrances on the property that negatively affect its use.

8.1.2 Properties in use

At the Prospectus Date the Issuer operates at 7 bank branches (located in Modena, Bologna, Reggio Emilia, Formigine (Mo), Casalecchio (Bo) and Vignola (Mo)) and 2 administrative and representative offices (located in Milan and Modena). These properties are leased by the Bank.

The following table shows the main properties leased by the Issuer at the Prospectus Date, with specification of their address, use, lease expiration date, term, and renewal date.

Lessee	Lessor	Address	Use	Lease commencement date	Expiration date	Rent paid in 2017 (EUR)
Banca Interprovinciale	Coima Sgr Spa	Milan, Via Ferrante Aporti, 8	Office, branch	10/09/2018	09/01/2027	N/A
Banca Interprovinciale	Danre srl, Damen Argeo Nicola, Duca Paola, Damen Antonio, Damen Giulia	Modena, Via Emilia Est, 107	Office, branch; bank agency	01/01/2009	01/01/2027	151 thousand
Banca Interprovinciale	Angelini E. s.a.s.	Modena, Viale P.Giardini 453/457	Bank agency	20/03/2015	30/06/2020	32 thousand
Banca Interprovinciale	Acta s.r.l.	Bologna, Via Aurelio Saffi, 58	Bank agency	15/04/2014	15/03/2020	44 thousand
Banca Interprovinciale	Giuliano Vighi	Reggio Emilia, Viale dei Mille, 1/2	Bank agency	15/08/2017	30/04/2023	20 thousand
Banca Interprovinciale	Manni Caterina	Formigine (MO), Via Giardini, 25	Bank agency	01/01/2018	31/12/2023	57 thousand
Banca Interprovinciale	Mandini Marco	Casalecchio di Reno (BO), Via Porrettana, 384	Bank agency	01/06/2009	01/06/2021	19 thousand
Banca Interprovinciale	Tanzi Anna, Bulgarelli Felice	Vignola (MO), Viale Mazzini, 19/a 19/b	Bank agency	01/03/2013	28/02/2019	26 thousand
Banca Interprovinciale	Ferrari Pierluigi	Modena, Via Buon Pastore, 366	Residential use for employees	08/03/2017	07/03/2020	7 thousand
Banca Interprovinciale	Rizzi Giuseppina	Milan, Via Melzo, 24	Residential use for employees	01/11/2018	30/10/2022	N/A
Banca Interprovinciale	Lombarda Immobiliare s.r.l.	Milan, Via Savona, 103/A	Residential use for employees	01/11/2018	31/10/2022	N/A
Banca Interprovinciale	Immobiliare Lombarda s.r.l.	Milan, Via San Gregorio, 25	Residential use for employees	10/01/2019	31/10/2022	N/A

At the Prospectus Date, the Issuer has no knowledge of any encumbrances on the leased buildings that may negatively affect their use by the lessees.

Alla stessa data. sull'immobile di Via Soperga. 9 in Milano. sede legale di illimity. non si registrano gravami in grado di incidere negativamente sul suo utilizzo,

For more information on the leases stipulated with Related Parties, see Chapter 19 of the Prospectus.

8.1.3 Other tangible fixed assets

At the Prospectus Date, the Issuer does not own any production plants and machinery.

8.2 ENVIRONMENTAL ISSUES

At the Prospectus Date, there are no environmental issues that may affect the Issuer's activities.

9. OPERATING AND FINANCIAL REVIEW

Introduction

The Business Combination between the Issuer and SPAXS, resolved by the respective Shareholders' Meetings and finalised on 20 September 2018 (for a description of which see below), and the reverse merger to be undertaken by merging the parent SPAXS into the Issuer (for a description of which see Paragraph 5.1.5 and Chapter 22), authorised by the Bank of Italy on 11 December 2018 and approved by the Extraordinary Shareholders' Meetings of the Issuer and of SPAXS S.p.A. on 18 January, constitute a complex financial history pursuant to Art. 4a of Regulation EC/809/2004, resulting in the need to include in the Prospectus the financial information of the Issuer and of SPAXS and the pro-forma financial information of illimity, the company resulting from the Merger.The Business Combination also entailed a need to prepare the first consolidated financial statements of SPAXS S.p.A. at and for the period ended 30 September 2018 in order to consolidate the Issuer's data therein.

The following is a summary of the main equity, financial and economic data of the Issuer for the years ended 31 December 2017, 31 December 2016, 31 December 2015 and the nine months ended 30 September 2018 and 30 September 2017.

The financial, equity and economic information for the period ended 30 September 2018 and 2017 and for the years ended 31 December 2017, 2016 and 2015 included in this chapter is extracted from:

- the BIP interim financial statements for the nine months ended 30 September 2018 (the "**BIP 9M 2018 Interim Financial Statements**") prepared in accordance with the International Accounting Standard applicable to interim financial statements (IAS 34), approved by the BIP Board of Directors on 12 November 2018 and subject to a review by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 15 November 2018;
- the BIP financial statements for the year ended 31 December 2017 (the "**BIP 2017 Financial Statements**"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standard Board and adopted by the European Union (IFRS) as well as the provisions issued in implementation of Article 43 of Legislative Decree no. 136/15, approved by the BIP Board of Directors on 29 March 2018 and subject to audit by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 3 April 2018;
- the consolidated financial statements of BIP and its subsidiary for the year ended 31 December 2016 (the "**BIP 2016 Financial Statements**"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standard Board and implemented by the European Union (IFRS) as well as the provisions issued in implementation of Article 43 of Legislative Decree no. 136/15, approved by the BIP Board of Directors on 30 March 2017 and audited by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 12 April 2017;

- the BIP financial statements for the year ended 31 December 2015 (the "**BIP 2015 Financial Statements**"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standard Board and adopted by the European Union (IFRS) as well as the provisions issued in implementation of Article 9 of Legislative Decree no. 38/05, approved by the BIP Board of Directors on 8 February 2016 and subject to audit by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 10 February 2016;
- the SPAXS consolidated interim financial statements for the period from the date of incorporation (20 December 2017) to 30 September 2018 (the "**SPAXS 9M 2018 Consolidated Interim Financial Statements**"), prepared in accordance with the International Accounting Standard applicable to interim financial statements (IAS 34), approved by the SPAXS Board of Directors on 30 November 2018 and subject to a review by KPMG S.p.A., which issued an unqualified report thereon dated 30 November 2018;
- the SPAXS interim financial statements for the period from the date of incorporation (20 December 2017) to 30 June 2018 (the "**SPAXS 1H 2018 Interim Financial Statements**"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standard Board and implemented by the European Union (IFRS), approved by the SPAXS Board of Directors on 30 October 2018 and audited by KPMG S.p.A., which issued an unqualified report thereon dated 22 November 2018.

The auditors Deloitte and KPMG (within their respective areas of competence) had no findings or reservations with respect to the company financial statements submitted for audit for the years covered in the Prospectus.

For more information on the pro-forma financial information that has retrospective effect on the Business Combination transaction, reference should be made to Chapter 20, Paragraph 20.2. For a better understanding of the activities carried out by illimity, reference should also be made to the forecast data taken from the 2018-2023 illimity Business Plan presented in Chapter 13.

Alternative Performance Measures ("APMs")

In order to facilitate the understanding of the Issuer's economic and financial performance, the directors have identified certain Alternative performance measures ("APMs").

For a correct interpretation of these APMs, the following should be noted:
(i) These measures are calculated exclusively based on historical data of the Issuer and are not indicative of the Issuer's future performance.
(ii) APMs are not required by international accounting standards (IFRS) and, although they are derived from the Issuer's financial statements, they are not subject to audit.
(iii) The APMs should not be considered as substitutes for the indicators provided by the accounting standards of reference (IFRSs).
(iv) The reading of said APMs must be carried out together with the Issuer's financial information drawn from the financial statements for the years ended 31 December 2017, 2016 and 2015 and 30 September 2018 presented in Chapters IX, X and XX of this Prospectus.
(v) As they do not derive from the accounting standards of reference, the definitions of the measures used by the Issuer may not be consistent with those adopted by other companies/groups and therefore may not be comparable with them.

(vi) The APMs used are calculated with continuity and uniformity of definition and representation for all the periods for which financial information is included in this Prospectus.

The APMs shown below were selected and presented in the Prospectus, as the Issuer believes that they are a useful tool for better appreciating its economic and financial performance.

With regard to the profitability and equity ratios:

- Return on Equity (ROE) – calculated by dividing net profit (loss) by shareholders' equity (excluding the result for the year) – is an economic indicator of the return on equity. The figure is used to verify the rate of return on risk capital, i.e. the return on the capital transferred to the company by the shareholders.
- Return on Assets (ROA) – calculated by dividing net income by total assets – is an economic indicator representing the percentage return achieved by company investments.
- The Cost/Income ratio – calculated as the ratio between the operating costs and total revenues extracted from the reclassified income statement – is one of the main indicators of the Bank's operational efficiency. The lower the value expressed by this indicator, the greater the efficiency.

With regard to the following indices, the new standard IFRS 9 (introduced on 1 January 2018) made significant changes compared to the previous IAS 39 regarding the rules for the classification and measurement of financial instruments. In particular, loans and debt securities classified as financial assets at amortised cost, financial assets measured at fair value with an impact on the overall profitability and significant off-balance sheet exposures are subject to calculation of value adjustments according to the new logic established by the IFRS 9 standard.

Specifically:

- The indicator Net adjustments to receivables/Loans to customers calculated as the ratio between net value adjustments/write-backs for credit risk of Financial assets at amortised cost on total loans to customers (as per the reclassified financial statements) is representative of the impact of provisions made in a given period with respect to the amount of outstanding loans.
- The indicator Net bad loans to customers/Loans to customers shows the ratio of net bad loans to all loans to customers (as per the reclassified financial statements).
- The indicator Gross non-performing loans/Gross loans to customers shows the ratio of gross non-performing loans to all loans to customers (as per the reclassified financial statements).

The equity, financial and economic information shown below should be read in conjunction with Chapters 9, 10 and 20 of Section One of the Prospectus.

9.1 The Issuer's financial and economic position

9.1.1 Financial position at 30 September 2018 and 31 December 2017

The reclassified balance sheet figures are stated below as of 30 September 2018 and as of 31 December 2017, together with changes in absolute value and percentages.

The figures have been reclassified using management accounting criteria designed to best represent the bank's economic and financial situation, considering the specifics of a set of financial statements prepared for a bank. The aim of doing this is to simplify a reading of the statements by means of specific aggregations of items and reclassifications.

(Thousands of euros)	**BIP**			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Financial assets other than receivables	443,495	608,021	(164,526)	(27.06%)
Due from banks	150,441	125,338	25,103	20.03%
Due from customers	333,183	326,049	7,134	2.19%
Equity investments	–	–	–	–
Tangible and intangible assets	2,064	1,836	228	12.42%
Tax assets	11,062	6,285	4,777	76.01%
Other assets	15,523	6,884	8,639	125.49%
Total assets	**955,769**	**1,074,413**	**(118,644)**	**(11.04%)**
Due to banks	257,603	470,623	(213,020)	(45.26%)
Direct deposits from customers	587,998	528,978	59,020	11.16%
Deferred tax liabilities	335	2,110	(1,775)	(84.12%)
Liabilities associated with non-current assets and disposal groups held for sale	–	–	–	–
Other liabilities	18,604	10,124	8,480	83.76%
Specific provisions	922	2,508	(1,586)	(63.24%)
Net equity	90,306	60,070	30,236	50.33%
Total liabilities and equity	**955,769**	**1,074,413**	**(118,644)**	**(11.04%)**

The figure as of 31 December 2017 (calculated in accordance with IAS 39) is reclassified to the new accounting items according to the reclassifications deemed necessary on the basis of the new classification criteria introduced by IFRS 9, which therefore do not involve changes in total assets and total liabilities.

These are aggregates restated in the financial statement items required by Bank of Italy Circular 262/2005 - 5th update of 22 December 2017.

Financial assets other than receivables

The table below provides an analysis of financial assets at 30 September 2018 and at 31 December 2017 and changes in absolute value and percentage.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Financial assets at fair value through profit or loss	29,392	214	29,178	>100%
a) financial assets held for trading	29,293	115	29,178	>100%
b) financial assets at fair value	–	–	–	–
c) other financial assets mandatorily at fair value	99	99	–	0%
Financial assets at amortised cost	124,743	54,296	70,447	>100%
Financial assets at fair value through profit or loss	289,361	553,511	(264,150)	(47.72%)
Total financial assets other than receivables	**443,496**	**608,021**	**(164,526)**	**(27.06%)**

At 30 September 2018 the securities portfolio held by the Issuer totalled EUR 443 million, down by EUR 165 million compared to 31 December 2017. This change is due to a reduction in government debt securities of EUR 178 million (-31.5%).

The table below provides the composition of the BIP securities portfolio for the nine months ended 30 September 2018 and for the year ended 31 December 2017, and changes in absolute value and percentages.

(Thousands of euros)	BIP					
	30 September 2018		**31 December 2017 (restated)**		**Changes**	**% change**
	Carrying amount	**% impact**	**Carrying amount**	**% impact**	**2018 v. 2017**	**2018 v. 2017**
Debt securities	414,090	93.37%	607,795	99.96%	(193,705)	(31.87%)
- Government	386,973	87.26%	565,273	92.97%	(178,300)	(31.54%)
- Bank	27,118	6.11%	39,544	6.50%	(12,426)	(31.42%)
- Others	(1)	(0.00%)	2,978	0.49%	(2,979)	(>100%)
Equities	13	0.00%	12	0.00%	1	8.33%
UCI units	29,392	6.63%	214	0.04%	29,178	>100%
Total securities	**443,495**	**100.00%**	**608,021**	**100.00%**	**(164,526)**	**(27.06%)**

Gross of the effects deriving from the valuation of the financial instruments according to IFRS 9, the first-time adoption of IFRS 9 led to the reclassification of the data at 31 December 2017 in the following accounting categories:

1. 20. Financial assets at fair value through profit or loss for EUR 218 thousand.
2. 30. Financial assets at fair value through profit or loss of EUR 555,704 thousand (nominal value EUR 541,900 thousand).
3. 40. Financial assets at amortised cost b) to customers for EUR 52,103 thousand (nominal value EUR 52,000 thousand). It should be noted that for First Time Adoption this portfolio has been reclassified as "Available for Sale" on the basis of the IAS 39 accounting standard.

In consideration of the positive outcome of the SPAXS Shareholders' Meeting concerning the approval of the Material Transaction that took place on 8 August 2018 and pending completion of this transaction, in the third quarter of 2018 and in consideration of the increase in "Italian risk" due to the current political situation in the country the Issuer's management deemed it appropriate to start a strategy to reduce the portfolio of owned securities, consisting mainly of Italian government securities (and in particular CCTs that are particularly sensitive to the risk of Italian credit) and senior debt securities of Italian bank issuers with a high correlation between the trend in Italian risk and the market value of the portfolio.

The following are the main characteristics of the securities portfolio held at 1 January 2018:

- Nominal value of the portfolio, excluding the securities classified under item 20. Financial assets at fair value with impact on the income statement represented by smaller investments in UCIs and equity securities equal to EUR 593.9 million, of which EUR 541.9 million classified under item 30. Financial assets at fair value through profit or loss and EUR 52 million classified under item 40. Financial assets at amortised cost b) to customers.
- The portfolio of securities held classified under item 40. Financial assets at amortised cost b) to customers was represented entirely by investments in securities issued by the Italian State, while the portfolio of securities held classified under item 30. Financial assets at fair value through profit or loss were invested for around 92% in Italian government securities (EUR 500.5 million in nominal terms) and for the remaining 8% in senior debt securities of Italian bank issuers (EUR 41.4 million in nominal terms).
- Overall sensitivity of the portfolio of securities held classified under item 30. Financial assets at fair value with an impact on the overall profitability when the credit curve changes (credit risk sensitivity) equal to EUR 179 thousand per bps.

In order to limit the riskiness of the securities portfolio in view of further expected volatility that could continue to influence Italian sovereign debt in the last quarter of 2018 and early 2019 due to the expected expiration dates that involve the Government, in light of the Draft Budget Law 2019 and the disappearance of Quantitative Easing ("QE") and ECB's accommodative policy, the Issuer's management decided to undertake a series of de-risking actions on the government securities portfolio, using credit risk sensitivity for this activity. This parameter was considered the most relevant driver for defining portfolio management strategies with regard to credit risk since in any case the real market price movements of the securities also depend on additional parameters like the non-parallel movement of the credit curve, liquidity of the security and the strength of the market.

The entire portfolio was therefore analysed, keeping in mind that:

1. The securities classified in item 40. Financial assets at amortised cost b) to customers can be sold in limited quantities and in any case in particular market situations.
2. A part of the securities was used in refinancing operations with the ECB or with market counterparts and therefore a strategy was defined that would make it possible to "release" and/or "replace" the aforementioned securities to proceed with their sale.

With regard to the above, the most risky securities were sold at different times and – where necessary in the case of securities that were "committed" to loan transactions – replaced with short term securities issued by the Italian government with maturity by 2018.

The results achieved by this action are summarised below:

- Reduction of the nominal value of the portfolio held classified under item 30. Financial assets at fair value with an impact on the overall profitability from EUR 541.9 million at 31 December 2017 to EUR 293.9 million at 30 September 2018, which include EUR 40 million nominal of BOT securities with maturity by 2018 (approximately -51% excluding the investment in BOTs).

- reduction of portfolio risk in terms of credit risk sensitivity from EUR 179 thousand per bps at 31 December 2017 to EUR 73 thousand per bps at 30 September 2018 (approximately -59%).

Considering this strategy to be preparatory to the achievement of the objectives set out in the Business Plan, in October the Issuer's management further reduced the portfolio risk that had the portfolio of securities held classified under item 30. Financial assets at fair value with an impact on the overall profitability from a nominal amount of EUR 541.9 million at 31 December 2017 to a nominal amount of EUR 202.9 million at 31 October 2018 (which includes EUR 95 million of nominal value of BOT securities and other government securities maturing by 2018) (approximately -80% excluding the investment in BOTs and other government securities maturing by 2018). Finally, it should be noted that at the same date they were classified under item 40. Financial assets at amortised cost b) to customers EUR 122 million of Italian government securities.

Cash flows deriving from the disinvestment in the aforementioned government securities have mainly converged into the Bank's treasury accounts and have been used to repay repurchase agreements with market counterparties and refinancing operations with the European Central Bank. Specifically:

- Repurchase agreements have been settled with market counterparties for an amount of EUR 85 million.
- Transactions with the European Central Bank have been closed out for an amount of EUR 220 million.

2018 v. 2017

At 30 September 2018 the item "Financial assets other than receivables" amounted to EUR 443 million, a decrease of EUR 165 million compared to 31 December 2017. This change is due to a reduction in government debt securities.

More specifically, at 30 September 2018, financial assets at fair value through profit or loss consisted of debt securities (equal to EUR 289 million, of which EUR 262 million of the Public Administrations), while financial assets at fair value with an impact on the income statement, were entirely attributable to units in UCIs (equal to EUR 29 million).

It should be noted that the Issuer participated in the various tranches of the ECB's TLTRO II financing operation and according has encumbered assets of EUR 53 million.

Due from banks

2018 v. 2017

At 30 September 2018, due from banks, equal to EUR 74 million, recorded a decrease (equal to EUR 25 million compared to the previous year) due to the lower contribution from current accounts and demand deposits as well as maturing deposits.

Due from customers

The table below provides an analysis of due from customers at 30 September 2018 and at 31 December 2017 and changes in absolute value and percentages.

(Thousands of euros)	**30 September 2018**	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
1. Current accounts	117,925	108,270	9,655	8.92%
2. Repurchase agreements	–	–	–	–
3. Mortgage loans	201,441	206,704	(5,263)	(2.55%)
4. Credit cards, personal loans and salary-backed loans	1,485	1,385	100	7.22%
7. Other financing	12,332	9,690	2,642	27.27%
Total due from customers	**333,183**	**326,049**	**7,134**	**2.19%**

2018 v. 2017

In the period in question the impact of due from customers on total assets grew, rising from 30% in 2017 to 35% in 2018.

At 30 September 2018, due from customers, equal to EUR 333 million (+2% compared to 31 December 2017), were divided into the following components:

- current accounts, amounting to EUR 118 million, up 9% compared to 31 December 2017;
- mortgages of EUR 201 million, down 3% compared to 31 December 2017;
- credit cards, personal loans and salary-backed loans, equal to EUR 1 million, an increase of 7% compared to 31 December 2017;
- other financing, amounting to EUR 12 million up 27% compared to 31 December 2017;

In the same period, gross non-performing loans, consisting almost exclusively of unlikely-to-pay exposures and bad loans, amounted to EUR 22 million.

Tangible and intangible assets

The following table provides an analysis of tangible assets at 30 September 2018 and at 31 December 2017:

(Thousands of euros)	**BIP**			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Owned assets				
a) land	–	–	–	–
b) buildings	1,058	1,096	(38)	(3.47%)
c) furniture	310	218	92	42.20%
d) electronic systems	54	68	(14)	(20.59%)
e) others	388	270	118	43.70%
Total tangible assets	**1,810**	**1,652**	**158**	**9.56%**

2018 v. 2017

At 30 September 2018, tangible assets related to owned property (equal to EUR 1 million) and to the furnishing of the branches, in line with the figures as of 31 December 2017.

Tax assets

The following table provides an analysis of current and prepaid/deferred tax assets and liabilities at 30 September 2018 and 31 December 2017.

(Thousands of euros)	**BIP**			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Current tax assets	1,383	2,995	(1,612)	(53.82%)
Deferred tax assets	9,679	3,290	6,389	>100%
of which Law 214/2011	1,877	2,054	(177)	(8.62%)
Total tax assets	**11,062**	**6,285**	**4,777**	**76.01%**
Current tax liabilities	–	1,607	(1,607)	(100.00%)
Deferred tax liabilities	335	2,110	(1,775)	(84.12%)
Total tax liabilities	**335**	**3,717**	**(3,382)**	**(90.99%)**

2018 v. 2017

At 30 September 2018 tax assets amounted to EUR 11,062 thousand an increase of 76% compared to EUR 6,285 thousand at 31 December 2017, while tax liabilities amounted to EUR 0.3 million, a decrease of 91% compared to EUR 3,717 thousand at 31 December 2017.

At 30 September 2018 deferred tax assets were attributable to:

- write-downs of receivables from customers for EUR 1,877 thousand, down by 9% compared to EUR 2,054 thousand at 31 December 2017.
- provisions for EUR 113 thousand, an increase of 8% compared to EUR 105 thousand as of 31 December 2017.
- tax losses of EUR 4,530 thousand.
- write-downs of FVOCI securities for EUR 2,885 thousand, up by more than 100% compared to EUR 785 thousand at 31 December 2017.
- other residual items of EUR 274 thousand down by 21% compared to EUR 346 thousand at 31 December 2017.

Deferred tax liabilities, equal to EUR 335 thousand as of 30 September 2018 are entirely attributable to the revaluation of FVOCI securities (-84% compared to 31 December 2017).

On the basis of the Business Plan, the recoverability of the DTAs is assumed in that they depend on the availability of future income within the explicit period of the plan and therefore within the year 2023.

Other assets

2018 v. 2017

At 30 September 2018 the item "Other assets" showed a balance equal to EUR 15,523 thousand, an increase of over 100% compared to EUR 6,884 thousand at 31 December 2017.

The evolution of the aggregate was affected by a reduction in tax receivables from the tax authorities (-31%), guarantee deposits (-5%), amounts due to be charged to customers (-47%) and receivable entries in transit (-33%), accrued income (-70%), prepaid expenses (-45%) and a simultaneous increase of third party cheques in hand (>100%), of bills of exchange and third party documents in portfolio (>100%), entries being processed (>100%), leasehold improvements (+41%) and others (>100%).

The principal sub-items refer to entries being processed amounting to EUR 8,361 thousand (EUR 1,093 thousand as of 31 December 2017) and tax receivables from tax authorities and others amounting to EUR 1,983 thousand (EUR 2,868 thousand at 31 December 2017).

Due to banks

2018 v. 2017

The item "Due to Banks", equal to EUR 258 million at 30 September 2018, decreased by EUR 213 million compared to the amount reported in the previous year due to a drop in payables to central banks.

At 30 September 2018 interbank deposits mainly consisted of payables to central banks, linked to time deposits with the European Central Bank and guaranteed by eligible securities, equal to EUR 142 million (corresponding to 55% of the total) compared to EUR 399 million as of 31 December 2017.

Direct deposits from customers

The table below provides an analysis of direct deposits from customers at 30 September 2018 and at 31 December 2017 and changes in absolute value and percentages.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Current accounts	441,588	398,688	42,900	10.76%
Savings deposits	1,905	1,558	347	22.27%
Others	975	1,804	(829)	(45.95%)
Time deposits	36,905	25,932	10,973	42.31%
Total on-demand deposits	**481,373**	**427,982**	**53,391**	**12.48%**
Certificates of deposit	72,806	68,073	4,733	6.95%
Bonds	26,315	26,362	(47)	(0.18%)
Loans	7,504	6,561	943	14.37%
Total term deposits	106,625	100,996	5,629	5.57%
Total direct deposits from customers	**587,998**	**528,978**	**59,020**	**11.16%**

2018 v. 2017

At 30 September 2018 direct deposits represented 62% of the total liabilities and equity, in line with the previous year (49%).

Direct customer deposits were valued at EUR 588 million at 30 September 2018, an increase of 11% compared to EUR 529 million at 31 December 2017. The evolution of the aggregate was affected by an increase in current accounts (+EUR 43 million), savings deposits (+EUR 0.3 million), time deposits (+EUR 11 million), certificates of deposit (+EUR 5 million) and loans (+EUR 0.1 million), only partially offset by a decrease in bonds (-EUR 0.047 million) and others (-EUR 0.8 million).

During the period of reference, the main source of customer deposits was current accounts, equal to 75% of the total (in line with 2017).

Securities issued

2018 v. 2017

At 30 September 2018 securities issued amounted to EUR 99 million (certificates of deposit of EUR 72.8 million and bonds of EUR 26.3 million), up 5% compared to EUR 94 million at 31 December 2017.

Other liabilities

2018 v. 2017

At 30 September 2018, other liabilities amounted to EUR 19 million, with an increase in absolute terms of EUR 9 million (+87%) compared to EUR 10 million at 31 December 2017. This increase is mainly attributable to the growth in entries being processed, relating to the ordinary management of customer deposits and payments, equal to EUR 12 million (>100%) compared to 31 December 2017.

Specific provisions

2018 v. 2017

The item "specific provisions", equal to EUR 0.9 million at 30 September 2018, showed a downturn of 63% compared to EUR 2.5 million at 31 December 2017. The dynamics of the aggregate led to a decrease in tax liabilities (-91%).

Shareholders' equity

The table below provides an analysis of shareholders' equity at 30 September 2018 and at 31 December 2017 and changes in absolute value and percentage.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
1. Capital	43,377	43,377	–	–
2. Share premium	–	–	–	–
3. Reserves	64,589	10,662	53,927	>100%
4. Non-controlling interests	–	–	–	–
5. Equity investments	–	–	–	–
6. (Treasury shares)	–	–	–	–
7. Valuation reserves	(5,196)	2,632	(7,828)	(>100%)
8. Profit (loss) for the period	(12,464)	3,399	(15,863)	(>100%)
Total	**90,306**	**60,070**	**30,236**	**50.33%**

2018 v. 2017

At 30 September 2018 shareholders' equity amounted to EUR 90 million, with an increase in absolute terms of EUR 30 million (+50%) compared to EUR 60 million at 31 December 2017. The increase is the result of:

- An increase in reserves of EUR 53,927 thousand compared to EUR 11 million as of 31 December 2017 mainly due to the payment by the parent company SPAXS of a future capital increase of EUR 50 million.

- A decrease in valuation reserves of EUR 7,828 thousand, compared to EUR 3 million at 31 December 2017.
- A decrease in profit for the year of EUR 15,863 thousand, compared to EUR 3.4 million at 31 December 2017.

At 30 September 2018 the share capital amounted to EUR 43 million, divided into 43,377 ordinary shares with a nominal value of 1,000 euros each.

9.1.2 Financial position for the years ended 31 December 2017, 2016 and 2015

The reclassified balance sheet figures for the years ended 31 December 2017, 2016 and 2015 and the changes in absolute value and percentages are shown below.

The figures have been reclassified using management accounting criteria designed to best represent the bank's economic and financial situation, considering the specifics of a set of financial statements prepared for a bank. The aim of doing this is to simplify a reading of the statements by means of specific aggregations of items and reclassifications.

(Thousands of euros)	BIP						
	31 December			Changes		% change	
	2017	2016	2015	2017 v. 2016	2016 v. 2015	2017 v. 2016	2016 v. 2015
Financial assets other than receivables	608,021	595,352	548,443	12,669	46,909	2.13%	8.55%
Due from banks	125,338	116,111	72,935	9,227	43,176	7.95%	59.20%
Due from customers	326,049	299,451	222,665	26,598	76,786	8.88%	34.48%
Equity investments	–	–	–	–	–	–	–
Tangible and intangible assets	1,836	1,970	646	(134)	1,324	(6.80%)	>100%
Tax assets	6,285	7,500	4,742	(1,215)	2,758	(16.20%)	58.16%
Non-current assets and disposal groups held for sale	–	–	–	–	–	–	–
Other assets	6,884	5,483	4,459	1,401	1,024	25.55%	22.96%
Total assets	**1,074,413**	**1,025,867**	**853,890**	**48,546**	**171,977**	**4.73%**	**20.14%**
Due to banks	470,623	447,774	380,429	22,849	67,345	5.10%	17.70%
Direct deposits from customers	528,978	507,940	403,569	21,038	104,371	4.14%	25.86%
Deferred tax liabilities	2,110	2,493	3,777	(383)	(1,284)	(15.36%)	(34.00%)
Liabilities associated with non-current assets and disposal groups held for sale	–	–	–	–	–	–	–
Other liabilities	10,124	8,580	8,338	1,544	242	18.00%	2.90%
Specific provisions	2,508	2,873	3,149	(365)	(276)	(12.70%)	(8.76%)
Net equity	60,070	56,207	54,628	3,863	1,579	6.87%	2.89%
Total liabilities and equity	**1,074,413**	**1,025,867**	**853,890**	**48,546**	**171,977**	**4.73%**	**20.14%**

Financial assets other than receivables

The table below provides an analysis of financial assets at 31 December 2017, 2016 and 2015 and changes in absolute value and percentage.

(Thousands of euros)	BIP						
	31 December			Changes		% change	
	2017	2016	2015	2017 v. 2016	2016 v. 2015	2017 v. 2016	2016 v. 2015
Financial assets held for trading	115	–	–	115	–	–	–
Financial assets available for sale	607,906	595,352	548,443	12,554	46,909	2.11%	8.55%
Total financial assets	**608,021**	**595,352**	**548,443**	**12,669**	**46,909**	**2.13%**	**8.55%**

2017 v. 2016

At 31 December 2017, the item "Financial assets other than receivables", which includes the financial assets held for trading and the financial assets available for sale, amounted to EUR 608 million, an increase of 2.1% compared to what was recorded in 2016. This change was mainly due to the purchase of additional short-term Italian government securities (never over 4-5 years).

More specifically, at 31 December 2017 financial assets held for trading consisted of UCI (equal to EUR 115 thousand), while financial assets available for sale were divided into debt securities (equal to EUR 607 million, of which EUR 565 million with debtors/issuers being governments and central banks), equity securities (equal to EUR 12 thousand) and units in UCIs (equal to EUR 99 thousand).

2016 v. 2015

At 31 December 2016, the item "Financial assets other than receivables" amounted to EUR 595 million, an increase of 8.6% compared to 2015. This change was mainly due to the increase in debt securities of governments and central banks for EUR 50 million.

More specifically, as of 31 December 2016 financial assets available for sale were divided into debt securities (equal to EUR 594 million, of which EUR 543 million with debtors/issuers being governments and central banks), equity securities (equal to EUR 708 thousand) and units in UCIs (equal to EUR 100 thousand).

Due from banks

2017 v. 2016

At 31 December 2017, amounts due from banks equal to EUR 125 million recorded an increase (equal to EUR 9 million compared to the previous year) due to the lower contribution deriving from interbank funding and destined for loans to banks.

At 31 December 2017 the item consists for 21% (24% in 2016) in receivables from central banks and 79% (76% in 2016) in receivables from banks.

2016 v. 2015

At 31 December 2016, receivables from banks equal to EUR 116 million recorded an increase (equal to EUR 43 million compared to 31 December 2015) due to an increase in both receivables from banks (+EUR 16 million) and receivables from central banks (+EUR 27 million).

At 31 December 2016 the item consists for 24% (0% in 2015) in receivables from central banks and 76% (100% in 2016) in receivables from banks.

Due from customers

The table below provides an analysis of receivables from customers at 31 December 2017, 2016 and 2015 and changes in absolute value and percentages.

(Thousands of euros)	**BIP**						
	31 December			**Changes**		**% change**	
	2017	**2016**	**2015**	**2017 v. 2016**	**2016 v. 2015**	**2017 v. 2016**	**2016 v. 2015**
1. Current accounts	108,270	112,330	99,601	(4,060)	12,729	(3.61%)	12.78%
2. Repurchase agreements	–	–	–	–	–	–	–
3. Mortgage loans	206,704	174,222	114,377	32,482	59,845	18.64%	52.32%
4. Credit cards, personal loans and salary-backed loans	1,385	823	96	562	727	68.29%	>100%
7. Other financing	9,690	12,076	8,591	(2,386)	3,485	(19.76%)	40.57%
Total due from customers	**326,049**	**299,451**	**222,665**	**26,598**	**76,786**	**8.88%**	**34.48%**

2017 v. 2016

In the period in question the impact of receivables from customers on total assets grew, rising from 29% in 2016 to 30% in 2017.

At 31 December 2017, receivables from customers, equal to EUR 326 million (9% compared to 31 December 2016), were divided into the following components:

- Current accounts, amounting to EUR 108 million, dropping 3.61% compared to 31 December 2016.

- Mortgage loans of EUR 207 million, up 18.64% compared to 31 December 2016.
- Credit cards, personal loans and salary-backed loans, equal to EUR 1 million, an increase of 68.29% compared to 31 December 2016.
- Other financing, amounting to EUR 10 million, down 19.76% compared to 31 December 2016.

In the same period, gross non-performing loans, consisting almost exclusively of unlikely-to-pay exposures and bad loans, amounted to EUR 18 million.

2016 v. 2015

In the period in question the impact of receivables from customers on total assets grew, rising from 26% in 2015 to 29% in 2016.

At 31 December 2016, receivables from customers, equal to EUR 299 million (34% compared to 31 December 2015), were divided into the following components:
- Current accounts, amounting to EUR 112 million, up 12% compared to 31 December 2015.
- Mortgage loans of EUR 174 million, up 53% compared to 31 December 2015.
- Credit cards, personal loans and salary-backed loans, equal to EUR 823 thousand, an increase of more than 100% compared to 31 December 2015.
- Other financing, amounting to EUR 12 million, up 41% compared to 31 December 2015.

In the same period of reference, gross non-performing loans to customers amounted to EUR 19 million, of which EUR 8,697 thousand for bad debts, unlikely-to-pay exposures of EUR 9,528 thousand and overdrawn and/or past due exposures for EUR 420 thousand.

Equity investments

2017 v. 2016

On 18 July 2016 Banca Interprovinciale purchased 16,350 Banca Emilveneta shares, equal to 54.5% of the share capital, at a price of 492.62 euros per share. The book value of the investment amounted to EUR 8,054,337. The acquisition of the controlling interest was preliminary to the merger by incorporation which took place in 2017, backdated to 1 January 2017 for accounting and fiscal purposes.

Tangible and intangible assets

The following table provides an analysis of tangible assets at 31 December 2017, 2016 and 2015:

(Thousands of euros)	**BIP**						
	31 December			**Changes**		**% change**	
	2017	**2016**	**2015**	**2017 v. 2016**	**2016 v. 2015**	**2017 v. 2016**	**2016 v. 2015**
Owned assets							
a) land	–	–	–	–	–	0.00%	0.00%
b) buildings	1,096	1,146	–	(50)	1,146	(4.36%)	100.00%
c) furniture	218	132	178	86	(46)	65.15%	(25.84%)
d) electronic systems	68	71	75	(3)	(4)	(4.23%)	(5.33%)
e) others	270	123	175	147	(52)	>100%	(29.71%)
Total tangible assets	**1,652**	**1,472**	**428**	**180**	**1,044**	**12.23%**	**<100%**

2017 v. 2016.

At 31 December 2017, tangible assets related to owned property (equal to EUR 1 million) and to the furnishing of the branches, in line with the figures as of 31 December 2016.

In the same period, intangible assets were entirely attributable to goodwill, calculated to be EUR 327 thousand when control of Banca Emilveneta S.p.A. was acquired in 2016. This item was subsequently subjected to a full impairment adjustment during 2017.

2016 v. 2015

At 31 December 2016, tangible assets, equal to EUR 1.4 million, saw an increase of EUR 1 million compared to 31 December 2015, entirely attributable to the property of the subsidiary Banca Emilveneta S.p.A.

In the same period, intangible assets were entirely attributable to goodwill, calculated to be EUR 327 thousand when control of Banca Emilveneta S.p.A. was acquired in 2016.

Tax assets

The following table provides an analysis of current and prepaid/deferred tax assets and liabilities at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		% change	
	2017	2016	2015	2017 v. 2016	2016 v. 2015	2017 v. 2016	2016 v. 2015
Current tax assets	2,995	3,118	2,575	(123)	543	(3.94%)	21.09%
Deferred tax assets	3,290	4,382	2,167	(1,092)	2,215	(24.92%)	102.22%
- of which Law 214/2011	2,054	2,243	1,563	(189)	680	(8.42%)	43.50%
Total tax assets	**6,285**	**7,500**	**4,742**	**(1,215)**	**2,758**	**(16.20%)**	**58.16%**
Current tax liabilities	1,607	2,040	2,585	(433)	(545)	(21.23%)	(21.08%)
Deferred tax liabilities	2,110	2,493	3,777	(383)	(1,284)	(15.36%)	(34.00%)
Total tax liabilities	**3,717**	**4,533**	**6,362**	**(816)**	**(1,829)**	**(18.00%)**	**(28.75%)**

2017 v. 2016

At 31 December 2017 tax assets amounted to EUR 6,285 thousand, a decrease of 16% compared to EUR 7,500 thousand at 31 December 2016, while tax liabilities amounted to EUR 3,717 thousand, a decrease of 18% compared to EUR 4,533 thousand at 31 December 2016.

At 31 December 2017 current tax assets were primarily related to the advance payments made to tax authorities for EUR 2,283 thousand (EUR 2,694 thousand at 31 December 2016), while deferred tax assets were attributable to:

- Write-down of receivables from customers for EUR 2,054 thousand, down by 8% compared to EUR 2,243 thousand at 31 December 2016.
- Provisions of EUR 105 thousand, in line with the results of the previous year.
- Write-down of AFS securities for EUR 785 thousand, down by 45% compared to EUR 1,420 thousand at 31 December 2016.
- Other residual items for EUR 346 thousand, up by 52% compared to EUR 228 thousand at 31 December 2016.

Deferred tax liabilities, equal to EUR 2,110 thousand at 31 December 2017, were entirely attributable to the revaluation of AFS securities in line with what was recorded during the previous year.

2016 v. 2015

At 31 December 2016 tax assets amounted to EUR 7,500 thousand, an increase of 58% compared to EUR 4,742 thousand at 31 December 2015, while tax liabilities amounted to EUR 4,533 thousand, a decrease of 29% compared to EUR 6,362 thousand at 31 December 2015.

At 31 December 2016 current tax assets amounted to EUR 3,118 thousand (EUR 2,575 thousand at 31 December 2015), while deferred tax assets, amounting to EUR 4,382 thousand (EUR 2,167 thousand at 31 December 2015) were attributable to:

- Write-down of receivables from customers for EUR 2,243 thousand, up by 44% compared to EUR 1,563 thousand at 31 December 2015.
- Provisions for EUR 106 thousand, an increase of more than 100% compared to EUR 39 thousand as of 31 December 2015.
- Write-down of AFS securities for EUR 1,420 thousand, up by more than 100% compared to EUR 448 thousand at 31 December 2015.
- Other residual items for EUR 228 thousand, up by 95% compared to EUR 117 thousand at 31 December 2015.

Deferred tax liabilities, equal to EUR 2,493 thousand at 31 December 2016, were entirely attributable to the revaluation of AFS securities in line with what was recorded during the previous year.

Other assets

2017 v. 2016

At 31 December 2017 the item "Other assets" showed a balance equal to EUR 6,884 thousand, an increase of 26% compared to EUR 5,483 thousand at 31 December 2016.

The evolution of the aggregate was affected by a reduction in tax receivables from tax authorities (-5%), third party cheques (-47%) and company cheques (-100%) and from a concurrent increase in entries being processed (+87%), prepaid expenses (>100%), accrued income (+42%), amounts due to be charged to customers (+17%) and leasehold improvements (+9%).

The principal sub-items refer to tax receivables due from tax authorities, equal to EUR 2,868 thousand (EUR 3,021 thousand as of 31 December 2016) and to entries being processed for EUR 1,093 thousand (EUR 586 thousand as of 31 December 2016).

2016 v. 2015

At 31 December 2016 the item "Other assets" showed a balance equal to EUR 5,483 thousand, an increase of 23% compared to EUR 4,459 thousand at 31 December 2015.

The evolution of the aggregate was affected by a reduction in entries being processed (-25%) and leasehold improvements (-23%) and a simultaneous increase in tax receivables due from tax authorities (+25%), third party cheques (>100%), amounts due to be charged to customers (+10%), prepaid expenses (+93%) and accrued income (+71%).

The principal sub-items refer to tax receivables due from tax authorities equal to EUR 3,021 thousand (EUR 2,418 thousand as of 31 December 2015) and third party cheques totalling EUR 702 thousand (EUR 266 thousand as of 31 December 2015).

Due to banks

2017 v. 2016

The item "Due to Banks", equal to EUR 471 million at 31 December 2017, increased by EUR 23 million compared to the amount reported in the previous year due to a rise in payables to central banks.

At 31 December 2017 interbank deposits mainly consisted of payables to central banks, linked to time deposits with the European Central Bank and guaranteed by eligible securities, equal to EUR 399 million (corresponding to 85% of the total) compared to EUR 381 million as of 31 December 2016.

2016 v. 2015

The item "Due to Banks", equal to EUR 448 million at 31 December 2016, increased by EUR 67 million compared to the amount reported in the previous year due to a rise in payables to central banks.

At 31 December 2016 interbank deposits mainly consisted of payables to central banks, linked to time deposits with the European Central Bank and guaranteed by eligible securities, equal to EUR 381 million (corresponding to 85% of the total) compared to EUR 360 million as of 31 December 2015.

Direct deposits from customers

The table below provides an analysis of direct deposits from customers at 31 December 2017, 2016 and 2015 and changes in absolute value and percentage.

(Thousands of euros)	**BIP**						
	31 December			**Changes**		**% change**	
	2017	**2016**	**2015**	**2017 v. 2016**	**2016 v. 2015**	**2017 v. 2016**	**2016 v. 2015**
Current accounts	398,688	373,804	277,468	24,884	96,336	6.66%	34.72%
Savings deposits	1,558	4,708	4,693	(3,150)	15	(66.91%)	0.32%
Others	1,804	524	292	1,280	232	>100%	79.45%
Time deposits	25,932	19,881	19,181	6,051	700	30.44%	3.65%
Total on-demand deposits	**427,982**	**398,917**	**301,634**	**29,065**	**97,283**	**7.29%**	**32.25%**
Certificate of deposit	68,073	62,956	56,292	5,117	6,664	8.13%	11.84%
Bonds	26,362	44,423	44,161	(18,061)	262	(40.66%)	0.59%
Loans	6,561	1,644	1,482	4,917	162	>100%	10.93%
Total term deposits	**100,996**	**109,023**	**101,935**	**(8,027)**	**7,088**	**(7.36%)**	**6.95%**
Total direct deposits from customers	**528,978**	**507,940**	**403,569**	**21,038**	**104,371**	**4.14%**	**25.86%**

2017 v. 2016

At 31 December 2017 direct deposits represented 49% of the total liabilities and equity, in line with the previous year (50%).

Direct customer deposits were valued at EUR 529 million at 31 December 2017, an increase of 4.14% compared to EUR 508 million at 31 December 2016. The evolution of the aggregate was affected by an increase in current accounts (+EUR 25 million), time deposits (+EUR 6 million), certificates of deposit (+EUR 5 million) and loans (+ EUR 5 million), only partially offset by a decrease in bonds (-EUR 18 million) and savings deposits (-EUR 3 million).

During the period of reference, the main source of customer deposits were current accounts, equal to 75% of the total (74% in 2016).

2016 v. 2015

At 31 December 2016 direct deposits represented 50% of the total liabilities and equity, in line with the previous year (47%).

Direct customer deposits were valued at EUR 508 million at 31 December 2016, an increase of 26% compared to EUR 404 million at 31 December 2015. The evolution of the aggregate was affected by an increase in current accounts (+EUR 96 million), certificates of deposit (+EUR 7 million), time deposits (+EUR 700 thousand), loans (+EUR 162 thousand) and bonds (+EUR 262 thousand).

During the period of reference, the main source of customer deposits were current accounts, equal to 74% of the total (69% in 2015).

Securities issued

2017 v. 2016

At 31 December 2017 securities issued amounted to EUR 94 million (certificates of deposit of EUR 68.1 million and bonds of EUR 26.4 million), down 12% compared to EUR 107 million at 31 December 2016. The change is due to a decrease in bond loans placed with customers (-41%), only partially offset by an increase in certificates of deposit (+8%).

2016 v. 2015

At 31 December 2016 securities issued amounted to EUR 107 million (certificates of deposit of EUR 63.0 million and bonds of EUR 44.4 million), up 7% compared to EUR 100 million (certificates of deposit of EUR 56.3 million and bonds of EUR 44.2 million) as of 31 December 2015. The change is due to an increase in both bond loans placed with customers (+0.05%) and certificates of deposit (+12%).

Other liabilities

2017 v. 2016

At 31 December 2017, other liabilities amounted to EUR 10 million, with an increase in absolute terms of EUR 1.5 million (+18%) compared to EUR 8.5 million at 31 December 2016. This increase is mainly attributable to the growth in entries being processed, relating to the ordinary management of customer deposits and payments, equal to EUR 4 million (>100%) compared to 31 December 2016.

2016 v. 2015

At 31 December 2016, other liabilities amounted to EUR 8.6 million, with an increase in absolute terms of EUR 242 thousand (+2.90%) compared to EUR 8.3 million at 31 December 2015. This increase is mainly attributable to the growth in entries being processed, relating to the ordinary management of customer deposits and payments, equal to EUR 435 thousand (+41%) compared to 31 December 2015.

Specific provisions

2017 v. 2016

The item "specific provisions", equal to EUR 2.5 million at 31 December 2017, showed a downturn of 13% compared to EUR 2.9 million at 31 December 2016. The aggregate was impacted by a decrease in both current tax liabilities (-21%) and the provision for risks and charges (-3.3%).

2016 v. 2015

The item "specific provisions", equal to EUR 2.9 million at 31 December 2016, showed a downturn of 9% compared to EUR 3 million at 31 December 2015. The aggregate was impacted by a decrease in current tax liabilities (-21%), only partially offset by an increase in the provision for risks and charges (+30%).

Shareholders' equity

The table below provides an analysis of shareholders' equity at 31 December 2017, 2016 and 2015 and changes in absolute value and percentage.

(Thousands of euros)	BIP						
	31 December			Changes		% change	
	2017	2016	2015	2017 v. 2016	2016 v. 2015	2017 v. 2016	2016 v. 2015
1. Capital	43,377	40,000	40,000	3,377	–	8.4%	0.0%
2. Share premium	–	–	–	–	–	–	–
3. Reserves	10,662	6,931	3,324	3,731	3,607	53.8%	>100%
4. Non-controlling interests	–	5,987	–	(5,987)	5,987	(>100%)	-
5. Equity investments	–	–	–	–	–	–	–
6. (Treasury shares)	–	–	–	–	–	–	–
7. Valuation reserves	2,632	2,141	6,741	491	(4,600)	22.9%	(68.2%)
8. Profit (loss) for the year	3,399	1,148	4,563	2,251	(3,415)	>100%	(74.8%)
	60,070	**56,207**	**54,628**	**3,863**	**1,579**	**6.9%**	**2.9%**

2017 v. 2016

At 31 December 2017 shareholders' equity amounted to EUR 60 million, with an increase in absolute terms of EUR 3.8 million (+7%) compared to EUR 56.2 million at 31 December 2016. The growth is the result of an increase in:

- Share capital of EUR 3,377 thousand, compared to EUR 40 million at 31 December 2016.
- Reserves of EUR 3,731 thousand, compared to EUR 7 million at 31 December 2016.
- Valuation reserves of EUR 491 thousand, compared to EUR 2 million at 31 December 2016.
- Profit for the year of EUR 2,251 thousand, compared to EUR 1 million at 31 December 2016.

At 31 December 2017 the share capital amounted to EUR 43 million, divided into 43,377 ordinary shares with a nominal value of 1,000 euros each.

Furthermore, on 18 July 2016 BIP acquired control of "Banca Emilveneta S.p.A.". Following this transaction, the consolidated financial statements as of 31 December 2016 were prepared with non-controlling interests of EUR 6 million. Subsequently, with a merger of 2 August 2017 and in implementation of the respective resolutions of the shareholders' meeting, Banca Emilveneta was merged by incorporation into BIP.Therefore, as of 31 December 2017 it was not necessary to prepare consolidated financial statements and determine non-controlling interests.

2016 v. 2015

At 31 December 2016 shareholders' equity amounted to EUR 56.2 million, with an increase in absolute terms of EUR 1.6 million (+3%) compared to EUR 54.6 million at 31 December 2015. The growth is the result of the following components:

- Share capital of EUR 40 million, in line with the figure at 31 December 2015.
- Reserves of EUR 6,931 thousand, compared to EUR 3,324 thousand at 31 December 2015.

- Non-controlling interests of EUR 5,987.
- Valuation reserves of EUR 2,141 thousand, compared to EUR 6,741 thousand at 31 December 2015.
- Profit for the year of EUR 1,148 thousand, compared to EUR 4,563 thousand at 31 December 2015.

At 31 December 2016 the share capital amounted to EUR 40 million, divided into 40,000 ordinary shares with a nominal value of 1,000 euros each.

9.1.3 Own funds

9.1.3.1 Own funds for the nine months ended 30 September 2018 and for the years ended 31 December 2017, 2016 and 2015

Starting from 1 January 2014, the calculation of capital requirements takes into account the Basel III regulatory framework, transposed in the CRR and the CRD IV, as introduced into Italian legislation.

The table below represents information on the Issuer's own funds for the nine months ended 30 September 2018 and for the year ended 31 December 2017.

(Thousands of euros)	BIP	
	30 September 2018	31 December 2017 (restated)
Common Equity Tier 1 - CET1 prior to the application of the prudential filters	85,966	57,596
Additional Tier 1 - AT1 capital gross of the elements to be deducted and the effects of the transitional regime	–	–
Tier 2 capital (Tier 2 – T2) gross of the elements to be deducted and the effects of the transitional regime	–	–
Total own funds (F + L + P)	**85,966**	**57,596**

2018 v. 2017

At 30 September 2018 Common Equity Tier 1 amounted to EUR 86 million, an increase of EUR 28 million compared to the figure at 31 December 2017, while the amount of Tier 2 capital was zero.

As a result of this trend, as of 30 September 2018 total own funds of EUR 86 million were recorded, an increase of EUR 28 million compared to the figure at 31 December 2017.

The table below presents information on the Issuer's own funds as of 31 December 2017, 2016 and 2015.

(Thousands of euros)		BIP						
		31 December			Changes		% change	
		2017	2016	2015	2017 v. 2016	2016 v. 2015	2017 v. 2016	2016 v. 2015
A.	**Common Equity Tier 1 - CET1 prior to the application of the prudential filters**	**60,070**	**51,841**	**53,828**	**8,229**	**(1,987)**	**15.9%**	**(3.7%)**
	of which CET1 instruments subject to transitional provisions	2,631	–	–	2,631	–	–	–
B.	Prudential filters of CET1 (+/-)	(34)	(46)	-	12	(46)	(26.1%)	-
C.	CET1 gross of the elements to be deducted and the effects of the transitional regime (A +/- B)	60,036	51,795	53,828	8,241	(2,033)	15.9%	(3.8%)
D.	Items to be deducted from CET1	(7)	(373)	(278)	366	(95)	(98.1%)	34.2%
E.	Transitional regime – Impact on CET1 (+/-)	(2,460)	(2,547)	(6,916)	87	4,369	(3.4%)	(63.2%)
F.	**Total Common Equity Tier 1 - CET1 (C-D +/- E)**	**57,569**	**48,875**	**46,634**	**8,694**	**2,241**	**17.8%**	**4.8%**
G.	**Additional Tier 1 - AT1 capital gross of the elements to be deducted and the effects of the transitional regime**	**–**	**224**	**–**	**–**	**224–**	**–**	**–**
	of which AT1 instruments subject to transitional provisions	-	-	-	-	-	-	-
H.	Items to be deducted from AT1	-	38		(38)	38	(100.0%)	-
I.	Transitional regime – Impact on AT1 (+/-)	-	(262)		262	(262)	(100.0%)	-
L.	**Total Additional Tier 1 - AT1 (G - H +/- I)**	**–**	**–**		**–**	**–**	**–**	**–**
M.	**Tier 2 capital (Tier 2 – T2) gross of the elements to be deducted and the effects of the transitional regime**	**–**	**299**	**–**	**(299)**	**299**	**(100.0%)**	**–**
	of which T2 instruments subject to transitional provisions	-	-	-	-	-	-	-
N.	Items to be deducted from T2	-	-	-	-	-	-	-
O.	Transitional regime – Impact on T2 (+/-)	27	-	2	27	(2)	100%–	100%-
P.	**Total Tier 2 capital (Tier 2 -T2) (M - N +/- O)**	**27**	**299**	**2**	**(272)**	**297**	**(91.0%)**	**>100%**
Q.	**Total own funds (F + L + P)**	**57,596**	**49,174**	**46,636**	**8,422**	**2,538**	**17.1%**	**5.4%**

2017 v. 2016

At 31 December 2017 Common Equity Tier 1 amounted to EUR 57.6 million, an increase of EUR 8.7 million compared to the figure as of 31 December 2016, while the Tier 2 capital amounted to EUR 27 thousand, a decrease of EUR 272 thousand compared to the figure as of 31 December 2016.

As a result of this trend, as of 31 December 2017 total own funds of EUR 57.6 million were recorded, an increase of EUR 8.4 million compared to the figure as of 31 December 2016.

2016 v. 2015

At 31 December 2016 Common Equity Tier 1 amounted to EUR 48.9 million, an increase of EUR 2.2 million compared to the figure as of 31 December 2015, while the Tier 2 capital amounted to EUR 299 thousand, an increase of EUR 297 thousand compared to the figure at 31 December 2015.

As a result of this trend, as of 31 December 2016 total own funds of EUR 49.2 million were recorded, an increase of EUR 2.5 million compared to the figure at 31 December 2015.

The table below sets out the capital requirements and the capital adequacy ratios as of 30 September 2018 and 31 December 2017.

(Thousands of euros)	**BIP**	
	30 September 2018	**31 December 2017 (restated)**
CREDIT RISK ASSETS		
Credit and counterparty risk	25,116	24,404
Credit assessment adjustment risk	13	6
Settlement risks	–	–
Market risks	1,540	37
Operational risk	2,196	2,196
Other calculation elements	–	–
Total prudential requirements	**28,865**	**26,643**
Risk-weighted assets	360,813	333,038
Tier 1 primary capital/Risk-weighted assets (CET1 capital ratio)	23.83%	17.29%
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	23.83%	17.29%
Total own funds/Risk-weighted assets (Total capital ratio)	**23.83%**	**17.29%**

2018 v. 2017

At 30 September 2018 risk-weighted assets (RWA) amounted to EUR 361 million, up by EUR 28 million compared to the figure as of 31 December 2017.

The evolution of the aggregate was affected by a stability of the absorptions associated with the credit risk (equal to EUR 25.1 million at 30 September 2018) and the operational risk (equal to EUR 2.2 million at 30 September 2018) and a growth of those related to market risk (+100%).

As a result of the foregoing, as of 30 September 2018 both the ratio of Common Equity Tier 1 to risk-weighted assets and the ratio of Total Own Funds to risk-weighted assets amounted to 23.83% (17.29 % at 31 December 2017).

The table below sets out the capital requirements and the capital adequacy ratios as of 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP 31 December					
	2017		2016		2015	
	Unweighted amounts	Weighted amounts/ requirements	Unweighted amounts	Weighted amounts/ requirements	Unweighted amounts	Weighted amounts/ requirements
A. CREDIT RISK ASSETS						
A.1 Credit and counterparty risk	**1,077,231**	**305,049**	**1,021,247**	**300,318**	**844,692**	**235,396**
1. Standardised Method	**1,077,231**	**305,049**	**1,021,247**	**300,318**	**844,692**	**235,396**
2. Method based on internal ratings	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Basic	-	-	-	-	-	-
2.2 Advanced	-	-	-	-	-	-
3. Securitisations	**–**	**–**	**–**	**–**	**–**	**–**
B. REGULATORY CAPITAL REQUIREMENTS						
B.1 Credit and counterparty risk		**24,404**		**24,025**		**18,832**
B.2 Credit assessment adjustment risk		**6**		**8**		**5**
B.3 Settlement risks		**–**		**–**		**–**
B.4 Market risks		**37**		**–**		**–**
1. Standard method		37		-		-
2. Internal models		-		-		-
3. Concentration risk		-		-		-
B.5 Operational risk		**2,196**		**2,203**		**1,634**
1. Basic method		2,196		2,203		1,634
2. Standardised method		-		-		-
3. Advanced method		-		-		-
B.6 Other calculation elements		**–**		**–**		**–**
B.7 Total prudential requirements		**26,643**		**26,236**		**20,471**
C. CREDIT RISK ASSETS AND REGULATORY COEFFICIENTS						
C.1 Risk-weighted assets		**333,038**		**327,950**		**255,888**
C.2 Tier 1 primary capital/Risk-weighted assets (CET1 capital ratio)		**17.29%**		**14.90%**		**18.22%**
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)		**17.29%**		**14.90%**		**18.22%**
C.4 Total own funds/Risk-weighted assets (Total capital ratio)		**17.29%**		**14.90%**		**18.23%**

2017 v. 2016

At 31 December 2017 risk-weighted assets (RWA) amounted to EUR 333 million, up by EUR 5 million compared to the figure as of 31 December 2016.

The evolution of the aggregate was affected by a stability of the absorptions associated with the credit risk (equal to EUR 24.4 million at 31 December 2017) and the operational risk (equal to EUR 2.2 million at 31 December 2017) and a growth of those related to market risk (+100%).

As a result of the foregoing, as of 31 December 2017 both the ratio of Common Equity Tier 1 to risk-weighted assets and the ratio of Total Own Funds to risk-weighted assets amounted to 17.29% (14.90% at 31 December 2016).

With reference to the standard Supervisory Review and Evaluation Process SREP, on 13 March 2017 the Bank of Italy, with file no. 0323739/17 notified the Issuer of the expected variation in the phase in of the Capital Conservation Buffer to be applied to the 2017 period. This SREP communication contained indications on areas which could be improved relative to credit risk monitoring and the need to contain its concentration levels.

2016 v. 2015

At 31 December 2016 risk-weighted assets (RWA) amounted to EUR 328 million, up by EUR 72 million compared to the figure as of 31 December 2015.

The evolution of the aggregate was affected by the stability of the absorptions associated with the operating risk (equal to EUR 2.2 million as of 31 December 2016) and by an increase in those associated with credit risk (equal to EUR 24 million at 31 December 2016).

As a result of the foregoing, as of 31 December 2016 both the ratio of Common Equity Tier 1 to risk-weighted assets and the ratio of Total Own Funds to risk-weighted assets amounted to 14.90% (18.22% at 31 December 2015).

9.1.4 Operational management

9.1.4.1 Information concerning important factors that have had significant repercussions on the operational management of the Issuer's business

According to the Bank of Italy's Economic Bulletin (No. 1/2019, January), the global economy continued to grow in late 2018, although the first signs of a weakening of the cycle were seen in many advanced and emerging economies. The outlook for global trade continues to deteriorate, following the slowdown witnessed in the first half of last year. The factors of economic uncertainty had repercussions on international financial markets, driving down long-term yields and share prices alike. The outlook for the world economy is conditioned by the risks of an adverse outcome to the trade negotiations between the United States and China, a possible further flare-up of financial tensions in emerging countries and the circumstances in which Brexit will occur.

In the eurozone, growth slowed; in November, industrial output declined significantly in Germany, France and Italy. While remaining solidly in positive territory, inflation fell as a result of slowing energy prices. The ECB's Governing Council reiterated its intention of maintaining a significant monetary stimulus for an extended period.

In Italy, after growth came to an end in the third quarter, the available economic indicators suggest that activity may have declined further in the fourth quarter. The weakening seen in the summer months was driven by a reduction in domestic demand, and in particular in investments and, to a lesser extent, household spending. According to the customary economic survey conducted by the Bank of Italy in collaboration with Il Sole 24 Ore, in 2019 the investment plans of industrial and service companies were more restrained as a result of the political and economic uncertainty and trade tensions.

Italian export performance remained favourable in the second half of the year; however, the slowdown in global trade influenced companies' foreign order forecasts. The current account balance remains soundly in positive territory and the country's net foreign debt position continues to improve, falling to slightly above 3% of GDP at the end of September.

In the summer quarter, hours worked increased, whereas the number of job-holders fell slightly. According to the first available data, employment remained essentially stagnant in the autumn. Contractual salaries continued to rise across all segments.

Overall inflation fell to 1.2% in December, above all as a result of the slowdown in energy prices. In addition, companies' expectations regarding price performance were also revised slightly downwards.

Risk premia on government bonds declined as a result of the budget planning agreement between the Italian government and European Commission. The spread between the yields on Italian and German government bonds was approximately 260 basis points in mid-January, 65 points below the November highs.

Banking shares were down by 14% on average compared with the end of September, reflecting – as in the eurozone as a whole – weaker growth prospects. Risk premia on banking bonds were down compared with the end of last year due to the easing of government bond tensions, whereas premia on major bank CDSs were 40 basis points lower than in mid-November.

Credit supply conditions remain slack overall, although interest rates on loans are slightly higher than they were in May following the tensions on the government bond market. However, looking forward, persistently high government bond yields and bank funding costs will continue to drive up the cost of credit.

Non-performing loans continued to decline as a percentage of total loans, reaching 4.5% in the third quarter after adjustments, 1.8 points less than in the previous year. New non-performing loans as a percentage of total loans also remain modest (1.7% at the quarterly level).

The budget is set to increase the deficit in 2019-2021 beyond the previous forecast; accordingly, net debt is expected to amount to 2.0% of GDP in the current year, reversing the downtrend that had been ongoing since 2014. In the light of the amendments made to the budget, the initial version of which was consistent with a deficit target for 2019 of 2.4% of GDP, the European Commission decided not to launch an excessive deficit procedure against Italy.

The Bulletin also presents the macroeconomic projections for the Italian economy in the three-year period 2019-2021.

The central projection calls for GDP growth of 0.6%, 0.4 points less than previously forecast. The revision was driven by: less favourable economic activity figures observed in late 2018, which reduced the growth already acquired for this year on average by 0.2 points; the reduction in companies' investment plans as shown by the latest surveys; and the prospects of slowing global trade. By contrast, the effects on growth of the agreement reached by the Italian government with the European Commission were moderately positive: the favourable impact of the decline in long-term interest rates more than offsets that of the corrections made to the budget. The central growth projections for 2020 and 2021 are 0.9% and 1.0%, respectively.

According to the Bulletin, inflation is expected to rise gradually from 1.0% to 1.5% at the level of the average for the following two years, driven by an increase in private salaries and the gradual alignment with inflation expectations.

In addition to the global factors of uncertainty set out above, the downside risks to growth relate to:

- the possibility of a further increase in sovereign yields;
- a more rapid deterioration in financing conditions in the private sector;
- a further decline in companies' propensity to invest.

9.1.4.2 Analysis of the Issuer's economic performance for the nine months ended 30 September 2018 and 30 September 2017

The table below illustrates the Issuer's reclassified income statement for the nine months ended 30 September 2018 and 30 September 2017 and changes in absolute value and percentages.

The figures have been reclassified using management accounting criteria designed to best represent the bank's economic and financial situation, considering the specifics of a set of financial statements prepared for a bank. The aim of doing this is to simplify a reading of the statements by means of specific aggregations of items and reclassifications.

(Thousands of euros)	BIP			
	30 September 2018	**30 September 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Net interest income	7,588	8,043	(455)	(5.66%)
Net fee and commission income	3,224	2,828	396	14.00%
Dividends and similar income	–	–	–	–
Net profit (loss) from trading and hedging activities	(9,349)	2,582	(11,931)	(>100%)
Other operating expense/income	111	147	(36)	(24.49%)
Net interest and other banking income	1,574	13,600	(12,026)	(88.43%)
Personnel expenses	(6,284)	(3,623)	(2,661)	73.45%
Administrative expenses	(9,060)	(3,177)	(5,883)	>100%
Net impairment losses/recoveries on tangible and intangible assets	(216)	(124)	(92)	74.19%
Operating expenses	(15,560)	(6,924)	(8,636)	>100%
Net operating profit/loss	(13,986)	6,676	(20,662)	(>100%)
Net value adjustments to receivables	(2,815)	(993)	(1,822)	>100%
Net value adjustments to other assets/liabilities	(16)	(563)	547	(97.16%)
Net provisions	(214)	(113)	(101)	89.38%
Profits (losses) from equity investments and the disposal of investments	(2)	–	(2)	–
Pre-tax profit (loss) from continuing operations	(17,033)	5,007	(22,040)	(>100%)
Income taxes for the year from current operations	4,569	(1,777)	6,346	(>100%)
Profit (loss) from discontinued operations, net of tax	–	–	–	–
Profit (loss) for the period	**(12,464)**	**3,230**	**(15,694)**	**(>100%)**

Net interest income

The details of the interest margin are shown below, presenting the main components of the interest income and interest expense relating to the period 30 September 2018 compared to the same items of the previous period.

(Thousands of euros)	BIP			
	30 September 2018	**30 September 2017**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Interest income and similar income	10,689	11,436	(747)	(6.5)
– AFS/OCI financial assets	*2,665*	*4,600*	*(1,935)*	*(42.1)*
– Due from customers	*7,271*	*6,582*	*689*	*10.4*
– Other	*753*	*254*	*499*	*>100*
Interest and similar expense	(3,101)	(3,393)	292	(8.6)
– Due to customers	*(1,277)*	*(1,320)*	*43*	*(3.2)*
– Securities issued	*(1,551)*	*(1,841)*	*290*	*(15.7)*
– Other	*(273)*	*(232)*	*(41)*	*17.6*

2018 v. 2017

At 30 September 2018 the interest margin amounted to EUR 7.6 million, down by 5.7% compared to 30 September 2017.The decrease was due to a decrease in interest expense (-9%) equal to EUR 3.1 thousand at 30 September 2018, offset by a decline in interest income (-7%).

More specifically, compared to 30 September 2017 there was a decrease in interest on financial liabilities measured at amortised cost (10%).

Net fee and commission income

The table below provides an analysis of net commissions at 30 September 2018 and at 30 September 2017 and changes in absolute value and percentage.

(Thousands of euros)	BIP			
	30 September 2018	**30 September 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Fee and commission income				
a. guarantees issued	197	233	(36)	(15.45%)
c. management, brokerage and consultancy services	306	196	110	56.12%
d. collection and payment services	669	610	59	9.67%
i. keeping and managing current accounts	2,331	2,085	246	11.80%
j. other services	117	128	(11)	(8.59%)
Total	**3,620**	**3,252**	**368**	**11.32%**
Commission expenses				
a. guarantees received	(28)	(57)	29	(50.88%)
c. management and brokerage services	(40)	(35)	(5)	14.29%
d. collection and payment services	(156)	(150)	(6)	4.00%
e. other services	(172)	(182)	10	(5.49%)
Total	**(396)**	**(424)**	**28**	**(6.60%)**
Net fee and commission income	**3,224**	**2,828**	**396**	**14.00%**

2018 v. 2017

At 30 September 2018 net commissions equalled EUR 3.2 thousand, an increase compared to 30 September 2017 following a growth in commission income (+11%) and a simultaneous decrease in commission expenses (-7%).

Of particular note among the commissions are those relating to traditional banking activities for a total of EUR 3.0 million and those relating to management, brokerage and consultancy services amounting to a total of EUR 306 thousand.

The incidence of net commissions on total operating income was 205%, up compared to the situation at 30 September 2017.

Net result of trading activity

2018 v. 2017

The net result from trading on 30 September 2018, equal to EUR (9.3) million, showed a decrease of over 100% compared to the situation at 30 September 2017 mainly due to losses on sales of government securities EUR (8.7) million and the valuation loss of the open bond fund (Soprarno) for approximately EUR 0.8 million.

Other operating income and expenses

2018 v. 2017

Other operating expenses/income, which include recoveries of expenses and other charges not associated with the typical business and having an irrelevant impact on operations, amounted to EUR 111 thousand as of 30 September 2018 compared to EUR 147 thousand as of 30 September 2017.

Net interest and other banking income

2018 v. 2017

As a result of the aforementioned items, an intermediation margin of EUR 1,574 thousand was calculated for 2018, down by EUR 12 million compared to 30 September 2017.

However, within the aggregate there were several changes, with interest on securities being down due to sales during the year, while net interest income from customer intermediation increased as a result of a volume effect.The margin continued to be affected by general weakness.

Personnel expenses

2018 v. 2017

At 30 September 2018 personnel expenses, equal to EUR 6.3 million, showed a growth of 73% (+EUR 2.6 million) compared to 30 September 2017. The total was affected by an increase in both expenses for employees (+EUR 2 million) and fees for directors and statutory auditors (+EUR 0.7 million).

Administrative expenses

2018 v. 2017

The item, equal to EUR 9,060 thousand as of 30 September 2018, recorded an increase of over 100% compared to 30 September 2017 due to non-recurring and non-repeating expenses incurred during the period. The most significant component refers to the Success Fees for approximately EUR 4.5 million, identified as the transaction cost connected with the completion of the acquisition by SPAXS as a result of the assignment conferred to the bank's advisor to assist the bank with possible extraordinary transactions concerning the bank itself. It should be noted that this financial advisor does not appear to have relationships with the Issuer or with those who were its shareholders at the date of completion of the Business Combination, as far as the Issuer is aware, also in consideration of the significant fragmentation of its shareholders.

The largest administrative expenses were professional services and consultancy services (66% of the total), equal to EUR 6,004 thousand, up by over 100% compared to 30 September 2017 (+EUR 5,323 thousand).

Net impairment losses/recoveries on tangible and intangible assets

2018 v. 2017

At 30 September 2018, net value adjustments to tangible and intangible assets equal to EUR 216 thousand saw a slight increase (+EUR 92 thousand) compared to the previous year due to the amortisation of the new property acquired from the incorporation of Banca Emilveneta S.p.A.

Net operating profit/loss

2018 v. 2017

At 30 September 2018, due to both higher personnel expenses (+73%) and higher administrative expenses (+>100%) operating costs amounted to EUR 15.6 million, up by EUR 8.6 million compared to 30 September 2017.

Net operating income, equal to EUR (-14) million at 30 September 2018 (-EUR 20.6 million), is the result of a decrease in the intermediation margin (-EUR 12 million) and an increase in operating costs (+EUR 8.6 million).

Net value adjustments to receivables

2018 v. 2017

At 30 September 2018, net value adjustments to receivables affected the result of current operations before taxes of EUR 2.8 million, an increase compared to the results at 30 September 2017 (>100%) and represent one of the most significant costs in the income statement.

Gross receivables from customers totalled EUR 346 million at the reporting date (EUR 337.7 million at 31.12.2017) and were adjusted for EUR 12.8 million (EUR 11.6 million in 2017), equal to 3.70% of their amount (3.45% in 2017).

Net value adjustments to other assets/liabilities

2018 v. 2017

At 30 September 2018, net value adjustments on other assets/liabilities amounted to EUR 16 thousand, a decrease of 97% compared to EUR 563 thousand at 30 September 2017.

Net provisions

2018 v. 2017

Net provisions, amounting to EUR 214 thousand at 30 September 2018 (EUR 113 thousand at 30 September 2017), refer to the provision for employee expenses net of a write-back of EUR 85 thousand for the provision for legal disputes.

Operating result

2018 v. 2017

The net profit for the year amounted to (EUR 12.5 million), a decrease of over 100% compared to what emerged at 30 September 2017. This negative change is due to a reduction in operating income and a simultaneous increase in operating costs.

9.1.4.3 Analysis of the Issuer's performance for the years ended 31 December 2017, 2016 and 2015

The table below sets out the Issuer's reclassified situation at 31 December 2017, 2016 and 2015 and changes in absolute value and percentage.

(Thousands of euros)	**BIP**						
	31 December			**Changes**		**% change**	
	2017	**2016**	**2015**	**2017 v. 2016**	**2016 v. 2015**	**2017 v. 2016**	**2016 v. 2015**
Net interest income	11,645	9,995	10,176	1,650	(181)	16.5%	(1.8%)
Net fee and commission income	4,356	3,327	2,548	1,029	779	30.9%	30.6%
Dividends and similar income	–	–	–	–	–	–	–
Net profit (loss) from trading and hedging activities	3,892	4,003	4,054	(111)	(51)	(2.8%)	(1.3%)
Other operating expense/income	93	134	59	(41)	75	(30.6%)	>100%
Net interest and other banking income	**19,986**	**17,459**	**16,837**	**2,527**	**622**	**14.5%**	**3.7%**
Personnel expenses	(5,271)	(4,566)	(4,022)	(705)	(544)	15.4%	13.5%
Administrative expenses	(4,626)	(3,968)	(3,074)	(658)	(894)	16.6%	29.1%
Net impairment losses/recoveries on tangible and intangible assets	(233)	(210)	(268)	(23)	58	11.0%	(21.6%)
Operating expenses	**(10,130)**	**(8,744)**	**(7,364)**	**(1,386)**	**(1,380)**	**15.9%**	**18.7%**
Net operating profit/loss	**9,856**	**8,715**	**9,473**	**1,141**	**(758)**	**13.1%**	**(8.0%)**
Net value adjustments to receivables	(3,151)	(3,067)	(2,348)	(84)	(719)	2.7%	30.6%
Goodwill impairment	(327)	–	–	(327)	–	–	–
Net value adjustments to other assets/ liabilities	(870)	(2,894)	(56)	2,024	(2,838)	(69.9%)	>100%
Net provisions	(160)	(176)	(144)	16	(32)	(9.1%)	22.2%
Profits (losses) from equity investments and the disposal of investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Pre-tax profit (loss) from continuing operations	5,348	2,578	6,925	2,770	(4,347)	>100%	(62.8%)
Income taxes for the year from current operations	(1,949)	(1,725)	(2,362)	(224)	637	13.0%	(27.0%)
Profit (loss) from discontinued operations, net of tax	–	–	–	–	–	–	–
Profit (loss) for the year	**3,399**	**853**	**4,563**	**2,546**	**(3,710)**	**>100%**	**(81.3%)**

Net interest income

The details of the interest margin are shown below, underscoring the main components of the interest income and interest expense relating to the period 2015-2017.

(Thousands of euros)	BIP						
	31 December			Changes		% change	
	2017	2016	2015	2017 v. 2016	2016 v. 2015	2017 v. 2016	2016 v. 2015
Interest income and similar income	15,752	15,423	16,346	329	(923)	2.1	(5.6)
- AFS/OCI financial assets	*6,117*	*6,960*	*8,716*	*(843)*	*(1,756)*	*(12.1)*	*(20.1)*
- Due from customers	*9,271*	*8,184*	*7,590*	*1,087*	*594*	*13.2*	*7.8*
- Other	*364*	*279*	*40*	*85*	*239*	*30.4*	*>100*
Interest and similar expense	(4,633)	(5,785)	(6,442)	1,152	657	(19.9)	(10.2)
- Payables to customers	*(1,927)*	*(2,641)*	*(3,276)*	*714*	*635*	*(27.0)*	*(19.3)*
- Securities issued	*(2,384)*	*(2,869)*	*(2,934)*	*485*	*65*	*(16.9)*	*(2.2)*
- Other	*(322)*	*(275)*	*(232)*	*(47)*	*(43)*	*17.0*	*18.5*

2017 v. 2016

At 31 December 2017 the interest margin amounted to EUR 11.6 million, up by 16.5% compared to 31 December 2016.The increase is due to greater interest income (+3%), equal to EUR 16.3 million at 31 December 2017, and to a simultaneous decrease in interest expense (-20%) equal to EUR 4.6 million as of 31 December 2017.

More specifically, compared to 31 December 2016 there was a decrease in interest on financial assets available for sale (-12%), on payables to customers (-27%) and on securities issued (-17%) and an increase in interest on receivables from customers (+15%), on receivables from banks (+31%), on payables to banks (+74%) and to central banks (4%).

2016 v. 2015

At 31 December 2016 the interest margin amounted to EUR 9.9 million, down by 1.8% compared to 31 December 2015.The decrease is due to less interest income (-5%), equal to EUR 15.8 million at 31 December 2016, and a decrease in interest expense (-10%) equal to EUR 5.8 million as of 31 December 2016.

More specifically, compared to 31 December 2015 there was a decrease in interest on financial assets available for sale (-20%), on payables to customers (-19%) and on securities issued (-2%) and an increase in interest on receivables from customers (+9%), on receivables from banks (>100%) and on payables to banks (>100%).

Net fee and commission income

The table below provides an analysis of net commissions at 31 December 2017, 2016 and 2015 and changes in absolute value and percentage.

(Thousands of euros)	BIP						
	31 December			Changes		% change	
	2017	2016	2015	2017 v. 2016	2016 v. 2015	2017 v. 2016	2016 v. 2015
Commission income							
a. guarantees issued	340	283	209	57	74	20.1%	35.4%
c. management, brokerage and consultancy services	403	197	199	206	(2)	>100%	(1.0%)
d. collection and payment services	901	886	604	15	282	1.7%	46.7%
i. holding and managing current accounts	3,061	2,234	1,877	827	357	37.0%	19.0%
j. other services	165	324	29	(159)	295	(49.1%)	>100%
Total	**4,870**	**3,924**	**2,918**	**946**	**1,006**	**24.1%**	**34.5%**
Commission expenses							
a. guarantees received	(73)	(83)	(28)	10	(55)	(12.0%)	>100%
c. management and brokerage services	(50)	(42)	(38)	(8)	(4)	19.0%	10.5%
d. collection and payment services	(217)	(221)	(200)	4	(21)	(1.8%)	10.5%
e. other services	(174)	(251)	(104)	77	(147)	(30.7%)	>100%
Total	**(514)**	**(597)**	**(370)**	**83**	**(227)**	**(13.9%)**	**61.4%**
Net fee and commission income	**4,356**	**3,327**	**2,548**	**1,029**	**779**	**30.9%**	**30.6%**

2017 v. 2016

At 31 December 2017 net commissions equalled EUR 4.4 million, an increase compared to 31 December 2016 following a growth in commission income (+24%) and a simultaneous decrease in commission expenses (-14%).

Of particular note among the commissions are those relating to traditional banking activities for a total of EUR 3.9 million and those relating to management, brokerage and consultancy services amounting to a total of EUR 353 thousand.

The incidence of net commissions on total operating income was 22%, in line with the situation at 31 December 2016 (19%).

2016 v. 2015

At 31 December 2016 net commissions equalled EUR 3.3 million, an increase compared to 31 December 2015 following a growth both in commission income (+35%) and in commission expenses (+61%).

Of particular note among the commissions are those relating to traditional banking activities for a total of EUR 2.9 million and those relating to management, brokerage and consultancy services amounting to a total of EUR 155 thousand.

The incidence of net commissions on total operating income was 19%, up compared to the situation at 31 December 2015 (15%).

Net result of trading activity

2017 v. 2016

The net result from trading on 31 December 2017, equal to EUR 3.9 million, showed a decrease of 1% compared to the situation at 31 December 2016. This trend is almost exclusively attributable to a reduction in profits from the sale/repurchase of financial assets available for sale, which rose from EUR 4.4 million at 31 December 2016 to EUR 4.3 million at 31 December 2017.

2016 v. 2015

The net income from trading activities at 31 December 2016, equal to EUR 4 million, is in line with the situation at 31 December 2015. This trend is attributable to a substantial stability in profits from the sale/repurchase of financial assets available for sale. The loss from the transfer of receivables from customers relates to the sale of a total of EUR 1,833 thousand of receivables classified as non-performing by the parent company.

Other operating income/expenses

2017 v. 2016

Other operating expenses/income, which include recoveries of expenses and other charges not associated with the typical business and having an irrelevant impact on operations, amounted to EUR 93 thousand as of 31 December 2017 compared to EUR 134 thousand as of 31 December 2016.

2016 v. 2015

Other operating expenses/income, which include recoveries of expenses and other charges not associated with the typical business and having an immaterial impact on operations, amounted to EUR 134 thousand as of 31 December 2016 compared to EUR 59 thousand as of 31 December 2015.

Net interest and other banking income

2017 v. 2016

As a result of the aforementioned items, an intermediation margin of EUR 20 million was calculated for 2017, up by EUR 3 million compared to 31 December 2016.

However, there were a number of changes within the aggregate, on the one hand the primary intermediation margin (interest income + net commissions) increase (+EUR 2.7 million) and had a greater impact on total income, on the other hand the performance of securities trading had a lower impact on the total intermediation margin while substantially replicating the return achieved in the previous year.

It should also be noted that the intermediation margin is affected by the losses on the sale of receivables of EUR 516 thousand relating to non-performing loans for a total of EUR 2.9 million gross (adjusted for EUR 2.3 million at 31 December 2016).

2016 v. 2015

As a result of the aforementioned items, an intermediation margin of EUR 17 million was calculated for 2016, up by EUR 622 thousand compared to 31 December 2015 thanks to the contribution of the subsidiary.

However, within the aggregate there were several changes, on the one hand the financial performance of the securities sector declined, while on the other hand the net commissions increased (+31% compared to 31 December 2015). The trading results were stable, which also includes the loss deriving from the sale of Non Performing Loans.

Personnel expenses

2017 v. 2016

At 31 December 2017 personnel expenses, equal to EUR 5.3 million, showed a growth of 15.4% (EUR 0.7 million) compared to 31 December 2016. The total was affected by an increase in both expenses for employees (EUR 0.6 million) and fees for directors and statutory auditors (EUR 0.1 million).

More specifically, the increase in expenses deriving from the merger with Banca Emilveneta Spa amounted to EUR 362 thousand, of which EUR 317 thousand for employees added (6 employees) and EUR 45 thousand for directors and statutory auditors.

2016 v. 2015

At 31 December 2016 personnel expenses, equal to EUR 4.6 million, showed a growth of 13.5% (EUR 0.5 million) compared to 31 December 2015. The total was affected by an increase in both expenses for employees (EUR 0.4 million) and fees for directors and statutory auditors (EUR 0.2 million).

Administrative expenses

2017 v. 2016

The item, equal to EUR 4,626 thousand as of 31 December 2017, saw an increase of 17% compared to 31 December 2016.

The largest administrative expenses were third party data processing services and consultancy services (18% of the total), equal to EUR 833 thousand, up by 34% compared to 31 December 2016 (EUR 211 thousand).These costs mainly include the services provided by the IT outsourcers and the intermediary costs incurred for the services of intermediary banks.

Other significant cost drivers were professional services and consultancy services (18.4% of the total) equal to EUR 850 thousand (+106% compared to 31 December 2016), as well as expenses for advertising and promotional activities (8.9% of the total), equal to EUR 412 thousand (+12% compared to 31 December 2016).

It should be noted that as of 31 December 2017 the total expenses for professional services and consultants included non-recurring expenses related to strategic consulting (equal to EUR 0.4 million) and to the merger and incorporation with Banca Emilveneta (equal to EUR 0.5 million).

2016 v. 2015

The item, equal to EUR 3,968 thousand as of 31 December 2016, saw an increase of 29% compared to 31 December 2015.

The largest administrative expenses were third party data processing services and consultancy services (16% of the total), equal to EUR 622 thousand, up by 42% compared to 31 December 2015 (EUR 184 thousand).These costs mainly include the services provided by the IT outsourcers and the intermediary costs incurred for the services of intermediary banks.

Other significant cost drivers were professional services and consultancy services (10% of the total) equal to EUR 412 thousand (+28% compared to 31 December 2015), as well as expenses for advertising and promotional activities (9% of the total), equal to EUR 368 thousand (+7% compared to 31 December 2015).

Net impairment losses/recoveries on tangible and intangible assets

2017 v. 2016

At 31 December 2017, net value adjustments to tangible and intangible assets equal to EUR 233 thousand saw a slight increase (EUR 23 thousand) compared to the previous year due to the amortisation of the new property acquired from the incorporation of Banca Emilveneta S.p.A.

2016 v. 2015

At 31 December 2016 the net value adjustments to tangible and intangible assets, amounting to EUR 210 thousand, saw a decrease (-EUR 58 thousand) compared to the previous year.

Net operating profit/loss

2017 v. 2016

At 31 December 2017, due to both higher personnel expenses (+15.4%) and higher administrative expenses (+34%) operating costs amounted to EUR 10.1 million, up by EUR 1.4 million compared to 31 December 2016.

Net operating income, equal to EUR 9.8 million at 31 December 2017 (+EUR 1.1 million), is the result of an increase both in the intermediation margin (+EUR 2.5 million) and in operating costs (+EUR 1.4 million).

2016 v. 2015

At 31 December 2016, due to both higher personnel expenses (+14%) and higher administrative expenses (+29%) operating costs amounted to EUR 8.7 million, up by EUR 1.4 million compared to 31 December 2015.

Net operating income, equal to EUR 8.7 million at 31 December 2016 (-EUR 758 thousand), is the result of an increase both in the intermediation margin (+EUR 622 thousand) and an increase in operating costs (+EUR 1.4 million).

Net value adjustments to receivables

2017 v. 2016

At 31 December 2017, net value adjustments to receivables affected the result of current operations before taxes of EUR 3.1 million, in line with the results at 31 December 2016 and represent one of the most significant costs in the income statement.

Gross receivables from customers totalled EUR 337.7 million at the reporting date (EUR 311.6 million in 2016) and were adjusted for EUR 11.6 million (EUR 12.2 million in 2016), equal to 3.45% of their amount (3.91% in 2016).

Gross performing loans to customers amounted to EUR 319 million (EUR 293 million in 2016) and were adjusted for EUR 3.4 million (EUR 3.1 million in 2016), corresponding to a percentage hedge of 1.08% (1.06% in 2016) on the total portfolio, with an adjustment of EUR 332 thousand in the period (EUR 713 thousand in 2016).

2016 v. 2015

At 31 December 2016, net value adjustments to receivables affected the result of current operations before taxes of EUR 3.1 million, and represent one of the most significant costs in the income statement.

Gross receivables from customers totalled EUR 311.6 million at the reporting date (EUR 228.8 million in 2015) and were adjusted for EUR 12.2 million (EUR 6.1 million in 2015), equal to 3.91% of their amount (2.67% in 2015).

Gross performing loans to customers amounted to EUR 293 million (EUR 220 million in 2015) and were adjusted for EUR 3.4 million (EUR 2.2 million in 2015), corresponding to a percentage hedge of 1.06% (0.99% in 2015) on the total portfolio, with an adjustment of EUR 713 thousand in the period.

Goodwill impairment

2017 v. 2016

At 31 December 2017 the goodwill impairment of EUR 327 thousand refers entirely to the full adjustment of the goodwill arising from the acquisition of control over Banca Emilveneta S.p.A. during the previous year.

Net value adjustments to other assets/liabilities

2017 v. 2016

At 31 December 2017, net value adjustments on other assets/liabilities amounted to EUR 870 thousand, a decrease of 70% compared to EUR 2,894 thousand at 31 December 2016.

Net value adjustments to other assets/liabilities at 31 December 2017 include:
- the adjustment arising from the impairment testing of the investee Banca Carim Spa for EUR 654 thousand, completely eliminating the book value. In the previous year the adjustment of the same shareholding to the value of 1 euro led to a devaluation of EUR 2.8 million, significantly penalising the financial result.
- The adjustment of the EUR 187 thousand participation in the Voluntary Interbank Deposit Protection Fund, which intervened in support of failing banks (Carim, Carismi and Caricesena).
- Net value adjustments to other assets and liabilities, equal to EUR 29 thousand (EUR 33 thousand as of 31 December 2016), include portfolio write-backs on guarantees issued and discounting the same write-down coefficient envisaged for cash exposures.

2016 v. 2015

At 31 December 2016, net value adjustments on other assets/liabilities amounted to EUR 2,894 thousand, an increase of more than 100% compared to EUR 56 thousand at 31 December 2015.

Net value adjustments to other assets/liabilities at 31 December 2016 include:

- the adjustment arising from the impairment test of the investee Banca Carim S.p.A. for EUR 2,846 thousand. The minority interest (equal to 1.33% of the share capital) was adjusted according to the value of 1 euro per share communicated by the counterpart to the shareholders pursuant to Article 56 of Consob Regulation no. 16190/2007. The adjustment brings the book value of the capital to EUR 654 thousand, significantly below the nominal value.
- net value adjustments to other assets and liabilities, equal to EUR 33 thousand (EUR 56 thousand as of 31 December 2015), include portfolio write-backs on guarantees issued and discounting the same write-down coefficient envisaged for cash exposures.

Net provisions

2017 v. 2016

Net provisions, amounting to EUR 160 thousand at 31 December 2017 (EUR 176 thousand at 31 December 2016), refer to the provision for employee expenses net of a write-back of EUR 17 thousand for the provision for legal disputes.

2017 v. 2016

Net provisions, amounting to EUR 176 thousand at 31 December 2016 (EUR 144 thousand at 31 December 2015), refer to the provision for employee expenses.

Operating result

2017 v. 2016

The result for the year amounted to EUR 3.4 million, an increase of over 100% compared to 31 December 2016, thanks to an increase in operating income and the impact of net commissions on the total. Operating costs also trended upwards in 2017, however the item includes non-recurring and non-repeatable administrative expenses attributable to the merger and strategic consultancy services for EUR 1 million.

It should be noted that the profit for 2016 was negatively impacted by the value adjustment of the investment in Banca Carim S.p.A. for gross EUR 2.8 million, against the EUR 0.6 million impairment adjustment made at the balance sheet date, which almost eliminated its value.

2016 v. 2015

The result for the year amounted to EUR 853 thousand, an 81% reduction compared to the figure at 31 December 2015, due to an increase in operating costs (+19%) and net value adjustments both on receivables (+31%) and on other assets/liabilities (>100%).

9.1.5 Alternative performance measures for the nine months ended 30 September 2018 and for the years ended 31 December 2017, 2016 and 2015

The following are certain economic and financial indicators for the nine months ended 30 September 2018 and 2017 and at 31 December 2017.

Alternative performance measures	**BIP**	
	Nine months ended 30 September	
	2018	**2017**
R.O.E.(*)	(16.17%)	8.41%
R.O.A.(*)	(1.74%)	0.40%
Cost/Income ratio	100%	51.00%
Net adjustments to receivables/Loans to customers(*)	1.13%	0.45%

(*) These are alternative indicators of annualised performance of interim periods

Alternative performance measures	**BIP**	
	30 September 2018	**31 December 2017**
Net bad loans/Loans to customers	2.26%	1.51%
Gross non-performing loans/Gross loans to customers	6.42%	5.44%
Tier 1 capital ratio (Tier 1 capital/Total weighted assets)	23.83%	17.29%
Total capital ratio (Regulatory capital + Tier III)/Total weighted assets	**23.83%**	**17.29%**
Own funds	85,966	57,596
Risk-weighted assets	360,813	333,038

Return on Equity (R.O.E.)

The table below illustrates the ROE calculation.

	Nine months ended 30 September	
	2018	**2017**
A. Net profit	(12,464)	3,230
B. Equity (excluding profit/loss for the period)	102,770	51,230
A/B. R.O.E.(*)	(16.17%)	8.41%

(*) These are alternative indicators of annualised performance of interim periods

Return on Assets (ROA)

The table below illustrates the ROA calculation.

	Nine months ended 30 September	
	2018	**2017**
A. Net profit (loss)	(12,464)	3,230
B. Total assets	955,769	80,750
R.O.A.(*)	(1.74%)	0.40%

(*) These are alternative indicators of annualised performance of interim periods

Cost/Income ratio

The table below illustrates the cost/income ratio calculation.

	Nine months ended 30 September	
	2018	**2017**
A. Operating expenses	(15,560)	(6,924)
Personnel expenses	(6,284)	(3,623)
Administrative expenses	(9,060)	(3,177)
Net adjustments to tangible fixed assets and intangible assets	(216)	(124)
B. Operating income	1,574	13,600
A/B. Cost/Income Ratio	100%	51%

Net adjustments to receivables/Loans to customers

The table below sets out the calculation of the index Net adjustments to receivables/Loans to customers.

	Nine months ended 30 September	
	2018	**2017**
A. Net adjustments to receivables	(2,815)	(993)
B. Loans to customers	333,183	22,066
A/B. Net adjustments to receivables/Loans to customers(*)	(1.13%)	0.45%

(*) These are alternative indicators of annualised performance of interim periods

Net bad loans/Loans to customers

The table below sets out the calculation of the index Net bad loans/Loans to customers.

	30 September 2018	31 December 2017
A. Net bad loans	7,520	4,913
B. Loans to customers	333,183	326,049
A/B. Net bad loans/Loans to customers	2.26%	1.51%

Gross non-performing loans/Gross loans to customers

The table below sets out the calculation of the index Gross non-performing loans/Gross loans to customers.

	30 September 2018	31 December 2017
A. Gross non-performing loans	22,196	18,377
B. Gross loans to customers	345,995	337,691
A/B. Gross non-performing loans/Gross loans to customers	6.42%	5.44%

The following are some economic and financial indicators for the years ended 31 December 2017, 2016 and 2015.

Alternative performance measures	BIP Year ended 31 December		
	2017	2016	2015
R.O.E.	6.00%	2.34%	9.11%
R.O.A.	0.32%	0.11%	0.53%
Cost/Income ratio	51%	50%	44%
Net adjustments to receivables/Net receivables from customers	0.97%	1.02%	1.05%
Net bad loans/Net receivables from customers	1.51%	1.28%	0.30%
Gross non-performing receivables/Gross receivables from customers	5.44%	5.98%	3.67%
Tier 1 capital ratio (Tier 1 capital/Total weighted assets)	17.29%	14.90%	18.22%
Total capital ratio (Regulatory capital)/Total weighted assets	17.29%	14.99%	18.23%
Own funds	57,596	49,174	46,636
Risk-weighted assets	333,038	327,950	255,888

Return on Equity (R.O.E.)

The table below illustrates the ROE calculation.

	Year ended 31 December		
	2017	2016	2015
A. Net profit	3,399	1,148	4,563
B. Equity (excluding profit/loss for the year)	56,671	49,072	50,065
A/B. R.O.E.	6.00%	2.34%	9.11%

Return on Assets (ROA)

The table below illustrates the ROA calculation.

	Year ended 31 December		
	2017	**2016**	**2015**
A. Net profit (loss)	3,399	1,148	4,563
B.Total assets	1,074,413	1,025,867	853,890
A/B. R.O.A.	0.32%	0.11%	0.53%

Cost/Income ratio

The table below illustrates the cost/income ratio calculation.

	Year ended 31 December		
	2017	**2016**	**2015**
A. Operating expenses	(10,130)	(8,744)	(7,364)
Personnel expenses	(5,271)	(4,566)	(4,022)
Administrative expenses	(4,626)	(3,968)	(3,074)
Net adjustments to tangible fixed assets and intangible assets	(233)	(210)	(268)
B. Operating income	19,986	17,459	16,837
A/B. Cost/Income Ratio	51%	50%	44%

Net adjustments to receivables/Net receivables from customers

The table below sets out the calculation of the index Net adjustments to receivables/Net receivables from customers.

	Year ended 31 December		
	2017	**2016**	**2015**
A. Net adjustments to receivables	(3,151)	(3,067)	(2,348)
B. Net receivables from customers	326,049	299,451	222,665
A/B. Net adjustments to receivables/Net receivables from customers	0.97%	1.02%	1.05%

Net bad loans/net receivables from customers

The table below sets out the calculation of the index Net bad loans/net receivables from customers.

	Year ended 31 December		
	2017	**2016**	**2015**
A. Net bad loans	4,913	3,823	663
B. Net receivables from customers	326,049	299,451	222,665
A/B. Net bad loans/Net receivables from customers	1.51%	1.28%	0.30%

Gross non-performing receivables/Gross receivables from customers

The table below sets out the calculation of the index Gross non-performing receivables/Gross receivables from customers.

	Year ended 31 December		
	2017	**2016**	**2015**
A. Gross non-performing receivables	18,377	18,645	8,395
B. Gross receivables from customers	337,691	311,635	228,780
A/B. Gross non-performing receivables/Gross receivables from customers	5.44%	5.98%	3.67%

9.1.6 SPAXS statement of equity and financial position from the date of incorporation (20 December 2017) to 30 June 2018.

The reclassified balance sheet figures as of 30 June 2018 are presented below.

(Thousands of euros)	**SPAXS**
	30 June 2018
Cash and cash equivalents	613,698
Other receivables	9
Tangible assets	6
Total assets	**613,713**
Trade payables	3,134
Other payables	6,692
Reserves	545,730
Capital	61,800
Profit (loss) for the period	(3,643)
Total liabilities and equity	**613,713**

At 30 June 2018 total assets – which include cash and cash equivalents, receivables and tangible assets – amounted to EUR 613.7 million.

More specifically, as of 30 June 2018 cash and cash equivalents amounted to EUR 613.7 million and consisted of bank deposits, of which EUR 13.7 million deposited in ordinary bank current accounts that can be used to cover incorporation costs and the remaining costs relating to the listing operation and EUR 600 million deposited in restricted bank current accounts.

The item "Other receivables" amounts to EUR 9 thousand and included guarantee deposits paid as collateral for the rental contract for offices in Milan, while the item "Tangible assets" amounts to EUR 6 thousand and includes the costs related to the purchase of electronic office machines.

At 30 June 2018 the item "Trade payables" amounted to EUR 3.1 million and included payables to suppliers that refer to part of the expenses incurred for admission to trading in the AIM Italia market and to allocations for invoices to be received relating to services, while the item "Other payables" amounted to EUR 6.7 million and was mainly composed of payables relating to the deferred fees for the listing process.

Shareholders' equity

The table below presents an analysis of shareholders' equity as of 30 June 2018.

(Thousands of euros)	SPAXS
	30 June 2018
Share Capital - Ordinary Shares	60,000
Share Capital - Special Shares	1,800
Share Capital	61,800
Share premium	545,731
Profit (loss) for the period	(3,643)
Total shareholders' equity	**603,887**

At 30 June 2018 shareholders' equity amounted to EUR 603.9 million.

More specifically, the share capital amounted to EUR 61.8 million, divided into 60,000,000 ordinary shares and 1,800,000 special shares.

The item "Other reserves", which amounted to EUR 545.7 million, includes the share premium reserve, which shows the amount of the capital increase allocated to the share premium of EUR 556.2 million, net of the charges incurred for this increase for EUR 10.5 million.

9.1.7 SPAXS analysis of economic performance from the date of incorporation (20 December 2017) to 30 June 2018.

The table below presents SPAXS's economic situation for the period ended 30 June 2018.

(Thousands of euros)	SPAXS
	30 June 2018
Revenues	–
Consumables	(2)
Service costs	(3,844)
Lease and rental expense	(40)
Other operating expenses	(2)
Depreciation, amortisation and impairment	–
Operating profit (loss)	**(3,888)**
Financial income	245
Financial expense	–
Profit (loss) before tax	(3,643)
Income taxes	–
Profit (loss) for the period	**(3,643)**

At 30 June 2018 the item "Consumables" amounted to EUR 2 thousand and included the costs for the purchase of various office materials, while the item "Service costs", which amounted to EUR 3.8 million, included costs incurred for accounting, tax, legal and administrative consultancy services and costs associated with auditing activities.

The item "Financial income" amounted to EUR 0.2 million and mainly included the interest accrued in the period ended 30 June 2018 on the escrow account held with Banca Monte Paschi di Siena S.p.A.

9.1.8 Consolidated equity and financial position as of 30 September 2018

The balance sheet figures as of 30 September 2018 are presented below.

(Thousands of euros)	**SPAXS**
	30 September 2018
Cash and cash equivalents	76,596
Financial assets at fair value through profit or loss	29,392
a) financial assets held for trading	29,293
b) financial assets at fair value	-
c) other financial assets mandatorily at fair value	99
Financial assets at fair value through profit or loss	291,596
Financial assets at amortised cost	1,039,138
a) due from banks	592,609
b) due from customers	446,529
Equity investments	-
Tangible assets	1,842
Intangible assets	21,648
of which:	
Goodwill	21,643
Tax assets	14,092
a) current	1,383
b) prepaid	12,709
Other assets	15,214
Total assets	**1,489,518**
Financial liabilities at amortised cost	845,601
a) due to banks	257,603
b) due to customers	488,877
c) outstanding securities	99,121
Tax liabilities	335
a) current	-
b) deferred	335
Other liabilities	82,758
Employees' leaving entitlement	564
Provisions	443
a) commitments and guarantees issued	85
c) other provisions	358
Share premium	504,596
Capital	62,781
Profit (loss) for the period	(7,846)
Equity attributable to owners of the group	559,532
Equity attributable to non-controlling interests	285
Total liabilities and equity	**1,489,518**

Financial assets

The table below presents an analysis of financial assets as of 30 September 2018.

(Thousands of euros)	**SPAXS**
	30 September 2018
Financial assets at fair value through profit or loss	29,392
a) financial assets held for trading	29,293
b) financial assets at fair value	–
c) other financial assets mandatorily at fair value	99
Financial assets at amortised cost	1,039,138
Financial assets at fair value through profit or loss	291,596
Total financial assets	**1,360,126**

2018

At 30 September 2018 the item financial assets amounted to EUR 1,360,126 thousand.

More specifically, at 30 September 2018, financial assets at fair value through profit or loss consisted of debt securities (equal to EUR 291 million, of which EUR 264 thousand of the public administrations), while financial assets at fair value through profit or loss, were entirely attributable to units in UCIs (equal to EUR 99 thousand).

Due from banks

2018

At 30 September 2018 amounts due from banks amounted to EUR 592.6 million.

At 30 September 2018 the item consisted for 100% of amounts due from banks.

Due from customers

The table below presents an analysis of due from customers at 30 September 2018

(Thousands of euros)	**SPAXS**
	30 September 2018
1. Loans	
1.1 Current accounts	117,925
1.2 Repurchase agreements	–
1.3 Mortgage loans	201,441
1.4 Credit cards, personal loans and salary-backed loans	1,485
1.5 Other financing	12,332
2. Debt securities	
2.1 Other debt securities	113,346
Total due from customers	**446,529**

2018

In the period of reference the percentage of due from customers of total assets was 29.97%.

At 30 September 2018, amounts due from customers, equal to EUR 446.5 million, were divided into the following components:

- Current accounts, amounting to EUR 118 million.
- Mortgage loans for EUR 201 million.
- Credit cards, personal loans and salary-backed loans, equal to EUR 1 million.
- Other financing, amounting to EUR 12 million.
- Other debt securities, equal to EUR 113 million.

Tangible assets

An analysis of tangible assets at 30 September 2018 is shown in the following table:

(Thousands of euros)	**SPAXS**
	30 September 2018
Owned assets	
a) land	–
b) buildings	1,058
c) furniture	310
d) electronic systems	86
e) others	388
Total tangible assets	**1,842**

2018

At 30 September 2018, tangible assets related to owned property (equal to 1 EUR million) and to the furnishing of the branches.

Intangible assets

At 30 September 2018, intangible assets amounted to EUR 21,643 thousand and relate to goodwill.

Tax assets

The following table provides an analysis of current and prepaid/deferred tax assets and liabilities at 30 September 2018.

(Thousands of euros)	**SPAXS**
	30 September 2018
Current tax assets	1,383
Deferred tax assets	12,709
Total tax assets	**14,092**
Current tax liabilities	-
Deferred tax liabilities	335
Total tax liabilities	**335**

2018

At 30 September 2018 tax assets amounted to EUR 14,092 thousand while tax liabilities amounted to EUR 335 thousand.

At 30 September 2018 the deferred tax assets were attributable to:
- A write-down of receivables from customers for EUR 1,671 thousand.
- Provisions for EUR 98 thousand.
- Tax losses of EUR 4,530 thousand.
- Write-down of AFS securities for EUR 4,918 thousand.
- Other residual items for EUR 275 thousand.

Deferred tax liabilities, equal to EUR 335 thousand as of 30 September 2018, are entirely attributable to the revaluation of FVOCI securities.

Other assets

The table below provides an analysis of the other assets as of 30 September 2018.

(Thousands of euros)	**SPAXS**
	30 September 2018
Tax receivables from tax authorities and others	1,983
Third party cheques in hand	1,000
Company cheques in hand	–
Bills of exchange and third party documents in portfolio	1,326
Security deposits	29
Amounts due to be charged to customers	177
Receivable entries in transit	2
Entries being processed	8,361
Accrued income	65
Prepaid expenses	268
Leasehold improvements	250
Others	1,753
Total	**15,214**

2018

At 30 September 2018 the item "Other assets" showed a balance of EUR 15,214 thousand.

The principal sub-items refer to entries being processed amounting to EUR 8,361 thousand and tax receivables from tax authorities and others amounting to EUR 1,983 thousand.

Due to banks

2018

The item "due to banks", equal to EUR 258 million at 30 September 2018.

At 30 September 2018 interbank deposits consisted of payables to central banks, linked to time deposits with the European Central Bank and guaranteed by eligible securities, for EUR 142 million (corresponding to 55% of the total).

Direct deposits from customers

The table below provides an analysis of direct deposits from customers as of 30 September 2018.

(Thousands of euros)	**SPAXS**
	30 September 2018
Current accounts	443,493
Others	975
Time deposits	36,905
Loans	7,504
Total Direct deposits from customers	**488,877**

2018

At 30 September 2018, direct deposits represented 33% of the total liabilities and equity.

Direct deposits from customers stood at EUR 489 million at 30 September 2018. The aggregate consists of current accounts (EUR 443 million), others (EUR 1 million), time deposits (EUR 37 million) and loans (EUR 7 million).

During the period of reference, the main source of customer deposits were current accounts, equal to 91% of the total.

Securities issued

2018

At 30 September 2018 securities issued amounted to EUR 99 million.

Other liabilities

The table below provides an analysis of the other liabilities as of 30 September 2018.

(Thousands of euros)	**SPAXS**
	30 September 2018
Balance of illiquid portfolio entries	–
Tax payable to tax authorities and others	2,319
Payable to social security institutions	113
Sums available to customers	66
Other payables to personnel	2,031
Payable entries in transit	1
Entries being processed	11,686
Accrued expenses	21
Deferred income	96
Others	66,426
Total	**82,758**

2018

At 30 September 2018 the other liabilities amounted to EUR 82.8 million. In particular, the "Other" category for EUR 66.4 million includes the value of the disbursement deriving from the exercise of the withdrawal right communicated by the shareholders for a total of 5,090,851 ordinary shares, determined by multiplying the number of shares subject to withdrawal by the unit liquidation value equal to 10.00 euros, in compliance with Article 2437-ter, para. 2 of the Italian civil code and paragraph 8.3 of the SPAXS by-laws.

Provisions

2018

The item "provisions" amounted to EUR 0.4 million at 30 September 2018.

Shareholders' equity

The table below presents an analysis of shareholders' equity as of 30 September 2018.

(Thousands of euros)	**SPAXS**
	30 September 2018
1. Capital	62,781
2. Share premium	504,596
3. Reserves	–
4. Non-controlling interests	285
5. Equity investments	–
6. (Treasury shares)	–
7. Valuation reserves	–
8. Profit (loss) for the period	(7,846)
Total	**559,532**

2018

At 30 September 2018 shareholders' equity amounted to EUR 559 million. The item is attributable to:

- Share capital of EUR 62,781 thousand.
- Issue premium for EUR 504,596 thousand.
- A loss for the year of EUR 7,846 thousand.

At 30 September 2018 share capital amounted to EUR 62.8 million. The Share Capital is fully subscribed and paid up and consists of 60,981,144 Ordinary Shares and 1,800,000 Special Shares, the latter being convertible into Ordinary Shares under certain conditions and according to the procedures set out in article 6 of the SPAXS Bylaws.

9.1.9 Operational management

9.1.9.1 Information concerning important factors that have had significant repercussions on the operational management of the Issuer's business

According to the Bank of Italy's Economic Bulletin (No. 1/2019, January), the global economy continued to grow in late 2018, although the first signs of a weakening of the cycle were seen in many advanced and emerging economies. The outlook for global trade continues to deteriorate, following the slowdown witnessed in the first half of last year. The factors of cyclical economic uncertainty had repercussions on international financial markets, driving down long-term yields and share prices alike. The outlook for the world economy is conditioned by the risks of an adverse outcome to the trade negotiations between the United States and China, a possible further flare-up of financial tensions in emerging countries and the circumstances in which Brexit will occur.

In the eurozone, growth slowed; in November, industrial output declined significantly in Germany, France and Italy. While remaining solidly in positive territory, inflation fell as a result of slowing energy prices. The ECB's Governing Council reiterated its intention of maintaining a significant monetary stimulus for an extended period.

In Italy, after growth came to an end in the third quarter, the available economic indicators suggest that activity may have declined further in the fourth quarter. The weakening seen in the summer months was driven by a reduction in domestic demand, and in particular in investments and, to a lesser extent, household spending. According to the customary economic survey conducted by the Bank of Italy in collaboration with Il Sole 24 Ore, in 2019 the investment plans of industrial and service companies were more restrained as a result of the political and economic uncertainty and trade tensions.

Italian export performance remained favourable in the second half of the year; however, the slowdown in global trade influenced companies' foreign order forecasts. The current account balance remains soundly in positive territory and the country's net foreign debt position continues to improve, falling to slightly above 3% of GDP at the end of September.

In the summer quarter, hours worked increased, whereas the number of job-holders fell slightly. According to the first available data, employment remained essentially stagnant in the autumn. Contractual salaries continued to rise across all segments.

Overall inflation fell to 1.2% in December, above all as a result of the slowdown in energy prices. In addition, companies' expectations regarding price performance were also revised slightly downwards.

Risk premia on government bonds declined as a result of the budget planning agreement between the Italian government and European Commission. The spread between the yields on Italian and German government bonds was approximately 260 basis points in mid-January, 65 points below the November highs.

Banking shares were down by 14% on average compared with the end of September, reflecting – as in the eurozone as a whole – weaker growth prospects. Risk premia on banking bonds were down compared with the end of last year due to the easing of government bond tensions, whereas premia on major bank CDSs were 40 basis points lower than in mid-November

Credit supply conditions remain slack overall, although interest rates on loans are slightly higher than they were in May following the tensions on the government bond market. However, looking forward, persistently high government bond yields and bank funding costs will continue to drive up the cost of credit.

Non-performing loans continued to decline as a percentage of total loans, reaching 4.5% in the third quarter after adjustments, 1.8 points less than in the previous year. New non-performing loans as a percentage of total loans also remain modest (1.7% at the quarterly level).

The budget is set to increase the deficit in 2019-2021 beyond the previous forecast level; accordingly, net debt is expected to amount to 2.0% of GDP in the current year, reversing the downtrend that had been ongoing since 2014. In the light of the amendments made to the budget, the initial version of which was consistent with a deficit target for 2019 of 2.4% of GDP, the European Commission decided not to launch an excessive deficit procedure against Italy.

The Bulletin also presents the macroeconomic projections for the Italian economy in the three-year period 2019-2021.

The central projection calls for GDP growth of 0.6%, 0.4 points less than previously forecast. The revision was driven by: less favourable economic activity figures observed in late 2018, which reduced the growth already acquired for this year on average by 0.2 points; the reduction in companies' investment plans as shown by the latest surveys; and the prospects of slowing global trade. By contrast, the effects on growth of the agreement reached by the Italian government with the European Commission were moderately positive: the favourable impact of the decline in long-term interest rates more than offsets that of the corrections made to the budget. The central growth projections for 2020 and 2021 are 0.9% and 1.0%, respectively.

According to the Bulletin, inflation is expected to rise gradually from 1.0% to 1.5% at the level of the average for the following two years, driven by an increase in private salaries and the gradual alignment with inflation expectations.

In addition to the global factors of uncertainty set out above, the downside risks to growth relate to:

- the possibility of a further increase in sovereign yields;
- a more rapid deterioration in financing conditions in the private sector;
- a further decline in companies' propensity to invest.

9.1.9.2 Issuer analysis of economic performance from the date of incorporation (20 December 2017) to 30 September 2018

The table below presents SPAXS's consolidated economic situation from the date of incorporation (20 December 2017) to 30 September 2018.

The figures have been reclassified using management accounting criteria designed to best represent the bank's economic and financial situation, considering the specifics of a set of financial statements prepared for a bank. The aim of doing this is to simplify a reading of the statements by means of specific aggregations of items and reclassifications.

(Thousands of euros)	**SPAXS**
	30 September 2018
Net interest income	402
Net fee and commission income	–
Dividends and similar income	–
Net profit (loss) from trading and hedging activities	–
Other operating expense/income	–
Net interest and other banking income	402
Administrative expenses	(8,245)
Personnel expenses	(233)
Other administrative expenses	(8,011)
Net impairment losses/recoveries on tangible and intangible assets	(3)
Operating expenses	(8,247)
Net operating profit/loss	(7,846)
Net value adjustments to receivables	–
Net value adjustments to other assets/liabilities	–
Net provisions	–
Profits (losses) from equity investments and the disposal of investments	–
Pre-tax profit (loss) from continuing operations	(7,846)
Income taxes for the year from current operations	–
Profit (loss) from discontinued operations, net of tax	–
Profit (loss) for the period	(7,846)

Net interest income

2018

At 30 September 2018 the interest margin amounted to EUR 402 thousand, which is entirely attributable to interest income and similar income.

Net interest and other banking income

2018

As a result of the aforementioned items, there was an intermediation margin of EUR 402 thousand in the period ended 30 September 2018.

Personnel expenses

2018

At 30 September 2018 personnel expenses were equal to EUR 233 thousand, of which EUR 61 thousand for salaries and wages, EUR 28 thousand for social security expenses, EUR 123 thousand for expenses related to other staff and EUR 21 thousand for directors and statutory auditors.

Administrative expenses

2018

The item was equal to EUR 8,011 thousand as of 30 September 2018.

The greatest administrative expenses were for professional services and consultancy services (95% of the total), equal to EUR 7,591 thousand.

Net impairment losses/recoveries on tangible and intangible assets

2018

At 30 September 2018, the net value adjustments on tangible and intangible assets, equal to EUR 3 thousand, refer to net value adjustments on tangible assets.

Operating profit/loss

2018

There was an operating loss for the period of EUR 7.8 million.

10. FINANCIAL RESOURCES

Introduction

The Business Combination between the Issuer and SPAXS S.p.A., resolved by the respective Shareholders' Meetings and finalised on 20 September 2018 (for a description of which see below), and the reverse merger to be undertaken by merging the parent SPAXS into the Issuer (for a description of which see Paragraph 5.1.5 and Chapter 22), authorised by the Bank of Italy on 11 December 2018 and approved by the Extraordinary Shareholders' Meetings of the Issuer and of SPAXS S.p.A. on 18 January 2019, constitute a complex financial history pursuant to Art. 4a of Regulation EC/809/2004, resulting in the need to include in the Prospectus the financial information of the Issuer and of SPAXS and the pro-forma financial information of illimity, the company resulting from the Merger.

The Business Combination also entailed a need to prepare the first consolidated financial statements of SPAXS S.p.A. at and for the period ended 30 September 2018 in order to consolidate the Issuer's data therein.

This chapter includes summaries of the following:

- An analysis of BIP's financial situation as of 30 September 2018 and 2017 and as of 31 December 2017, 2016 and 2015.
- Analysis of SPAXS's financial situation as of 30 September 2018 and 30 June 2018.

It should be noted that on 18 July 2016 BIP acquired control of Banca Emilveneta. Following this transaction, the consolidated financial statements at 31 December 2016 were prepared. Subsequently, with a merger of 2 August 2017 and in implementation of the respective resolutions of the shareholders' meeting, Banca Emilveneta was merged by incorporation into BIP. It was therefore not necessary to prepare consolidated financial statements at 31 December 2017.

The financial, equity and economic information included in this Chapter is taken from:

- the BIP interim financial statements for the nine months ended 30 September 2018 (the "**BIP 9M 2018 Interim Financial Statements**") prepared in accordance with the International Accounting Standard applicable to interim financial statements (IAS 34), approved by the BIP Board of Directors on 12 November 2018 and subject to a review by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 15 November 2018;
- the BIP financial statements for the year ended 31 December 2017 (the "**BIP 2017 Financial Statements**"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standard Board and adopted by the European Union (IFRS) as well as the provisions issued in implementation of Article 43 of Italian Legislative Decree no. 136/15, approved by the BIP Board of Directors on 29 March 2018 and subject to audit by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 3 April 2018;
- the consolidated financial statements of BIP and its subsidiary for the year ended 31 December 2016 (the "**BIP 2016 Financial Statements**"), prepared in accordance with

the International Financial Reporting Standards issued by the International Accounting Standard Board and implemented by the European Union (IFRS) as well as the provisions issued in implementation of Article 43 of Italian Legislative Decree no. 136/15, approved by the BIP Board of Directors on 30 March 2017 and audited by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 12 April 2017;

- the BIP financial statements for the year ended 31 December 2015 (the "**BIP 2015 Financial Statements**"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standard Board and adopted by the European Union (IFRS) as well as the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/05, approved by the BIP Board of Directors on 08 February 2016 and subject to audit by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 10 February 2016;
- the SPAXS consolidated interim financial statements for the period from the date of incorporation (20 December 2017) to 30 September 2018 (the "**SPAXS 9M 2018 Consolidated Interim Financial Statements**"), prepared in accordance with the International Accounting Standard applicable to interim financial statements (IAS 34), approved by the SPAXS Board of Directors on 30 November and subject to a review by KPMG S.p.A., which issued an unqualified report thereon dated 30 November 2018;
- the SPAXS interim financial statements for the period from the date of incorporation (20 December 2017) to 30 June 2018 (the "**SPAXS 1H 2018 Interim Financial Statements**"), prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standard Board and implemented by the European Union (IFRS), approved by the SPAXS Board of Directors on 30 October 2018 and audited by KPMG S.p.A., which issued an unqualified report thereon dated 22 November 2018.

For more information on the pro-forma financial information that have retrospective effect on the Business Combination transaction, reference should be made to Chapter 20, Paragraph 20.2. For a better understanding of the activities carried out by illimity, reference should also be made to the forecast data taken from the 2018-2023 illimity Business Plan presented in Chapter 13.

10.1. FINANCIAL RESOURCES OF THE ISSUER

In consideration of the banking activity carried out, the Issuer's financial resources consist of direct customer deposits, funding on the interbank market and bonds, in addition to its own funds. The following table sets out the Issuer's financial resources at 30 September 2018 and at 31 December 2017.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Due to central banks	142,350	399,257	(256,907)	(64.35%)
- on demand	–	–	–	–
- term	142,350	399,257	(256,907)	(64.35%)
Due to banks	115,253	71,366	43,887	61.50%
- on demand	4,008	4,002	6	0.15%
- term	111,245	67,364	43,881	65.14%
Total bank deposits	**257,603**	**470,623**	**(213,020)**	**(45.26%)**
Current accounts	441,588	398,688	42,900	10.76%
Savings deposits	1,905	1,558	347	22.27%
Time deposits	36,905	25,932	10,973	42.31%
Repurchase agreements	–	–	–	–
Certificates of deposit	72,806	68,073	4,733	6.95%
Bonds	26,315	26,362	(47)	(0.18%)
Loans	7,504	6,561	943	14.37%
Others	975	1,804	(829)	(45.95%)
Total customer deposits	**587,998**	**528,978**	**59,020**	**11.16%**
Total direct deposits	**845,601**	**999,601**	**(154,000)**	**(15.41%)**

2018 vs 2017

At 30 September 2018 deposits from banks and customers amounted to EUR 845.6 million, recording a decrease of EUR 154 million compared to 31 December 2017 (-15%), mainly due to a decrease in payables to central banks (-65%) and partly offset by an increase in payables to banks (+61%) and current accounts (+10.76%).

The following table sets out the Issuer's financial resources at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			**Changes**		**% change**	
	2017	**2016**	**2015**	**2017 v. 2016**	**2016 v. 2015**	**2017 v. 2016**	**2016 v. 2015**
Due to central banks	399,257	381,178	360,093	18,079	21,085	5%	6%
- on demand	–	–	–	–	–	–	–
- term	*399,257*	*381,178*	*360,093*	*18,079*	*21,085*	*4.74%*	*5.86%*
Due to banks	71,366	66,596	20,336	4,770	46,260	7.16%	>100%
- on demand	*4,002*	–	–	*4,002*	–	–	–
- term	*67,364*	*66,596*	*20,336*	*768*	*46,260*	*1.15%*	*>100%*
Total bank deposits	**470,623**	**447,774**	**380,429**	**22,849**	**67,345**	**5.10%**	**17.70%**
Current accounts	398,688	373,804	277,468	24,884	96,336	6.66%	34.72%
Savings deposits	1,558	4,708	4,693	(3,150)	15	(66.91%)	0.32%
Time deposits	25,932	19,881	19,181	6,051	700	30.44%	3.65%
Repurchase agreements	–	–	–	–	–	0.00%	0.00%
Certificates of deposit	68,073	62,956	56,292	5,117	6,664	8.13%	11.84%
Bonds	26,362	44,423	44,161	(18,061)	262	(40.66%)	0.59%
Loans	6,561	1,644	1,482	4,917	162	>100%	10.93%
Others	1,804	524	292	1,280	232	>100%	79.45%
Total customer deposits	**528,978**	**507,940**	**403,569**	**21,038**	**104,371**	**4%**	**26%**
Total direct deposits	**999,601**	**955,714**	**783,998**	**43,887**	**171,716**	**5%**	**22%**

2017 v. 2016

At 31 December 2017 direct deposits amounted to EUR 999.6 million, recording an increase of EUR 43.9 million compared to 31 December 2016 (+5%), attributable to an increase in current accounts for EUR 24.9 million (+7%), payables to central banks for EUR 18.1 million (+5%), time deposits for EUR 6.1 million (+30%), certificates of deposit for EUR 5.1 million (+8%) and amounts due to banks for EUR 4.8 million (+7%). This was partly offset by a reduction in bonds for EUR 18.1 million (-40.7%) and savings deposits for EUR 3.2 million (-67%).

2016 v. 2015

At 31 December 2016, direct deposits amounted to EUR 955.7 million, recording an increase of EUR 171.7 million compared to 31 December 2015 (+22%), mainly due to an increase in current accounts for EUR 96.3 million (+34.7%), payables to banks for EUR 46.3 million (>100%), payables to central banks for EUR 21.1 million (+6%) and certificates of deposit for EUR 6.7 million (+8.1%).

An analysis of the securities issued by the Issuer at 30 September 2018 and 31 December 2017 is shown below.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
A. Securities				
1. bonds	26,315	26,362	(47)	(0.18%)
2. other securities	72,806	68,073	4,733	6.95%
Total	**99,121**	**94,435**	**4,686**	**4.96%**
Fair Value - level 1	-	-	-	-
Fair Value - level 2	26,310	26,362	(52)	(0.20%)
Fair Value - level 3	74,438	70,068	4,370	6.24%
Total fair value	**100,748**	**96,430**	**4,318**	**4.48%**

2018 v. 2017

At 30 September 2018 aggregate securities issued amounted to EUR 99.1 million, an increase of EUR 4.7 million (+5%) compared to the balance of the same item as of 31 December 2017. This change is due to an increase in other securities of EUR 4.7 million (+7%), only partially offset by a decrease in bonds for EUR 47 thousand (-0.2%).

An analysis of the securities issued by the Issuer at 31 December 2017, 2016 and 2015 is shown below.

(Thousands of euros)	BIP						
	31 December			**Changes**		**% change**	
	2017	**2016**	**2015**	**2017 v. 2016**	**2016 v. 2015**	**2017 v. 2016**	**2016 v. 2015**
A. Securities							
1. bonds	26,362	44,422	44,161	(18,060)	261	(40.66%)	0.59%
2. other securities	68,073	62,956	56,292	5,117	6,664	8.13%	11.84%
Total	**94,435**	**107,379**	**100,453**	**(12,944)**	**6,926**	**(12.05%)**	**6.89%**
Fair Value - level 1	-	-	-	-	-	-	-
Fair Value - level 2	26,362	44,422	44,993	(18,060)	(571)	(40.66%)	(1.27%)
Fair Value - level 3	70,068	65,253	58,555	4,815	6,698	7.38%	11.44%
Total fair value	**96,430**	**109,675**	**103,548**	**(13,245)**	**6,127**	**(12.08%)**	**5.92%**

2017 v. 2016

At 31 December 2017 aggregate securities issued amounted to EUR 94.4 million, a drop of EUR 12.9 million (-12%) compared to the balance of the same item as of 31 December 2016. This change is due to a decline in bonds of EUR 18.1 million (-41%), only partially offset by an increase in other securities for EUR 5.1 million (+8.13%).

2016 v. 2015

At 31 December 2016 aggregate securities issued amounted to EUR 107.4 million, an increase of EUR 6.9 million (+7%) compared to the balance of the same item as of 31 December 2015. This change is due to an increase in both other securities of EUR 6.7 million (+12%) and in bonds for EUR 0.2 million (0.59).

10.2. ISSUER'S CASH FLOWS

The table below provides a summary of the Issuer's statement of cash flows for the nine months ended 30 September 2018 and 2017.

(Thousands of euros)	BIP			
	30 September 2018	**30 September 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Operating activities				
Cash generated/used by operations	(4,233)	3,050	(7,283)	(>100%)
Cash generated/used by financial assets	160,414	(127,860)	288,274	(>100%)
Cash generated/used by financial liabilities	(106,843)	123,913	(230,756)	(>100%)
Net cash generated/used by operating activities	**49,338**	**(898)**	**50,236**	**(>100%)**
Investing activities				
Cash generated by:	–	1	(1)	(100.00%)
– sale of tangible assets	–	1	(1)	(100.00%)
– sale of intangible assets	–	–	–	–
Cash used by:	332	(131)	463	(>100%)
– purchase of investments	–	(12)	12	100%
– purchase of tangible assets	332	–	332	–
– purchase of intangible assets	–	(118)	118	(100.00%)
– purchase of businesses	–	(1)		
Net cash generated/used by investing activities	332	(131)	463	(>100%)
Financing activities				
– distribution of dividends and other purposes	–	(800)	800	(100.00%)
Net cash generated/used by financing activities	–	(800)	800	(100.00%)
Net cash generated/used during the year	**49,670**	**(1,828)**	**51,498**	**(>100%)**
Cash reconciliation	**–**	**–**		
Cash and cash equivalents at the beginning of the year	26,926	27,812	(886)	(3.19%)
Total net cash generated/used during the year	49,670	(1,828)	51,498	(>100%)
Cash and cash equivalents at the end of the year	76,596	25,984	50,612	>100%

2018 v. 2017

For the nine months ended 30 September 2018, the Issuer generated cash of EUR 49.7 million compared to EUR 1.8 million used at 30 September 2017.

The cash flows at 30 September 2018 showed that the operating activity generated cash equal to 49.3 million due to the combined effect of:

(iv) Cash used by operating activities equal to EUR 4.2 million (-EUR 7.3 million compared to 30 September 2017).

(v) Cash used by financial liabilities of EUR 106.8 million (-EUR 231 million compared to 30 September 2017).
(vi) Cash generated from financial assets of EUR 160.4 million (+EUR 288 million compared to 30 September 2017).
(vii) Investing activities generated a cash absorption of EUR 0.3 million at 30 September 2018 (+EUR 0.4 million compared to 30 September 2017), with purchases of tangible assets for EUR 0.3 million.

Loans neither generated nor used cash as of 30 September 2018 compared to EUR 800 thousand used at 30 September 2017.

The table below provides a summary of the Issuer's statement of cash flows for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		% change	
	2017	2016	2015	2017 v. 2016	2016 v. 2015	2017 v. 2016	2016 v. 2015
Operating activities							
Cash generated/used by operations	5,290	5,106	4,694	184	412	3.6%	8.78%
Cash generated/used by financial assets	(122,347)	(145,165)	(169,851)	22,818	24,687	(15.7%)	(14.53%)
Cash generated/used by financial liabilities	118,011	168,079	165,556	(50,068)	4,924	(29.8%)	3.02%
Net cash generated/used by operating activities	**953**	**28,021**	**(2,002)**	**(27,068)**	**30,023**	**(96.6%)**	**>100%**
Investing activities				0			
Cash generated by:	(1)	–	–	(1)	–	–	–
- sale of tangible assets	1	–	–	1	–	–	–
- sale of intangible assets	(1)	–	–	(1)	–	–	–
Cash used by:	(1,839)	(1,558)	(49)	(281)	(1,509)	18.0%	>100%
- purchase of tangible assets	(1,510)	(1,227)	(46)	(283)	(1,181)	23.1%	>100%
- purchase of intangible assets	(329)	(331)	(4)	2	(328)	(0.6%)	>100%
Net cash generated/used by investing activities	**(1,839)**	**(1,558)**	**(49)**	**(281)**	**(1,509)**	**18.0%**	**>100%**
Financing activities				0			
- distribution of dividends and other purposes	–	800	1,200	(800)	(400)	–100.0%	(33.33%)
Net cash generated/used by financing activities	**–**	**800**	**1,200**	**(800)**	**(400)**	**–100.0%**	**(33.33%)**
Net cash generated/used during the year	**(886)**	**27,263**	**(851)**	**(28,149)**	**28,114**	**(>100%)**	**>100%**
Cash reconciliation							
Cash and cash equivalents at the beginning of the year	27,812	591	1,442	27,221	(851)	>100%	(59.04%)
Total net cash generated/used during the year	**(886)**	**27,263**	**(851)**	**–28,149**	**28,114**	**(>100%)**	**>100%**
Cash and cash equivalents at the end of the year	26,926	27,853	591	–927	27,263	(3.3%)	>100%

2017 v. 2016

In 2017 the Issuer used cash for EUR 0.9 million compared to EUR 27.3 million in the previous year.

The trend in cash flows at 31 December 2017 showed that the operating activity generated cash equal to EUR 953 thousand due to the combined effect of:

(vi) Cash generated by operating activities of EUR 5,290 thousand (+EUR 184 thousand compared to 31 December 2016).

(vii) Cash generated by financial liabilities of EUR 118,011 thousand (-EUR 50 million compared to 31 December 2016), with a reduction in securities issued.

(viii) Cash used by financial assets equal to EUR 122,347 thousand (+EUR 23 million compared to 31 December 2016), marked by an increase in receivables from customers.

(ix) Investing activities generated a cash absorption of EUR 1,839 thousand in 2017 (-EUR 281 thousand compared to 31 December 2016), distinguished by purchases of tangible assets for EUR 1,509 thousand.

(x) Loans did not generate or absorb cash in 2017. At 31 December 2016, the amount of EUR 800 thousand was entirely attributable to the distribution of dividends relating to the 2015 profit.

2016 v. 2015

In 2016 the Issuer generated cash for EUR 27.3 million compared to EUR 0.9 million used in the previous year.

The trend in cash flows at 31 December 2016 showed that the operating activity generated cash equal to EUR 28,021 thousand due to the combined effect of:

(vi) Cash generated by operating activities of EUR 5,106 thousand (EUR 412 thousand compared to 31 December 2015).

(vii) Cash generated by financial liabilities equal to EUR 168,079 thousand (EUR 5 million compared to 31 December 2015), marked by an increase in payables to customers.

(viii) Cash used by financial assets of EUR 145,165 thousand (+EUR 25 million compared to 31 December 2015), distinguished by an increase in receivables from customers of EUR 79,115 thousand.

(ix) Investing activities generated a cash absorption of EUR 1,558 thousand in 2016 (-EUR 1,509 thousand compared to 31 December 2015), distinguished by purchases of tangible assets for EUR 1,227 thousand.

(x) Loans generated cash equal to EUR 800 thousand (-EUR 400 thousand compared to 31 December 2015) and were entirely attributable to the distribution of dividends relative to the profit for the year 2014.

10.3. Issuer's financial requirements

The table below summarises the Issuer's financial requirements at 30 September 2018 and 31 December 2017.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Financial assets at fair value through profit or loss	29,392	214	29,178	>100%
Financial assets at fair value through profit or loss	289,361	553,511	(264,150)	(47.72%)
Financial assets at amortised cost	532,354	479,389	52,965	11.05%
Total applications of financial assets	**851,107**	**1,033,114**	**(182,007)**	**(17.62%)**
Cash and cash equivalents	76,596	26,926	49,670	>100%
Current tax assets	1,383	2,995	(1,612)	(53.83%)
Other assets	15,189	6,429	8,760	>100%
Total short-term operating assets	**93,168**	**36,351**	**56,817**	**>100%**
Tangible assets	1,810	1,652	158	9.56%
Intangible assets	5	7	(2)	(32.99%)
Deferred tax assets	9,679	3,290	6,389	>100%
Total long-term applications	**11,494**	**4,949**	**6,545**	**>100%**
Total applications	**955,769**	**1,074,413**	**(118,644)**	**(11.04%)**

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
Due to banks	257,603	470,623	(213,020)	(45.26%)
Due to customers	488,877	434,543	54,334	12.50%
Securities issued	99,121	94,435	4,686	4.96%
Total sources from financial assets	**845,601**	**999,601**	**(154,000)**	**(15.41%)**
Current tax liabilities	–	1,607	(1,607)	(100.00%)
Other liabilities	18,520	9,923	8,597	86.65%
Total short-term operating liabilities	**18,520**	**11,530**	**6,990**	**60.63%**
Deferred tax liabilities	335	2,110	(1,775)	(84.12%)
Employees' leaving entitlement	564	586	(22)	(3.68%)
Provisions:	443	516	(73)	(14.18%)
Valuation reserves	(5,196)	2,631	(7,827)	(>100%)
Reserves	64,589	10,662	53,927	>100%
Capital	43,377	43,377	–	0.00%
Non-controlling interests (+/-)	–	–	–	–
Profit (loss) for the period	(12,464)	3,399	(15,863)	(>100%)
Total long-term sources of financing	**91,648**	**63,281**	**28,567**	**45.29%**
Total sources of financing	**955,769**	**1,074,413**	**(118,644)**	**(11.04%)**

2018 v. 2017

At 30 September 2018 the Issuer's sources were equal to EUR 955.8 million, compared to EUR 1,074.4 million at 31 December 2017.This may be analysed as follows:

(i) Forms of funding deriving from financial operations for EUR 845.6 million, equal to 88% of the total.

(ii) Short-term payables for EUR 18.5 million, equal to 2% of the total.

(iii) Long-term funding sources of EUR 91.6 million (of which EUR 43.4 million relating to own funds), equal to 10% of the total.

These sources finance a level of loans of the same amount, divided into:

(i) Forms of loans deriving from financial operations for EUR 851.1 million, equal to 89% of the total.

(ii) Short-term receivables for EUR 93.2 million, equal to 10% of the total.

(iii) Forms of long-term loans attributable to fixed assets and to prepaid taxes for EUR 11.5 million, equal to 1% of the total.

The table below provides a summary of the Issuer's financial requirements for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		% change	
	2017	2016	2015	2017 v. 2016	2016 v. 2015	2017 v. 2016	2016 v. 2015
Financial assets held for trading	115	–	–	115	–	100.00%	-
Financial assets available for sale	607,906	595,352	548,443	12,554	46,909	2.11%	-
Due from banks	99,044	88,804	72,851	10,240	15,953	11.53%	-
Due from customers	326,049	299,451	222,665	26,598	76,786	8.88%	-
Total applications of financial assets	**1,033,114**	**983,607**	**843,959**	**49,507**	**139,648**	**5.03%**	**-**
Cash and cash equivalents	26,926	27,853	591	(927)	27,262	(3.33%)	-
Current tax assets	2,995	3,118	2,575	(123)	543	(3.94%)	-
Other assets	6,429	5,100	4,164	1,329	936	26.06%	-
Total short-term operating assets	**36,351**	**36,071**	**7,330**	**280**	**28,741**	**0.78%**	**-**
Tangible assets	1,652	1,472	428	180	1,044	12.23%	-
Intangible assets	7	335	7	(328)	328	(97.91%)	-
Deferred tax assets	3,290	4,382	2,167	(1,092)	2,215	(24.92%)	-
Total long-term applications	4,949	6,189	2,602	(1,240)	3,587	(20.04%)	-
Total applications	**1,074,413**	**1,025,867**	**853,890**	**48,546**	**171,977**	**4.73%**	**-**

(Thousands of euros)	**BIP**						
	31 December			**Changes**		**% change**	
	2017	**2016**	**2015**	**2017 v. 2016**	**2016 v. 2015**	**2017 v. 2016**	**2016 v. 2015**
Due to banks	470,623	447,774	380,429	22,849	67,345	5.10%	17.70%
Payables to customers	434,543	400,561	303,116	33,982	97,445	8.48%	32.15%
Securities issued	94,435	107,379	100,453	(12,944)	6,926	(12.05%)	6.89%
Total sources from financial assets	**999,601**	**955,714**	**783,998**	**43,887**	**171,716**	**4.59%**	**21.90%**
Current tax liabilities	1,607	2,040	2,585	(433)	(545)	(21.23%)	(21.08%)
Other liabilities	10,124	8,580	8,338	1,544	242	18.00%	2.90%
Total short-term operating liabilities	**11,731**	**10,621**	**10,924**	**1,110**	**(303)**	**10.45%**	**(2.77%)**
Deferred tax liabilities	2,110	2,493	3,777	(383)	(1,284)	(15.36%)	(34.00%)
Employees' leaving entitlement	586	507	313	79	194	15.58%	61.98%
Provisions:	315	325	250	(10)	75	(3.08%)	30.00%
Valuation reserves	2,631	2,141	6,741	490	(4,600)	22.89%	(68.24%)
Reserves	10,662	6,931	3,324	3,731	3,607	53.83%	>100%
Capital	43,377	40,000	40,000	3,377	-	8.44%	0.00%
Non-controlling interests (+/-)	-	5,987	-	(5,987)	5,987	(100.00%)	100.00%
Profit (loss) for the year	3,399	1,148	4,563	2,251	(3,415)	>100%	(74.84%)
Total long-term sources of financing	63,081	59,533	58,969	3,548	564	5.96%	0.96%
Total sources of financing	**1,074,413**	**1,025,867**	**853,890**	**48,546**	**171,977**	**4.73%**	**20.14%**

2017 v. 2016

At 31 December 2017 the Issuer's sources were equal to EUR 1,074 million, compared to EUR 1,026 million at 31 December 2016.This may be analysed as follows:

(i) Forms of funding deriving from financial operations for EUR 999.6 million, equal to 93% of the total.

(ii) Short-term payables for EUR 11.7 million, equal to 1% of the total.

(iii) Long-term funding sources of EUR 63.1 million (of which EUR 43.4 million relating to own funds), equal to 6% of the total.

These sources finance a level of loans of the same amount, divided into:

(i) Forms of loans deriving from financial operations for EUR 1,033 million, equal to 96% of the total.

(ii) Short-term receivables for EUR 36 million, equal to 3% of the total.

(iii) Forms of long-term loans attributable to fixed assets and to prepaid taxes for EUR 4.9 million, equal to 1% of the total.

The excess of loans compared to the forms of funding deriving from the financial assets is therefore financed with own funds.

2016 v. 2015

At 31 December 2016 the Issuer's sources were equal to EUR 1,026 million, compared to EUR 854 million at 31 December 2016.This may be analysed as follows:

(i) Forms of funding deriving from financial operations for EUR 955.7 million, equal to 93% of the total.

(ii) Short-term payables for EUR 10.6 million, equal to 1% of the total.

(iii) Long-term funding sources of EUR 59.5 million (of which EUR 40.0 million relating to own funds), equal to 6% of the total.

These sources finance a level of loans of the same amount, divided into:

(i) Forms of loans deriving from financial operations for EUR 983.6 million, equal to 96% of the total.

(ii) Short-term receivables for EUR 36 million, equal to 3% of the total.

(iii) Forms of long-term loans attributable to fixed assets and to prepaid taxes for EUR 6.2 million, equal to 1% of the total.

The excess of loans compared to the forms of funding deriving from the financial assets is therefore financed with own funds.

<u>(A) Distribution of uses and sources by residual life</u>

The table below provides an analysis by contractual expiry of the assets and liabilities deriving from the Issuer's financial operations for the nine months ended 30 September 2018.

Currency: Euros

Type/residual maturity *(Thousands of euros)*	**On demand**	**From over 1 day to 7 days**	**From over 7 days to 15 days**	**From over 15 days to 1 month**	**From over 1 month to 3 months**	**From over 3 months to 6 months**	**From over 6 months to 1 year**	**From over 1 year to 5 years**	**Over 5 years**	**Indefinite term**
A. Cash assets	**155,812**	**10,268**	**6,086**	**15,324**	**43,493**	**25,023**	**152,283**	**415,693**	**203,890**	**4,761**
A.1 Government securities	–	–	5,061	–	429	2,567	123,038	275,500	152,000	–
A.2 Other debt securities	–	–	–	10,062	374	266	115	31,400	–	–
A.3 Units in UCIs	214	–	–	–	–	–	–	–	–	–
A.4 Loans	155,598	10,268	1,025	5,262	42,690	22,190	29,130	108,793	51,890	4,761
- Banks	49,294	10,000	–	–	29,074	5,000	–	–	–	4,761
- Customers	106,304	268	1,025	5,262	13,616	17,190	29,130	108,793	51,890	–
B. Cash liabilities	**405,887**	**405**	**2,417**	**7,319**	**171,136**	**12,654**	**257,879**	**137,965**	**3,978**	**–**
B.1 Deposits and current accounts	403,380	11	2,041	4,084	8,675	5,842	2,449	4,792	–	–
- Banks	4,003	–	–	–	2,000	–	–	–	–	–
- Customers	399,377	11	2,041	4,084	6,675	5,842	2,449	4,792	–	–
B.2 Debt securities	444	394	376	3,235	3,599	6,452	20,901	60,399	–	–
B.3 Other liabilities	2,063	–	–	–	158,862	360	234,529	72,774	3,978	–
C. Off-balance sheet transactions	**–**	**0**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	8	–	–	–	–	–	–	–	–
- Long positions	–	10	–	–	–	–	–	–	–	–
- Short positions	–	2	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	721	–	–	1	–	26	647	3457	1434	–

Currency: Other currencies

Type/residual maturity *(Thousands of euros)*	**On demand**	**From over 1 day to 7 days**	**From over 7 days to 15 days**	**From over 15 days to 1 month**	**From over 1 month to 3 months**	**From over 3 months to 6 months**	**From over 6 months to 1 year**	**From over 1 year to 5 years**	**Over 5 years**	**Indefinite term**
A. Cash assets	**664**	**–**	**–**	**754**	**–**	**–**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Units in UCIs	–	–	–	–	–	–	–	–	–	–
A.4 Loans	664	–	–	754	–	–	–	–	–	–
- Banks	664	–	–	250	–	–	–	–	–	–
- Customers	–	–	–	504	–	–	–	–	–	–
B. Cash liabilities	**878**	**–**	**–**	**502**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	878	–	–	502	–	–	–	–	–	–
- Banks	–	–	–	502	–	–	–	–	–	–
- Customers	878	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
C. Off-balance sheet transactions	**–**	**0**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	(8)	–	–	–	–	–	–	–	–
- Long positions	–	2	–	–	–	–	–	–	–	–
- Short positions	–	10	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

The tables below show the breakdown by contractual expiry of the assets and liabilities deriving from the Issuer's financial operations for the years ended 31 December 2017, 2016 and 2015.

For 2017

Currency: Euros

Type/residual maturity *(Thousands of euros)*	**On demand**	**From over 1 day to 7 days**	**From over 7 days to 15 days**	**From over 15 days to 1 month**	**From over 1 month to 3 months**	**From over 3 months to 6 months**	**From over 6 months to 1 year**	**From over 1 year to 5 years**	**Over 5 years**	**Indefinite term**
A. Cash assets	**155,812**	**10,268**	**6,086**	**15,324**	**43,493**	**25,023**	**152,283**	**415,693**	**203,890**	**4,761**
A.1 Government securities	–	–	5,061	–	429	2,567	123,038	275,500	152,000	–
A.2 Other debt securities	–	–	–	10,062	374	266	115	31,400	–	–
A.3 Units in UCIs	214	–	–	–	–	–	–	–	–	–
A.4 Loans	155,598	10,268	1,025	5,262	42,690	22,190	29,130	108,793	51,890	4,761
- Banks	49,294	10,000	–	–	29,074	5,000	–	–	–	4,761
- Customers	106,304	268	1,025	5,262	13,616	17,190	29,130	108,793	51,890	–
B. Cash liabilities	**405,887**	**405**	**2,417**	**7,319**	**171,136**	**12,654**	**257,879**	**137,965**	**3,978**	**–**
B.1 Deposits and current accounts	403,380	11	2,041	4,084	8,675	5,842	2,449	4,792	–	–
- Banks	4,003	–	–	–	2,000	–	–	–	–	–
- Customers	399,377	11	2,041	4,084	6,675	5,842	2,449	4,792	–	–
B.2 Debt securities	444	394	376	3,235	3,599	6,452	20,901	60,399	–	–
B.3 Other liabilities	2,063	–	–	–	158,862	360	234,529	72,774	3,978	–
C. Off-balance sheet transactions	**–**	**8**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	10	–	–	–	–	–	–	–	–
- Long positions	–	2	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

Currency: Other currencies

Type/residual maturity *(Thousands of euros)*	**On demand**	**From over 1 day to 7 days**	**From over 7 days to 15 days**	**From over 15 days to 1 month**	**From over 1 month to 3 months**	**From over 3 months to 6 months**	**From over 6 months to 1 year**	**From over 1 year to 5 years**	**Over 5 years**	**Indefinite term**
A. Cash assets	**664**	**–**	**–**	**754**	**–**	**–**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Units in UCIs	–	–	–	–	–	–	–	–	–	–
A.4 Loans	664	–	–	754	–	–	–	–	–	–
- Banks	664	–	–	250	–	–	–	–	–	–
- Customers	–	–	–	504	–	–	–	–	–	–
B. Cash liabilities	**878**	**–**	**–**	**502**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	878	–	–	502	–	–	–	–	–	–
- Banks	–	–	–	502	–	–	–	–	–	–
- Customers	878	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
C. Off-balance sheet transactions	**–**	**(8)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	2	–	–	–	–	–	–	–	–
- Long positions	–	10	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

For 2016:

Currency: Euros

Type/residual maturity *(Thousands of euros)*	**On demand**	**From over 1 day to 7 days**	**From over 7 days to 15 days**	**From over 15 days to 1 month**	**From over 1 month to 3 months**	**From over 3 months to 6 months**	**From over 6 months to 1 year**	**From over 1 year to 5 years**	**Over 5 years**	**Indefinite term**
A. Cash assets	**131,125**	**1,016**	**549**	**13,049**	**63,762**	**55,656**	**71,164**	**407,894**	**229,822**	**4,036**
A.1 Government securities	–	–	19	–	981	38,311	30,807	277,000	184,325	–
A.2 Other debt securities	–	–	–	4,211	4,497	424	10,512	30,400	3,000	–
A.3 Units in UCIs	100	–	–	–	–	–	–	–	–	–
A.4 Loans	131,025	1,016	530	8,838	58,284	16,921	29,845	100,494	42,497	4,036
- Banks	38,495	–	–	–	45,000	–	–	–	–	4,036
- Customers	92,530	1,016	530	8,838	13,284	16,921	29,845	100,494	42,497	–
B. Cash liabilities	**377,802**	**5,268**	**2,442**	**58,137**	**134,094**	**20,614**	**30,103**	**326,771**	**170**	**–**
B.1 Deposits and current accounts	376,995	341	1,989	3,895	3,742	2,218	4,244	3,933	–	–
- Banks	–	–	–	–	–	–	–	–	–	–
- Customers	376,995	341	1,989	3,895	3,742	2,218	4,244	3,933	–	–
B.2 Debt securities	18	27	453	5,242	12,564	18,222	25,653	46,812	–	–
B.3 Other liabilities	789	4,900	–	49,000	117,788	174	206	276,026	170	–
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital	–	202	–	–	–	–	–	–	–	–
- Long positions	–	258	–	–	–	–	–	–	–	–
- Short positions	–	56	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to disburse funds	(1,430)	85	–	502	393	78	372	–	–	–
- Long positions	129	85	–	502	393	78	372	–	–	–
- Short positions	1,559	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

Currency: Other currencies

Type/residual maturity *(Thousands of euros)*	**On demand**	**From over 1 day to 7 days**	**From over 7 days to 15 days**	**From over 15 days to 1 month**	**From over 1 month to 3 months**	**From over 3 months to 6 months**	**From over 6 months to 1 year**	**From over 1 year to 5 years**	**Over 5 years**	**Indefinite term**
A. Cash assets	**1,242**	**–**	**–**	**–**	**921**	**–**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Units in UCIs	–	–	–	–	–	–	–	–	–	–
A.4 Loans	1,242	–	–	–	921	–	–	–	–	–
- Banks	1,242	–	–	–	–	–	–	–	–	–
- Customers	–	–	–	–	921	–	–	–	–	–
B. Cash liabilities	**1,030**	**–**	**–**	**–**	**909**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	1,030	–	–	–	909	–	–	–	–	–
- Banks	–	–	–	–	909	–	–	–	–	–
- Customers	1,030	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
C. Off-balance sheet transactions			**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	(202)	–	–	–	–	–	–	–	–
- Long positions	–	56	–	–	–	–	–	–	–	–
- Short positions	–	258	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to disburse funds	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

For 2015:

Currency: Euros

Type/residual maturity *(Thousands of euros)*	**On demand**	**From over 1 day to 7 days**	**From over 7 days to 15 days**	**From over 15 days to 1 month**	**From over 1 month to 3 months**	**From over 3 months to 6 months**	**From over 6 months to 1 year**	**From over 1 year to 5 years**	**Over 5 years**	**Indefinite term**
A. Cash assets	**107,813**	**81**	**618**	**10,560**	**55,463**	**16,834**	**37,448**	**432,002**	**154,807**	**3,322**
A.1 Government securities	–	–	8	–	1,834	4,079	6,921	331,000	128,000	–
A.2 Other debt securities	–	–	–	5,554	261	389	7,398	34,400	–	–
A.3 Units in UCIs	100	–	–	–	–	–	–	–	–	–
A.4 Loans	107,713	81	610	5,006	53,368	12,366	23,129	66,602	26,807	3,322
- Banks	32,676	–	–	–	35,000	–	–	–	–	3,322
- Customers	75,037	81	610	5,006	18,368	12,366	23,129	66,602	26,807	–
B. Cash liabilities	**280,422**	**662**	**657**	**64,937**	**96,017**	**10,893**	**30,208**	**300,043**	**148**	**–**
B.1 Deposits and current accounts	280,029	10	9	45	1,569	1,033	14,134	2,704	–	–
- Banks	–	–	–	–	–	–	–	–	–	–
- Customers	280,029	10	9	45	1,569	1,033	14,134	2,704	–	–
B.2 Debt securities	8	652	648	892	6,112	9,721	15,935	68,272	–	–
B.3 Other liabilities	385	–	–	64,000	88,336	139	139	229,067	148	–
C. Off-balance sheet transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	8,318	–	–	–	–	–	–	(8,000)	–
- Long positions	–	8,330	–	–	–	–	–	–	–	–
- Short positions	–	12	–	–	–	–	–	–	8,000	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

Currency: Other currencies

Type/residual maturity *(Thousands of euros)*	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Indefinite term
A. Cash assets	**1,853**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Units in UCIs	–	–	–	–	–	–	–	–	–	–
A.4 Loans	1,853	–	–	–	–	–	–	–	–	–
- Banks	1,853	–	–	–	–	–	–	–	–	–
- Customers	–	–	–	–	–	–	–	–	–	–
B. Cash liabilities	**1,845**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	1,845	–	–	–	–	–	–	–	–	–
- Banks	–	–	–	–	–	–	–	–	–	–
- Customers	1,845	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
C. Off-balance sheet transactions			**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	12	–	–	–	–	–	–	–	–
- Short positions	–	12	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

(B) Guarantees, loans and assets pledged as collateral for liabilities and loans

The table below sets out the amount of guarantees, loans and assets pledged as collateral for the Issuer's liabilities and loans as of 30 September 2018 and as of 31 December 2017.

(Thousands of euros)	**BIP**			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 v. 2017**	**% change 2018 v. 2017**
1) Guarantees of a financial nature issued				
a) Banks	141	141	–	0.00%
b) Customers	6,580	6,145	435	7.08%
2) Guarantees issued of a commercial nature				
a) Banks	–	10	(10)	(100%)
b) Customers	14,659	12,521	2,138	(17.08%)
3) Irrevocable commitments to disburse funds				
a) Banks	–	–	–	–
b) Customers	536	281	255	90.75%
Total guarantees given and loans	**21,916**	**19,098**	**2,818**	**14.76%**
Total assets pledged as collateral for own liabilities and loans	**326,480**	**515,781**	**(189,301)**	**(36.70%)**

2018 v. 2017

At 30 September 2018 the Issuer had issued guarantees of a financial nature for EUR 6.6 million, an increase of EUR 0.4 million compared to 31 December 2017.The change was mainly due to the increase in guarantees given to customers

The table below sets out the amount of guarantees, loans and assets pledged as collateral for the Issuer's liabilities and loans for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		% change	
	2017	2016	2015	2017 v. 2016	2016 v. 2015	2017 v. 2016	2016 v. 2015
1) Guarantees of a financial nature issued							
a) Banks	141	574	531	(433)	43	(75.4%)	8.10%
b) Customers	6,145	4,982	4,879	1,163	103	23.3%	2.11%
2) Guarantees issued of a commercial nature							
a) Banks	10	278	354	(268)	(76)	(96.4%)	(21.47%)
b) Customers	12,521	10,471	9,138	2,050	1,333	19.6%	14.59%
3) Irrevocable commitments to disburse funds							
a) Banks	–	–	–	–	–	–	–
b) Customers	281	2,638	868	(2,357)	1,770	(89.3%)	>100%
Total guarantees given and loans	**19,098**	**18,943**	**15,770**	**155**	**3,173**	**(0.8%)**	**20.12%**
Total assets pledged as collateral for own liabilities and loans	**515,781**	**497,311**	**393,766**	**18,470**	**103,545**	**3.71%**	**26.30%**

2017 v. 2016

At 31 December 2017 the Issuer had issued guarantees of a financial nature for EUR 6.3 million, an increase of EUR 0.8 million compared to 31 December 2016.The change is mainly due to the increase in guarantees given to customers.

2016 v. 2015

At 31 December 2016 the Issuer had issued guarantees of a financial nature for EUR 5.5 million, in line with 31 December 2015.

10.4. Limitations on the use of financial resources

Due to central banks at 31 December 2017 for EUR 360 million consisted of time deposits with the European Central Bank, guaranteed by eligible securities. The TLTRO I series maturing in 09/2018 was valued at EUR 257 million and the TLTRO II series maturing in 06/2020 amounted to EUR 8.8 million, the remainder being several deposits, mainly with a three-month maturity.

Due to central banks at 30 September 2018 for EUR 142 million consisted of time deposits with the European Central Bank, guaranteed by eligible securities. The TLTRO II series equals EUR 18 million with a maturity of 2020 and EUR 53 million with a maturity of 03/2021, and the remaining portion refers to various deposits with a maturity of three months.

At the Prospectus Date, EUR 53 million of transactions with the European Central Bank remain, guaranteed by eligible securities entirely related to the TLTRO II series with maturity of 09/2020.

With the exception of the natural maturities of the aforementioned transactions, there are no restrictions on cash and cash equivalents at such dates. The distribution of cash and cash equivalents by geographical area was not significant in the period under analysis, as these availabilities are concentrated in Italy, expressed in domestic currency and relate to customers and/or domestic counterparts.

10.5. Expected sources of funding

To finance its future investments, the Issuer may use the cash flows generated by its activities.

10.6. SPAXS cash flows

The table below represents a summary of SPAXS's statement of cash flows for the period ended 30 June 2018.

(Thousands of euros)	**SPAXS 30 June 2018**
Profit/(loss) before tax	(3,643)
Depreciation, amortisation and impairment	–
Increase in trade payables and other short-term payables	9,826
Increase in trade receivables and other short-term receivables	(9)
Net cash from (used in) operating activities	**6,174**
Property and equipment	(7)
Other intangible assets	–
Net cash from (used in) investing activities	**(7)**
Capital increase on incorporation	50
Issue of special shares	17,950
Issue of ordinary shares	600,000
Other increases/decreases in equity	(10,469)
Net cash from (used in) financing activities	**607,531**
Net (decrease)/increase in cash and cash equivalents and short-term deposits	**613,698**
Cash and cash equivalents and short-term deposits at 20 December 2017	–
Cash and short-term deposits at 30 June 2018	**613,698**

In the period ended 30 June 2018, SPAXS generated cash of EUR 613.7 million, due to the combined effect of:

(i) Cash generated by operating activities amounted to EUR 6.2 million, due to an increase in trade payables and other short-term payables of EUR 9.8 million and an increase in trade receivables and other receivables of EUR 9 thousand.

(ii) Cash used by investing activities of EUR 7 thousand due to the purchase of electronic office machines.

(iii) Cash generated by financing activities of EUR 607.5 million, due to the increase in share capital.

10.7 SPAXS's FINANCIAL REQUIREMENTS

The table below summarises SPAXS's financial requirements at 30 June 2018.

(Thousands of euros)	**SPAXS**
	30 June 2018
Cash and cash equivalents	613,698
Other assets	9
Total short-term operating assets	**613,707**
Tangible assets	6
Total long-term applications	**6**
Total applications	**613,713**

(Thousands of euros)	**SPAXS**
	30 June 2018
Trade payables	3,134
Other payables	6,692
Total short-term operating liabilities	**9,826**
Reserves	545,730
Capital	61,800
Profit (loss) for the period	(3,643)
Total long-term sources of financing	**603,887**
Total sources of financing	**613,713**

At 30 June 2018 SPAXS's sources were equal to EUR 613.7 million and consisted of:

(i) EUR 9.8 million from short-term payables.

(ii) EUR 603.9 million from long-term financing sources.

These sources finance a level of loans of the same amount, divided into:

(i) EUR 613.7 million from short-term receivables.

(ii) EUR 6 thousand from forms of long-term loans.

10.8 CONSOLIDATED STATEMENT OF CASH FLOWS (INDIRECT METHOD) FROM THE DATE OF INCORPORATION (20 DECEMBER 2017) TO 30 SEPTEMBER 2018

The table below summarises SPAXS's consolidated financial statements for the period from the date of incorporation (20 December 2017) to 30 September 2018.

(thousands of euros)	**at 30 September 2018**
A. OPERATING ACTIVITIES	
1. Operations	**13,692**
– profit (loss) for the period (+/–)	(7,846)
– gains/losses on financial assets held for trading and on other financial assets/liabilities at fair value through profit or loss (–/+)	822
– gains/losses on hedging activities (–/+)	–
– net value adjustments/reversals for credit risk (+/–)	2,324
– net impairment/recoveries on tangible and intangible assets (+/–)	178
– net accruals to provisions and other income/expense (+/–)	343
– taxation and unsettled tax credits (+/–)	4,568
– net impairment/recoveries on discontinued operations net of tax (+/–)	
– other adjustments (+/–)	13,303
2 Cash from (used by) financial assets:	**(357,766)**
– financial assets held for trading	(30,000)
– financial assets at fair value	–
– other assets mandatorily at fair value	–99
– financial assets at fair value through profit or loss	318,552
– financial assets at amortised cost	(627,772)
– other assets	(18,447)
3. Cash from (used by) financial liabilities	**(106,844)**
– financial liabilities at amortised cost	(154,001)
– financial liabilities held for trading	–
– financial liabilities at fair value	–
– other liabilities	47,157
Cash from (used in) operating activities	**(450,917)**
B. INVESTING ACTIVITIES	
1 Cash generated by:	
– sale of equity investments	–
– dividends received from investees	–
– sale of tangible assets	–
– sale of intangible assets	–
– sale of businesses	–
2 Cash used by:	(28,309)
– purchase of equity investments	(28,606)
– purchase of property and equipment	298
– purchase of intangible assets	–
– purchase of businesses	–
Cash from (used in) investing activities	**(28,309)**
C. FINANCING ACTIVITIES	–
– issues/purchases of treasury shares	568,286
– issues/purchases of equity instruments	–
– distribution of dividends and other purposes	(12,464)
Cash from (used in) financing activities	**555,822**
NET CASH GENERATED (USED) IN THE PERIOD	**76,596**

Reconciliation

(Thousands of euros) **Balance sheet items**	**30 September 2018**
Cash and cash equivalents at the beginning of the period	**–**
Net cash generated (used) in the period	**76,596**
Cash and cash equivalents: effect of changes in exchange rates	**–**
Cash and cash equivalents at the end of the period	**76,596**

2018

For the period from the date of incorporation (20 December 2017) to 30 September 2018, SPAXS generated cash of EUR 76.6 million.

Cash flows at 30 September 2018 showed that the operating activity used cash equal to EUR 450.9 million due to the combined effect of:

(i) Cash generated by operating activities of EUR 13.7 million.

(ii) Cash used by financial liabilities of EUR 106.8 million.

(iii) Cash used by financial assets of EUR 357.8 million.

(iv) Investing activities absorbed cash of EUR 28.3 million at 30 September 2018, consisting of purchases of tangible assets for EUR 0.3 million and purchases of equity investments for EUR 28.6 million.

Financing activities generated cash equal to EUR 555.8 million at 30 September 2018.

10.9 SPAXS's financial requirements

The table below summarises SPAXS's financial requirements at 30 September 2018.

(Thousands of euros)	**SPAXS**
	30 September 2018
Financial assets at fair value through profit or loss	29,392
Financial assets at fair value through profit or loss	291,596
Financial assets at amortised cost	1,039,138
Total loans from financial assets	**1,360,126**
Cash and cash equivalents	76,596
Current tax assets	1,383
Other assets	15,214
Total short-term operating assets	**93,193**
Tangible assets	1,842
Intangible assets	21,648
Deferred tax assets	12,709
Total long-term applications	**36,199**
Total applications	**1,489,518**

(Thousands of euros)	**SPAXS**
	30 September 2018
Due to banks	257,603
Due to customers	488,877
Securities issued	99,121
Total sources from financial assets	**845,601**
Current tax liabilities	–
Other liabilities	82,758
Total short-term operating liabilities	**82,758**
Deferred tax liabilities	335
Employees' leaving entitlement	564
Provisions:	443
Share premium	504,596
Capital	62,781
Group equity	559,532
Non-controlling interests (+/-)	285
Profit (loss) for the period	(7,846)
Total long-term sources of financing	**561,159**
Total sources of financing	**1,489,518**

2018

At 30 September 2018 SPAXS's sources were equal to EUR 1,489.5 million. This may be analysed as follows:

(i) Forms of funding deriving from financial operations for EUR 845.6 million, equal to 57% of the total.

(ii) Short-term payables for EUR 82.8 million, equal to 6% of the total.

(iii) Long-term funding sources of EUR 561.2 million (of which EUR 62.8 million relating to own funds), equal to 37% of the total.

These sources finance a level of loans of the same amount, divided into:

(i) Forms of loans deriving from financial operations for EUR 1,360.1 million, equal to 91% of the total.

(ii) Short-term receivables for EUR 93.2 million, equal to 6% of the total.

(iii) Forms of long-term loans attributable to fixed assets and to prepaid taxes for EUR 36.2 million, equal to 3% of the total.

10.10 SPAXS's FINANCIAL RESOURCES

In consideration of the banking activity carried out, the SPAXS's financial resources consist of direct customer deposits, funding on the interbank market and bonds, in addition to its own funds.The following table sets out SPAXS's financial resources at 30 September 2018.

(Thousands of euros)	**SPAXS**
	30 September 2018
Due to central banks	142,350
- on demand	–
- term	142,350
Due to banks	115,253
- on demand	4,008
- term	111,245
Total bank deposits	**257,603**
Current accounts	441,588
Savings deposits	1,905
Time deposits	36,905
Repurchase agreements	–
Certificates of deposit	72,806
Bonds	26,315
Loans	7,504
Others	975
Total customer deposits	**587,998**
Total direct Deposits	**845,601**

2018

At 30 September 2018 direct deposits amounted to EUR 845.6 million, of which EUR 257.5 million from deposits from banks and EUR 587.9 million from customer deposits.

11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES

In view of the kind of business in which it is engaged, the Issuer does not carry out research and development activities.

12. TREND INFORMATION

12.1 Significant trends in production, sales and inventory and in the evolution of costs and sale prices from 30 September 2019 to the Prospectus Date

Towards the end of 2018 the Issuer's NPL Investment & Servicing Division finalised the acquisition of five Non-Performing Loan portfolios with an aggregate nominal value (or gross book value) of approximately EUR 1 billion (for more information about those acquisitions, reference should be made to Paragraph 5.1.5, Chapter 6 and Chapter 13 of the Prospectus). The Company estimates that the pipeline of potential transactions may remain consistent during forthcoming months. The development of future operations in the NPL Investment & Servicing Division envisages the proprietary IT system being fully implemented within the first half of 2019 and the servicing of third party NPL portfolios being under way within the last six months of the year.

In the factoring sector, an agreement was executed with Credimi, a specialised, fully digital and technologically advanced operator, regarding the white-label use of its operating platform, which will enable operability in this segment too by the end of 2018 and thus earlier than initially expected. Towards the end of the year the SME Division also started locating and selecting possible business opportunities by initially mapping the business relationships in place with the Issuer's SME customers and conducting due diligences on potential UTPs.

The fact that the organisational and business initiatives already undertaken are fully compatible with the current IT system has enabled the start of business operations towards the end of 2018. In 2019 it is expected that credit machine function data analysis operations will be up and running and six Tutors will be in place. In the later months of the year the Retail Division finished planning out the range of products and their business features and pricing, defined the product, front-end and user experience architectures and designed the process for opening accounts with new customers. The communications plan and the development strategy for the "illimity" brand has been defined.

Future developments envisage the setting-up of the mobile and web channels and, after that, the launch of the first communications campaign and the acquisition of customers for the digital direct bank within the first half of 2019.

The Issuer's range of savings and payment products will be completed with third party products to be sold in agreement with the best operators selected on a case-by-case basis. It is expected that the selection of those operators will be completed within 2019.

After the date of consummation of the Business Combination and for the purpose of initiating the steps contained in the 2018-2023 Business Plan, during the course of the months of September and December 2018 and February 2019, SPAXS made three payment into the future capital increase account totalling EUR 50 million, EUR 150 million, and EUR 110 million respectively, to be used in connection with the exchange resulting from the merger between SPAXS and the Issuer.

The Issuer's operations at 31 December 2018 show that the NPL Investment & Servicing Division had carried out direct investments in NPLs amounting to approximately EUR 90 million compared to a GBV acquired of EUR 1.15 billion (and to approximately EUR 97 million in respect of a GBV acquired of EUR 1.18 billion including the purchase of the NPV portfolio made by the Bank on 22 February 2019).

The investment in these NPL portfolios has led to an effect on the Issuer's capital requirements of approximately 520 bps compared to the figure at 30 September 2018 (CET Ratio of 23.8%).

On the SPV Financing front, a financing transaction has been concluded with an affiliate company of funds managed by the Fortress Investment Group for an amount of EUR 50 million, secured on a portfolio of non-performing corporate secured loans of gross nominal EUR 1.2 billion.

Finally, as part of the Bank's new operations, on 21 December 2018 the Issuer acquired from the IDeA Corporate Credit Recovery (CCR) Fund a financial exposure to the Clerprem Group of approximately nominal EUR 30 million, this being an industrial entity operating in the design, production and commercialisation of car and train seating systems which is involved in an ambitious business development plan.

At the same date, the Bank carried out a financing operation of EUR 15 million with OWL, the controlling holding company of the TAS group.

Again at the end of December 2018 the first Invoice Lending transaction was entered with a primary customer through the existing partnership with Credimi, a European operator working in the digital factoring sector.

Although the business volumes achieved as a whole were slightly lower than the forecasts included in the 2018 budget, the Issuer believes that the business opportunities currently being analysed will be capable of supporting the growth of operations in 2019.The Issuer's preliminary 2018 results may be viewed on Paragraph 13.1 of the Prospectus

For further information, reference should be made to Chapter 13, Paragraph 13.1 of the Prospectus.

12.2 Information about trends, uncertainties, requirements, commitments and/or known facts that could reasonably have significant repercussions on the Issuer's prospects, during the financial year in progress at least

As stated in detail in Chapter 13 below, since SPAXS's presentation of the Business Plan (on 20 July 2018), some clarifications have been made in the legislative and regulatory framework that affect directly the entire Italian banking sector and NPL market operators of a banking nature.

On 21 September 2018, the European Banking Authority (EBA) provided an official interpretation of how unsecured impaired loans acquired by banks are to be treated in terms of the weighting coefficients to be applied when valuing Risk Weighted Assets. The EBA clarified the principle according to which, when a bank finalises the acquisition of impaired loans, the credit risk adjustments made by that bank are not to be taken into the calculation of the value of Risk Weighted Assets. It thus follows that weighting coefficients of 150% are now applied to the Issuer's financial assets consisting in unsecured impaired loans, instead of following the usual market practice of tending to align weighting with that applied by the vendor bank.

As a result, the Issuer has updated its calculation of the value of the Risk Weighted Assets for the item "loans to customers" for the NPL Investment & Servicing Division and the SME Division, in connection with unsecured non-performing loan exposures.

On 15 October 2018, the Italian cabinet approved the draft 2019 Budget Law that became effective on 1 January 2019 and, among other new measures, provides for changes to the treatment of certain tax components for banks, financial intermediaries and insurance companies and also abolishes the ACE economic growth benefit scheme (Aiuto alla Crescita Economica– Aid for Economic Growth), which will affect the earning capacity of the entire Italian banking sector.

In this respect the Issuer has only included the ACE benefit for SPAXS for 2018 in the 2018-2023 Business Plan.

In conclusion, the effects of recent changes in laws and regulations on the Bank's present and future activities have been incorporated into the Issuer's Business Plan, and a description of this can be found in Chapter 13 of the Prospectus.

13. PROFIT FORECASTS OR ESTIMATES

Background and terms of reference

On 30 November 2018 the Issuer's Board of Directors approved the 2018-2023 business plan (hereinafter, the "Plan", "2018-2023 Plan" or "Business Plan") setting out the strategic guidelines and the economic, financial and capital targets of the company born out of the merger by incorporation of SPAXS S.p.A. – a company incorporated on 20 December 2017 intended to act as a special purpose acquisition company (SPAC) – into Banca Interprovinciale S.p.A. that, once the merger is finalised, will take the name of "illimity Bank S.p.A.", or, in abbreviated form, illimity S.p.A.

The 2018-2023 Plan approved by the Issuer's Board of Directors is an updated version of the 2018-2023 Business Plan that SPAXS presented to the financial community on 20 July 2018 in order to obtain approval of the Material Transaction – the presentation document of which called "SPAXS Strategic Plan 2018 - 2023" was posted online at www.spaxs.it/investor-presentation/ - and thus replaces the previous plan. That presentation document, called "Illimity Strategic Plan 2018 - 2023 – Update" is posted on the www.illimity.com website.

The Material Transaction was approved on 3 August 2018 by the competent Supervisory Authorities (the EBC and the Bank of Italy) and, on 8 August 2018, by the SPAXS S.p.A. Shareholders' Meeting, with votes in favour accounting for approximately 72% of its ordinary share capital.

On 20 September 2018, the Material Transaction process was completed by the purchase by SPAXS S.p.A. of approximately 99.2% of the share capital of Banca Interprovinciale S.p.A., settled in cash for approximately EUR 44.7 million (equivalent to approximately 79.9% of the Bank's share capital) and, for the remainder, through the contribution to SPAXS of Banca Interprovinciale shares representing approximately 19.3% of its share capital.

The updates contained in the 2018-2023 Plan proved necessary in consequence of the availability of new information about the applicable legislation and reference market, the completion of the Material Transaction and relating corporate activities and the start of the Issuer's operations in the business segment concerning the NPL market, all as better explained in the Business Plan. The main changes concerned (i) the definition of SPAXS's shareholder base and financial position upon the conclusion of the period for the exercise of the withdrawal right, the offering period and the subsequent offer of unsubscribed shares to third parties, which led to a EUR 37,679,030 reduction of the equity raised at the time of admission to the AIM market, (ii) the estimate of the effects ensuing from the draft 2019 Budget Law approved by the Italian Cabinet on 15 October 2018 and, in particular, the abolition of the Aid for Economic Growth (Aiuto alla Crescita Economica - ACE) from 1 January 2019 onwards, and (iii) the implementation of certain clarifications concerning the regulations for prudential supervision (Regulation (EU) no. 575/2013, known as the "Capital Requirements Regulation - CRR") in connection with the risk-weighting coefficient applied to unsecured impaired loans purchased by the Issuer.

With specific reference to this last regulatory change, the Issuer has reviewed the assumptions underlying the Industrial Plan 2018 – 2023 presented by SPAXS in order to guarantee consistency with the risk parameters relative to the capital requirements highlighted in the previous requesto of authorisation about Banca Interprovinciale majority shareholding acquisition, also on the basis of the initial evidence from the launch of the operations as well as the conversations held with the Supervisory Authority. The Issuer has therefore decided to channel its Turnaround activities, within the SME Division, towards a mix of transactions with a relatively lower risk profile, by foreseeing a greater allocation of resources to refinancing activities. At the same time, also on the basis of the first indications provided by the pipeline currently under assessment, the activities of the NPL division have mainly been channelled towards guaranteed NPL portfolios.

These changes have been introduced in order to guarantee consistency with the risk parameters identified before the above described regulatory changes and in relation to capital requirements. For more details, reference should be made to Paragraph 13.3. Main General and Hypothetical Assumptions underlying the Business Plan, and for projections of forecast information, reference should be made to Paragraph 13.6 Forecast Information.

13.1 PRINCIPAL ASSUMPTIONS ON WHICH THE ISSUER HAS BASED ITS PROFIT FORECASTS AND ESTIMATES

The 2018-2023 Plan sets out the Issuer's strategic guidelines and economic, financial and capital objectives over the period 2018-2023 and is based on:

(i) assumptions made by the Issuer of a general and hypothetical nature about future events that may not necessarily occur and essentially depend on uncontrollable or only partially controllable variables, including the present macroeconomic and sectorial scenario and the evolution of the legislative framework, reported in Paragraph 13.3, as well as the discretional assumptions underlying the forecast information reported in Paragraphs 13.4 and 13.6 (hereinafter, also the "General and Hypothetical Assumptions);

(ii) assumptions of a discretional nature relating to the effects of specific actions or those concerning future events which the Issuer can influence only in part (hereinafter, also the "Discretional Assumptions" and, when in conjunction with the General and Hypothetical Assumptions, the "Assumptions"), reported in Paragraph 13.5.

The Business Plan and the forecast information reported in it, as well as the changes resulting from the aforesaid operations and events, have accordingly been defined on the basis of certain external scenarios, subject to the risks and uncertainties that characterise the current macroeconomic scenario, which the Issuer cannot influence, as well as on the basis of assumptions relating to the effects of specific actions or concerning future events which the Issuer can only partially influence and may or may not occur during the period covered by the 2018-2023 Plan.

The forecast information included in the Business Plan is not historical fact and by its nature contains objectives, intentions and expectations that have been worked out on the basis of suppositions made by the Issuer based on the information available at the time the Plan itself was prepared.

Furthermore, it is noted that the assessments of past and prospective reference market sizes have, unless specified otherwise, been made by the Issuer and not verified by an independent party.

The forecasts for results and profits included in the 2018-2023 Plan have been drawn up on a comparable basis from a financial and accounting standpoint, although are based on the new business model and the new model of development in new customer and product segments created by the Issuer.

It is lastly pointed out that due to the uncertainty connected with the occurrence of the future events envisaged in the Business Plan, as relates to both their actual occurrence and the extent to which they occur and their timing, as well as the effect that the occurrence or non-occurrence of such future events may have on events over which the Issuer exerts control, even if only partially, there may be differences, including material differences, between final figures and forecast figures even if the events predicted under the above-discussed assumptions used in the preparation of the Business Plan do occur.

In light of the above, investors should not rely solely on the forecast information included in the Business Plan, nor should they base their decision to invest in the Issuer exclusively on such information, but should arrive at their decision to invest in the Issuer on the basis of all the other information included in this Prospectus.

13.1.1 Preliminary results 2018 for Banca Interprovinciale S.p.A.

On 11 February 2019 the Board of directors of the Issuer approved the preliminary results for the year ending on 31 December 2018.The Preliminary Results at 31 December 2018 ("**Preliminary Results 2018**") post a loss of EUR 29.1 million, in line with the Issuer's expected performance as a contribution to the 2018-2023 Industrial Plan, which includes the BIP contribution for the period subsequent to the completion of the Business Combination (which took place on 20 September 2018) and up until 31 December 2018, compared to a loss forecast for the first nine months of 2018 of EUR 12.5 million.

It should be recalled that the Business Combination between SPAXS and Banca Interprovinciale came into force on 20 September 2018, the date on which SPAXS acquired the Bank.

When approving said Preliminary Results 2018 it resulted that at 31 December 2018 the CET1 Capital Ratio stood at 42%.The Tier 1 Capital Ratio at 42% and the Total Capital Ratio at 42% all above the minimum SREP "Overall Capital Requirements" for the bank, as communicated by the Bank of Italy, with its letter of 13 March 2017 and subsequently integrated in the communication of 1 March 2018.The regulation calls for the full application of the Capital Conservation Buffer (amounting to 2.5%) and therefore – if all additional requirements remain the same – the OCR ratios are expected to increase by 0.625% in 2019.

The accounting policies and the criteria adopted for the drafting of the Preliminary Results, with reference to the registration, valuation and cancellation stages of the various items of the asset and liability statements, and the methods used for revenue and cost recognition, are the same as those used in the drafting of the financial statements at 31 December 2017 with the variations described in the Interim Financial Statements at 30 September 2018.

The following tables display the preliminary figures of the asset and liability statement and income statement for the year closing on 31 December 2018, with the relative comparison period referred to the year closed on 31 December 2017.

Reclassified balance sheet at 31 December 2018 and at 31 December 2017.

(Millions of euros)	Banca Interprovinciale S.p.A.			
	At 31 December 2018	**At 31 December 2017**	**Difference**	**Difference %**
Cash and cash equivalents	68	27	41	153%
Due from banks	56	99	(43)	(44%)
Loans to customers, of which:	613	380	233	61%
NPL division	143	-	143	n,a
SME Division	34	-	34	n,a
Banca Interprovinciale	312	326	(14)	(4%)
Securities portfolio Held To Collect (HTC)	124	54	70	129%
Securities Portfolio Held To Collect & Sell (HTCS)	108	554	(446)	(81%)
Financial assets valued at *fair value* through profit or loss	29	-	29	n,a
Tangible and other intangible assets	3	2	1	65%
Other assets (including tax assets)	32	13	19	153%
Total Assets	**909**	**1.074**	**(165)**	**(15%)**
Due to Banks	93	471	(378)	(80%)
Customer deposits	474	435	40	9%
Debt securities in issue	81	94	(13)	(14%)
Shareholders' Equity	228	60	168	279%
Other liabilities (including tax liabilities)	32	15	18	120%
Total liabilities	**909**	**1.074**	**(165)**	**(15%)**

Reclassified income statement at 31 December 2018 and at 31 December 2017.

(Millions of euros)	Banca Interprovinciale S.p.A.			
	At 31 December 2018	**At 31 December 2017**	**Difference**	**Difference %**
Net interest income	12,3	11,6	0,6	5%
Net commissions	4,2	4,3	(0,1)	(3%)
Net result from trading	(15,6)	3,9	(19,5)	n,a
Other operating expenses/income	0,6	1,0	(0,4)	(39%)
Operating income	**1,5**	**20,9**	**(19,4)**	**(93%)**
Operating costs	**(31,4)**	**(11,0)**	**(20,4)**	**185%**
Operating profit	**(29,9)**	**9,9**	**(39,8)**	**n,a**
Net write-downs on customer loans	(7,4)	(3,2)	(4,3)	136%
Other net provisions to other assets	(0,2)	(1,2)	1,0	(83%)
Provisions for risk and charges	(2,6)	(0,2)	(2,4)	n,a
Other provisions	-	-	-	-
Profit before tax	(40,1)	5,3	(45,5)	n,a
Income tax on operating income	11,0	(1,9)	12,9	n,a
Net result	**(29,1)**	**3,4**	**(32,5)**	**n,a**

Remarks on the main trends of the Preliminary Results 2018

Balance sheet items

At 31 December 2018 the Banca Interprovinciale loans to customers amount to EUR 613 million, up compared to the result posted for 2017 of approximately EUR 380 million.

Following the effectiveness of the Business Combination between SPAXS and Banca Interprovinciale on 20 September 2018, the bank began the new operations in the business segment foreseen by its multi-year strategic plan, by issuing customer loans for approximately EUR 175 million, of which

The NPL Division acquired approximately EUR 141 million of which:

- EUR 90 million is the overall investment for the acquisition of the NPL portfolio, carried out using the securitisation vehicle. This value is equivalent to a Gross Book Value – (GBV) of the NPL portfolios acquired by the Bank at 31 December 2018 of approximately EUR 1.15 billion. The main share of the portfolio (81% of the gross book value) are unsecured loans and approximately 75% of the gross book value is made up of loans to businesses.
- EUR 51 million are senior loans, guaranteed by a portfolio of non-performing corporate secured loans with a gross book value of EUR 1.2 billion.

The SME Division has also carried out transactions in the Turnaround segment for an overall issued value of approximately EUR 34 million.

Loans to the Bank's long-term customers are instead essentially stable at EUR 312 million, compared to EUR 326 million for the year 2017.

During the course of 2018, the Bank's stock of gross non performing loans, besides the acquired NPL portfolios, stood at EUR 30.9 million, compared to EUR 18.4 million in 2017, mainly due to the reclassification of a few positions from performing to non-performing.

The ratio between gross non-performing loans and gross total loans (with the exclusion of the NPL loans purchased and the securities classified as HTC) stands at 7.4% compared to the 5.4% recorded in 2017. The coverage ratio of organic gross non-performing loans (excluding acquired NPL loans) stood at 44%, essentially in line with the 44.6% recorded the previous year.

The ratio between net non-performing loans and total net customer loans (excluding the NPL portfolios acquired and HTC classified securities) is therefore equal to 4.3% compared to 3.1% in 2017, lower than the average of the less significant banks ("Less significant Institutions" according to the classification of the European Single Supervisory Mechanism) that in June 2018 stood at approximately 7%[(24)].

(24) Source: Banca d'Italia, Financial Stability report, November 2018 (data related to June 2018), Table 2.1

%	At 31 December 2018					
	Bank			Total of less significant Italian banks(*)		
	Incidence of gross loans	Incidence of net loans	Coverage	Incidence of gross loans	Incidence of net loans	Coverage
Bad debts	4.00%	1.92%	54.05%	8.20%	3.00%	66.10%
Unlikely to pay loans	3.36%	2.38%	32.23%	5.00%	3.60%	33.70%
Overdue impaired loans	0.08%	0.05%	35.74%	0.70%	0.70%	11.70%
Non-performing loans	7.44%	4.35%	44.00%	13.90%	7.30%	51.70%
Performing loans	92.56%	95.65%	0.97%	86.10%	92.70%	0.80%

(*) Figures at 30 June 2018. Source: Bank of Italy, Financial Stability Report, no. 2, November 2018, pag. 37

The customer loans item, at 31 December 2018, also includes Italian government securities for a book value of EUR 124 million classified as instruments valued at discounted cost. The increase in the item compared to 31 December 2017 is the result of the reclassification from instruments Available for Sale (pursuant to IAS 39) to instruments valued at discounted cost (pursuant to IFRS 9) by applying the latter, when first applying the IFRS 9 principle, to a Held to Collect business management model.

The Held to Collect & Sell security portfolio item mainly contains Italian government securities, for a book value of EUR 108 million classified as instruments at fair value with an impact on overall profitability. During the course of 2018, the Issuer's management decided to undertake a series of de-risking actions on the government security portfolio owned by the acquired bank. This activity (along with the reclassification during FTA operations of part of the securities is reported in the preceding point) has led to the reduction of the exposure towards classified government securities in said item of the profit and loss statement by approximately 84% compared to the value for the previous year.

This activity has furthermore negatively affected the income before tax by about EUR 15 million, leading to a substantial reduction of the risk parameters for the HTCS portfolio.

A further EUR 65 million of government securities were sold in 2019, with a reduced negative economic impact (approx. EUR 400,000). Overall, thanks to the de-risking operation on government securities, the risk rate and the HTCS portfolio credit risk have been reduced to negligible values.

As a result of the dynamics described above, at 31 December 2018, the total of the Bank's assets has dropped by EUR 909 million, compared to approx. EUR 1.1 billion at the end of 2017.

The funds raised directly from customers in the year 2018 have slightly increased compared to the previous year, at EUR 556 million. Of these, EUR 474 million are customer deposits, up by 9% compared to 2017, providing proof of the solidity of relations with the Bank's customers even after the Business Combination with SPAXS. Bonds have instead dropped by 14%.

Shareholders' Equity and capital ratios

At 31 December 2018 the Bank Shareholders' Equity stood at EUR 228 million. This value takes into account losses for the year of approx. EUR 29.1 million and the two payments for a future capital increase in September and December 2018 amounting to EUR 200 million overall, carried out by SPAXS to enable the start of the Bank's new temporary operations while the merger became effective.

The capital ratios, during the phased in period, stood respectively at:

- 42% the CET1 ratio
- 42% the Tier 1 ratio
- 42% the Total Capital ratio.

These requirements are higher compared to the specific minimum SREP Overall Capital Requirements (OCR) for the Bank foreseen for 2018, notified by the Bank of Italy with its letter of 13 March 2017, subsequently integrated with the communication of 1 March 2018. The regulation in question calls for the full application of the Capital Conservation Buffer (equal to 2.5%) and therefore – if all additional requirements remain the same – the OCR ratios are expected to increase for 2019 by 0.625% and shall therefore amount to:

- 6.775 % for CET1 ratio
- 8.425% for the Tier1 ratio
- 10.625% for the Total Capital ratio

Economic performance

The Bank's 2018 income statement closes with a net negative result of EUR 29.1 million compared to a profit of EUR 3.4 million at the end of the previous year and compared to EUR 12.46 million recorded on 30 September 2018.

Compared to the end of the previous year the loss is mainly due to the non-recurring items related to the reduction of risk exposure related to Italian government securities (which led to a loss for the year of EUR 15 million), the considerable increase in operating costs (+ EUR 20.4 million compared to the operating costs recorded for the previous year) related to the costs incurred for the completion of the Business Combination and the increase in staff expenses owing to an increase in personnel, the increase in net adjustments on loans related to the increase in positions classified as non-performing (+ EUR 4.3 million compared to the adjustments performed the previous year) and the increase in net provisions for risks and charges, amounting to EUR 2.6 million, which also include the one-off costs referred to the advance termination of the outsourced contract for accounting and reporting systems used by the bank.

Compared to 30 September the increased losses (+ EUR 16.6 million) can be attributed to the items previously described. More specifically, the increase is mainly due to:

- the non-recurring items involved in the reduction of the exposure to risk related to Italian government securities (which led to a loss in the fourth quarter of EUR 6.3 million),
- the considerable increase in operating costs (+ EUR 15.1 million in the fourth quarter) related to the costs incurred to complete the Business Combination and the increase in personnel costs due to the increase in resources which took place during the fourth quarter,

- the increase in net adjustments on loans due to the increase in positions classified as non-performing during the fourth quarter (+ EUR 4.6 million in the fourth quarter) and
- The increase in net provisions for risk and charges, amounting to EUR 2.6 million that include the one-off costs recorded during the fourth quarter) relative to the advance termination of the outsourcing contract for accounting and reporting systems used by the Bank.

These variations were partially balanced mainly by:

- the positive inflow of net interest (+ EUR 4.7 million compared to 30 September 2018) and net commissions (+ EUR 1 million compared to 30 September 2018) and
- the provisions for deferred taxes (+ EUR 6.4 million compared to 30 September 2018) on Bank losses.

The detail of the variations of the main items compared to the end of the last year is provided below:

The net interest income stands at EUR 12 million, up by 5% compared to 2017 as a result of the interest accrued on part of the NPL portfolios acquired during the fourth quarter (EUR 3 million) that have more than made up for the reduction of interest income on government securities following the aforementioned reduction of the risk exposure on Italian government securities.

The profits resulting from the Bank's new operations have generated economic results in the fourth quarter of 2018 only in a very minimal degree, owing to the different dates on which the operations performed during the quarter were completed as well as the time interval that usually intervenes, where NPL portfolio acquisitions are concerned, between the date of the transaction and the date when the portfolio starts generating revenue (the onboarding and data loading process).

The commissions linked to traditional banking operations were essentially in line with those of the previous year and amounted to approx. EUR 4 million.

The trading activities recorded a negative net result of approx. EUR 16 million, as a result of the losses incurred on the sale of state securities (approx. EUR 15 million), as previously described, and the capital loss on the portfolio classified in the financial statements as financial assets valued at fair value with impact on the profit and loss accounts, amounting to approx. EUR 1 million.

The personnel costs stood at approx. EUR 10 million, of which EUR 2 million was related to non-recurring expenses connected to the execution of the Business Combination. Net of extraordinary items, the cost increase for 2018, compared to the EUR 5.2 million recorded in 2017, is due to the overall hiring of new resources. Employed personnel now stand at 138 units at the end of 2018, further increased to 189 at 20 February 2019.

The net provisions for risks and charges, amounting to EUR 2.6 million, include the one-off costs incurred as a result of the advance termination of the outsourcing contract for accounting and reporting systems used by the Bank, which is equivalent to the value of the penalty and the cost of migration to the new platform.

The net value adjustments on loans stand at approx. EUR 7.4 million, up compared to the previous year due to the increase of positions classified as non-performing. The cost of the risk, in terms of net adjustments on loans when compared to net loans for end of term loans, stands at approx. 190 basis points.

The gross loss on current operations amounts to approx. EUR 40.1 million has generated deferred taxes for approx. EUR 11 million, believed to be entirely recoverable based on expected revenue.

The year 2018 therefore closes with a net negative result of EUR 29.1 million, in line with the performance foreseen for the Issuer as a contribution to the Industrial Plan 2018-2023 that includes the BIP contribution for the period after the completion of the Business Combination (which took place on 20 September 2018) and up until 31 December 2018:

Summary data and alternative Key Performance Indicators

The table below shoes the main summary data and alternative performance indicators for the Bank at 31 December 2018, calculated on the basis of the Preliminary Results 2018.

Profitability indicators	**31.12.2018**	**31.12.2017**
R.O.E. (on Shareholders' Equity excluding net result for the year)	(11.3%)	6.0%
R.O.A. (Return on Assets)	(3.2%)	0.3%
Cost / Income ratio (Operating costs/Operating income)	100%	51.0%

Risk indicators	**31.12.2018**	**31.12.2017**
Net write-downs on customer loans / Loans to customers	1.9%	1.0%
Net Bad loans (excluding securities / Net loans to customers (excluding securities)	1.9%	1.5%
Gross Non-Performing Exposures (including securities) / Gross customer loans (including securities)	19.3%	5.4%

Structure indicators	**31.12.2018**	**31.12.2017**
Net customer loans / Direct funding from customers	71.5%	61.6%
Liquidity Coverage Ratio	246.0%	251.0%
Net Stable Funding Ratio	142.0%	122.0%

It should be noted that the Liquidity Coverage Ratio and the Net stable funding ratio are much higher than the regulatory requirements and amount to 246% and 142% respectively. The minimum regulatory requirement was initially set (1 January 2015) at 60% and subsequently raised gradually each year by an equal amount up to 100% on 1st January 2019 while the NSFR, defined as the ratio between the available stable funding and the amount of required stable funding, according to the regulatory minimums must continuously stand at a level equal to at least 100%.

13.1.2 Preliminary Consolidated Results for SPAXS S.p.A.

At the Prospectus Date SPAXS has not yet approved the consolidated figures at 31 December 2018. On 11 February 2019 the Board of Directors of the Issuer, having taken into consideration the indications provided by SPAXS, has further made it known that the overall cash equivalents, including those available to SPAXS, is estimated to amount to EUR 384 million, comprising the aggregate of the Cash and Cash equivalents included in the Preliminary Results 2018 of Banca Interprovinciale S.p.A. and the estimate of the Bank Accounts and Deposits readily usable by SPAXS S.p.A. at 31 December 2018.

The preliminary results posted by SPAXS and its subsidiaries that report "overall liquidity" at 31 December 2018 are accompanied by the relative report by the Auditing Company issued on 11 February 2019.

As far as the Issuer is aware, the SPAXS data have not yet been approved by the company's corporate bodies. They will be approved once the merger has become effective.

Taking into account the result at 30 September 2018 and the limited operativity of SPAXS after the Business Combination, it is estimated that the consolidated SPAXS result for the year 2018 will indicate an increase in the losses written up at 30 September 2018 consistent with the losses recorded by Banca Interprovinciale as of the date of consolidation (date of effectiveness of the Business Combination).

The accounting policies and the criteria adopted for the drafting of the Preliminary Results, with reference to the registration, valuation and cancellation stages of the various items of the asset and liability statements, and the methods used for revenue and cost recognition, are the same used in the drafting of the abbreviated consolidated Interim Financial Statements at 30 September 2018.

13.2. The Issuer's strategic objectives

The Issuer intends to present itself as a completely digital specialised bank with an innovative business model and a clear focus on specific segments of the market consisting in Small and Medium-sized Enterprises ("SME") with high returns that are underserved by the traditional banking sector.

Indeed, the Issuer's management believe that the banking sector is undergoing a period of fundamental change in terms of both the regulatory framework, especially with regard to the classification and coverage of impaired loans, and the competitive scenario, involving the possible entry of competitors hailing from other sectors of industry, the progress of digital technologies and external impacts resulting from monetary policies. Those kinds of changes shall face traditional operators with new challenges and create space in markets for new operators that know how to exploit new technologies and propose innovative business models.

As clearly stated in the 2018-2023 Plan, the Issuer's operations are broken down into three core pillars, in other words, three synergic divisions concentrating on the following market segments:

1. SME Division: lending to businesses with a high potential but a sub-optimal financial structure and/or a low or no credit rating, including the non-performing (Unlikely-To-Pay or "UTP") SME segment, through a range of skills, products and services;
2. NPL Investment & Servicing Division: secured and unsecured corporate Non-Performing Loans (NPL) by providing vertical skills;
3. Retail Division: digital direct banking for retail and corporate customers, offering a range of specific direct banking products and innovative contact methods.

1. Loans to SMEs with a high potential but a sub-optimal financial structure and/or a low or no credit rating, including the non-performing (UTP) SME segment

As previously stated, the Issuer intends to present itself as an operator specialised in those segments of the Italian SME market that show a high potential but are underserved by offering products and services with a high added value by means of an innovative business model.

The Issuer will focus on certain specific segments of the Italian SME market that present attractive characteristics in terms of their size and dynamism and have historically been underserved by traditional banking operators:

(i) Turnaround: the Issuer will purchase individual corporate non-performing loans, classed as UTP but with prospects for recovery, and provide debt advisory and restructuring services, as well as new financing ("New Finance") if appropriate. It will also provide cashflow, liquid assets and circulating capital management services to non-banking investors in UTPs.
(ii) Crossover lending: the Issuer intends to attract businesses with good strategic prospects but a low or no credit rating and a sub-optimal financial structure that presently have problems in gaining access to financial markets and credit. The Issuer will offer those businesses a complete range of banking products together with business advice on how to structure financing, also working together with their current lenders;
(iii) Acquisition financing: financing intended for both industry operators and private equity funds in order to sustain the expansion of their operations by pooling the more general skills lying at the base of crossover lending;
(iv) Invoice lending: the Issuer will focus on providing factoring services to SMEs and especially businesses operating in production chain scenarios and/or manufacturing districts. The Issuer's business model in the factoring segment will take advantage of the Tutors' abilities and knowledge in terms of recognising major operators in the various manufacturing districts, their procurement requirements and the relevant supply chain peculiarities in the different manufacturing sectors and will be completed by a digital platform that will assure streamlined processing and rapid response times, as well as an effective tool for communications between the supplier, the Issuer and the debtor.

The SME Division will operate according to an innovative business model based on the following key elements:

(i) distribution/location of business opportunities through Tutors, professional figures with specific business as well as financial skills and knowledge of the local area who will facilitate relations with business customers, providing financial advice on the basis of their particular expertise and experience in the business sector in question. The network of Tutors will be organised in a flexible way on the basis of their specific business skills and/or knowledge about certain local areas and their remuneration will comprise a relatively low fixed component and a variable component based on the Economic Value Added measured over a period of two years of customers served;
(ii) use of the most advanced data analysis technologies based on the use of big data and artificial intelligence, technologies that play a central role in credit rating processes (known as the "Credit Machine").

The SME Division has been organised into departments according their area of specialisation on the basis of the above-defined segments/products, each of which will supervise the operations conducted for its customers. Each department is responsible for analysing each customer and their sector of reference in order to work out the best financing solution, define product pricing and/or specific transactions, assess the level of risk of each loan and, in coordination with credit monitoring operations, interact with customers in order to preside over the situation and eventually promptly intervene should problems arise and supervise the greater value-added back-office processes peculiar to that department.

All departments specialised in a certain business have been assigned business operations support supervisors organised within the Management Control and Reporting department that supervises the division's management reporting, monitors relations with Tutors and supervises interactions with them in so far as regards performance-level and financial aspects; in the Credit Machine department, in charge of the data analysis operations serving the processes involved in granting and monitoring loans, as described above; and, lastly, in the Organic NPE Management and Recovery department, which is responsible for supervising loans originating from the Issuer's SME businesses that will migrate to non-performing status during their cycle.

2. Corporate (secured and unsecured) Non-Performing Loans (NPL)

The Issuer's goal is to become one of the major operators in the secured and unsecured corporate NPL segment, a market that the Issuer's management believes to be considerably large and still relatively undominated.The Issuer will operate in the NPL market through three areas of operation:

(i) the acquisition of NPL portfolios and secured and unsecured single name corporate NPLs;

(ii) the servicing of its own corporate NPL portfolios and those belonging to third parties, on the basis of specialised skills developed in-house or through business agreements with specialised operators;

(iii) financing services for non-banking NPL investors.

Those operations will be managed by the NPL Investment & Servicing Division, whose organisation is broken down into:

- Portfolios, Single Names and SPV Financing departments, responsible for all operations concerning the origination of opportunities for investment in NPL portfolios, single names or SPV Financing and the coordination of the entire negotiation and offer process through to the final closing stage;
- Operations & Recovery department, responsible for conducting due diligences and working out, implementing and monitoring recovery strategies by coordinating in-house and out-house servicers.The Operations and Recovery department will effectively run the Servicing Unit tasked with credit collection operations, which will be a company that is fully owned by the Bank;
- the Pricing department responsible, in conjunction with the Risk Management department, for developing, implementing and maintaining pricing models for portfolios/single names/SPV Financing and the capital structure of each investment;
- the PMO & Boosters and Strategy & Performance Management departments engaged in coordinating and monitoring the Division's business operations and performance levels.

In order to achieve its objectives, the Issuer will make good use of a proprietary and fully-developed model capable of analytically estimating the price of each individual NPL portfolio, an innovative business model in the servicing of NPLs under which the entire value chain of NPL portfolio servicing operations is internalised, in conjunction with business agreements with servicers selected on a case-by-case basis depending on the specifics of the assets acquired and a large capacity to make acquisitions thanks to its robust capital base and a low direct collection cost. The entire life-cycle of NPLs will be supported by making use of advanced technologies such as big data, artificial intelligence and machine learning.

The propriety pricing model, used to determine the price of portfolios, is mainly based on an estimate of the following items: (i) the estimated receipts from each position ("gross cash flows"), (ii) the estimated costs to be incurred for managing the positions (for example servicing costs, legal expenses, onboarding costs), (iii) the expecting timing for the cash flows at point (i) and for incurring the costs at point (iii).

The determination of these items is based on:

- Specific estimates, position by position, made by the asset managers during the due diligence as the result of their skill, experience and knowledge in the NPL recovery area;
- Analyses of published data on the timing and status of legal procedures;
- Assessments of the security backing the loans carried out by obtaining further information from external providers and field visits.

The internalisation of the entire portfolio management phase by the Issuer enables a broad-based data base to be created, containing, by way of example and not limited to, the track record of recovery performance for each position, details of the timescale for completing the various procedures and information regarding individual Italian courts. This information can be used at the assessment stage to supplement and/or support the specific analyses performed during the due diligence and enable a more accurate estimate to be made of the cash flows, and as a consequence the purchase price of the portfolio. In addition, loan assessments will be supported by the use of advanced technologies such as big data, artificial intelligence and machine learning, which make it possible to extract and assemble massive amounts of data from different public sources such as, for example, data relating to the status of insolvency proceedings or foreclosures, thereby enhancing the private data base and enabling a more accurate assessment to be made.

During the third quarter of 2018 and up to 25 February 2019 the Issuer started its operations in the NPL sector by concluding through Aporti SPV, a securitisation vehicle pursuant to Law no. 130/1999, the acquisition of a portfolio mostly consisting in secured corporate debt with a nominal value (gross book value or GBV) of EUR 155 million on 21 September 2018. That acquisition was finalised by the relating debt securities being issued and subscribed in full by the Bank on 29 October 2018. Again through Aporti SPV, another portfolio, with a GBV of EUR 262 million, in which the proportion of unsecured debt amounts to 74%, was acquired on 8 October 2018. On 15 November 2018 the acquisition of a third portfolio, with a GBV of EUR 347 million, in which over 80% of its nominal value is represented by unsecured corporate debt, was also concluded through Aporti SPV, as were the acquisition of a portfolio of unsecured debts with a GBV of EUR 206 million on 26 November 2018 and the acquisition in the secondary market of a further portfolio with a gross book value of EUR 110 million on 21 December 2018. On 28 December, a further three portfolios were purchased consisting of secured and unsecured loans having a total nominal value of EUR 40 million. Lastly, a portfolio having a GBV of EUR 31.6 million was purchased on 22 February 2019 consisting mainly of secured corporate loans.

These transactions were carried out through Aporti SPV by way of a simultaneous subscription of notes by the Bank. Again on 28 December the first single name transaction was performed for a nominal value of approximately EUR 25 million. This involved five positions of NPLs due from corporate borrowers secured by industrial and commercial assets in Lombardy. The transaction was concluded, through Aporti SPV, with a bank mostly active in northern Italy.

A price of approximately EUR 97 million was paid for the NPL portfolios.

Accordingly, at 25 February 2019, the Issuer holds investments in Non-Performing Loans amounting to approximately EUR 1.18 billion that have the following characteristics:

Secured / Unsecured	**Analysis of GBV (millions of euros)**	**Analysis of GBV (%)**
Secured	241	20%
Unsecured	936	80%
Total	**1,177**	**100%**

Size	**Analysis of GBV (millions of euros)**	**Analysis of GBV (%)**
< 100 thousand	264	22%
100 thousand – 500 thousand	374	32%
500 thousand – 1 million	118	10%
> 1 million	421	36%
Total	**1,177**	**100%**

Vintage	**Analysis of GBV (millions of euros)**	**Analysis of GBV (%)**
2018	7	1%
2017	150	13%
2016	82	7%
2015	72	6%
2014-2010	537	46%
2009-2000	216	18%
Pre 2000	113	9%
Total	**1,177**	**100%**

Type of borrower	**Analysis of GBV (millions of euros)**	**Analysis of GBV (%)**
Corporate	881	75%
Retail	296	25%
Total	**1,177**	**100%**

Geographical distribution	**Analysis of GBV (millions of euros)**	**Analysis of GBV (%)**
North	374	32%
Centre	426	36%
South and islands	377	32%
Total	**1,177**	**100%**

At 31 December 2018 the NPL portfolio as a whole had received payments for an amount of EUR 7.2 million compared to a forecast (again as at 31 December 2018), estimated at the valuation stage, of approximately EUR 4 million. Total receipts based on the portfolio, estimated at the valuation phase, amount to approximately EUR 165 million.

Furthermore, the first transaction in the NPL Financing segment was announced on 29 November 2018. The Bank has approved a loan of approximately EUR 51 million to an affiliate company of funds managed by the Fortress Investment Group, secured by a portfolio of secured corporate NPLs with a gross book value of EUR 1.2 billion.

3. Direct banking for retail and corporate customers

The Issuer has also set itself the objective of focusing its operations in the direct banking segment, with a view to responding to the new trends and new requirements that have emerged in the banking market over recent years (for further details, reference should be made to Paragraph 13.3 Industry scenario).

The Retail Division will offer digital banking services to retail and corporate customers. The range of products will be characterised by their simplicity and transparency and aim at providing a high-level customer experience. By using a platform supported by the most innovative technologies available and built to respond to new regulatory provisions – e.g., PSD2 – the Issuer will provide customers with retail banking tools that are useful for managing family budgets and will be able to carry out a support role for corporate customers also through a dedicated section called “Digital CFO“ in which business concerns will find business support services and services for optimising their dealings with banks.

The highly digitalised direct banking platform will be supported by a number of high-quality customer care tools that will assist and support the Issuer’s customers in their needs.

In more detail, the range of products offered will be concentrated in four categories:

(i) Deposits: offering competitive rates and a simple and customisable product structure;
(ii) Payment services: via a platform that integrates the most innovative tools available in the market, the Issuer will offer payment systems and advisory services for managing family budgets;
(iii) Digital CFO dedicated to SME customers: providing reporting and cashflow analysis services and forecasting tools;
(iv) Access to a complete range of other banking products aimed at families (including mortgages, personal loans and insurance policies) that will be provided to customers under business agreements with selected operators.

For a detailed description of the above-mentioned management actions, reference should be made to Paragraph 13.3 with regard to the evolution of the macroeconomic scenario and the performance of the specific banking sector, Paragraph 13.4 with regard to key management actions, Paragraph 13.5 with regard to the timetable of the actions to be taken under the Plan and Paragraph 13.6 for Forecast Information.

Analysis of strengths, weaknesses, opportunities and threats (SWOT analysis[25])

The Issuer's SWOT analysis reporting its strengths, weaknesses (in respect of the 2018 – 2023 Plan) and opportunities and the threats its faces is provided below.

STRENGTHS	WEAKNESSES
• No legacies of the past (in terms of NPE, organisation structure, distribution model, IT system) • Distribution model based on Tutors, professional figures specialised in providing support to SMEs • Proprietary digital technologies (IA, machine learning) • Competitive funding cost • Organisation structure that is streamlined and effective in seizing on customer requirements • Mix of diversified and integrated skills and specialisations • Expert management with proven ability to achieve results	• Focus on the Italian market that has a revised downward GDP • illimity brand being developed by way of a specific communications project • Most of the new business is at the start-up stage, implying risk in the execution of operations within the scheduled timeframes
OPPORTUNITIES	**THREATS**
• Acceleration in the deleveraging of impaired loans – NPL and UTP –by traditional banks • Potential market in big UTP transactions, given the difficulty for traditional banks to handle complex debt restructuring processes, characterised by a limited number of specialised investors • Traditional banks focused on reorganising, redefining and cutting the costs of their business model • Specialisation in the corporate NPL segment still little explored • Sub-optimal servicing of the Italian SME market • Evolution of new digital channels	• Highly competitive NPL market owing to entry of specialised investors • Potential rise in prices of NPL portfolios higher than estimated in the Plan • Highly regulated environment compared to those in which international specialised investors in the NPL restructuring / investment sectors operate • Unpredictable employment rates in Italy and ensuing impact on the ability of businesses to pay their debts

13.3. General and Hypothetical Main Assumptions based on the Industrial Plan and the specific competitive framework

The Business Plan is based on a scenario analysis of the specific economic framework, carried out by the Issuer by processing forecast data on the evolution of the economic climate and the financial intermediation sector, duly adjusted to the context and the dynamics in which the Issuer will establish its operations, it being understood that no forecasts can be guaranteed and nothing contained in the forecast data can be construed as being an assurance that future data will match the estimates made in those forecasts.

Macroeconomic scenario

The hypotheses concerning the evolution of the macroeconomic scenario, the dynamics of benchmark rates and the evolution of economic and financial aggregates in the credit system on which the Business Plan is based were formulated by elaborating the currently available predictions made by major Italian and international financial institutions (e.g., the International Monetary Fund and the European Central Bank) and leading economic research organisations (e.g., the Bank of Italy), appropriately summarised by the Issuer's management on the basis of their own knowledge, experience and assessments.

(25) A strategic planning tool used to assess a business concern's Strengths, Weaknesses and Opportunities and the Threats it faces.

More specifically, the macroeconomic scenario to which the Business Plan refers is based on the forecasts provided by the Issuer for the entire period through to 2023, taking as reference the scenario at the month of October 2018.

The monetary policies of the major economies are slowly leaning towards a moderately restrictive position, even though the ECB has stated its intention to keep interest rates unchanged at least through the summer of 2019 and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term (ECB Press Conference, 25 October 2018[(26)]). The cautious approach taken by the ECB derives also from the elements of uncertainty generated by the dissonance between European countries and the United States on matters of trade and international cooperation.

The Business Plan has thus been drawn up in an economic and financial framework that, through to the end of 2018, will be characterised by official short-term rates at negative levels, with the ECB refinancing rate returning to above zero only from 2020.

More specifically, the Plan has taken into consideration a scenario characterised by the evolution of the following principal macroeconomic variables:
(i) the growth of Italy's Gross Domestic Product ("GDP") over 2019 - 2023;
(ii) the EURIBOR 3-month rate ("Euribor 3m") rising from 2019 onwards, up to 1.2% in 2023;
(iii) the rate of inflation rising from 1.5% in 2019 to 1.7% by the end of the Plan.

The following table provides a summary of the macroeconomic assumptions described above and taken as reference by the Issuer when drawing up the Business Plan:

	2019	2020	2021	2022	2023
GDP[(27)]	1.0%	0.9%	0.8%	0.7%	0.7%
Euribor 3m[(28)]	-0.1%	0.3%	0.6%	1.0%	1.2%
Rate of Inflation[(29)]	1.4%	1.5%	1.6%	1.7%	1.7%

It should be noted that in the months of January 2019 the International Monetary Fund has reviewed its estimates for Italian GDP growth for the year 2019 downward from 1% to 0.6%[(30)], The Issuer believes that any revisions of GDP growth will have a very limited impact on the Industrial Plan's objectives, considering the limited correlation between the economic cycle of part of the new business operations undertaken by the Bank, such as for example, the factoring business and the limited share of the target market for more cyclical businesses, such as, for example, the Crossover.

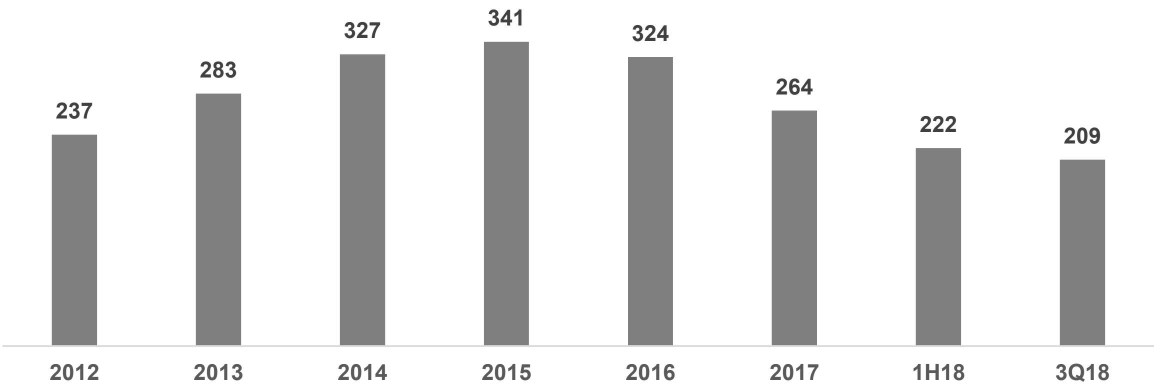
(26) Source: ECB Press Conference. 25 october 2018 https://www.ecb.europa.eu/press/pressconf/2018/html/ecb.is181025.en.html
(27) Source: International Monetary Fund website https://www.imf.org/en/Countries/ITA
(28) Source: Bloomberg, September 2018 reports
(29) Source: International Monetary Fund website https://www.imf.org/en/Countries/ITA
(30) Source: World Economic Outlook Update, January 2019. https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019

Industry Scenario*(31)*

The Italian market in impaired loan transactions – NPLs and UTPs

Based on the latest available data[32], in September 2018 the total stock of gross non-performing loans of the Italian banking system (measured by the overall gross stock including NPLs, 'unlikely to pay' and overdue/expired non-performing loan) amount to approximately EUR 209 billion, of which EUR 120 billion classified as non-performing, EUR 83 billion "Unlikely to Pay" and EUR 5 billion overdue/expired non-performing loans[33].

Evolution of the stock of gross non-performing loans in the Italian banking system, 2012-Sept 2018



Source: Bank of Italy, Financial and Banking institutions: conditions and loan risk levels by sector and territory, 31 December 2018

The stock of non-performing loans in the Italian banking sector have shown a downward trend since 2015, the year in which the overall stock reached its maximum value of EUR 341 billion. As of that date, the overall value of gross non-performing loans has undergone a cumulative reduction of approx. 39%, equivalent to an annual average drop of 16%. Within this aggregate figure, the stock of Bad Loans ("Sofferenze") has dropped in cumulative terms by 40% since 2015, and stood at EUR 120 billion in September 2018; a similar trend was seen for the stock of UTPs, down by 35% from 2015 to EUR 83 billion.This dynamic can be mainly pinned on derecognition activities and/or sales of NPL portfolios carried out in recent years, by some Italian banks[34].

(31) The valuations provided on the size of the target market, both historical and forecast, have been formulated, unless otherwise specified, by the Issuer and have not been subjected to verification by an independent subject.

(32) Banca d'Italia, Banks and Financial Institutions: conditions and loan risk levels by sector and territory, 31 December 2018 - http://www.bancaditalia.it/pubblicazioni/condizioni-rischiosita/2018-condizioni-rischiosita/statistiche_STACORIS_20181231.pdf

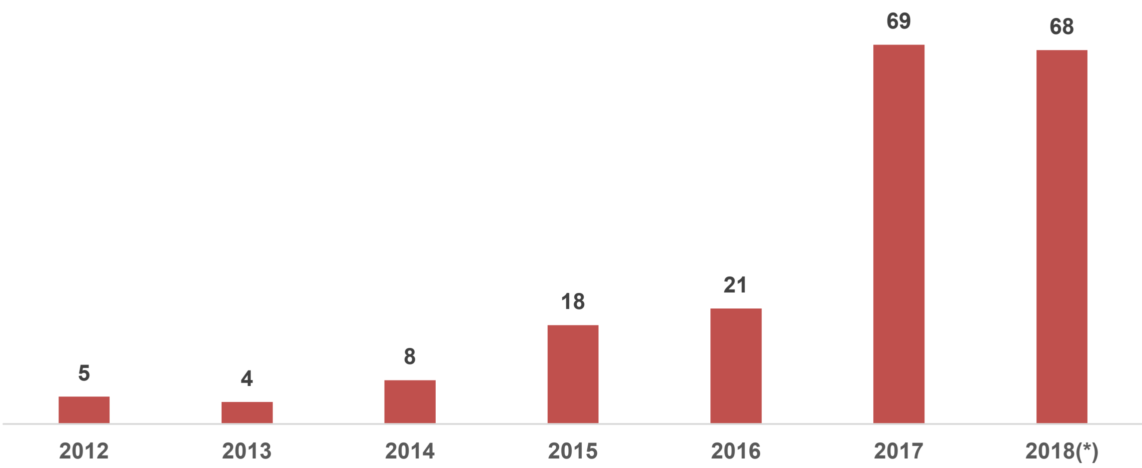
(33) Banks and Financial Institutions: conditions and loan risk levels by sector and territory December 2018 - http://www.bancaditalia.it/pubblicazioni/condizioni-rischiosita/2018-condizioni-rischiosita/statistiche_STACORIS_20181231.pdf

(34) PwC – Italian NPL market. December 2018 - https://www,pwc,com/it/it/publications/npl-market,html

In September 2018 the stock of non-performing loans of the corporate and SME segment, amounting to EUR 92 billion represented the main share (approx. 77%) of total gross non-performing loans(35).

After a slow start during the 2012-2014 three-year period, the Italian market of non-performing loan transactions took off starting in 2015 and reached EUR 68 billion[10] in terms of gross nominal value of transferred loans in the year 2018.

Non-performing loan transactions in Italy, 2012-Sept-2018*



Source: PwC – Italian NPL market, December 2018. Nota:(*) Up to the date of report publication, which took place in December 2018.

In September 2018 the gross stock of Unlikely to pay loans within the Italian banking sector amounted to EUR 83 billion, down by 12% compared to December 2017 and by 35% compared to peak values of 2015. Approximately 79%[11] of the stock is made up of non-performing corporate and SME loans.

The market in sales of loans classified as UTP got off the ground in 2017, when transactions amounting to EUR 16 billion in UTP portfolios and single-names were concluded[10].

The introduction of the new IFRS 9 accounting principle (in force from 1 January 2018) and the new ECB guidelines on the rules on provisions for impaired loans has already had an effect on how they are handled, as demonstrated by the fast increase in the volume of NPL and UTP transactions that have taken place in the last 18 months.

Based on those trends, the Issuer's management estimates that over the next five years corporate NPLs amounting to a gross book value of EUR 135 billion will be sold in Italy's primary and secondary markets. Sales on the primary market are those made by entities, such as banks and financial intermediaries, that have directly originated the loans (the "originators"). On the other hand, sales on the secondary market are those made by entities, such as for example securitisation vehicles or financial intermediaries, that have previously purchased the portfolio from originators on the primary market. The expertise required to invest in the two markets is the same.

(35) Bank of Italy, Banks and financial institutions: loan conditions and risk levels by sector and territories, 31 December 2018 - http://www.bancaditalia.it/pubblicazioni/condizioni-rischiosita/2018-condizioni-rischiosita/statistiche_STACORIS_20181231.pdf

In the absence of market analyses and forecasts on NPL transactions for the next five years, the estimate of the market's potential size has been developed by the Issuer's Management based on its experience in the sector and could therefore be affected by discretionary assumptions.

More specifically,The Issuer's management is expecting NPL portfolio transaction flows of over EUR 100 billion on the Italian primary market, of which a prevalent part (around EUR 90 billion) represented by corporate loans, consistent with their proportion of the Italian banking system's non-performing loans as a whole and on the assumption of an acceleration of the sale of this type of loan, consequent to a first phase of portfolio transaction dominated by the sale of retail loans.

This opinion is based on the expectation that the de-risking steps being taken by players in the Italian banking sector will continue, given the emphasis placed by the European bank supervisory authorities on a reduction of the existing stock of the system's non-performing loans, an emphasis confirmed by the guidelines on NPL coverage levels assigned by the ECB to European banking institutes as part of its recent Supervisory Review and Evaluation Process (SREP), as well as by supervisory regulations which have seen the recent introduction of the CRR dealing with the requirement for minimum provisioning levels for non-performing loans to be based on estimates consistent with their ageing (the so called Prudential Backstop).

Furthermore, in line with the evolution observed in countries with a mature NPL portfolio transaction market, alongside the primary market, management is expecting a development of the secondary NPL portfolio transaction market, which took its first steps in 2018.

At the same time, and for the reasons mentioned above, an increased dynamism in the UTP transaction market is also forecast for the next five years.

The Italian Crossover Market

In June 2018 the overall stock of gross performing loans of the Italian banking system towards corporate and SME customers totalled EUR 679 billion(36). The Issuer estimates that approx. 25% of these loans, equivalent to a potential market of EUR 160-170 billion, has been issued to companies with low or non-existent credit ratings.

In the absence of market analyses and forecasts for this loan segment within the context of the broader category of corporate loans, the estimate of the potential size of the market has been calculated by the Issuer's management based on its sector experience and internal analyses and could therefore be affected by hypothetical assumptions.

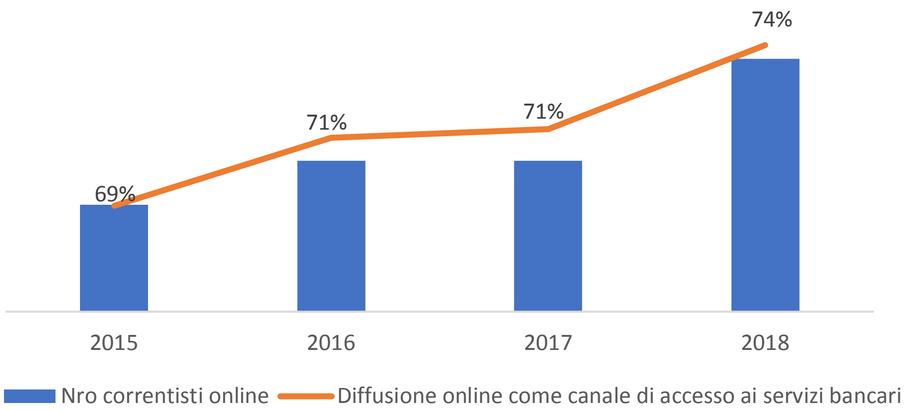
(36) Banca d'Italia, Banks and financial institutions: loans and funds collected by sectors and territories, December 2018 - http://www.bancaditalia.it/pubblicazioni/finanziamenti-raccolta/2018-finanziamenti-raccolta/statistiche_STAFINRA_20181231.pdf. Loans (excluding non-performing loans and PCTs (repurchase agreements) of non-financial companies and production families.

The Italian factoring market

In Italy, the factoring market represents approximately 13% of GDP[37]. Based on preliminary data published by Assifact[38], in 2018 the turnover in the factoring market amounted to almost EUR 238 billion and, in terms of aggregate turnover, rose by 7.7% against the previous year. That positive trend also characterised outstanding debts (amounting to EUR 67 billion), which rose by 8% against 2017 and the amount of advances and fees paid to firms (EUR 54 billion) increased by 8% compared to the amount registered during the previous year.

Direct digital banking

Recent research reports that over the last three years the overall number of Italian current account holders who go online at least once a month to access their bank's services has increased by 19%, standing at 19.2 million account holders at the end of 2017[39],



During the same period, spread of online access to banking services has increased from 69% to 74%.

The average number of online accounts per account holder proved to be 1.3x, which is higher than the average number of accounts per account holder in the traditional banking channel (branches).

At present there are 5.9 million bank customers who do not use online banking services despite holding a current account and regularly using the internet and they represent a considerable potential for growth in digital banking services.

(37) Source: Assifact, Press release: "Factoring never stops," data as at 31 December 2017 - http://assifact.it/wp-content/uploads/2018/02/CS-Assifact-Dati-al-31.12.17-16-feb-2018.pdf

(38) Source: Assifact CrediFact, "Factoring in figures", preliminary data as at 31 December 2018 - http://assifact.it/wp-content/uploads/2019/02/2018-12.pdf

(39) CheBanca! Digital Banking Index Italy, March 2018 - http://www.affaritaliani.it/static/upl2018_restyle/rice/ricerca_chebanca–digital-banking-index.pdf

Competitive arena

However much the business model envisaged in the Issuer's 2018-2023 Plan may have unique features as the result of the above-mentioned characteristics, the competitive situation in the various segments in which it operates is distinguished by the presence of banks and/or specialised domestic and international operators.

Many types of entity operate in the NPL portfolio investment sector, such as specialised private equity funds, hedge funds, banks and specialised non-banking operators. According to the Issuer, the market context is relatively more competitive in the retail portfolio segment, especially the unsecured segment, while management believes that the NPL corporate market, which the business plan specifically focuses on, at present features less competition, with the number of specialised operators still fairly low, especially in the unsecured segment.

Despite having a number of differences in terms of the reference market, the features of the purchased portfolios and the business models, the Issuer's NPL Investment & Servicing Division has elements of comparability with domestic operators such as Banca Ifis and international players such as Hoist Finance, Arrow Global, B2Holding, Kruk, Axactor and Intrum, some of which are also present on the Italian market. These operators have profitability features for the NPL portfolios in which an investment is made that are comparable with those on which the Issuer's forecasts are based, in terms of cash-on-cash multiple, which in the sample observed fluctuates between 1.6x and 2.1x, and in terms of profitability and an ROE ranging between 10% and 30%.

As noted previously, the SME Division operates in various specialised business loan segments. The Italian market for Invoice Lending is mature and competitive, dominated by the product factories of the traditional banking groups and by a number of major independent operators. Banca Ifis, Banca Farmafactoring and Banca Sistema are among these, albeit having different business/customer segments and business models. The Issuer intends to compete on this market with an innovative business model based on an offer of digital factoring and focusing on production process and industrial district debts.

In the Crossover and Acquisition Finance sector, the competitive environment in the domestic market consists of traditional commercial banks and direct lending funds. The Issuer's management believes that the low or non-existent credit rating firms will have a hard time accessing loans from traditional banking and financial institutions and represent a fairly uncontrolled segment, particularly given the high level of expertise required for a full understanding of the business and market of the potential counterparties, which the Issuer shall acquire with the specific recourse to the competence of the Tutors. In the Italian market the banks specializing in SME loans are few and no significant services in this field have so far been developed by funds or other non-banking operators.

Companies with a business comparable to that of the Issuer are nevertheless to be found in the European panorama: these are banks specialised in SME loans, with distribution models based on third party networks and characterised by a significant product specialisation or by the type of customer served. Worthy of mention in particular are specialised banks working in the UK market, such as Close Brothers Group and OakNorth, which have asset returns, operating efficiency and profitability similar to the Issuer's Crossover business.

According to the Issuer's Management, the competitive framework of the Turnaround business segment is dominated by a limited number of operators, many funds specialising in different market approaches, including, among others, DeA Capital Sgr, Attestor Capital, Pillarstone and Oxy Capital, and the recent entry of other operators from a banking background, such as doBank. Given the high degree of complexity of the transactions, often featuring a considerable variety of financial solutions and the involvement of a number of different subjects, relations with other specialised operators often result in partnerships designed to share the risks and/or the supply of additional services.

Finally, the competitive arena for the offer of online banking services includes many subjects, including the online banks that are parts of large domestic and international banking groups, as well as many small or medium size operators that offer high remuneration deposit accounts via a direct digital channel. Although the competitive context is very diverse and features many different operators, the Issuer believes that it can compete on this market by using a strategy that envisages the launch of a retail bank based on the foreign challenger bank model, focusing on the development of simple, transparent products that aim to provide a high level customer experience.

Regulatory developments

Since SPAX S.p.A. presented the 2018-2023 Plan on 20 July 2018, some clarifications have been made in the legislative and regulatory framework that affect directly the entire Italian banking sector and NPL market operators of a banking nature. On 21 September 2018, the European Banking Authority (EBA) provided an official interpretation of how unsecured impaired loans acquired by banks are to be treated in terms of the weighting coefficients to be applied when valuing Risk Weighted Assets. The EBA clarified(40) the principle according to which, when a bank finalises the acquisition of impaired loans, the credit risk adjustments made by that bank are not to be taken into the calculation of the value of Risk Weighted Assets. It thus follows that weighting coefficients of 150% are now applied to the Issuer's financial assets consisting in unsecured impaired loans, instead of following the usual market practice of tending to align weighting with that applied by the vendor bank.

On 15 October 2018, the Italian Cabinet approved the draft 2019 Budget Law that enters into force on 1 January 2019 and, among the other new measures, provides for changes to the treatment of certain tax components for banks, financial intermediaries and insurance companies and also abolishes the ACE (Aiuto alla Crescita Economica– Aid for Economic Growth), which will affect the earning capacity of the entire Italian banking sector.

13.4. Key Discretional Assumptions underlying the Business Plan

As previously stated, all the forecast information is based on assumptions regarding specific actions or concerning future events that could be influenced by the Issuer's management and some of those assumptions are hypothetical because they are based on events not fully controllable by the Issuer and thus may not occur or occur at a different time to that envisaged in the Plan, which could lead to there being even quite significant differences with respect to the forecasts underlying the 2018-2023 Plan.

(40) Cf. http://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2017_3270

More specifically, as previously pointed out, the 2018-2023 Plan focuses on the following main areas of development:

- expansion of investments in loans to businesses with a high potential but a sub-optimal financial structure and/or a low or no credit rating, including the non-performing (Unlikely-To-Pay or "UTP") SME segment, through the SME Division;
- entry into the Italian market in acquiring and then servicing secured and unsecured corporate NPL portfolios, through the NPL Investment & Servicing Division;
- expansion of the IT platform and direct banking by offering families easy family budget management tools, including deposit and payment products, and a digital CFO support service for business customers, through the Retail Division.

It being considered that the Issuer is basically a start-up and that there is a limited amount of historical data referable to the business segments intended to be developed, when drawing up the Business Plan the Issuer's management worked on the basis of the Discretional Assumptions that are reported below, making it clear which are those of a hypothetical nature.

SME Division

As illustrated in the foregoing paragraph, at September 2018 the GBV of the Italian market in debts classed Unlikely To Pay had reached EUR 83 billion(41) billion euros, with impaired loans to businesses and SME accounting for 80% of those stocks.

In view of the competitive climate, which at present sees a small number of Italian and international operators working in the Turnaround segment, and its innovative business model based on the Tutors' specialised industry and sector-related skills, the Issuer intends to operate in this market through three macro-typologies of debt restructuring operations.

i. **Refinancing.** Refinancing transactions, namely the acquisition of outstanding debts owed to other (banking and non-banking) operators by borrowers that are usually at the last stage of a restructuring/reorganisation process which is proceeding smoothly in overall terms. In view of a level of risk that is generally lower than true and proper debt restructuring operations, it is assumed that under such a refinancing or acquisition of debt transaction a small "discount" is applied to the nominal value of the debt (in the region of 20-30%, based on managerial experience), which is regulated under contractual conditions that – in order to make the turnaround possible – do not fully incorporate the customer's level of risk (in the current market scenario, an average credit spread of 200-350 bps is assumed). It is expected that this business segment could experience a worsening of creditworthiness of around 10%-15%, which, for these positions, would call for specific value adjustments in line with the risk exposure (guaranteed or non-guaranteed). Given, also, that such transactions may regard somewhat diversified debt structures, the estimates contained in the Plan are made on the general assumption of the acquisition of debts to be paid off in instalments within 5-7 years. These transactions, based on management experience and knowledge of the sector, generally provide an expected average return in terms of internal return rate of around 7-10%. Management expects that this line of business will represent around 20-25% of business in the Turnaround area.

(41) PwC – Italian NPL market, June 2018 https://www.pwc.com/it/it/publications/npl/doc/the-Italian-npl-market-dec18.pdf

ii. **Restructuring.** Transactions involved in financial restructuring processes, mostly carried out in the context of institutes regulated under the Bankruptcy Law and also often in tandem with the provision of the new finance needed to enable a corporate turnaround. illimity's acquisition of outstanding debts is generally heavily "discounted" with respect to the nominal value of the amount owed to the vendor (at a price roughly between 20% and 40% of the nominal value of the debt, as defined based on Management experience of operations with similar characteristics), part of which is usually allocated to the company concerned by its conversion into equity, ownership instruments or "earnout" rights. Given that favourable terms are applied to restructured debts so as to facilitate their payment, the expected return on this type of transaction is mostly based on the possibility of selling the restructured debt at a higher price than paid for it as a result of the gradual improvement of the debtor's economic and financial situation in consequence of the actions provided for in the restructuring programme, which, as a rule, produce their results in 18-24 months of when that programme starts being implemented. The probability has also been estimated (around 20% of the amount issued) that the financial positions will not achieve the objectives of the restructuring plan with a worsening of the creditworthiness, which, for these positions, would call for specific value adjustments in line with the risk exposure (guaranteed or non-guaranteed). The expected return on those transactions, in terms of internal return rate, is between 10% and 20%, depending on the type of restructuring involved, a yield that is the result of Management estimates based on their own experience of the sector.

iii. **New Finance.** When companies undergo reorganisation it is often necessary for them to obtain new finance in order enable them – in addition to consolidating/restructuring previously contracted debt – to set the reorganisation process in motion. New finance usually requires a high degree of contractually stipulated protection (e.g., court-authorised preferential creditor status, antedating for preferential creditors, etc.) of the type to place it at the very top of waterfall payments (known as Super Senior Lender status), while the remuneration is often divided into two components: recurring interest, sometimes paid in cash and sometimes capitalised and paid on the extinguishment of the loan (Payments In Kind - PIKs),and an upside connected with the realisation of the equity or quasi equity instruments received against the global restructuring operation ("Restructuring"). These transactions generally provide an expected average return in terms of internal return rate of around 8-13%, estimated by Management based on its knowledge of the sector and similar operations managed in the past. Consistently with the estimates for the Turnaround business sector, it has been forecast that (equal to approximately 20% of the total Issued) that the funded positions will not achieve the objectives of the restructuring plan with a worsening of the creditworthiness and the resulting need, for said positions, to come up with specific adjustment values. Management expects that the Restructuring and New Finance operations, often carried out jointly as being disbursed by the same lending entity, will represent in the region of 75-80% of business in the Turnaround area.

In the time-frame covered by the Plan, the Issuer's objective is to invest a total of EUR 4 billion in UTP debt consisting in partly secured restructuring and refinancing transactions. Those investments will bring an assets value of EUR 400-450 million by 2020 and approximately EUR 900 million by 2023. The Issuer believes that the current market situation is favourable for the expansion of its operations since, as previously indicated in other parts of this Prospectus, only a small number of competitors operate in it at present and in consideration of the fact that the Italian market in UTP transactions is still at a very early stage. It is quite possible that, later on when it has matured somewhat, the number of players in the UTP single names investments market will increase because they are attracted by the high returns it can offer.

Turnaround operations are closely connected to the New Finance business. The Issuer's goal is to grant loans amounting to a total of EUR 900 million over the Plan's time-span, corresponding to a stock amounting to approximately EUR 150-200 million in 2020 and approximately EUR 370 million in 2023. At present there are just a few specialised market operators in the New Finance business, but the possibility of other intermediaries entering that market in the future is not ruled out.

Over the entire period covered by the Plan, the Issuer intends to disburse a total of EUR 1.6 billion under Crossover lending and Acquisition financing transactions which, by the time it is fully operational in 2023, will correspond to stocks of net loans amounting to approximately EUR 670 million, rising from the approximately the EUR 200-220 million expected in 2020. That target is based on the hypothetical acquisition over the period covered by the Plan of a less than 1% share of the potential market, which is underserved by traditional banking operators.

The activity volumes, the commission and spread levels for the Crossover lending and the Acquisition financing hinge in no short measure on the estimates produced by Management based on the experienced matured in this business segment.

In the Invoice lending segment the Issuer intends to achieve a turnover of approximately EUR 4.2 billion by the time it is fully operational in 2023, rising from approximately EUR 0.8-1.0 billion in 2020 and corresponding to stocks of net loans amounting, respectively, to approximately EUR 300-360 million in 2020 and approximately EUR 1.3 billion in 2023. The Italian factoring market is somewhat concentrated: at December 2017, 70% of its combined turnover was in the hands of its five leading operators. The Issuer believes it could have a competitive advantage in the factoring segment thanks to its focusing on production chain scenarios and manufacturing districts, rendered possible by the industry expertise offered by the Tutors, and provision of a technologically advanced and digital proprietary platform. It thus believes that by the end of the Plan it can acquire a share of less than 2% in the factoring market. The start of its operations in that business segment has been facilitated by the conclusion of a business agreement with Credimi, a leading European digital factoring operator.

The activity volumes, the commission and spread levels for the Invoice lending hinge in no short measure on the estimates produced by Management based on the experienced matured in this business segment.

Overall, the value of the SME Division's net assets is expected to rise to approximately EUR 3.3 billion over the course of the Plan, with Factoring operations accounting for approximately 40% of that stock by 2023, followed by Turnaround and New Finance operations accounting for approximately 37% and the rest consisting in Crossover lending and Acquisition financing transactions.

Although management believes that the theories according to which those objectives have been set are reasonable and reliable, the assumptions as to the growth of SME Division's business are of a hypothetical nature in that they could be affected by external factors such as the market availability of debts classed UTP and trends in quantities at the times and under the conditions forecast when drawing up the 2018-2023 Plan.

NPL Investment & Servicing Division

The Issuer's goal is to make investments over the course of the Plan in both secured and unsecured NPL portfolios amounting to a net purchase value of EUR 3 billion, of which EUR 97 million has already been purchased at 25 February 2019, partly on the secondary market.

On account of the dynamism seen in that market, the Issuer is assuming that it will concentrate more than half of its investments in the first part of the Plan's timeline. The Issuer's focus is on NPL portfolios and single-name NPLs in the corporate sector, a segment which in management's opinion at the time of the publication of this Prospectus is characterised by a relatively small number of players.

Given the expectations as to the features of the NPL portfolios on which future transactions will be based, confirmed by the pipeline of potential transactions analysed at the Prospectus Date, and as to the average purchase prices of these portfolios, the Issuer expects that the NPL Investment & Servicing Division make investments in secured portfolios for an overall GBV of approx. EUR 5 billion and in unsecured portfolios for an overall GBV of approx. EUR 11 billion with purchase prices in a range between 30% and 40% on the secured segment and between 5% and 10% for the unsecured segment. This is equivalent to estimated net investments in unsecured NPL portfolios of a little less than 40% of the total investments foreseen during the entire span of the plan (EUR 3 million overall) and the remaining 60% in secured portfolios.

The 2018-2023 plan also estimates acquired portfolio recover rates to fall within a range of 50% - 55% of GBV for the secured segment and between 15% and 18% for the unsecured segment. Management believes that these conservative estimates compared to average recovery rates recorded on average in the Italian banking sector during 2017, which show recovery rates on closed positions via ordinary procedures of between 54% and 55% for debts backed by real guarantee sand of between 31% and 32% for debts without any real guarantees(42).

As support for the NPL investment portfolio activity carried out until the Prospectus Date, the Issuer has used the services of primary advisors - such as CRIBIS Credit Management, Deloitte, Ernst & Young Transaction Services, Studio Legale Radice & Cereda and PriceWaterhouseCoopers – that are specialised in assessing and managing the various asset classes of an investment. These advisors have made available to the Bank's pricing team details of the analyses performed on propriety databases and by using models developed during the service activities carried out on behalf of third parties, as well as resulting from due diligence work and valuations carried out over the years on comparable portfolios.

(42) Financial and supervisory stability note n. 13 December 2018 - Non-performing loan recovery rate in2017. http://www.bancaditalia.it/pubblicazioni/note-stabilita/2018-0013/Note-stabilita-finanziaria-vigilanza-n-13.pdf

From analyses performed using the propriety historical series of these advisors, an average recovery time of approximately 7 years emerges for secured and unsecured corporate portfolios, with a cash-on-cash multiple of 1.6x for secured portfolios and 1.7-1.8x for unsecured portfolios, and a time distribution of receipts that envisages the recovery of the initial investment after approximately 4 years.This information has been used to construct the assumptions underlying the strategic plan, appropriately adapted on the basis of the specific features of the portfolio. In addition, the profitability of the portfolios purchased has been prudently assumed to fall over the course of the Business Plan, to take account of the potential increase of competition in the market segment, with an estimate of gross IRR between 8% and 12%.

The Issuer will also conduct NPL portfolio servicing operations, on its own behalf and for third parties, via its own proprietary servicing platform and under targeted business agreements with specialised companies, with the objective of arriving at a total of approximately EUR 11 billion in terms of the gross value of serviced debts by 2023.

Lastly, the Issuer intends to grant senior loans to non-banking operators in the NPL market, which is relatively undominated and seeing rising demand, with the aim of such disbursements amounting to approximately EUR 900 million over the entire course of the Plan, which will correspond to net receivables from customers amounting to approximately EUR 250 million by the end of the Plan.

Although management believes that the theories according to which those objectives have been set are reasonable and reliable, the assumptions as to the investment operations described and the servicing of NPL portfolios for third parties are of a hypothetical nature since they could be affected by external factors such as, for example, the market availability of debts classed NPL within the timelines, possessing the characteristics and at the conditions forecast when drawing up the 2018-2023 Plan.

Retail Division

The objective of the Retail Division is to acquire approximately 75,000 retail customers within 2020 and at least 200,000 within 2023, translating into deposits from customers amounting to approximately EUR 1.9 billion by the end of the Plan, having an average due-date of 2-3 years.

Unlike the distribution model used by the traditional commercial banks, which is founded on a territorial network of branches, the distribution model followed by the Issuer will be exclusively based on the development of direct digital channels, such as the web channel and mobile banking (based on an app).The choice of a direct distribution channel will enable the Issuer to direct its offer to a general public of potential private customers and businesses distributed across the country as a whole.

The Issuer intends to offer its customers a competitive rate of interest on deposits by applying a 2.5% premium over the Euribor 3-month rate during the first years of the Plan, which will decrease gradually (2%) by the end of the Plan's timeline in consideration of the expectation that the "illimity" brand will progressively become well-established among existing and potential customers.

Although management believes that the theories according to which those objectives have been set are reasonable and reliable, the assumptions as to the reported business targets with customers are of a hypothetical nature since they could be affected by external factors such as an unexpected rise of interest rates and are predicated on the timelines set and the conditions forecast when drawing up the 2018-2023 Plan.

13.5. TIMETABLE OF THE ACTIONS PROVIDED FOR IN THE BUSINESS PLAN

Since the date of the Business Combination with SPAXS, the Issuer has put a number of operating and business activities in place within or, in some cases, before, the time predicted when the Plan was presented.

The Issuer has basically completed the recruitment of the first and second tiers of its management team and its team of staff, most of whom have already been operative since the date of the Business Combination. At 31 December 2018 the Issuer employed 138 people and 189 at 20 February 2019. Recruitment operations will continue throughout the course of the Plan, with staff numbers expected to reach around 420-450 within 2020 and approximately 610 within 2023, in line with the growth of its business, including the Neprix staff; it is estimated that approximately 25% of staff are dedicated to NPL servicing at the Prospectus Date. Consistently, it is estimated that the personnel costs shall amount to approximately EUR 50 million in 2020 and approximately EUR 70 million in 2023. It should be noted that the Issuer's preliminary results for 2018 show personnel costs amounting to approximately EUR 10 million.

The sizing forecasts, in terms of human resources, in the various business areas in which the Issuer expects to be operating are estimated taking into account the characteristics of the individual business in terms of average size of the single loan, the organisation and distribution structure without any branch facilities, as well as an extensive use of technology. Given the peculiar nature of the model and of the business composition, the management believes any comparison with other specialised banks to be irrelevant.

The sizing forecasts, in terms of human resources, for the various business areas in which the Issuer expects to be operating are estimated taking into account the characteristics of the individual business in terms of average size of the of the single loan issued/purchased, the bank's organisation and distribution structure, that does not involve branch facilities, as well as an extensive use of technology.

Given the particular nature of the model and the business composition, the management considers any comparison with other specialised banks irrelevant. The reason for this being that: (i) the business composition among the various activities is substantially different for the Issuer and companies that may be considered comparable; the Issuer's business model as it stand unique within the domestic and international context; (ii) the comparable companies that operate in the NPL investment and management sector, and those that operate in the SME customer loan sector, generally feature an average size of each operation (the so called "average ticket" of loan issued or purchased) lower than that foreseen by the Issuer's Plan; this means that the Issuer shall require a lower number of resources on average compared to those indicated for comparable companies; (iii) the Issuer distribution model does not envisage peripheral branches; it is centred around the figure of the Tutors, whose remuneration includes a considerable variable component, and on direct digital channels.These characteristics make any comparisons between the issuer's size and distribution cost structure of the Issuer and those of comparable companies particularly arduous.

The activities carried out by the Issuer's various divisions during 2018 and those planned for the future are described below.

IT Platform

The Issuer, which will initially operate via an existing IT platform, will have completely digital processes within the first half of 2019.

Indeed, the Issuer's innovative business model rests on the development of a completely digital IT platform with a modular approach based on a flexible architecture that can be integrated with diverse components – including fintech solutions purchased from third parties – developed to best meet the different requirements of each division.The new platform will integrate traditional databases with big data and enable analyses and advanced tools based on artificial intelligence and machine learning.

During 2018 the technological and architectural solutions pertaining to the IT platform were defined and studies of the feasibility of possible artificial intelligence solutions for the direct banking segment and machine learning solutions for the operations conducted by the SME and NPL Investment & Servicing divisions were started.

It is expected that the combined amount of investments made and operating expenses incurred in connection with the development of the digital platform and IT in general over the entire course of the Plan will be in the region of EUR 115 million, of which approximately EUR 45 million will be capitalised. Over the span of the Industrial Plan it is expected that EUR 52 million will be spent on communication and marketing, which shall be entirely accounted for as operating costs.

The new IT system is to be tested and will replace the Issuer's current system within the first half of 2019, by which date both the IT platform for NPL Investment & Servicing Division operations and the IT platforms dedicated to retail and corporate products will be fully operational.

The Customer Center that is currently at the planning stage will also be fully operational by or before the end of 2019.

Lastly, as previously stated, the Retail Division aims to procure approximately 75,000 retail customers within 2020 and at least 200,000 within 2023.To support those targets the 2018-2023 Plan provides for investments in marketing and Customer Relationship Management ("CRM") amounting to approximately EUR 50 million over the course of the Plan.

SME Division

The second half of 2018 saw the completion of the recruitment of the managers in charge of the business segments under which the SME Division's operations are organised, namely Turnaround and New Finance, Crossover lending, Acquisition Financing and Invoice lending, all of which are already fully operational, and of the manager of credit machine operations, in charge of the data analysis operations sustaining the approval and monitoring of the loans granted or acquired by the Division.

Towards the end of that year, the SME Division also started locating and selecting possible business opportunities by initially mapping the business relationships in place with the Issuer's SME customers and conducting due diligences on potential UTPs.

On 24 October 2018 an agreement was executed with Credimi, a specialised, fully digital and technologically advanced operator in the factoring sector, regarding the white-label use of its operating platform, which will enable operability in this segment too by the end of the year and thus earlier than initially expected. For more details on the nature of the agreement, reference should be made to Chapter 6, paragraph 6.1.2 of this Prospectus.

The fact that the organisational and business initiatives already undertaken are fully compatible with the current IT system has made it possible for business operations to already be under way towards the end of 2018.

In 2019 it is expected that credit machine function data analysis operations will be up and running and six Tutors will be in place. The Issuer estimates that 35 Tutors will have been recruited by the end of the Plan.

NPL Investment & Servicing Division

Following the finalisation of the Material Transaction, the Issuer has acquired ten corporate NPL portfolios consisting in both secured and unsecured debts with a total nominal value (GBV) of approximately EUR 1.18 billion. It also concluded its first SPV financing transaction by granting a loan amounting to approximately EUR 50 million, secured by a portfolio of secured NPLs with a gross book value of EUR 1.2 billion, to a subsidiary company of funds managed by the Fortress Investment Group.

On 30 October 2018 the Issuer's Board of Directors approved the acquisition of a 100% interest in Neprix S.r.l. ("Neprix"), the company in which the servicing of the NPL portfolios purchased by the Bank will be centralised and which on 16 January 2019 obtained from the Authority a licence pursuant to Article 115 of the TULPS. The Issuer's acquisition of Neprix is conditional on the Issuer obtaining authorisation from the Bank of Italy and its inclusion in the Register of banking groups: at the Prospectus Date the Issuer has initiated the relevant authorisation proceedings and they are currently ongoing.

The development of future operations in the NPL Investment & Servicing Division envisages the proprietary IT system being fully implemented within the first half of 2019 and servicing of third party NPL portfolios starting within the second half of 2019.

Retail Division

Since it started operating and with all its first and second tier management team in place and fully operational, the Retail Division has finished planning out its range of products and their business features and pricing, defined the product, front-end and user experience architectures and designed the process for opening accounts with new customers. The communications plan and the development strategy for the "illimity" brand has been defined.

Future developments envisage the setting-up of the mobile and web channels and, after that, the launch of the first communications campaign and the procurement of customers for the Retail Division within the first half of 2019.

The Issuer's range of savings and payment products will be completed with third party products to be sold in agreement with the best operators selected on a case-by-case basis. It is expected that the selection of those operators will be completed within 2019.

Treasury

The 2018-2023 Plan also foresees specific actions on the funding mix front, managed by the Issuer's centralised Treasury. The aim of the Treasury is to provide the bank with a diversified funding mix and a solid Asset and Liabilities Management profile, designed to minimise the risk of mis-matching asset and liability due dates with the rate risk organically covered by balancing variable interest rate assets and liabilities.

The funding strategy calls for a gradual development of medium to long term direct funding sources, combined with a focus on the transactional component of the current accounts from private customers and corporates, which is considered a more stable source of funding, and a gradual diversification by type and duration of wholesale funding.

As previously recalled in greater detail, the Strategic Plan 2018 – 2023 calls for the development of an offer of short and medium term direct funding by launching the Issuer's direct digital bank, with the aim of acquiring approx. 75,000 retail customers by the end of 2020 and at least 200,000 by the end of 2023. Based on Management estimates, achieving the base customer target would be equivalent to a stock of customer deposits equal to approx. EUR 1.9 billion by the end of the Plan, with an average maturity profile of 2-3 years.

Alongside the direct funding from domestic customers, the Plan also envisages the contribution of funds from deposits via a pan-European deposit platform. To this end the Issuer's Board of Directors has decided to go ahead with the formalization of an agreement with a leading sector operator for which the necessary authorisations are currently being sought with the Supervisory bodies. The direct fundinggoal has been shared with the platform and will be supported by an average remuneration in line with the amount of the target funding (approx. EUR 300 million in 2020 and EUR 1.2 billion in 2023).

The 2018 – 2023 Plan also prescribes the issue of senior bond instruments, for an amount that has been prudentially forecast as being fairly low (EUR 75 million during the duration of the Plan) and junior bond instruments (EUR 65 million within the duration of the Plan) as well as additional Tier 1 instruments, the latter to be issued in 2021 when the Issuer will have established the foreseen objectives and results and it is therefore foreseen that the relative credit risk will be perceived as much lower.

13.6. Forecast Information

13.6.1 2018-2023 forecasts

The basis of comparison for the evolution of the forecasts made in respect of the Issuer in the 2018-2023 Plan and set out in the tables provided below are the figures reported in the Pro-Forma balance sheet at 30 September 2018 prepared on the basis of the accounting policies reported in Chapter 20 of the Prospectus.

In line with its development strategy, management believes that the Issuer's economic and financial situation may be affected by certain currently unpredictable events that could include certain investments being brought forward and/or the implementation of additional expansion projects in order to seize market opportunities.

It is noted that the 2018-2023 Plan does not envisage any capital funding operations in addition to the raising of capital already carried out by SPAXS during 2018.

The financial targets set for 2020 have thus been presented in range form since the business is at the start-up stage. It should be recalled that the Issuer, on the Prospectus Date, is in a start-up phase with regard to the new business segments in intends to access and develop and that have been identified in detail in the Industrial Plan 2018-2023. The same Industrial Plan, presented below, shows how the Issuer intends to meet and exceed the break-even point with a positive economic result during the year 2020.

Key balance sheet information *(Billions of euros)*	**Pro-Forma 30 September 2018**	**2020E (range)**	**2023E (approx.)**
Net loans from SME Division customers	0.3	1.2-1.4	3.3
Net loans from NPL Investment & Servicing Division customers	0.0	1.8-2.2	2.6
Liquid assets and readily negotiable securities	0.5	0.5-0.6	0.7
Net Interbank position	0.5	0.0	0.0
Other assets	0.0	0-0.1	0.0
Total assets	**1.4**	**3.5-4.3**	**6.6**
Deposits from retail customers	0.0	0.7-0.8	1.9
Deposits from corporate customers	0.6	0.4-0.5	1.0
Deposits from open banking platform	0.0	0.3-0.5	1.2
Wholesale and interbank funding	0.3	1.5-1.8	1.4
Net equity	0.6	0.6-0.7	1.1
Total liabilities and equity	**1.4**	**3.5-4.3**	**6.6**

Key income statement information *(Millions of euros)*	**Pro-Forma 30 September 2018**	**2020E (range)**	**2023E (approx.)**
Total revenues	3	250-310	675
Operating costs	25	110-140	160
Operating profit	-22	140-170	515
Loan loss provisions	3	50-63	95
Pre-tax profit/loss	-25	90-107	420
Net profit/loss	-16	55-70	280

Key ratios *(Billions of euros)*	**2020E (range)**	**2023E (approx.)**
Return on Equity (ROE)	9%-10%	25.0%
Cost/Income ratio	<50%	<30%
Cost of Risk (bps)	185-225	170
Gross Organic NPE Ratio (excl.Turnaround)(43)	5%-7%	7%
Gross NPE Ratio (incl.Turnaround)	6%-8%	10%
Liquidity Coverage Ratio (LCR)	>130%	>130%
Common Equity Tier 1 Ratio	>15%	>15%
Risk Weighted Assets (RWA), billions of euros	3.4-4	6.5
Staff employed (FTE)	410 – 510	610

With reference to employed personnel at 20 February 2019 the Issuer had 189 personnel.

Notes on certain trends in the Forecast Information

Economic performance levels and key profitability indicators

When it is fully operational, the Issuer aims to make a net profit of approximately EUR 280 million in 2023 with a Return on Equity (ROE) of around 25%. The Issuer intends to achieve a positive result in 2020, the year in which it expects to make a profit of between EUR 55 and EUR 70 million with a ROE lower than 10%.

The three divisions are scheduled to become fully operational at different times. The NPL Investment & Servicing Division will be the first to do so and will make the main contribution to the pre-tax profit figure in 2020. After that, the contribution made to the Bank's economic performance by the NPL Investment & Servicing and SME divisions will be more equally balanced, while the Retail Division will be one of the sources of the income funding the Issuer's operations.

The return on assets and the Issuer's streamlined operating structure will enable a Cost/Income ratio of around 50% to be achieved in 2020, the year in which the Bank is expected to pass from the start-up stage to going into full operation, and it will fall to below 30% when it is fully operational by the end of the Plan.

In more detail, that result will be achieved by an estimated earnings margin of EUR 250-310 million by 2020 and EUR 675 million by 2023 and costs amounting to EUR 110-140 million in 2020 and EUR 160 million in 2023.

Revenues shall mainly be composed of net interest income (approximately 90% of total income by the end of the Plan), which will include the interest earned on Invoice lending and Crossover lending operations, in addition to the revenues deriving from the recovery of NPL portfolios acquired by the Bank and the flows of interest receivable and earnings from investments in individual UTP debts. The commission component will, instead, depend on third party NPL portfolio servicing operations and, to a lesser degree, commissions on sales of third-party financing, insurance and investment products via the direct bank.

(43) Ratio between gross doubtful debts and total gross debts under factoring, Crossover lending, New Finance, Banca Interprovinciale and NPL financing operations, excluding NPL receivables and UTP receivables acquired in the course of Turnaround operations that become NPLs during the period.

In so far as concerns the key factors underlying costs, it is expected that by the time the Issuer is fully operational staff costs should account for 40% of the operating costs figure, taking account of a total staff number by the end of the Plan in excess of 610.

Total investments in connection with the development of the IT platform are estimated at EUR 115 million over the course of the Plan, EUR 45 million of which will be capitalised.

Loan loss provision charges are expected to rise from EUR 50-63 million in 2020 to approximately EUR 95 million in 2023, corresponding to an average cost over total net receivables of approximately 170 bps. Credit risk adjustments will be almost entirely attributable to the SME Division, the credit cost of which is expected to remain in the region of 300 bps over the course of the Plan.

Key asset figures

The value of the Issuer's assets is estimated to rise to an initial projected target set between EUR 3.5 billion and EUR 4.3 billion by 2020 and at EUR 6.6 billion when it is fully operational, under a risk management policy that envisages a complete correspondence between the maturities of assets and liabilities, well-diversified sources of funding and a government bond exposure accounting for approximately 10% of total assets, diversified to ensure that no issuer country accounts for more than one-third of the total.

Capital Ratios and Dividend Distribution Policy

In so far as concerns the rules on prudential supervision, in its calculation of the business figures pertaining to the different divisions the Issuer has envisaged capitalisation with a CET1 ratio of at least 15% throughout the course of the Plan.

That objective comprises a dividend policy under which dividend distribution will start from FY 2022, with an approximately 20% pay-out in 2022, rising to approximately 25% in 2023.

13.6.2 Forecast information in the Plan by business division

The following tables show the evolution of the forecast information predicted according to the 2018-2023 Plan and broken down by division. Comparative figures are not reported because the Issuer's operations in the different divisions are mostly at the start-up stage.

SME Division

Key Balance Sheet Information *(Billions of euros)*	**2020E (range)**	**2023E (approx.)**
Net loans to customers SME Division	1.2-1.4	3.3
Net equity allocated to the SME Division	approx. 0.2	0.6

Key Income Statement Information *(millions of euros)*	**2020E (range)**	**2023E (approx.)**
Total revenues	100-120	385
Operating costs	30-35	55
Loan loss provision charges	50-60	90
Net profit/loss	10-15	160

Key Balance Sheet Ratios *(billions of euros)*	**2020E (range)**	**2023E (approx.)**
Return on Equity (ROE)	5%-8%	27%
Cost/Income ratio	30%	14%
Cost of Risk (bps)	450-550	300
Cost of Risk (excl.Turnaround)	220-270	170
Gross Organic NPE ratio (excl.Turnaround)	5%-7%	8%
Gross Organic NPE ratio incl.Turnaround	7%-8,5%	9%-11%

Notes on certain trends of the forecasts made in the Plan with regard to the SME Division

Economic performance levels and key profitability indicators

When fully operational, the SME Division aims to make a net profit of around EUR 160 million in 2023, with a ~27%Return on Equity (ROE).

The development of business in the Turnaround and New Finance, Crossover lending, Acquisition financing and Invoice lending products offered by the SME Division is expected to generate revenues in the region of EUR 100-120 million by 2020 and EUR 385 million by 2023, entailing costs of EUR 30-35 million in 2020 and EUR 55 million in 2023. The Cost/Income ratio will be in the region of 30% by 2020 and at approximately 14% by the end of the Plan (corresponding to approximately 30-35% excluding Turnaround operations).

Loan loss provisions of EUR 50-60 million are expected in 2020, rising to EUR 90 million in 2023, and corresponding to an average cost over the SME Division's total net receivables of around 300 bps. It is expected that the main contribution to credit risk adjustments will be determined by the Turnaround business.

The planned recruitment of around 25 Tutors by 2020, rising to 35 by 2023, is intended to assure the expansion of the division's business operations, while the number of staff fully devoted to the SME Division is expected to rise to 150-170 by 2020 and to 180 by 2023.

Key assets figures

It is estimated that the value of the SME Division's net assets will already start rising in 2019, when it goes into operation in pursuit of an initial projected target set between EUR 1.2 billion and EUR 1.4 billion by 2020 and approximately EUR 3.3 billion when fully operational.

The RWAs associated with the SME Division are estimated at around EUR 1.2-1.6 billion by 2020 and approximately EUR 3.3 billion by 2023.

<u>NPL Investment & Servicing Division</u>

Key Balance Sheet Information *(billions of euros)*	**2020E (range)**	**2023E (approx.)**
Net assets NPL Investment & Servicing Division	1.8-2.2	2.6
Net equity allocated to NPL Investment & Servicing Division	0.3-0.4	0.5

Key Income Statement Information *(millions of euros)*	**2020E (range)**	**2023E (approx.)**
Total revenues	130-160	245
Operating costs	55-68	70
Loan loss provisions	0-1	2
Net profit/loss	45-55	115

Key Balance Sheet Ratios *(millions of euros)*	**2020E (range)**	**2023E (approx.)**
Return on Equity (ROE)	14%-15%	23%
Cost/Income ratio	43%	30%

<u>Notes on certain trends of the forecasts made in the Plan with regard to the NPL Investment & Servicing Division</u>

Economic performance levels and key profitability indicators

The NPL Investment & Servicing Division will initially be the Issuer's most dynamic division, which, in view of the acquisitions already made during the last three months of 2018 and the amount of business predicted for it in 2019 and 2020, expects to make a net profit of around EUR 115 million in 2023, with a 23% Return on Equity (ROE).

The NPL Investment & Servicing Division's revenues will reach around EUR 130-160 million by 2020 and EUR 245 million by 2023, the year in which the servicing platform will make an approximately 12% contribution to the division's revenues.

Costs are estimated at EUR 55-68 million in 2020 and EUR 70 million by 2023, with a Cost/ Income ratio of 43% in 2020 and approximately 30% by the end of the Plan.

The number of staffs employed in the NPL Investment & Servicing Division will rise in line with the growth of the Assets Under Management ("AuM") both acquired by the Issuer (captive) and being serviced for third parties (non-captive).The value of those AuM is expected to rise to EUR 5.1-6.3 billion (in terms of the gross book value of the debts being managed) in 2020 and to EUR 11.3 billion by 2023.

Key asset figures

It is estimated that the value of the NPL Investment & Servicing Division's net assets will already be rising by the end of 2018, up to a figure in the region of EUR 1.8-2.2 billion by 2020 and to approximately EUR 2.6 billion by the end of the period.

The RWAs associated with the NPL Investment & Servicing Division are estimated at EUR 2-2.5 billion by 2020 and approximately EUR 2.1 billion by 2023, in line with the mix of investments in both secured and unsecured corporate portfolios. The Common Equity Tier 1 ratio is expected to be over 15% throughout the course of the Plan.

Retail Division

Key Balance Sheet Information *(billions of euros)*	**2020E** **(range)**	**2023E** **(approx.)**
Retail Division demand deposits	approx. 0.1	0.2
Retail Division term deposits	0.6-0.7	1.7

Key Income Statement Information *(millions of euros)*	**2020E** **(range)**	**2023E** **(approx.)**
Total revenues	19-23	48
Operating costs	27-33	40
Net profit/loss	(5)-(7)	5

Key Balance Sheet Ratios *(millions of euros)*	**2020E**	**2023E** **(approx.)**
Customer acquisition and marketing costs	10-14	10
Number of customers (units)	75,000	200,000

Notes on certain trends of the forecasts made in the Plan with regard to the Retail Division

Economic performance levels and key profitability indicators

As better described previously, during the last part of 2018 the Issuer's Retail Division focused on finding the technological solutions best suited to the products sold by the Issuer and its future customers.

In that connection it is expected that the mobile and web banking channels will be set up within the first half of 2019 and followed by the launch of the first communications campaign and the procurement of customers for the Retail Division. The Issuer's range of savings and payment products will be completed within 2019 by way of business agreements with the best operators selected on a case-by-case basis.

In view of the aforesaid divisional development timetables, it is expected that revenues will stand at EUR 19-23 million by 2020 and EUR 48 million by 2023. Cross-sales of third party products will account for 18-22% of total revenues by 2020 and 32% by 2023.

Costs are estimated in the region of EUR 27-33 million in 2020 and EUR 40 million in 2023, with staff numbers standing at 110-130 by 2020 and 184 by 2023, including staff in roles pertaining to the Customer Center that should start operating in 2019 and customer procurement and communications costs.

Key assets figures

The Retail Division expects to hit its targets for both demand and term deposits from its customers amounting to EUR 0.7-0.8 billion in 2020 and approximately EUR 1.9 billion by 2023.

As previously stated, the Issuer expects that its customer base will number approximately 75,000 by 2020 and over 200,000 by 2023.

13.6.3 Sensitivity analysis

A sensitivity analysis contemplating an alteration of certain scenario variables or certain assumptions made in the 2018-2023 Plan that are not fully within management's control is provided below:

- a parallel reduction over the course of the Plan of 100 basis points of the interest rate curve taken as reference (Euribor at 3 months) would, on the basis of the assets and funding sources made at variable rates indexed to the base rate, determine an average annual reduction of the total revenues in 2020 and 2023 of 3% and 5% respectively;
- a 100 basis points increase of the reference interest rate curve (3 month Euribor) over the course of the plan, applied to the share of the floating rate assets and funding sources indexed at the base rate, would lead to an average annual increase of total revenues for 2020 and 2023 of 3% and 4% respectively.
- a 10% reduction of the recovery rate of the loans acquired by the NPL Investment & Servicing Division would determine a reduction of the cash-on-cash multiple to 1.4x-1.45x and an average reduction of total revenues in 2020 and 2023 of 5% and 4% respectively;
- a combined reduction of 10% in business volumes in the different areas of business compared to those predicted in the Business Plan would determine an average 11% reduction of the pre-tax profit figure in 2020 and 2023;
- a 100 basis points increase of the Retail Division's average funding cost compared to that planned would adversely affect the pre-tax profit figure in 2020 and 2023 by 4%;
- a 50 basis points increase of the cost of credit would determine an average reduction of the pre-tax profit figure in 2020 and 2023 of 13% and 6% respectively.

13.7 Auditors' Reports

The report by KPMG S.p.A. is annexed to the Annex to the Prospectus. This includes the results of the sensitivity analyses.

14. ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 INFORMATION ON ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1.1 Board of Directors

Pursuant to Article 16 of the Post-Merger By-Laws, the management of the Company is entrusted to a Board of Directors consisting of between seven and eleven directors appointed by the Shareholders' Meeting, potentially also from among non-members. From time to time the Shareholders' Meeting shall determine the number of directors before proceeding with the appointment.

The Issuer's Board of Directors in office as at the Prospectus Date is composed of 9 members appointed by the Shareholders' Meeting of 4 September 2018, and will remain in office until the date of approval of the financial statements as at 31 December 2020.

The members of the Board of Directors are listed in the table below.

It should be noted that the rules relating to gender requirements as well as the regulations covering list votes for listed companies will be applicable to the Issuer as from the first renewal of the corporate bodies following the First Day of Trading.

First and last name	Position	Place and date of birth
Rosalba Casiraghi(1)	Chairperson	Milan, 17 June 1950
Corrado Passera	Chief Executive Officer	Como, 30 December 1954
Massimo Brambilla	Director	Milan, 9 January 1970
Giancarlo Bruno(*)	Director	Milan, 22 December 1968
Elena Ciallìè(*)	Director	Turin, 7 September 1967
Robert Edward Diamond	Director	Concord, Massachusetts, (United States), 27 July 1951
Sigieri Diaz della Vittoria Pallavicini(*)	Director	Rome, 13 August 1969
Alessandro Gennari	Director	Modena, 14 October 1960
Maurizia Squinzi(*)	Director	Pero (Milan), 23 May 1950

(*) Independent Director pursuant to Article 148, paragraph 3 of the Consolidated Finance Law, as referred to in Article 147-ter, paragraph 4 of the Consolidated Finance Law, as well as pursuant to Article 3 of the Code of Conduct and pursuant to the regulations applicable to banks. It should be noted that on 10 October 2018 and on 11 february 2019 the Issuer's Board of Directors assessed, among other things, satisfaction of the requirements of independence for Directors.

(1) Independent Director pursuant to article 148, paragraph 3 of the Consolidated Law on Finance, recalled in article 147-ter, paragraph 4 of the same law, as assessed by the Issuer's Board of Directors meeting of 10 October 2018 and 11 February 2019. It should also be noted that the Issuer, having assessed the statements made by the Chairman and also in consideration of the fact that the Post-merger Bylaws foresee that the allocation of legal representation is separated from the appointment as Chairman of the Board of Directors (a post assigned by the Shareholder's Meeting of 18 January 2019 to the Managing Director) has reached the conclusion that the Chairman meets all the independence requirements foreseen by article 3 of the Code of Conduct; however, pursuant to the same article 3 of the Code of Conduct, the mere assignment of the office of Chairman (as it is presumed that the post is granted to a top representative) would rule out that the independence requirements may be met. The Issuer, considering the factual and legal circumstances in which the director in question finds himself, reserves the right to make a further assessment pursuant to the Code of Conduct, also for the purposes of the annual report to the company governing body and the stakeholders that shall be prepared in the future by the Issuer. .

It should be noted that all members of the Board of Directors meet the requirements of integrity and professionalism established by the provisions of Article 26 of the Consolidated Banking Law (TUB) and Ministerial Decree no. 161/98.

All members of the Board of Directors are domiciled at the registered office of the Company for the purpose of their office.

Following is a brief curriculum vitae of the members of the Company's Board of Directors that, in the Issuer's opinion, shows that all the members of the Board of Directors are endowed with adequate expertise and professionalism and, with particular reference to the non-executive directors, that, by virtue of their different work and administrative/management experiences, they are able to bring specific and suitable skills in the field and professionalism to enable careful and accurate judgement in the taking of board decisions.

Rosalba Casiraghi

Rosalba Casiraghi graduated in Economics from Bocconi University in Milan in 1974.

Her professional career began with the management control, reporting and budgeting tasks of the Italian subsidiary of the Carrier Corporation group, belonging to the multinational UTC and listed on the NY Stock Exchange; she swiftly rose to become the manager.

Subsequently, as financial director, she moved to the Italian distribution company of Yamaha Motors co.

In 1985, together with five other partners, she founded the financial company Miraquota, becoming its chairperson. In 1986, she established Rating, a financial analysis company with which she began her collaboration with the financial press. Indeed, for many years she has produced well-known editorial content and provided technical advice on economic and financial issues for Il Mondo, Espresso and Il Corriere della Sera.

In 1994, she was appointed a member of the Privatisation Committee (Draghi Committee), a position which she held until 2001 and which allowed her to supervise the sale process of the main State subsidiaries, including Eni, Enel, Telecom.

In 1999, she began to take on the role of director and statutory auditor in listed industrial and financial companies, mainly chosen from lists of institutional investors. She first joined the board of statutory auditors of Pirelli, followed by that of Telecom in 2003, before being appointed to the supervisory board of Intesa Sanpaolo in 2007, where she remained for nine years.

In 2007, she was elected chairperson of Nedcommunity, the association of non-executive and independent directors.

Currently, among her main roles, she serves as chairperson of the board of statutory auditors of Eni, director of Recordati, Fsi Sgr, Luisa Spagnoli, as well as auditor at Sea and Whirlpool Emea.

In recent years she has contributed to the publication of various volumes on control systems and corporate governance.

Corrado Passera

Graduated from the Faculty of Business Administration at the Bocconi University in Milan in 1977. Between 1978 and 1980 he obtained his Master's in Business Administration from the Wharton School in Philadelphia.

His professional career began in 1980, when he joined the consulting firms McKinsey & Co, handling the reorganisation and relaunch of banking, insurance and service companies in Italy and abroad. In 1985, he joined CIR, becoming its general manager in 1988.

In 1992, he became co-director of the Olivetti Group, while in 1996 he headed Banco Ambroveneto.

In 1998, he joined Poste Italiane. He then returned to the credit world in 2002, as managing director and CEO of IntesaBci, the banking group resulting from the merger of Banca Intesa and Banca Commerciale Italiana.

In summer 2006, he contributed to the merger between Banca Intesa and San Paolo IMI, which gave rise to Intesa Sanpaolo, of which he later became managing director and CEO.

In November 2011, he was invited to join the Monti Administration as Minister of Economic Development and Infrastructure and Transport, a post that would end in 2013 with the end of the parliamentary term. Since June 2015, he has been working on a project to relaunch Milan, with the aim of enabling the city to compete with the most dynamic European metropolises, while deciding not to stand in local elections.

Appointed Cavaliere del Lavoro in 2006 by the President of the Republic, he is a member of various advisory boards, including the McKinsey Advisory Council, and has served on various boards of directors of listed companies (including Finmeccanica and Credit Agricole in Paris) and non-profit institutions (Bocconi University, Scuola Normale Superiore di Pisa, Fondazione La Scala, Fondazione Cini, International Business Council of the World Economic Forum in Geneva, Wharton School in Philadelphia, International Institute of Finance in Washington).

In 2010, he established Encyclomedia Publishers, a publishing project with Umberto Eco for the production of the first, high-quality Storia della Civilità Europea.

In 2017, Corrado Passera, together with Andrea Clamer, founded SPAXS, the first SPAC (Special Purpose Acquisition Company), created to establish an operator active in the banking and financial sector, of which he is Chairman of the Board of Directors.

He has also been a member of the advisory board of Next Energy Capital Ltd (a British photovoltaic investment group) since February 2017, and non-executive Chairman of Praxia Bank S.A. (Athens) since June 2017.

Massimo Brambilla

Massimo Brambilla graduated in 1996 with a degree in Business Administration from Luigi Bocconi University.

From 1996 to 1997 he worked with Tamburi & Associati as an analyst.

In 1997 he served as an auditor at Reconta Ernst & Young.

From 1997 to 2002 Massimo Brambilla served as Vice President of Mergers & Acquisitions and Head of the Transactions Team at Société Générale Investment Banking.

He has also held the position of manager at Euromobiliare Corporate Finance, between 2002 and 2004, and at Abaxbank, from 2004 to 2006.

Since 2006 Massimo Brambilla has been Managing Director Europe at Fredericks Michael & Co, in New York and London.

Massimo Brambilla is also a member of the Board of Directors of SPAXS, Tetis S.p.A. (a holding company with a shareholding in SPAXS) and Ca' Zampa s.r.l. (a company that manages veterinary clinics through technological innovation tools).

Giancarlo Bruno

Giancarlo Bruno is a member of the executive committee of the World Economic Forum - the international foundation for public-private cooperation - in New York, a role he has held for 15 years. He has led the Financial Institutions group, overseeing the teams responsible for partnerships with banks, insurance companies, asset managers, institutional investors, pension funds, sovereign wealth funds, hedge funds, private equity and venture capital funds. In this capacity he has managed over 200 partnerships with the world's largest financial institutions. His task was to organise the strategic and political agenda in the financial sphere.

Before joining the World Economic Forum, he spent several years in the banking sector in Vienna, London, Luxembourg and Geneva working for international banking groups and focusing on various areas such as corporate finance, private banking and wealth management.

In 1993, he graduated in Business Economics and Management from the Bocconi University of Milan, with a thesis on public policy dedicated to the European Structural Funds for regional economic development, obtaining the highest marks. In 1995, he graduated in International Management from the Wirtschaftsuniversität Wien (Vienna University of Economics), while in 2010, he completed his studies with a Global Master of Arts from the Fletcher School of Law and Diplomacy, with a thesis suggested by Professor Romano Prodi on the interaction between political and legal factors in the process of European enlargement, a comparative analysis between the Polish and Turkish cases. From 2006 to 2008 he was a Senior Fellow at the Mossavar Rahmani Center for Business and Government at the Harvard Kennedy School of Government, where he followed a research project on social mobility issues in Europe. He has refined his leadership skills through various training programmes, attending academic institutions such as the Insead, the Wharton School of the University of Pennsylvania and the Said Business School of the University of Oxford.

He is a member of the Board of Directors of illimity Bank (now Banca Interprovinciale S.p.A.), the Bretton Woods Committee, the International Advisory Group of the Fletcher School of Law and Diplomacy, as well as of the Bocconi Alumni Association NY, Friends of Bocconi and the University Club of New York. He is also an Honorary Fellow of the Foreign Policy Association and acts as a consultant for the President of the UN Women for Peace Association and for the Global Shapers Foundation. In 2018, he was appointed Cavaliere dell'Ordine al merito of the Italian Republic. Giancarlo speaks five languages and teaches Italian Literature and Culture in Geneva at the Université du Canton de Genève.

Elena Ciallié

Elena Ciallié graduated in 1991 with a degree in Business Administration from Bocconi University in Milan.

She is currently a director of Gedi Gruppo Editoriale S.p.A.. Over the past eight years, she has been a partner of the financial consultancy firm Ondra Partners LLP, which has helped develop up to 50 employees, with revenue of approximately $1 million each and offices in London, Milan, Paris and New York.

Prior to joining Ondra, Elena was Managing Director at the London branch of Goldman Sachs, where over the course of a decade she held various positions in the Leverage Finance, Advisory and Financing departments, successfully initiating and concluding risk capital raising, debt and M&A operations for both corporate customers and private equity funds.

Elena Ciallié began her professional career in investment banking in 1994 at Citibank's Milan branch before moving to the London branch, where she was responsible for structuring, underwriting and distributing financing operations, as well as managing credit portfolios in Europe.

Robert Edward Diamond

Robert Edward Diamond, a New York resident, is a founding partner and CEO of Atlas. He is also the founder and non-executive director of Atlas Mara Limited. Until 2012, he was Chief Executive of Barclays, in particular Barclays Capital and Barclays Global Investors (BGI), and before that he served as President of Barclays itself. Previously he was executive director of Barclays (from 2005), after becoming a member of the Barclays Executive Committee in 1997.

Prior to joining Barclays, he held management positions at Credit Suisse First Boston and Morgan Stanley in the United States, Europe and Asia. In particular, from 1992 to 1996 he worked at Credit Suisse First Boston, serving, among other positions, as Vice President and Head of Global Fixed Income and Foreign Exchange in New York, as well as Chairman of the Board of Directors, Chairman and CEO of Credit Suisse First Boston Pacific. From 1979 to 1992 he worked at Morgan Stanley, where his last position was as Head of European and Asian Fixed Income Trading.

He is currently a member of the Board of Directors of South Street Securities Holdings Inc. and Praxia Bank S.A. He is also a trustee of the American Foundation of the Imperial War Museum Inc., a life member of the Council on Foreign Relations and involved in various non-profit initiatives, which among other things have seen him engaged as director of the Diamond Foundation. He is a life trustee and former president of the Colby College Board of Trustees.

He holds a Bachelor's degree in Economics from Colby College, Maine, and a Master's in Business Management from the University of Connecticut. He obtained an honorary degree in Literature from the University of Connecticut and an honorary degree in Law from Colby College.

Sigieri Diaz della Vittoria Pallavicini

Sigieri Diaz della Vittoria Pallavicini graduated in Economics and Commerce at La Sapienza University of Rome in 1993.

Since 1989 he has been a member of the Board of Directors of the Pallavicini family holding company, and, since 1991 he has managed the agricultural and wine sector, a position he still holds today. From 1991 to the present day, under the careful guidance of his mother, Princess Pallavicini, President of the holding company, he has been in charge of all the activities in the agricultural and wine sector of the Pallavicini holding company for about 26 continuous years.

In addition to directing and developing the agricultural activities of the Pallavicini family, as part of the diversification of his assets Pallavicini founded the GWM Group, a financial group which he managed and developed from 2001 to 2015 and which has become a major player in the Italian Wealth Management sector. Over almost 15 years, it has grown from 3 people to about 300. The group was launched as a multi-family office, one of the genuine pioneers in Italy, and then diversified from the purely financial sector to an industrial one through the acquisition of shareholdings in large industrial groups. Financial activities range from asset management for institutional customers and for so-called ultra-high net worth individuals to consulting for listed companies with the subsidiary Sodali, leader in Italy. The financial group's activities range from fiduciary and estate planning services to investments in the real estate sector, to direct investments in listed and unlisted companies such as Pirelli and many other equity investments. The group is active in the main European financial centres. In the industrial investment process, Sigieri has developed a green electricity production activity (wind and solar) by taking control of the Danish listed group Greentech Energy Systems, which he has strategically managed from 2010 to 2014, making two takeover bids in Denmark and Spain. Greentech's green energy production plants are mainly located in Italy, Sardinia, Sicily, Apulia and Lazio.

Before founding the GWM Group, from 1993 to 2001 Sigieri worked for major American investment banks including Lehman Brothers, Prudential Securities, JP Morgan, Merrill Lynch and Morgan Stanley, once again in the capital markets sector, by investing in all types of securities, from futures to options, currencies, commodities, equities and bonds and all types of investment funds.

In 2015, Sigieri sold the GWM group to its minority shareholders who had accompanied him on this expansion path, to focus on acting as managing director of Holding Pallavicini as part of the ambitious project of creating the most important Italian Private Equity Fund. Together with other partners, he set up the SGR Armonia, authorised by Banca d'Italia, and launched the Armonia Italy Fund, which has capital of around EUR 300 million and invests in Italian companies that represent Italian-made products and Italian excellence around the world. The fund has made three investments in different product sectors including the famous 'Alberto Aspesi' band, one of the leading men's and women's clothing companies in Italy.

In addition to Private Equity Sigieri, founded a real estate company, Atlantica Real Estate, with an investment plan of over EUR 1 billion in trophy real estate in Italy. To date the portfolio has already received investments of around EUR 700 million.

Pallavicini Holding, directed by Sigieri, is also the owner of one of the most important private collections of Baroque art in Europe and of considerable real estate assets that are managed and directed by Sigieri's brother, Moroello.

Alessandro Gennari

Born in Modena on 14 October 1960, he graduated in accounting in 1979 from the Jacopo Barozzi Technical and Commercial Institute in Modena.

He immediately began working at Credito Romagnolo S.p.A. in Bologna in various front and back-office offices, becoming an official and deputy branch manager in 1985. Subsequently, in 1992, he became Director of the Sassuolo branch until the merger with Carimonte Banca, which gave rise to a new entity called Rolo Banca 1473.

In 1994, he was appointed Director of the Ravenna Headquarters, and the following year Deputy Director of the Ravenna Area, consisting of 14 branches.

In 2001, following the merger of Rolo Banca 1473 and Credito Italiano, resulting in the establishment of Unicredit S.p.A., he was appointed Director of the Sassuolo office, which was one of the largest companies in Italy as regards productivity, with 4 customer companies listed on the stock exchange, important shareholdings in administration and various transactions for the placement of corporate bonds with listed institutional investors.

In 2002 he became a manager.

In 2003 he was appointed Director of the Unicredit Corporate S.p.A. Ceramics Area, coordinating 15 managers, 25 assistants, 1 foreign goods centre composed of 9 employees, 4 extraordinary finance specialists and 2 investment services employees.

In 2008 he became Director of the Province of Modena of Unicredit Corporate S.p.A., coordinating 10 corporate teams.

In January 2010 he was appointed General Manager of Banca Interprovinciale S.p.A., contributing to the development of the bank and the good results of its balance sheet, with a strong focus on risk management; he kept this position until September 2018, following the transfer of the majority stake to SPAXS S.p.A.

He currently holds the position of Director of Banca Interprovinciale S.p.A.

Maurizia Squinzi

Freelancer in the finance and financial services area. She is a consultant and senior manager in the areas of general management, CFOs (finance, administration and control) and business planning in complex, industrial, service and insurance companies.

She is currently a non-executive and independent Director of Maire Tecnimont S.p.A. Previously, she was a member of the Board of Directors, Chairperson of the Risk Committee and member of the Remuneration Committee of Banca Carige S.p.A. until June 2017. She was General Manager of Mittel S.p.A. until January 2015 and a member of the Board of Directors and Executive Committee of Sorin S.p.A. until April 2015.

She has served as Director of Resources (financial and human) in the financial restructuring of the San Raffaele Hospital in Milan; as CFO in the organisational restructuring and strategic relaunch of Poste Italiane; as Group Director for planning and control, she participated in the financial and organisational restructuring of the Montedison Group.

After graduating in Economics and Commerce with honours from Bocconi University, she worked for more than eight years for the consulting firm McKinsey & Co. in the area of finance and financial products.

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The following table indicates the main corporations or partnerships, other than the Issuer, in which the members of the Board of Directors are and/or have been members of the administrative, management or supervisory bodies, or shareholders, in the five years preceding the Prospectus Date.

First and last name	Company	Position or participation	Status
Rosalba Casiraghi	ENI S.p.A.	Chairperson of the Board of Statutory Auditors	Currently held
	FSI SGR S.p.A.	Director	Currently held
	Luisa Spagnoli S.p.A.	Director	Currently held
	SPAPI S.p.A.	Director	Currently held
	SPAMI S.p.A.	Director	Currently held
	Recordati S.p.A.	Director	Currently held
	Whirpool EME S.p.A.	Standing Auditor	Currently held
	Whirpool Italia Holding S.r.l.	Standing Auditor	Currently held
	SEA S.p.A.	Standing Auditor	Currently held
	Banca Popolare di Vicenza (Fondo Atlante)	Chairperson of the Board of Statutory Auditors	Left office
	Intesa San Paolo S.p.A.	Supervisory Board Member	Left office
	Fila S.p.A.	Standing Auditor	Left office
	Italo S.p.A.	Chairperson of the Board of Statutory Auditors	Left office
	Persidera S.p.A.	Standing Auditor	Left office
	Nh hotels S.A.	Director	Left office
	NPL S.p.A.	Chairperson of the Board of Statutory Auditors	Left office
	Telecom Media S.p.A.	Chairperson of the Board of Statutory Auditors	Left office
	PIXI Holding S.A.	Partner	Currently held
Corrado Passera	Metis S.p.A.	Sole Administrator	Currently held
	Tetis S.p.A.	Chief Executive Officer	Currently held
	SPAXS S.p.A.	Chairman of the Board of Directors	Currently held
	Ca' Zampa S.r.l.	Director	Currently held

First and last name	Company	Position or participation	Status
	Praxia Bank S.A.	Non-executive member and Chairman of the Board	Currently held
	Next Energy Capital Ltd	Member of the Advisory Board	Currently held
	Mckinsey & Co	Member of the advisory board	Currently held
	Metis S.p.A.	Partner	Currently held
	Larihotels S.p.A.	Partner	Currently held
	Immob. Bosco Montorfano S.p.A.	Partner	Left office
	Como Venture S.r.l.	Partner	Currently held
	Ediglobe S.r.l.	Partner	Currently held
	Mediaglobe S.r.l.	Partner	Currently held
	EM Publishers S.r.l.	Partner	Currently held
	Weroad S.r.l.	Partner	Currently held
	T-Square S.r.l. S.r.l. in liquidazione	Partner	Left office
	Club Italia Investimenti 2 S.p.A.	Partner	Left office
	PetVet Holding S.r.l.	Partner	Currently held
	Immobiliare Venezia S.r.l.	Partner	Left office
Massimo Brambilla	Tetis S.p.A.	Chairman of the Board of Directors	Currently held
	SPAXS S.p.A.	Director	Currently held
	Ca' Zampa S.r.l.	Director	Currently held
	Metis S.p.A.	Partner	Currently held
	PetVet Holding S.r.l.	Partner	Currently held
	Golfnspa S.r.l.	Partner	Currently held
	Hexagon Group S.r.l.	Partner	Currently held
Giancarlo Bruno	Nessuna		
Elena Cialliè	Gruppo Editoriale GEDI S.p.A.	Director	Currently held
	Ondra LLP	Partner	Left office
Robert Edward Diamond	Atlas Merchant Capital	Director	Currently held
	Atlas Mara Co-Nvest Limited	Chairman of the Board of Directors	Currently held
	CRUX Informatics	Director	Currently held
	South Street Securities	Director	Currently held
	Praxia Bank SA	Director	Currently held
	Diamond Family Foundation	Director	Currently held
	Atlas Merchant Capital LP	Partner	Ongoing
	Atlas Merchant Capital GP LLC	Partner	Ongoing
	AMC MGP Ltd	Partner	Ongoing
	AMC Fund MGP LP	Partner	Ongoing
	Incapture LP	Partner	Ongoing
	Crux Informatics	Partner	Ongoing
	ATMA	Partner	Ongoing
Sigieri Diaz della Vittoria Pallavicini	Atlantica Real Estate S.r.l.	Deputy Chairman of the Board of Directors	Currently held
	ARMONIA SGR S.p.A.	Chairman of the Board of Directors	Currently held
	Fidim Holding S.r.l.	Director	Currently held
	SDP HOLDING di Partecipazioni S.r.l.	Sole Administrator	Currently held
	Terre dei Pallavicini	Chairman of the Board of Directors	Currently held

First and last name	Company	Position or participation	Status
	SDP Fiduciaria S.r.l.	Chairman of the Board of Directors and Chief Executive Officer	Currently held
	SDP Capital Management Ltd	Director	Currently held
	SDP Advisory SA	Chairman of the Board of Directors	Currently held
	Greentech Energy System AS	Chairman of the Board of Directors	Left office
	Rottapharm Madaus	Director	Left office
	GWM Group	Chairman of the Board of Directors	Left office
	Atlantica Real Estate S.r.l.	Partner	Ongoing
	Armonia SGR S.p.A.	Partner	Ongoing
	SDP Holding di partecipazioni S.r.l.	Partner	Ongoing
	Terre dei Pallavicini	Partner	Ongoing
	SDP Fiduciaria S.r.l.	Partner	Ongoing
	SDP Capital Management LTD	Partner	Ongoing
	SDP Advisory SA	Partner	Ongoing
Alessandro Gennari	Banca Interprovinciale S.p.A.	General Manager	Left office
	Banca Emilveneta S.p.A.	Administrator	Left office
	SPAXS	Partner	Ongoing
Maurizia Squinzi	Maire Tecnimont S.p.A.	Director	Currently held
	Alcotel Group	Director	Currently held
	SPAXS S.p.A.	Independent Director	Currently held
	Banca Carige S.p.A.	Director, Chairperson of the Control Committee, Member of the Remuneration Committee	Left office
	Mittel S.p.A.	General Manager	Left office
	Earchimede S.p.A.	Chairperson and Chief Executive Officer	Left office
	Fashion District Group S.p.A.	Executive Chairman	Left office
	Castello SGR S.p.A.	Director	Left office
	Sorin S.p.A.	Director and Member of the Executive Committee	Left office

As per Book I, Title V of the Italian civil code, none of the members of the Board of Directors is related to the other members of the Board of Directors, to the members of the Issuer's Board of Statutory Auditors and/or to the Issuer's Senior Executives.

To the best of the Company›s knowledge and except as indicated below, over the past five years none of the members of the Board of Directors (i) has been convicted of any offence of fraud or bankruptcy; (ii) has been declared bankrupt or subject to bankruptcy proceedings or has been associated with any bankruptcy, receivership or liquidation proceedings; (iii) has been officially charged and/or has been the subject of sanctions by public or regulatory authorities (including designated professional associations) in the performance of his or her duties, nor has he or she been disqualified from the office of administration, management or supervision of the Issuer or from the office of management or direction of other companies.

With reference to the Chief Executive Officer Corrado Passera, the following should be noted: (i) the same is accused, together with other parties, in the proceedings of a criminal trial (Criminal

Proceedings no. 852/15, General Register of the Court of Ivrea and no. 2748/2017 General Register of the Court of Appeal of Turin) concerning the accusation referred to in Articles 590 of the Italian criminal code and 589 of the Italian criminal code, as well as the violation of the regulations for the prevention of accidents at work and concerning hygiene at work, in relation to the exposure to asbestos of two workers of the company Ing. Olivetti & C. S.p.A.The dispute was filed on the basis of the position held by the aforesaid Company during the period 25.9.1992-4.7.1996. Following the outcome of the second instance proceedings, the Court of Appeal of Turin, revising the initial judgement, acquitted the Chief Executive Officer (and the other defendants) on the grounds of lack of evidence.The decision is not yet final. On 21 December 2018, pursuant to Article 606 of the Italian code of criminal procedure the Chief Public Prosecutor filed an appeal with the Court of Cassation , against the ruling handed down by the Court of Appeal of Turin; (ii) the same is registered as part of a preliminary investigation at the Public Prosecutor's Office of the Court of Ivrea, notification of which was issued in a notice extending the time limit for preliminary investigations (therefore, the prosecution was not carried out and no notice of completion of the preliminary investigations was issued).The investigation concerns the damage caused by exposure to asbestos suffered by some of the workers of the company Ing. Olivetti & C. S.p.A. other than those concerned by the abovementioned proceedings, case no. 852/15, General Register of the Court of Ivrea and no. 2748/2017, General Register of the Court of Appeal of Turin (at present, the provisional accusation of a crime subject to registration is that referred to in Articles 589 and 590 of the Italian criminal code) (iii) he is also a party to a preliminary investigation at the Public Prosecutor's Office of Turin, notification of which was issued in a notice of extension of the time limit for preliminary investigations (therefore, the prosecution was not carried out and no notice of completion of the preliminary investigations was issued), which allegedly concerns a transaction for the acquisition of a foreign bank by the Intesa Sanpaolo Group (at present, the provisional accusation of a crime subject to registration is the one referred to in Articles 110, 648-bis and 648-ter of the Italian criminal code).

With reference to Director Gennari, it should be noted that on 6 August 2018 he obtained the closure of the proceedings concerning the accusation of bank usury, fraud and extortion.

With reference to Director Diamond, it should be noted that in the United States some companies of the Barclays group (of which Director Diamond was Chairman) have been the subject of civil proceedings with reference to alleged LIBOR manipulation and with reference to the management of trading outside the markets. Diamond was personally summoned to appear in three civil proceedings (i.e. Barclays Bank PLC Securities Litigation; Giusinsky v. Barclays PLC et al.; and Strougo v. Barclays PLC et. al.). On March 14, 2015, a U.S. court reached a settlement in the Giusinsky v. Barclays PLC et al. case, in respect of which Diamond Director has not admitted any irregular conduct and will not pay, even in part, the price of the transaction.With reference to the Strougo v. Barclays PLC et. al. proceedings, Director Diamond was moreover considered entirely extraneous by the American Court in September 2018; the Court held that it did not assign to Director Diamond any responsibility for the matter in question. In the Barclays Bank PLC case, the Court rejected the matter entirely against all the defendants, including Director Diamond, and this judgement was recently upheld on appeal.

In consideration of the foregoing, it is declared that, as at the Prospectus Date, Director Diamond – as stated by the Director himself on 17 December 2018 – was not party to any of the aforementioned proceedings, insofar as none of the aforementioned proceedings is subject to appeal and subsequent judgement.

* * *

Conferral of powers

On 20 September 2018, the Company's Board of Directors conferred on Corrado Passera, in his capacity as Chief Executive Officer of the Company, the following powers and responsibilities:

- Deposit of amounts in current accounts with correspondent banks;
- Withdrawal of cash from correspondent banks not exceeding EUR 100,000.00;
- Withdrawal of cash from correspondent banks in excess of EUR 100,000.00;
- Issuance of current account cheques on correspondent banks not exceeding EUR 200,000.00;
- Issuance of current account cheques on correspondent banks in excess of EUR 200,000.00;
- Transfers to correspondent banks;
- Execution of transfer orders to correspondent banks on available funds in management accounts not exceeding EUR 1,000,000.00;
- Execution of transfer orders to correspondent banks on available funds in management accounts in excess of EUR 1,000,000.00;
- Execution of transfer orders in favour of third parties on available funds in management accounts not exceeding EUR 250,000.00;
- Execution of transfer orders in favour of third parties on available funds in management accounts in excess of EUR 250,000.00;
- Initiation, modification and extinction of contracts and agreements with banking and financial intermediaries, in relation to deposits, current accounts, credit facilities, etc.;
- Collection of mail, parcels, registered mail etc.;
- Issuance of sureties, pledges, guarantees, letters of guarantee in favour of public or private entities;
- Reports on shareholder structure (A.P.E) and corporate bodies (GIAVA);
- Access to the Revenue Agency's Entratel service and execution of provisions for payment of taxes due;
- Market Abuse Reports;
- Acts to be filed with the Register of Companies;
- Communications and notifications to the Privacy Authority;
- Supervisory reports;
- Anti-money laundering (Uif) reports;
- Reports / questionnaires with the Italian Banking Association.

The powers attributed to the Chief Executive Officer, Mr. Corrado Passera, with single signature, are listed below:

1. General administrative powers

1.1. Implement the resolutions of the Board of Directors by means of provisions addressed to the competent offices.

1.2. Formulate proposals to the Board of Directors on all matters relating to company management.

1.3. Have the power of signature for all acts of ordinary administration and for those envisaged by a specific resolution of the Board of Directors.
1.4. Supervise the preparation of the financial statements.
1.5. Set up and update the strategic plan, the annual operating plan and the operating budget, proposing to the Board of Directors justified alternatives in terms of scenarios and development prospects.
1.6. Update risk policies in relation to existing and potential risks, proposing justified alternatives in terms of risk/return combinations to the Board of Directors.
1.7. Promote the spread of a corporate culture based on an informed assumption of the risks typical of banking management.
1.8. Promote the activation of the company's organisational conditions for the initiation, consolidation and evolution of the process of measuring and controlling company risks.
1.9. Define the tasks of the Business Area dedicated to control functions.
1.10. Define the information flows aimed at ensuring that the administrative body, or the bodies delegated by it, has full knowledge and governability of the company's facts.
1.11. Propose to the Board of Directors the choices relating to the propensity to accept the different types of risk as well as the relative measurement methods.
1.12. Grant specific powers to employees with particular duties, in application of resolutions of the Board of Directors.
1.13. Propose to the Administrative Body the delegation of external company operating processes or the implementation of individual projects or planned initiatives.
1.14. Check the alarm and safety systems.
1.15. Maintain relations with bodies and companies in the credit sector, with the Supervisory Bodies, with bodies and trade associations.
2. Company Signature
2.1. Sign correspondence and any other document that requires the signature of the Company and that concerns business included in the powers delegated herein.
2.2. Collect ordinary, registered and insured letters from post offices and telegraphic offices; postal and telegraphic orders, parcels and packages, documents, goods, money, goods of all kinds.
3. Relations with the Public Administration and other public bodies
3.1. Represent the Company before any public or private body and in all relations with the tax, financial, administrative and judicial offices of all the State administrations, including, by way of example, but not limited to, the companies and administrations of the State with an autonomous or special system, the Ministries, Prefectures, Regions, Provinces and Municipalities, Comunità Montane and their consortia and associations, chambers of commerce, industry, crafts and agriculture and their associations, all national, regional and local non-economic public bodies, administrations, companies and bodies of the national health service, parastatal and social security bodies, trade unions and employers' associations, including social security and insurance bodies (INPS, INAIL, etc.), Labour Offices, Labour Inspectorates, Trade Union and Entrepreneurial Associations, State Railways, Post Offices and Telegraphs, Transport and Navigation Companies, whether air or sea, also to carry out operations at these offices, for any business or practice, signing declarations and issuing any necessary document to obtain from the aforementioned bodies any licence, authorisation and administration of services that may be necessary for the company in accordance with the corporate purpose and with the resolutions of the Board of Directors.

3.2. Represent the company in relations with public or private post offices and forwarding agents with the right to receive and send parcels, packages and registered mail.

3.3. Sign applications, appeals and acts falling within the powers granted herein.

3.4. Establish and withdraw security deposits from Ministries, Public Debt Offices, the Cassa Depositi, the Intendenze di Finanza, the Customs Service, the Municipalities, the Provinces, the Regions, and any other office, public body and/or public authority.

4. Employment and Organisation Contracts

4.1. Manage the staff in accordance with the by-laws, exercising the power to establish and modify assignments and destinations.

4.2. Plan staff development and training programmes.

4.3. Define staff policies and implement the guidelines approved by the Board of Directors on staff remuneration.

4.4. Maintain relations with trade unions.

4.5. Hire and promote the executives and managers of the Company (including heads of divisions) without limits in terms of the amount of clerical and administrative staff employed; define the operating divisions into which the business activity will be divided and appoint the relative managers, impose the disciplinary measures provided for in the contract, establish and modify the relative powers and remuneration.

4.6. Suspend or dismiss clerical and administrative staff, executives and managers of the Company; impose the disciplinary measures envisaged in the contract, establish and modify the relative powers and remuneration.

4.7. Appoint and dismiss representatives, custodians or commission agents, establishing or modifying their powers and remuneration.

4.8. Enter into collective labour agreements and company agreements; enter into, denounce and modify agreements with trade unions both inside and outside the company. Define and carry out any act or agreement with national or local authorities and with EU bodies in the fields of social security, welfare and with regard to the administration of the Company's staff in general.

4.9. Issue payroll statements and staff declarations for social security, insurance and mutual institutions, other bodies or individuals.

4.10. Grant loans to employees, limited to specific family requirements and enter into the relevant contracts.

4.11. With the help of an appropriate organisation, perform all the acts necessary to ensure full compliance with all civil, criminal and administrative regulations in force from time to time regarding safety in accordance with Italian Legislative Decree 81/08 and subsequent amendments, with full powers of representation and autonomous management of financial resources that may be necessary for the concrete implementation of the tasks assigned; to apply and observe all the legal and regulatory provisions concerning safety in the workplace and accident prevention and environmental safety and hygiene, with reference to the work carried out by the Company's employees and independent contractors and carry out the appropriate checks on the correct observance of the aforesaid law with reference to the work carried out by the Company's contractors and their employees; to act and carry out all the actions necessary for the correct and timely fulfilment of all the obligations imposed on the employer by Italian Legislative Decree 81/2008, with particular reference to Articles 15, 18 and 19, as well as to all the consequent and/or connected tasks; to identify and assign, directly and independently, the relative task to the persons on whom responsibility for the services provided must be conferred or who must, in any case, be appointed in compliance with Italian Legislative Decree 81/2008.

4.12. Settle wages and any other indemnities relating to employment relationships, where appropriate issuing certificates and documents relating to them, including those for tax purposes.

5. Insurance

5.1. Stipulate and renew private or compulsory insurance policies, signing the relevant policies without any limit on the amount.

5.2. Amend the policies, withdraw from them, in the event of a claim agree on the indemnity owed by the insurer, and issue a receipt for the amount received.

6. Contracts, Procurement, Tenders, Licences and Agreements in general

6.1. Enter into, modify or terminate any agreement falling within the corporate purpose and instrumental to the management of the Company.

6.2. Enter into, modify or terminate agency or distribution agreements, with the power to determine the amount of commissions as well as additional terms and conditions.

6.3. Enter into, modify or terminate contracts for intellectual work, consultancy and collaboration without limits on duration or amount.

6.4. Enter into, modify or terminate leases of real estate, vehicles, or other registered movable property without limits on duration or amount.

6.5. Enter into and terminate financial leasing contracts relating to the purchase of movable property instrumental to the management of the Company, without limits on duration or amount.

6.6. Sign offers relating to the commercial and banking activities of the Company both in foreign and domestic markets, entering into the relative contracts without limits on duration or amount.

6.7. Compete and/or take part in any tender, auction or bidding procedure launched by companies or private entities or by companies or public bodies, whether governmental, regional or local, and any other public administration, including abroad, without limits in terms of duration or amount, by submitting and preparing all the relevant documentation; negotiate, sign, modify, terminate, cancel and rescind the contracts, bids and documents connected with the tendering procedure and its award.

6.8. Without any limit on the amount, lodge and withdraw securities and deposits with any authority, submit, amend or withdraw bids and, in general, carry out any operation or formality relating thereto.

6.9. Submit applications, sign documentation and carry out all acts connected with and consequent to subsidised lending initiatives and projects without limits on duration or amount.

7. Taxes and duties

7.1. Represent the company in relations with any governmental or local tax office, including abroad, with the power to appoint and revoke special attorneys and grant powers of attorney to qualified professionals, with the obligation to inform the Board of Directors of the powers of attorney issued at the first subsequent meeting.

7.2. Access the Entratel Service of the Revenue Agency and make arrangements for the payment of taxes due.

7.3. In the name and on behalf of the company, sign the declarations and certificates provided for in Articles 1, 5, 7, 7bis and 8 of Presidential Decree no. 600 of 29/9/1973 and subsequent amendments and additions, with this list considered merely illustrative and not exhaustive.

7.4. Attend tax audits and inspections of the Guardia di Finanza and any other authority and sign the relevant reports, with the obligation to inform the Board of Directors at the first subsequent meeting; sign declarations relating to direct or indirect taxes, forms or questionnaires; accept or reject assessments, reach agreements and definitions, challenge roles, submit requests, appeals, complaints, memoranda and documents before any tax office or commission, including the Central Tax Commission, with the obligation to inform the Board of Directors at the first subsequent meeting; collect refunds and interest, issuing receipts, and, in general, carry out all practices relating to any type of direct or indirect tax or duty and contribution.

8. Relations with the supervisory authorities

8.1. Make reports on shareholding structures (A.P.E) and corporate bodies (GIAVA).

9. Representation in legal proceedings

9.1. Represent the Company before any magistrates in Italy or abroad, as well as political, administrative, trade union and tax authorities, in any judgement, process, procedure and proceedings, in any state and degree, both of merit and legitimacy, including but not limited to before the following authorities: Justice of the Peace, Ordinary Court, Court of Appeal, Court of Cassation, Regional Administrative Court, Council of State, Provincial Tax Commission, Regional Tax Commission; promote and introduce any civil, criminal, administrative, fiscal, ordinary or special judgement, trial, procedure and proceedings before any judicial, administrative, fiscal authority; make a deposition, draw up complaints, appeals and challenges against any measure of the aforesaid offices, signing every relevant document and every declaration of a fiscal nature; propose, revoke and file requests, clarifications, complaints and/or actions.

9.2. Grant and revoke mandates to lawyers, attorneys and technical advisors, vesting them with the appropriate powers, including the power to sub-delegate.

9.3. Accept, refer, report and swear oaths, including decisory oaths; make the third-party declaration pursuant to Article 547 of the Italian criminal code.

9.4. Request attachment or legal seizure from debtors or third parties.

9.5. Represent the company in bankruptcy proceedings, compulsory administrative liquidation, composition with creditors and receivership of third-party debtors, collecting amounts on account or as a balance and issuing receipts; file applications and appeals and vote in such proceedings.

9.6. Represent the company before employment courts in all places and at all levels, as well as in extra-judicial, trade-union or arbitration proceedings and any other competent venue in labour disputes, with all the broadest powers including those of appointing and revoking lawyers, attorneys, defendants and experts, taking care of the execution of judgements and doing whatever else is necessary and appropriate for the full and best settlement of such disputes.

9.7. Entrust any dispute to arbitrators, including in amicable settlements, both on the basis of arbitration clauses and on the basis of separate acts of compromise, appointing arbitrators and providing for all the inherent formalities and related consequences in arbitration proceedings.

10. Settlements

10.1 Negotiate, reconcile and issue discharge by signing settlement agreements for this purpose, concerning disputes with customers, suppliers, employees and third parties in general without limits on duration or amount, with the obligation to inform the Board of Directors at the first subsequent meeting.

11. Power of sub-delegation

11.1. Appoint general and/or special attorneys for the performance of certain acts or categories of acts, within the scope of the powers conferred herein, both to employees and to third parties.

11.2. Elect domiciles to meet any operational requirement of the Company.

14.1.1.1. Independence requirements for directors

With reference to the qualifications as Bank director of dott. Sigieri Diaz Della Vittoria Pallavicini (the "Director"), also indicated as "independent director" pursuant to art. 148, as recalled by art. 147-ter, paragraph 4, of TUF, as well as art. 3 of the Code of Conduct, we hereby detail the reasons on which this qualification is based as assessed by the Issuer's Board of Directors during its self-evaluation and, hence, verification of the possession of the qualifications, inter alia, of independence for the members of the same Board of Directors (so called Fit & Proper) in accordance with legislation, regulations and self-regulations applicable to the Issuer, as performed on 10 October 2018 as well as on 11 February 2019, within the context and while awaiting admission to MTA trading for the Issuer's Ordinary Shares and its .Conditional Share Rights once the Merger is completed.

On the Prospectus Date, the Director, indirectly, is the holder of the entire share capital of SDP Capital Management Ltd ("SDP Capital Management"), a Maltese manager (AIFM) of the alternative Luxembourg investment fund entitled SDP RAIF-Genesis (the "Fund"), the latter owning a shareholding of 9.88% of the share capital with voting rights of SPAXS. Once the Merger is completed, the Fund will become the holder of a shareholding of 9.88% of the Banks share capital with voting rights.

In greater detail, it is reported that: (i) the entire shareholding in SDP Capital Management is held by SDP Holding S.r.l. ("SDP Holding"), the share capital of which is held, for 70% directly by the Director, and the remaining 30% by the SDP Advisory S.A. company ("SDP Advisory").The Director also owns the entire share capital of SDP Advisory; (ii) the Director has been appointed as sole Managing Director of SDP Holding and Chairman of the Board of Directors of SDP Advisory; (iii) The Board of SDP Capital Management is made up of 4 directors, including the Director, of which 3 are qualified as independent directors. As far is it is of interest here, it is further reported that the chairmanship of said organism is taken on, in each instance and for each Board meeting, by one of the members of the same management body, including the same Director.

SDP Capital Management – which should be recalled is a Fund Manager – in line with market practice, is provided with an investment committee, made up of no. 3 members, including the Director, who however does not hold the role of portfolio manager, unlike the other two members who are, at the same time, portfolio managers and responsible for the Fund's single investment or de-investment decisions.

Finally, it is reported that, on the Prospectus Date: (i) neither the Director, nor the subjects directly and/or indirectly related and/or connected to him, are owners of Fund interests and (ii) on the basis of the information available to the Bank and to the Director, even taking into account the nature of RIAF under Luxembourg law, the shareholding that the Fund owns in SPAXS, and that shall be held in Illimity once the Merger is complete, represents approximately 5.6% of the overall resources of the same fund (which amount to approximately EUR 700/800 million).

For the purpose of assessing the fulfilment of independence requirements pursuant to Articles 184 TUF and 2 of the Code of Conduct (the "Independence requirements") for the Director, the Bank's Board of Directors has conducted an analysis which, given the circumstantial picture provide above, has taken into account, in particular the existence of any ties or any other asset related or professional relations between the Director and the Bank and/or SPAXS, such that they may compromise said Director's independence, in compliance with the dispositions of art. 148, paragraph 3, of the TUF, as well as the existence, in the case in point, of relations between the Director and the Bank and/or SPAXS, that might influence his independence of judgement, as recommended by the Code of Conduct.

The enquiry conducted by the Bank's Board of Directors, even in light of the circumstances effectively detailed by the Director (and reported above), has not brought to light the existence of any circumstances that might hinder the possibility of qualifying said Director as an independent director pursuant to Art. 148 TUF as well as pursuant to art. 3 of the Code of Conduct. And this for the set of reasons outlined below.

In the first place, as anticipated above, the shareholding in SPAXS. and, with the completion of the Merger, in the Bank – is held by the Fund and, therefore, by a third party subject formally distinct from SDP Capital Management. On this point, it should be recalled that the Fund, after all, like any other alternative reserved investment fund , is considered a "cover pool", managed upstream in the interest of the investors and independent from them, based on a pre-established investment policy and, therefore, independently with respect to the managing entity (i.e. in the case in point, SDP Capital Management). Therefore, taking into account these Fund characteristics, it should be noted how the shareholding in SPAXS (and, once the Merger is complete, in the Bank) is held by a legal entity (i.e. the Fund) that cannot be attributable to the Director and/or to a company controlled by the same, seeing as formally and essentially separate from the entity entrusted with its management and which is responsible for it. It follows therefore that said shareholding, regardless of its size, cannot be considered, of its own, relevant for the purpose of assessing the fulfilment of the Independence Requirements.

Secondly, the Director does not hold any management posts and/or functions within SDP Capital Management. In fact, with reference in particular to SDP Capital Management an appointment mechanism for the Board chairman is in place, according to which said position is assigned, by rotation and for each meeting of the management body, to one of the Board members. This means that the position of Chairman of said administrative body is not, effectively, assigned on a permanent basis to any one subject, as is usually the case in companies set up under Italian law, and it would therefore seem irrelevant that the chairmanship has been or may have been assigned even by the same Director.

Furthermore although the Director is a member of the SDP Capital Management's investment committee, he has not been appointed portfolio manager and therefore play no active role in the individual investment and/or de-investment decisions pertaining to the Fund, seeing as said decisions, as detailed above, are entirely entrusted and managed by the two members of the investment committee who, at the same time, have been appointed portfolio managers. Hence, it being understood that at the investment committee level they share the overall responsibility for SDP Capital Management's investment strategy, the management of the Fund cannot effectively be attributed to the Director, seeing as is, conversely, assigned to the portfolio managers.

It should be further specified that, even in accordance with the practice followed in the past in similar circumstances to the one under assessment, it is foreseen that the Director abstain from any decision that may be functional and/or connected to the Fund's investment in SPAXS (and, after the completion of the Merger, in the Bank). This circumstance enabled one to believe that, although the Director is a member of the management bodies of the entity that manages the Fund (i.e. SDP Capital Management), he does not hold these posts as portfolio manager and has not, effectively, any power to influence the investment and/or disinvestment decisions that relate to SPAXS (and to the Bank).

In the light of the above, it is further specified that the Issuer has considered it irrelevant that the Director holds the post of Sole Managing Director of SDP Holding. The reason being that, although SPD Holding is the holder, as said, of the entire shareholding of SDP Capital Management, the latter, as Fund manager, is completely independent from its parent company (i.e. SDP Holding) since the investment and/or disinvestment decisions regarding the same Fund are taken by subjects specifically appointed for the purpose (that is to say the portfolio managers) who, furthermore, are required to strictly comply to the indications provided by the investment policy.

For the purpose of assessing the Director's fulfilment of the Independence Requirements, the Issuer has also taken into account the fact that neither the Director, not any subjected related and/or connected to the same, hold, either directly or indirectly, any interest in the Fund. It follows that, in addition to the fact that the shareholding in SPAXS (and in the Bank) is not directly attributable to the Director, nor to any companies in which he holds a controlling interest, it is to be ruled out that said Director has an interest of a direct economic or asset nature relative to the performance of the investment in SPAXS or, once the Merger is completed, in the Bank.

Lastly, it should be noted that the Issuer has also taken into consideration, as a relevant aspect for the purpose of the enquiry in question, the marginal incidence of the value of the investment represented by the shareholding in SPAXS (and, once the Merger is completed, in the Bank) compared to the overall resources held by the Fund, seeing as, as previously underlined, said value is equivalent to approximately 5/6% of said resources.

In the light of the above, and taking into account the relevant factual and legal circumstances, the Bank's Board of Directors has deemed that the Director meets the Independent Requirements, in the belief that the fact that the Director, indirectly, holds the entire share capital of the entity that manages the Fund, which, in turn, holds a minority interest in SPAXS's share capital (and, once the Merger is completed, in that of the Bank) is not sufficient to compromise the independence and autonomy of judgement of said Director with regard to the provisions of art. 148, paragraph 4, TUF and art. 3 of the Code of Conduct, respectively.

14.1.2 Board of Statutory Auditors

Pursuant to Article 28 of the Post-merger Bylaws, the Board of Statutory Auditors consists of 3 standing auditors and 2 alternate auditors who remain in office for three financial years, expiring on the date of the Ordinary Shareholders' Meeting called to approve the financial statements for the third financial year of their office, and who may be re-elected.

The Issuer's Board of Statutory Auditors was appointed on 18 January 2019 and will remain in office from until the date of the Shareholders' Meeting called to approve the financial statements as at 31 December 2021.

As of the Prospectus Date, the Board of Statutory Auditors is composed as indicated in the table below.

It should be noted that the rules relating to gender requirements as well as the regulations concerning the voting list established for listed companies will be applicable to the Issuer as from the first renewal of the corporate bodies following the Trading Start Date.

First and last name	Position	Place and date of birth
Ernesto Riva(1)	Chairman of the Board of Statutory Auditors	Seregno (MB). 24 April 1945
Stefano Caringi(2)	Standing Auditor	Rome, 13 July 1944
Nadia Fontana(3)	Standing Auditor	Rome, 15 November 1961
Riccardo Foglia Taverna(4)	Alternate Auditor	Trivero (BI), 10 June 1966
Michela Zeme(5)	Alternate Auditor	Mede (PV), 2 January 1969

(1) Statutory auditor registered under no. 123738, Ministerial Decree of 18/12/2001 published in the Official Journal of 04/01/2002, fourth special series

(2) Statutory auditor registered under no. 11190, Ministerial Decree of 12/04/1995 published in the Official Journal no. 31BIS of 21/04/1995

(3) Listed on the Register of Chartered Accountants since 1987 and statutory auditor registered under no. 64745, Ministerial Decree of 13/06/1995 published in the Official Journal no. 46-bis of 16/06/1995, fourth special series, registration no.

(4) Listed on the Register of Chartered Accountants since 1994 and statutory auditor with the Directorate General of Civil Affairs and Liberal Professions of 25/11/1999, published in the Official Journal no. 100 of 17/12/1999, fourth special series

(5) Listed on the Register of Chartered Accountants since 1999 and statutory auditor registered under no. 120723, Ministerial Decree of 19/04/2001 published in the Official Journal no. 036 of 08/05/2001.

The members of the Board of Statutory Auditors are domiciled for the purposes of their office at the Company's registered office.

All members of the Board of Statutory Auditors meet the eligibility requirements set out in Article 2399 of the Italian civil code. Furthermore, all the members of the Board of Statutory Auditors meet the requirements of independence required by Article 148, paragraph 3 of the Consolidated Finance Law, and by the Code of Conduct (verified by the Board of Statutory Auditors at its meeting in February 2019), as well as the requirements of integrity and professionalism required by Article 148 of the Consolidated Finance Law and by the implementing regulation adopted by Decree of the Minister of Justice no. 162/2000.

As far as the Issuer is aware, as of the Trading Start Date all members of the Board of Statutory Auditors will comply with the provisions of Article 144-terdecies of the Issuers' Regulations on the subject of limits on the number of offices held.

The following provides a brief curriculum vitae of the members of the Board of Statutory Auditors.

Ernesto Riva

Ernesto Riva graduated in 1971 with a degree in Law from the Catholic University of Milan.

He has also been a statutory auditor since 2001.

From 1972 to 1976 he worked at Banco Ambrosiano/Nuovo Banco Ambrosiano/Banco Ambrosiano Veneto.

Since 1976 he has served as an official and, since 1986, as a manager (budget and tax).

From 1995 to 1997 he held the position of head of administration of Banco Ambrosiano Veneto, from 1998 to 2006 of Banca Intesa/ Banca Intesa Bci and from 2007 to 2015 of Intesa San Paolo.

He has also been a member of the Board of Directors of companies within the Intesa San Paolo Group and is currently Chairman of the Board of Statutory Auditors of SPAXS.

Stefano Caringi

Stefano Caringi graduated in Economics and Commerce from the University of Rome in 1971.

From 1965 to 1972 he worked as an employee at the Cassa di Risparmio di Roma.

From 1972 to 2004 he was an employee of the Banca d'Italia. Specifically:
- In 1972, at the Pesaro branch;
- From 1976 to 2004, working for the Central Administration of Banca d'Italia in Rome, Inspectorate of Supervision of Credit Companies. In 2000, he was appointed Senior Inspector.

He has participated in about 50 general inspections at Italian credit companies, including almost all the leading firms, including abroad (New York, Atlanta, London, Paris, Frankfurt, Tokyo), mainly as a manager.

He represented Banca d'Italia at the European Monetary Institute, Banking Supervisory Sub-Committee (Credit Institutions' Internal Control).

For many years, he has held teaching positions at Banca d'Italia and acted as rapporteur in seminars at various institutes.

Since 1996 he has been listed on the Register of Auditors.

Since 2004 he has been working as a consultant for banks and financial companies (Banca Popolare dell'Etruria, Banca Esperia, Cassa di Risparmio di Cento, Banca Popolare di Garanzia, Uniprof Corner, etc.).

From 2005 to 2009 he served as Chairman of the Board of Statutory Auditors of Cassa di Risparmio di Fano (Banca Intesa Group).

From 2006 to 2010 he was a member of the Supervision Coordination Committee of the Central Bank of the Republic of San Marino. Since 2006 he has served as head of the Supervisory Inspectorate Service and head of the Supervisory Department since 2008.

From November 2010 to September 2012 he served as Chairman of the Supervisory Committee of Banca di Credito Cooperativo di Tarsia (Cs), in extraordinary administration.

From May 2011 to May 2016 he served as Chairman of the Board of Statutory Auditors of BCC Recanati and Colmurano.

From October 2012 to September 2013 he was Chairman of the Supervisory Board of Banca Carim- Rimini.

From July 2016 to September 2017 he served as Chairman of the Board of Statutory Auditors of Banca Emilveneta-Modena.

Nadia Fontana

Nadia Fontana graduated in Economics and Commerce from La Sapienza University of Rome in 1986.

She qualified as a chartered accountant in 1987 and has been listed on the register of auditors since 1995. Since 1996 she has been a technical consultant to the Court of Rome.

Since 2003 she has been a partner in Studio Tributario e Societario, where she works as a chartered accountant, focusing on consultancy and assistance for leading Italian and foreign groups of companies.

She has held positions within the supervisory bodies of listed and supervised companies.

She has served as a member of the board of statutory auditors of Poste Italiane S.p.A. and Banca Popolare di Vicenza S.p.A.

Riccardo Foglia Taverna

Riccardo Foglia Taverna graduated in Economics and Commerce from the University of Turin in 1990.

Since 1994 he has been a member of the Milan Chamber of Chartered Accountants and was appointed auditor in 1999.

From 1991 to 1992 he served as an auditor at Reconta Ernst & Young.

From 1993 to 1997 he was head of tax affairs at the Banca Sella Group.

From 1997 to 2002 he was an associate of the corresponding law and tax firm Ernst & Young International, providing corporate and tax consulting services.

From 2002 to 2015 he was a partner of Studio Tributario e Legale Valenti e Associati.

Since 2016, he has been a partner in STLEX, an associated law and tax firm.

In recent years he has held, and still holds, corporate positions in numerous Italian companies.

From 2009 to 2016 he was a lecturer in the accounting department of the Bocconi University of Milan.

Michela Zeme

Michela Zeme graduated in 1994 with a degree in Business Administration from Bocconi University in Milan.

Since 1999 she has been working as a chartered accountant and auditor.

From 2003 to 2009 she was a member of the Tax and Corporate Consultancy Firm of Milan.

Since 2009 she has been tax consultant to Italian companies, many of which are listed, operating in the real estate, telecommunications, banking, insurance and financial sectors.

Since 2004 she has also been an inspector at the Commission for the Supervision of professional football clubs of the F.I.G.C.

Since 2012 she has been a member of the Governance Commission of Listed Companies of the Order of Chartered Accountants and Accounting Experts of Milan.

She has been and remains a member of the corporate bodies of various Italian companies and groups.

* * *

The following table indicates the main corporations or partnerships, other than the Issuer, in which the members of the Board of Statutory Auditors are and/or have been members of the administrative, management or supervisory bodies, or shareholders, in the last five years from the Prospectus Date.

First and last name	Company	Position or participation	Status
Ernesto Riva	SPAXS S.p.A.	Chairman of the Board of Statutory Auditors	Currently held
	Intesa San Paolo S.p.A.	Head of the central administration and tax department and reporting manager	Left office
	Intesa San Paolo Group Service SCPA	Director	Left office
	Intesa San Paolo Securisation Vehicle S.r.l.	Chairman of the Board of Directors	Left office
Stefano Caringi	Bcc di Recanati e Colmurano	Chairman of the Board of Statutory Auditors	Left office
	Banca Emilveneta – Modena	Chairman of the Board of Statutory Auditors	Left office
Nadia Fontana	Terna Rete Italia S.p.A.	Standing Auditor	Currently held
	CDP Immobiliare S.r.l.	Standing Auditor/member of the supervisory body	Currently held
	Starwood Italia S.r.l.	Standing Auditor	Currently held
	Ifratel S.p.A.	Standing Auditor	Currently held
	Laziocrea S.p.A.	Standing Auditor	Currently held
	Jtb Italy S.r.l.	Standing Auditor	Currently held
	Poste Italiane S.p.A.	Chairperson of the Supervisory Board 231/2001	Currently held
	Nuovo Pignone Holding S.p.A.	Chairperson of the Supervisory Board 231/2001	Currently held
	Poste Italiane S.p.A.	Standing Auditor	Left office
	Banca Popolare di Vicenza S.p.A.	Standing Auditor	Left office
	Energ S.p.A.	Chairperson of the Board of Statutory Auditors	Left office
	Marelli Motori S.p.A.	Standing Auditor	Left office
	Bunkerlocks S.r.l.	Partner	Ongoing
Riccardo Foglia Taverna	Banca Sella Honding S.p.A.	Alternate Auditor	Currently held
	Anteo Copperativa sociale	Standing Auditor	Currently held
	SOFT NW S.p.A.	Standing Auditor	Currently held
	Finanziaria 2010 S.p.A.	Standing Auditor	Currently held
	B&C Speakers S.p.A.	Chairman of the Board of Statutory Auditors	Currently held
	Cedis S.r.l.	Chief Executive Officer	Currently held
	Lampugnani Farmaceutici S.p.A.	Standing Auditor	Currently held
	Ambros Saro S.p.A.	Standing Auditor	Currently held
	Cabeco S.r.l.	Standing Auditor	Currently held
	Tekim S.p.A.	Standing Auditor	Currently held
	Jakil S.p.A.	Standing Auditor	Currently held
	Gestimm S.p.A.	Chairman of the Board of Statutory Auditors	Currently held
	Industries S.p.A.	Alternate Auditor	Currently held
	Ruffini partecipazioni Holding S.r.l.	Standing Auditor	Currently held
	Achille Pinto S.p.A.	Sole Auditor	Currently held
	Ci.Di.S. in liquidazione	Liquidator	Currently held
	Dafe 4000 S.p.A.	Standing Auditor	Currently held
	Ibiella S.r.l.	Standing Auditor	Currently held
	Zephyro S.p.A.	Standing Auditor	Currently held
	Franco Ferrari S.r.l.	Standing Auditor	Currently held

First and last name	Company	Position or participation	Status
	AVM Gestioni SGR S.p.A.	Alternate Auditor	Currently held
	Primomiglio SGR S.p.A.	Standing Auditor	Currently held
	Ruffini Partecipazioni S.r.l.	Standing Auditor	Currently held
	SPAXS S.p.A.	Standing Auditor	Currently held
	Angkorgaz S.p.A.	Standing Auditor	Currently held
	Boutique Italia S.p.A.	Chairman of the Board of Directors	Currently held
	Fonderie Valdesane S.p.A.	Standing Auditor	Currently held
	Sella Fiduciaria S.p.A.	Standing Auditor	Currently held
	Selfid S.p.A.	Standing Auditor	Left office
	Sella cApital Management SGR S.p.A.	Standing Auditor	Left office
	Prima Vera S.p.A.	Standing Auditor	Left office
	ISC S.p.A.	Alternate Auditor	Left office
	FVH S.r.l.	Standing Auditor	Left office
	Tollegno Holding S.p.A.	Alternate Auditor	Left office
	Tollegno 1900 S.p.A.	Alternate Auditor	Left office
	Manifattura di Valduggia S.p.A.	Standing Auditor	Left office
	Banca Sella S.p.A.	Standing Auditor	Left office
	Punto S.r.l.	Standing Auditor	Left office
	Impresa Ing. La Falce S.r.l.	Alternate Auditor	Left office
	Compagnia Di Banche e assicurazioni per le assicurazioni sulla vita S.p.A.	Standing Auditor	Left office
	Agave Blu S.r.l.	Standing Auditor	Left office
	Intercos S.p.A.	Alternate Auditor	Left office
	Dafe 3000 S.r.l.	Auditor	Left office
	Tabacchi S.r.l.	Alternate Auditor	Left office
	Boost Heroes S.p.A.	Standing Auditor	Left office
	Storgaz S.r.l.	Standing Auditor	Left office
	Investbiz S.r.l.	Standing Auditor	Left office
	Moncler S.p.A.	Alternate Auditor	Left office
Michela Zeme	Prelio S.p.A.	Standing Auditor	Currently held
	Infrastrutture Wireless Italiane S.p.A.	Standing Auditor	Currently held
	Agricola Merese S.r.l.	Chairperson of the Board of Statutory Auditors	Currently held
	Equita Group S.p.A.	Director	Currently held
	Leonardo e Co. S.p.A.	Alternate Auditor	Currently held
	Medit S.R.L.	Alternate Auditor	Currently held
	Nordcom S.p.A.	Alternate Auditor	Currently held
	Bassmart S.r.l.	Alternate Auditor	Currently held
	Risanamento S.p.A.	Alternate Auditor	Currently held
	Atlantia S.p.A.	Alternate Auditor	Currently held
	Elite S.p.A.	Alternate Auditor	Currently held
	Banca Leonardo S.p.A.	Alternate Auditor	Left office
	Banca Leonardo S.p.A.	Standing Auditor	Left office
	Imholding S.r.l.	Standing Auditor	Left office
	Immobiliare Molgora S.p.A.	Alternate Auditor	Left office
	Imholding S.r.l.	Standing Auditor	Left office
	Banca Leonardo S.p.A.	Alternate Auditor	Left office
	Banca Leonardo S.p.A.	Standing Auditor	Left office

First and last name	Company	Position or participation	Status
	Pioneer Global Asset Management S.p.A.	Standing Auditor	Left office
	Sorin S.p.A.	Director	Left office
	Telecom Italia Media S.p.A.	Standing Auditor	Left office
	Advalso S.p.A.	Alternate Auditor	Left office
	Mittel S.p.A.	Director	Left office
	Unicredit Leasing S.p.A.	Standing Auditor	Left office
	Aviva S.p.A.	Standing Auditor	Left office
	Equita Sim S.p.A.	Director	Left office
	Cordusio Sim S.p.A.	Standing Auditor	Left office
	Nicla S.r.l.	Chairperson of the Board of Statutory Auditors	Left office
	Effe TV S.r.l.	Chairperson of the Board of Statutory Auditors	Left office
	Telecontat Center S.p.A.	Alternate Auditor	Left office
	Telecom Italia Sparkle S.p.A.	Standing Auditor	Left office
	La 7 S.p.A.	Standing Auditor	Left office
	Olivetti S.p.A.	Standing Auditor	Left office
	Compagnia Di Assicurazione di Milano S.p.A.	Alternate Auditor	Left office
	Compagnia Di Assicurazione di Milano S.p.A.	Standing Auditor	Left office
	Campo Carlo magno S.p.A.	Chairperson of the Board of Statutory Auditors	Left office
	Marina DI loano S.p.A.	Standing Auditor	Left office
	I.A.T. S.p.A.	Standing Auditor	Left office
	Atahotels S.p.A.	Standing Auditor	Left office
	Unipolsai Servizi Immobiliari S.p.A.	Chairperson of the Board of Statutory Auditors	Left office
	Immobiliare Milano Assicurazioni S.r.l.	Chairperson of the Board of Statutory Auditors	Left office
	Immobiliare Fondiaria Sai S.r.l.	Chairperson of the Board of Statutory Auditors	Left office

In accordance with Book I, Title V of the Italian civil code, none of the members of the Board of Statutory Auditors is related to the other members of the Board of Statutory Auditors, to the members of the Issuer's Board of Directors and/or to the Issuer's Senior Executives.

To the best of the Company's knowledge over the past five years, none of the members of the Board of Statutory Auditors (i) has been convicted of fraud or bankruptcy; (ii) has been declared bankrupt or subject to bankruptcy proceedings or has been associated with bankruptcy, receivership or liquidation proceedings; (iii) has been officially charged and/or has been the subject of sanctions by public or regulatory authorities (including designated professional associations) in the performance of his or her duties, nor has he or she been disqualified from the office of administration, management or supervision of the Issuer or from the office of management or direction of other companies.

14.1.3 Senior Executives

The following table indicates the information concerning the Senior Executives of the Company as of the Prospectus Date.

First and last name	Position	Place and date of birth
Francesco Mele	Chief Financial Officer and Head of Central Functions	Milan, 10 February 1969
Andrea Clamer	Head of NPL Investment & Servicing Division	Milan, 23 September 1977
Enrico Fagioli Marzocchi	Head of SME Division	Milan, 23 June 1956
Carlo Panella	Head of Direct Banking and Digital Operations Division	Ferrara, 6 February 1968
Giovanni Lombardi	General Counsel - Head of Legal and Corporate Affairs	Florence, 8 March 1976
Sergio Fagioli	Director responsible for drafting the company's accounting documentation	Piacenza, 11 January 1979

The following is a brief curriculum vitae of the Issuer's Senior Executives.

Francesco Mele

Francesco Mele graduated from the Faculty of Business Administration at Bocconi University in Milan in 1994.

His professional career began in 1994 at the London branch of Banca Commerciale Italiana, before moving to the Shareholdings and Acquisitions Office at the Milan office, dealing with the evaluation and execution of acquisitions of banks and financial companies.

In 1996, he joined Goldman Sachs in London in the Investment Banking division as an analyst providing financial advisory services (M&A and corporate finance) in Italy and abroad to banking and insurance companies. In 2001, he became Executive Director and moved to the Italian branch of Goldman Sachs, expanding its operations to all corporate customers. In 2007, he became Managing Director with responsibility for the execution of all M&A and corporate finance transactions in the Italian market.

In 2010, he moved to Nomura in the Investment Banking division as head of financial advisory services (M&A and corporate finance) for Italian financial institutions. In 2013, he assumed responsibility for all investment banking activities in Italy.

In 2016, he joined Banca Monte dei Paschi di Siena as Chief Financial Officer, taking part primarily in the recapitalisation of the bank through an initial operation aimed at the market and then with recourse to Pre-cautionary Recapitalisation and the intervention of the Italian State. In this context, together with the Ministry of the Economy and Finance, he negotiated with the European Commission the Bank's Restructuring Plan which, among other things, includes the world's largest ever securitisation of impaired loans.

In April 2018, having completed the main extraordinary operations related to the Restructuring Plan, he left MPS to join the SPAXS project as Chief Financial Officer and head of all the central functions of the new bank.

Andrea Clamer

Andrea Clamer graduated from the Faculty of Economics and Business at the University of Pavia in March 2002. Between 2004 and 2005 he completed an MBA at the SDA Bocconi School of Management in Milan, with an Exchange Programme at the ESADE Business School.

His professional career began at SAP Italia, where he worked as a consultant in the insurance sector.

In 2006, he joined Deloitte Consulting as Senior Consultant, providing consulting services to major financial institutions (banks and insurance companies) in relation mainly to organisational issues, risk and capital allocation.

In 2008, he joined Toscana Finanza where he took on the role of Head of New Markets, gaining solid experience in the valuation and management of portfolios of impaired loans and other illiquid assets and dealing with personnel management for the entire company.

Following the acquisition of Toscana Finanza by Banca IFIS Spa, he was appointed Head of the Non-Performing Loan Area (NPL), overseeing the acquisition of NPL portfolios. Under his responsibility, more than 10 billion non-performing loans were acquired. As head of the NPL Division, he also coordinated the development of the servicing platform.

In 2016, he graduated in Strategic Management in Banking from the INSEAD Business School, consolidating his knowledge of banking.

In November 2016 he was appointed non-executive member of the Board of Directors of Interbanca Spa, on the proposal of the majority shareholder Banca IFIS.

In January 2018, he embarked on a new professional project aimed at creating SPAXS Spa, the largest Italian SPAC. In addition to being one of the promoters of SPAXS, he will be responsible for the NPL division of the new bank.

Enrico Fagioli Marzocchi

Enrico Fagioli Marzocchi graduated in 1980 with a degree in Business Administration from Bocconi University in Milan.

His professional career began the same year, when he joined the London audit firm Arthur Andersen as a junior auditor. In 1981, he returned to Italy, working first in the construction company Italstrade as an assistant to the CFO, then in Interbanca as a credit analyst. In 1983, he started working in the offices of the stockbroker U.Aletti as a public prosecutor, and, since 1986 he has also developed advisory and investment banking activities on OTC financial products and on extraordinary finance and M&A transactions.

In 1992, he left Studio Aletti and started working for KPMG, where, in 1993, he became a partner responsible for corporate finance activities for financial institutions and, two years later, he also started the risk management division.

In 1999-2000, he moved to London and worked for Salomon Smith Barney (now Citigroup) as head of investment banking activities in Italy for financial institutions. At the end of 2000 he was called upon to act as managing director of Efibanca, a specialist company whose main purpose was to carry out structured credit and merchant banking activities. In 2007, Efibanca became part of the Banco Popolare Group, following its acquisition of the Banca Popolare di Lodi Group, and Enrico was appointed to the Management Board of Banco Popolare.

In 2009, as managing director he was called upon to manage the restructuring of a small to medium sized bank in crisis, Meliorbanca, part of the Banca Popolare dell'Emilia Romagna Group (BPER). In 2013, after restructuring and focusing in particular on structured credit, Meliorbanca was incorporated into BPER.

From 2013 to 2014 he worked as a consultant for Professor P. Colombo, carrying out, in particular, a major extraordinary finance transaction relating to a listed French group controlled by Italian investors.

In 2014, he was called upon to manage the newly-formed Non-Performing Exposures division of Banca Gruppo Monte dei Paschi di Siena (MPS), including the non-performing and UTP portfolios. At the end of 2016 he left MPS after completing the preparatory work for the sale of the NPLs and the recovery platform and was asked to handle the rescue of Banche Venete as CFO and Deputy General Manager of Popolare di Vicenza. Banche Venete was unable to obtain public intervention and was put into liquidation.

From September 2017 to the end of May 2018 he was responsible for the implementation of a project to create a major operator in the debt collection sector, based on the purchase of the MPS platform by the JV between Cerved and Quaestio, as designated CEO of the same.

Since May 2018 he has been participating in SPAXS as head of the SME division of the new specialist bank that will be created from the Business Combination with the Interprovincial Bank.

He has been a member of various boards of directors of banks and listed Italian companies, as well as serving from 2003 to 2007 as vice president of Generale de Santè, a listed company and leading private healthcare operator in France.

Carlo Panella

Born in Ferrara in 1968, he graduated from the Faculty of Management Engineering at the Politecnico di Milano in 1995.

In the same year he began his training at DHL, where he held various roles in marketing and sales. During this period, he managed some international projects, where Italy was the leading country.

After completing his experience in logistics, he moved to the telecommunications sector, joining Vodafone Italia as Controller of the Business Division during the period in which control of the company passed from Italian shareholders to the British multinational.

In 2000, he entered the banking world with responsibility for the development of the e-commerce activities of WeBank, then a division of Banca Popolare di Milano. His career then continued within the BPM Group where he held various positions, eventually becoming Strategic Marketing Director of the Parent Company.

He returned to WeBank in 2009 as Sales Director and, together with the management team, managed the transformation of WeBank into a bank. During this period he contributed to the profound transformation from a channel to a complete bank, based on processes that were completely redesigned with a view to remote relations. Commercial policy, process review and innovative communication strategy supported the growth of volumes and customers, becoming a benchmark for the industry. His career path at WeBank continued until he took over the Executive Board.

After leaving the world of credit, he joined CSE, an outsourcing company for IT and back office services for banks, as General Manager of the Group's consulting firm, with the aim of evolving services by enabling small and medium-sized banks to meet the challenges of digitisation. In this role he contributed until 31 December 2018 to the development of various business and digital projects of the customer banks.

In June 2018 he joined the Corrado Passera team within the SPAXS project and will be responsible for the Direct Bank Division and the Digital & Operations structure of the new Bank.

Giovanni Lombardi

After completing classical studies, Giovanni Lombardi obtained a degree in Economics and Commerce in 2000 and a degree in Law from the University of Florence in 2003. Since 2007 he has also been qualified to practise as a lawyer.

Giovanni Lombardi began his career in 2001 at Deloitte & Touche S.p.A., before serving as an auxiliary officer at the Guardia di Finanza until 2002.

From 2002 to 2006 he worked with the law firm Gianni Origoni Grippo & Partners dealing with Capital Markets, regulatory and compliance, corporate finance, M&A, commercial law, banking and restructuring. From 2006 to 2013 he worked with the law firm Labruna Mazziotti Segni (LMS) in the department of Corporate & Capital Markets, becoming a partner.

From 2013 to 2015 he was Head of Corporate & Legal Affairs and Secretary of the Board of Directors at Prelios Società di gestione del Risparmio S.p.A.

From 2015 to 2018 he was Deputy Group General Counsel - Head of Corporate, M&A and Capital Markets of Banca Monte dei Paschi di Siena S.p.A.

He currently holds the position of General Counsel and Head of Corporate & Legal Affairs, as well as Secretary of the Board of Directors at the Issuer.

Sergio Fagioli

Sergio Fagioli, born in Piacenza on 11 January 1979, graduated in business economics from the Bocconi University in Milan.

Over the years, he has held the position of Senior Manager at KPMG S.p.A., with particular reference to the financial sector, responsible for auditing and financial statements consultancy for leading banking groups, such as Intesa Sanpaolo S.p.A., Deutsche Bank S.p.A. and Carige S.p.A. He is an instructor for the Bank Financial Statements course offered by ABI Formazione.

Sergio Fagioli is currently Head of Administration and Accounting at the Issuer.

* * *

The following table indicates the main corporations or partnerships, other than the Issuer, in which the Senior Executives of the Issuer have been and/or are members of the administrative, management or supervisory bodies, or shareholders, in the last five years from the Prospectus Date.

First and last name	Company	Position or participation	Status
Francesco Mele	Tetis S.p.A.	Director	Currently held
	MPS Capital Services S.p.A.	Director	Left office
	Widiba S.p.A.	Director	Left office
	AXA MPS Vita S.p.A.	Director	Left office
	AXA MPS Danni S.p.A.	Director	Left office
	Tetis S.p.A.	Partner	Ongoing
Andrea Clamer	Interbanca S.p.A.	Director	Left office
	AC Valuecreation S.r.l.	Partner	Ongoing
	AC Valuecreation S.r.l.	Director	Currently held
	TF Sec S.r.l. in liquidation	Liquidator	Left office
	Neprix S.r.l.	Partner	Ongoing
	Tetis S.p.A.	Partner	Ongoing
Enrico Fagioli Marzocchi	Tetis S.p.A.	Director	Currently held
	Macchine Marzocchi S.r.l.	Director	Currently held
	Silmar Sas	General Partner	Currently held
	Ermon Sas	General Partner	Currently held
	Immsi S.p.A.	Independent Director	Left office
	Ge Capital Interbanca S.p.A.	Independent Director	Left office
	Tetis S.p.A.	Partner	Ongoing
	Macchine Marzocchi S.r.l.	Partner	Ongoing
Carlo Panella	Caricese S.r.l.	Director	Left office
	Tetis S.p.A.	Director	Currently held
	Tetis S.p.A.	Partner	Ongoing
Giovanni Lombardi	Prelios SGR S.p.A.	Secretary to the Board of Directors	Left office
	Banca Monte dei Paschi di Siena S.p.A.	Deputy Group General Counsel	Left office
	Perimetro Gestione Proprietà Immobiliari S.c.p.a.	Director	Left office
	LINKIESTA.IT S.p.A.	Partner	Ongoing
Sergio Fagioli	None		

As per Book I, Title V of the Italian civil code, the Senior Executives of the Issuer do not have any family relationship either among themselves or with the members of the Board of Statutory Auditors and/or the Board of Directors of the Issuer.

To the best of the Company's knowledge, over the past five years none of the Issuer's Senior Executives (i) has been convicted of fraud or bankruptcy; (ii) has been declared bankrupt or subject to bankruptcy proceedings or has been associated with bankruptcy, receivership or liquidation proceedings; (iii) has been officially charged and/or has been the subject of sanctions by public or regulatory authorities (including designated professional associations) in the performance of his or her duties, nor has he or she been disqualified from the office of administration, management or supervision of the Issuer or from the office of management or direction of other companies.

14.2 Conflicts of interest of the members of the Board of Directors, of the members of the Board of Statutory Auditors, and of the Senior Executives

14.2.1 Conflicts of interest of the members of the Board of Directors

As far as the Company is aware, as at the Prospectus Date no member of the Board of Directors has any private interest in conflict with his or her obligations deriving from the office held in the Issuer and no independent Director has and/or has had any direct or indirect consultancy duties towards the Issuer and/or SPAXS over the course of the last three years, through third party companies or professional practices.

However, as at the Prospectus Date: (i) Director Alessandro Gennari holds 4,500 SPAXS Ordinary Shares, equal to approximately 0.0076% of its share capital; (ii) Tetis (a company 98.67% owned by Metis, 90% of whose share capital is held by the Chief Executive Officer Corrado Passera and 5% by the Director Massimo Brambilla) is the holder of 1,425,600 SPAXS Special Shares (99% of them) and 2,138,400 SPAXS Ordinary Shares (3.60% of them); (iii) Director Diamond is the majority shareholder, indirectly, of Atlas Merchant Capital Fund LP which, in turn, holds 100% of AMC Metis SARL. AMC Metic SARL holds 7.75% of the share capital of SPAXS; (iv) Director Diaz of Vittoria Pallavicini SGR holds, fully and indirectly via its subsidiary SDP Holding di Partecipazioni S.r.l. a company in which he holds the post of Sole Managing Director and whose entire share capital is owned, directly or indirectly, by Director Diaz - SDP Capital Management Ltd, the company, of which Diaz is a Director, that manages (AIFM) the fund titled "SDP RAIF – Genesis", of which, however, neither the Director, not subjects linked or connected to him, are shareholders), the latter being the holder of a stake of 9.88% in the share capital of SPAXS.

In relation to the above, it should be noted that, in the context of and for the purposes of the Merger, the SPAXS Ordinary Shares and the SPAXS Special Shares will be exchanged for an equal number of SPAXS Ordinary Shares and Special Shares (for further information on the Merger, please refer to Chapter 22, Paragraph 22.1 of the Prospectus).

Lastly, as far as the Issuer is aware, as at the Prospectus Date, during the month of December 2018, Metis S.p.A. (the Chairman of which is Corrado Passera) and Atlas Merchant Capital Fund LP have underwritten an agreement (term sheet) which, among other things, envisages a generic understanding between the parties with regard to the representation of Atlas Merchant Capital Fund LP on the Board of Directors of the Issuer, according to terms not yet defined between the parties as at the Prospectus Date, and which is further described in Chapter 18 Paragraph 18.4 of the Prospectus.

14.2.2 Conflicts of interest of the members of the Board of Statutory Auditors

As far as the Company is aware, as at the Prospectus Date, no member of the Board of Statutory Auditors is the bearer of private interests in conflict with his/her obligations deriving from the office held within the Issuer and no Independent Director has and/or has had any direct or indirect consultancy duties towards the Issuer and/or SPAXS over the course of the last three years, through third party companies or professional practices.

Nevertheless, it should be noted, for reasons of completeness, that: (i) until 18 January 2019 the standing auditor Caringi held the position of Chairman of the Board of Statutory Auditors of the Issuer; (ii) the Chairman of the Board of Statutory Auditors, Ernesto Riva, currently holds the position of Chairman of the Board of Statutory Auditors of SPAXS; and (iii) the alternate auditor, Foglia Taverna, holds the position of standing auditor of SPAXS.

14.2.3 Conflicts of interest of Senior Executives

To the best of the Company's knowledge, as of the Prospectus Date none of the Issuer's Senior Executives has any private interest in conflict with their obligations arising from their position within the Issuer.

The following should also be noted:

as at the Prospectus Date, AC Valuecreations S.r.l. (a company wholly owned by Andrea Clamer) holds 14,400 SPAXS Special Shares (equal to 1% of all the SPAXS Special Shares issued and existing on that date) and 21,600 SPAXS Ordinary Shares (equal to 0.036 of all the SPAXS Ordinary Shares issued and existing on that date); and Andrea Clamer (through AC Valuecreations), Carlo Panella, Enrico Fagioli and Francesco Mele are holders of special category shares in Tetis (a company 98.67% owned by Metis, 90% of whose capital is held by the Chief Executive Officer Corrado Passera and 5% by the Director Massimo Brambilla), where they hold the office of Directors at the same date. These shares, which may only be owned by directors of the company, do not grant any entitlement to vote and confer the right to receive remuneration for the investment made in the company through the allotment of Ordinary Shares (equal to 4.8% of the Bank's share capital), provided that the SPAXS Special Shares held by Tetis are fully converted upon achievement of the objectives established by the SPAXS by-laws and subject to the fact that all the holders of Tetis ordinary shares have achieved a certain return on their investment in the company. The foregoing should be understood as referring to the Issuer and its Ordinary Shares and Special Shares following the Merger.

In relation to the above, it should be noted that on 21 November 2018, following the execution of the Material Transaction and the completion of the liquidation procedure for the ordinary shares of SPAXS subject to withdrawal in relation to the Material Transaction itself, pursuant to SPAXS's by-laws, 360,000 SPAXS Special Shares have been converted into 2,160,000 SPAXS Ordinary Shares and that, in the context of and for the purposes of the Merger, the SPAXS Ordinary Shares and the SPAXS Special Shares will be exchanged for an equal number of SPAXS Ordinary Shares and Special Shares (for further information on the Merger, please refer to Chapter 22, Paragraph 22.1 of the Prospectus).

14.2.4 Agreements with the main shareholders, customers, suppliers of the Issuer or other agreements as a result of which the members of the Board of Directors, the Board of Statutory Auditors and the Senior Executives have been appointed

The Issuer is not aware of any agreements or understandings with the main shareholders, customers, suppliers or others as a result of which the members of the Board of Directors, the Board of Statutory Auditors and the Senior Executives have been appointed.

14.2.5 Restrictions by virtue of which members of the Board of Directors, the Board of Statutory Auditors and Senior Executives have agreed to limit their rights to dispose of and transfer the Issuer's financial instruments held by them for a certain period of time

As at the Prospectus Date, the members of the Board of Directors, the Board of Statutory Auditors and the Senior Executives do not hold financial instruments of the Issuer.

For further information on the Ordinary Shares and Special Shares that will be held by the members of the Board of Directors, the Board of Statutory Auditors and the Senior Executives as a result of the Merger, reference should be made to Paragraph 14.2.3 above.

As at the Prospectus Date, the Company is not aware of any restrictions by virtue of which members of the Board of Directors, the Board of Statutory Auditors and Senior Executives have agreed to limit their rights to sell or transfer the Issuer's shares directly held by them for a certain period of time.

Moreover, as at the Prospectus Date, Tetis and AC Valuecreation have undertaken to lock-up Banca IMI and Credit Suisse Securities (Europe) Limited, in their capacity as joint global coordinators of SPAXS in the reserved offer for its admission to AIM Italia, in relation to the SPAXS Ordinary Shares resulting from the conversion of the SPAXS Special Shares owned by it to Tetis and AC Valuecreations and/or other companies directly and/or indirectly controlled by the latter. This lock-up commitment was also confirmed following the Merger and, therefore, with regard to the Issuer's Ordinary Shares; the commitment has a duration of 12 months from the respective date of conversion, i.e. until 21 November 2019 (corresponding to the 12th month from the conversion of the first tranche of SPAXS Special Shares on 21 November 2018). with reference to 2,138,400 SPAXS Ordinary Shares and 21,600 SPAXS ordinary Shares held by Tetis and AC Valuecreations, respectively, which, for the purposes of the Merger, will be exchanged with the same quantity of the Issuer's Ordinary Shares.

15. REMUNERATION AND BENEFITS

15.1. REMUNERATION PAID TO MEMBERS OF THE BOARD OF DIRECTORS, OF THE BOARD OF STATUTORY AUDITORS AND TO THE ISSUER'S TOP MANAGEMENT

15.1.1 Total remuneration and benefits paid to members of the Board of Directors and Top Managers

The Board of Directors in office on the Prospectus Date was appointed by a resolution of the Issuer's shareholders' meeting of 4 September 2018.Therefore, with the exception of the information given below in reference to Mr. Gennari, no member of the Board received any remuneration prior to that. On 18 January 2019, the Issuer's shareholders' meeting resolved to approve the following gross pro rata salaries for the members of the Issuer's Board of Directors (plus the reimbursement of expenses in connection with their positions), effective from 1 January 2019 and for the remainder of their term of office:

(i) EUR 120,000 to the Chair of the Board of Directors;

(ii) EUR 530,000 to the CEO; and

(iii) EUR 40,000 to every other director.

The same meeting also approved EUR 15,000 for the chairmanship of each Board Committee and EUR 10,000 for attendance at each Board Committee meeting (gross, annual).These are to be paid in accordance with the same terms and conditions as those indicated above.

For information about those committees reference should be made to paragraph 16.4 of the Prospectus.

For the sake of completeness, it is noted that Mr. Gennari received, as Issuer manager (and specifically as Managing Director):

- during the year ended 31 December 2017, a fixed gross payment of EUR 350,594.72 and a bonus of EUR100,000.00;
- during the year ended 31 December 2018, a fixed gross payment of EUR 350,694.76 and a bonus of EUR 100,000.00.

On this point it should be noted relative to the "Managing Director" position (on the Prospectus Date no longer present at the Bank), within the context of the review of the relative work contract in force at the time with BIP, a golden parachute provision was introduced, subject to the "claw back" mechanism – which entailed the payment to the manager of a sum equal to no. 36 months of gross annual wages net of the "qualitative" variable element; while for the "quantitative" part of said variable element, it was foreseen that the same be recognised to the manager once all the preconditions established in the wage policies that applied at any given time had been verified – if the work contract were terminated by BIP without just cause or motive, or if the Manager resigned for just cause. For the purposes of the above, it was conventionally agreed that the "just cause" conditions should include, among other things, (i) the transfer to third parties, by whatever means, of company shares equivalent to or exceeding 50% of the current composition; (ii) the transfer of the company and/or of a business unit and any form of merger, demerger, company asset or shareholding allocation transaction; (iii) the completion of any transaction as a result of which the controlling subjects relinquished said control, directly and/or indirectly, as detailed in art. 2359, paragraph 1, nos. 1 and 2 of the Italian civil code.

Said contract with the former Managing Director also prescribed a Stability Pact valid until 31 December 2019, with consideration in favour of the former Director General, if breached by BIP, of the same fee foreseen in the event of resignations for just cause and under the same conditions.

Please note that Board Member Gennari resigned from the position mentioned above for just cause, with immediate effect as of 31 December 2018, while undertaking to formalise his resignation as set forth in the procedure introduced by Legislative Decree no. 151 of 14 September 2015.

On 29 January 2019, Board Member Gennari and the Issuer confirmed the settlement agreement in a "protected forum", agreeing, inter alia, that the employment relationship should be deemed terminated on 31 December 2018. By means of this settlement agreement, the Issuer undertakes to recognise - and disburse - remuneration to the former executive (Board Member at the Prospectus Date) as a result of his resignation for just cause, consisting of indemnity in lieu of prior notice, corresponding to 36 months of pay, equal to EUR 1,052,085.00, in addition to paid up social security dues totaling the overall sum of EUR 289,765.97, with the following timing:
- EUR 350,695.00, within 30 days of the date on which the agreement was entered into in the protected forum (signed on 29 January 2019).This amount was paid on 5 February 2019;
- EUR 350,695.00 by 28 February 2019 subject to formalisation in the protected forum; and
- EUR 350,695.00 by 28 February 2020 subject to formalisation in the protected forum.

The above-mentioned settlement agreement called for:
- the payment of accrued and accruing wages and all other accrued and accruing current and deferred remuneration at the date of termination of the relationship (i.e., 31 December 2018), equal to a total of EUR 14,612.28 and paid on 5 February 2019;
- the company contribution to the supplementary pension fund;
- the payment of the "Variable Pay" already accrued for the years 2016, 2017 and 2018 as calculated at 30 September 2018, amounting to a total of EUR 225,000.00, according to the following timing:
  - (i) EUR 100,000.00 by 28 February 2019 (deferments relating to variable pay for 2016 and 2017);
  - (ii) (EUR 87,500.00 by 28 February 2020 (last deferred share of variable pay from 2017 equal to EUR 50,000.00 and first tranche for 2018 equal to EUR 37,500.00);
  - (iii) (EUR 37,500.00 by 28 February 2021 (second and last deferred share of variable pay from 2018 equal to EUR 37,500.00).

Please note that in compliance with regulations in force and the Bank's Remuneration Policies with respect to claw-backs, the settlement agreement expressly provides the Bank the right not to proceed with the disbursement of all or part of the amounts established and mentioned here and/or to demand that any amounts already paid be returned with a justified measure of the Board of Directors, subsequent to the signing of the agreement, (i) should intentionally fraudulent or seriously negligent conduct of the executive to the detriment of the Bank emerge of such relevance so as to amount to just cause for withdrawal if it had taken place while the employment relationship was in effect, (ii) or should the Bank suffer serious negative economic consequences as a result of conduct associated with breach by the executive in violation of the obligations arising from the employment relationship and applicable regulations, (iii) or should violations of reference regulations or fraudulent conduct by the executive or other similarly serious situations come to light. Lastly, the above-mentioned agreement establishes - within the context of a general novation agreement with respect to specific consideration of EUR 5,000.00 paid on 5 February 2019 - Mr Gennari's waiver with respect to the Bank and/or any associated and/or related company whatsoever, as well as with respect to any of its assignees and/or assignors as well as with respect to Bank management, directors, executives, employees and/ or staff, to any remuneration or indemnity and/or compensation demand and/or claim that is directly and/or indirectly associated with what has taken place; these waivers were expressly made by the executive with regard to SPAXS as well, the assignors of the latter, as well as their shareholders and directors.

For information about the shareholdings and bonus plans reference should be made to Section One, Chapter 17, Paragraph 17.2, of the Prospectus.

There is no additional remuneration provided to the directors and statutory auditors, as a result of the successful listing of the Issuer on the MTA; for some of the top directors, apart from Top Management and the heads of the Control functions, there is an option to participate in the stock option plan (SOP). For a full description of the plan reference should be made to Chapter 17, Paragraphs 17.2 and 17.3 of the Prospectus.

15.1.2 Total remuneration and benefits paid to members of the Board of Statutory Auditors

The Issuer's meeting on 18 January 2019 appointed the Board of Statutory Auditors in office on the Prospectus Date, and authorised the following gross pro-rata annual salaries (plus reimbursement of the costs incurred by the statutory auditors in connection with their duties:
(i) EUR 70,000 to the Chair of the Board of Statutory Auditors;
(ii) EUR 50,000 to every other standing member of the Board of Statutory Auditors.

The table below indicates the remuneration and benefits paid to the Issuer's Statutory Auditor Stefano Caringi for the year ended 31 December 2017, and for the period ended 30 September 2018.

FIRST AND LAST NAME	30/09/2018			31/12/2017				
	SALARY	ATTENDANCE PAYMENTS	TOTAL	SALARY	Of which salary from subsidiaries	ATTENDANCE PAYMENTS	Of which from subsidiaries	TOTAL
Stefano Caringi	30,000	14,400	44,400	46,750	6,750	32,100	900	78,850

The salaries and token payments do not include social security contributions, VAT, withholding taxes and pension contributions.

15.1.3 Total remuneration and benefits paid to Top Managers

At the Prospectus Date, the Top Managers referred to in Paragraph 14.1.3 were recently hired. The terms and conditions of contract provide for a fixed gross total annual salary of EUR 1,895,000 plus a bonus in line with banking regulations. For information on the share participation agreements, reference should be made to Section 1, Chapter 17, Paragraph 17.3 of the Prospectus.

15.2 Total amounts allocated to pensions, severance pay and other post-employment benefits

For the Top Managers, the amounts allocated as of 30 September 2018, by way of obligatory pension contributions, supplementary contributions and end-of-service indemnities or similar benefits, amounted to EUR 9,000.

For the CEO, the amounts allocated as of 30 September 2018, by way of obligatory pension contributions, supplementary contributions and end-of-service indemnities or similar benefits, amounted to EUR 4,000. For the other directors, the amounts allocated in the same period for the same reason amounted to EUR 4,000.

Finally, the Issuer and the Top Managers have not entered into any competition agreement or end of service bonus agreement ("golden parachute").

16. BOARD PRACTICES

16.1 Duration of term of office of the members of the Board of Directors and Board of Statutory Auditors

The Issuer's Board of Directors in office on the Prospectus Date was appointed on 4 September 2018 and will remain in office until the Meeting of Shareholders called to approve the financial statements for the year ending 31 December 2020.

The Issuer's Board of Statutory Auditors in office on the Prospectus Date was appointed on 18 January 2019 and will remain in office until the Meeting of Shareholders called to approve the financial statements for the year ending 31 December 2021.

For more information about the company bodies, reference should be made to Chapter 14 of the Prospectus.

16.2 Contracts of employment made by members of the Board of Directors and Board of Statutory Auditors with the Issuer, with provision for end-of-service indemnities

At the Prospectus Date there were no contracts of employment between members of the Board of Directors, top managers or members of the Board of Statutory Auditors and the Issuer or its subsidiaries, which provide for end-of-service indemnities or bonuses in the case of resignation or dismissal without good cause, or if the contract is terminated following a public offering.

16.3 Information about the Board of Directors' internal committees

In order to conform to the corporate governance model required by the laws applicable to banks, and in particular Circular 285, and the recommendations in Article 6, Principle 6.P.3 and in Article 7, Principle 7.P.3, paragraph (a) (ii) of the Corporate Governance Code, the Issuer's Board of Directors at the meeting on 10 October 2018 authorised the formation of the following committees.

Appointments Committee

An Appointments Committee formed of Massimo Brambilla, Maurizia Squinzi and Sigieri Diaz della Vittoria Pallavicini (as Chair) whose regulations were approved on 10 October 2018.

The Appointments Committee assists the Board of Directors, with the following activities, which are governed by the above regulations in accordance with the regulatory requirements and applicable provisions of law, of regulations, of self-governance as per the bylaws and of corporate governance:

- *appointing or co-opting Directors;*

- *self-assessment of company bodies, also by providing opinions on the quali-quantitative composition of the Board of Directors and on the characteristics of the roles whose presence on the Board is considered necessary, and on their skills, experience, knowledge and competencies in relation to risk management, internal control and compliance, strategic planning and pay policies, which directors need to have in order to be able to evaluate the main risks of the Bank's operations;*
- *checking the conditions and requirements in accordance with Article 26 of the Banking Consolidation Act and the implementing regulations;*
- *setting the guidelines and criteria about the maximum number of Directorships and Statutory Auditorships held in other companies, subject to the limits on directorships as provided for in the CRD IV;*
- *defining succession plans for the top executive positions.*

Lastly, please note that the Appointments Committee assesses candidates for the position of Head of Internal Audit and proposes them to the Board of Directors.

Remuneration Committee

A Remuneration Committee formed of the non-executive Directors (the majority of whom are independent) Rosalba Casiraghi, Sigieri Diaz della Vittoria Pallavicini, and Giancarlo Bruno (as Chair) whose regulations were approved on 10 October 2018.

The Remuneration Committee has an advisory and recommendatory role. Its main task is to make proposals to the Board of Directors regarding pay and remuneration.

In accordance with Circular 285 and the above-mentioned Regulations, the Remuneration Committee:
- *is responsible for proposing the salaries for personnel whose pay and bonuses are decided by the Board of Directors;*
- *is responsible for advising on the setting of pay guidelines for salaries of all key personnel;*
- *directly oversees the fair application of rules on pay for the managers of the company control functions, in close collaboration with the Board of Statutory Auditors;*
- *prepares documents to be submitted to the Board of Directors for the related decisions;*
- *works with the other Board committees, particularly with the Risks Committee;*
- *ensures that the relevant departments (Risk, Compliance, HR, Strategic Planning) are involved in the preparation and subsequent checking of the pay and bonus policies and practices;*
- *gives an opinion on the fulfilment of performance targets linked to the bonus plans, and on the assessment of other conditions required for the payment of bonuses, also using information received from the relevant company departments;*
- *responds as necessary to the activities performed by the company bodies including the Meeting of shareholders;*
- *gives an independent opinion about the Group's pay policy and taxes, generally by referring to the staff retention targets and risk mitigation objectives;*

- *in relation to the provision of the services and products supplied by the Bank, it gives an opinion about the effectiveness of the policies in managing conflicts of interest, and with regard to risk management obligations in terms of staff behaviour, to ensure that customers' interests are not compromised by short, medium and long term pay policies and practices.*

Lastly, please note that the Remuneration Committee assesses and proposes the remuneration component for the Head of Internal Audit

Comitato Rischi

A Risks Committee (formerly the Risks and Controls Committee), formed of the Chairman of the Board of Directors Rosalba Casiraghi, the independent directors (pursuant to the TUF and the Corporate Governance Code) Elena Ciallié (as Chair of the Risks Committee) and Maurizia Squinzi and the non-executive and non-independent director Alessandro Gennari. The regulations were approved on 10 October 2018 and amended on 11 February 2019.

The Risks and Control Committee has an advisory and recommendatory function and, in accordance with Article 7, principle 7.P.3, paragraph (a)(ii) of the Corporate Governance Code, and Circular 285, is responsible for providing adequate support for the Board of Directors' evaluations and decisions on the internal risk control and management system, and those relating to the approval of periodic financial reports.

In particular, the Risks Committee, in accordance with its regulations:

- *nominates and proposes, with the assistance of the Appointments Committee, the managers of the company control functions and gives an opinion on their revocation, as necessary;*
- *previews the action plan (including the audit plan) and periodic reports of the company control functions, submitted to the Board of Directors;*
- *gives assessments and opinions to the Board of Directors in relation to compliance with the underlying principles of the internal control systems and the business organisation, and other requirements to be respected by the company control functions, bringing to the Board's attention any weaknesses and corrective actions to be taken; in this regard it will assess the proposals of the CEO;*
- *through its assessments and opinions it helps to define the company policy on outsourcing company control functions;*
- *it previews the company's strategic regulations issued or updated from time to time, and gives opinions to the Board of Directors in relation to their compliance;*
- *it checks that the company control functions respect the indications and guidelines of the Board of Directors and supports the Board in preparing the coordination document required by Title IV, Chapter 3 of Circular 285;*
- *it checks that the accounting standards are properly applied, in preparing the annual and consolidated financial statements (if prepared) and for that purpose, collaborates with the Director in charge of financial reporting, and with the Board of Statutory Auditors;*

- *it assesses and makes proposals in relation to the process of defining and approving the risk appetite objectives, risk tolerance thresholds and risk capacity, formulated within the RAS and integrated into the Operational Plan;*
- *it receives periodic updates from the CRO Division about the trend in the risk profile and, on request, specific analysis of the risk profile resulting from certain operations or risk simulations of future operations to be taken by the management functions;*
- *it checks that the bank's strategy and RAF are correctly implemented and therefore that the approved risk appetite objectives and levels are followed, and that the risk governance policies are respected, requesting any appropriate technical information and documents needed to evaluate management's actions and mitigate risks, formulating its own opinion for subsequent assessment and decision making.*

Lastly, please note that with reference to the Head of Internal Audit, the Risks Committee evaluates the candidates submitted, the profiles of the individuals and the remuneration and proposes the candidates to the Board of Directors, in line with the opinion of the Board of Statutory Auditors.

Committee for Related Party and Associated Party Transactions

A Committee for Related Party and Associated Party Transactions, formed of the independent directors Giancarlo Bruno, Elena Ciallè and Maurizia Squinzi (as Chair) whose regulations were approved on 10 October 2018 and modified on 11 February 2019.

The Committee for Related Party and Associated Party Transactions performs the activities and duties allocated to it by the Regulations for the management of operations with persons in the Bank's Single Perimeter and operations of personal interest, approved by the Board of Directors on 17 December 2018 (the "RPT Procedure"). In particular, the Committee for Related Party Transactions:

- *assesses significant and minor operations – as defined pursuant to the RPT Procedure in force over time - carried out by the Bank which are not covered by exemptions established in the same RPT Procedure, issuing a justified opinion in relation to the -Bank's interest in carrying out the operation, its cost effectiveness and that the conditions applied are essentially correct;*
- *after checking the necessary interest and worthwhileness of the operation, and that the conditions are essentially correct, it issues an opinion:*
  - *a) "favourable", if the above conditions are met and the operation is approved;*
  - *b) "conditional", if the operation is approved as a whole, but there are certain conditions, indicated in detail in the opinion; or*
  - *c) "negative", if the operation is not approved because the above conditions have not been met,*

  but in the cases referred to in paragraph c), if the transaction significant, as defined pursuant to the RPT Procedure, the transaction, if approved by the Bank's Board of Directors, may be completed only with prior authorisation from the Shareholders' Meeting of the Bank which, pursuant to the Bylaws, shall decide with the majorities required by law and by the RPT Procedure;
- *carries out a quarterly monitoring of all operations including ordinary minor transactions entered into at arm's length or standard conditions, which are included in the periodic reports;*

- *without prejudice to the quarterly report drafted pursuant to the OPC Regulation, reviews, at least every six months, any transactions based on framework decisions, to check that they were taken on the basis of rules that conform to the regulatory requirements applicable from time to time;*
- *has advisory and propositional functions – in collaboration with the Risks Committee - in relation to the organisation and carrying out of internal controls on the acceptance and management of risks with related and connected parties, checking that the activities are consistent with the strategic and operational guidelines.*

Without affecting the decision-making power of the Board of Directors, in the case of operations with significant parties (Article 136 of the Banking Consolidation Act), the Committee will give a non-binding opinion on any such operations, and also highlight any deficiencies or inadequacies in the information submitted by the relevant departments.

16.4 Adoption of corporate governance rules

The Company operates in accordance with the applicable provisions of Italian law.

The Company has also adopted a corporate governance system that conforms to the corporate governance regulations applicable in Italy. With reference to the Issuer's corporate governance system, see below.

At the meetings on 12 and 30 November 2018, in order to bring the Issuer's corporate governance system in line with the provisions of law applicable to companies whose shares are admitted for trading on regulated markets and with the principles of the Corporate Governance Code and the provisions of the MTA Stock Exchange Regulations, the Company's Board of Directors resolved:

(i) to appoint Sergio Fagioli as the director in charge of financial reporting (Article 154-a of the Consolidated Finance Law), but this appointment will take effect from the Trading Start Day;

(ii) to appoint Silvia Benzi as the Investor Relations Manager (Article 9 of the Corporate Governance Code and Article 2.2.3(3)(j)) of the Stock Exchange Regulations;

(iii) to appoint Corrado Passera as the director responsible for the internal control and risk management system (Article 7, principle 7.P.3 (a)(i) of the Corporate Governance Code);

(iv) to give the CFO Francesco Mele responsibility for reporting on relations with the Italian Stock Exchange (Article 2.6.1(4) of the Stock Exchange Regulations), and to appoint General Counsel Giovanni Lombardi as his deputy; and

(v) to appoint Fabio Marchesi as Head of Internal Audit.

With regard to the director in charge of internal controls and risk management, the regulations of the Board committees, within their respective remits, provide for committee intervention when the Internal Audit manager is appointed or revoked – this remains a matter for the Board of Directors. In particular, the Appointments Committee assesses the candidates and proposes them; the Remuneration Committee evaluates and proposes the remuneration component and the Risks Committee assesses the candidates submitted, the profiles of the individuals and the remuneration and proposes the candidate to the Board of Directors, in line with the opinion of the Board of Statutory Auditors. The Issuer believes that this solution is exactly the "adequate oversight" referred to in the Corporate Governance Code.

The Issuer has decided not to appoint a lead independent director (Article 2.C.4 of the Corporate Governance Code) at the present time, considering the governance structure of its executive body, which makes a distinction between the role of Chair and the role of CEO, and considering that the Chair does not control the Issuer nor will he control the Issuer on the Effective Date of Merger.

At the meeting on 10 October 2018, the Board of Directors evaluated the independence of its directors as required by Article 148(3) of the Consolidated Finance Law (as referred to in Article 147-b, (4) of the Consolidated Finance Law) and Article 3 of the Corporate Governance Code, by checking that there was an adequate number of non-executive independent directors in order to conform to the recommendations in the Corporate Governance Code and Article IA.2.10.6 of the Instructions to the Stock Exchange Regulations and the provisions of law applicable to banks. The following directors were considered to meet the independence requirements: Casiraghi, Bruno, Ciallié, Diaz della Vittoria Pallavicini and Squinzi. In accordance with Article 3.C.5 of the Corporate Governance Code, as part of its legal remit the Board of Statutory Auditors checks the proper application of the criteria and procedures followed by the Board of Directors in assessing the independence of its directors; the results of these checks are disclosed to the market in the "Report on corporate governance and ownership" prepared in accordance with Article 123-a of the Consolidated Finance Law and the Corporate Governance Code or the auditors' report to the Meeting (Article 153 Consolidated Finance Law).

In accordance with the recommendations of the Corporate Governance Code, the Issuer has created a section on its website (www.bancainterprovinciale.it) and, after the Merger (www.illimity.com) which will contain publicly-available information about the Issuer that may be relevant to shareholders, as well as the information required by laws and regulations applicable to companies listed on a regulated market.

In consideration of the above, the Issuer has an adequate system of internal controls and risk manager as required by the Stock Exchange Regulations and by the Corporate Governance Code.

* * *

At the meeting on 12 November 2018, the Board of Directors also resolved:

(i) to approve the "*Procedure for public disclosure of Insider Information*" (the "**Insider Information Procedure**") referred to in Articles 17 MAR and 114 TUF, effective from the date on which the application for admission to trade the Company's share on the MTA is deposited with the Italian Stock Exchange;

(ii) to approve the "*Procedure for the management of the Register of Persons with access to Insider Information*" (the "**Group Register Management Procedure**"), which relates to the establishment and management of the register of persons with access to insider information as referred to in Articles 18 MAR and 115-a TUF, effective from the date on which the application for the trading of the Company's shares on the MTA is deposited with the Italian Stock Exchange;

(iii) to approve the "*Procedure for the fulfilment of obligations regarding managers' transactions*" (the "**Managers' Transactions Procedure**"), relating to the management of reporting obligations based on the internal dealing rules in Articles 19 MAR, 114(7) TUF effective from the date on which the application for the trading of the Company's shares on the MTA is deposited with the Italian Stock Exchange.

On 17 December 2018, the Board of Directors also resolved:

(i) to approve the "*Regulations for the management of operations with persons in the Bank's Single Perimeter and operations of personal interest*"" (the "**Related Parties Procedure**") in accordance with Consob Regulation No. 17221 of 12 March 2010 as amended (the "**Related Parties Regulation**") and the Bank of Italy Circular no. 263 of 27 December, 2006 as amended, on "Risk activities and conflicts of interest of banks and banking groups with regard to Related Parties", (the "**Bank of Italy Circular**") aimed at governing operations with related and connected parties, carried out by the Company also through its subsidiaries (Article 2359 of the Italian civil code and Article 23 TUB) or which are otherwise subject to direction and coordination, with the parties covered by the Related Parties Procedure (the "**Single Perimeter**") which in accordance with the Related Parties Procedure, includes: (i) the related parties identified in the Related Parties Regulation; (ii) the connected parties identified in the Bank of Italy Circular; (iii) the shareholder of the Company that directly or indirectly (also through subsidiaries, fiduciaries or intermediaries) holds a share in the Issuer's capital, with voting rights, that is higher than the minimum threshold required in the regulations on the obligation to disclose significant shareholdings in listed companies Article 120 TUF (the "**Significant Shareholder**"), and any companies controlled by the Significant Shareholder including companies that are jointly controlled with other entities; and (iv) securitisation special-purpose companies (SPVs) whose shares are subscribed and held by the Bank and/or by its subsidiaries, in connection with their activities in the NPL sector. The Related Parties Procedure was adopted by the Issuer to ensure material and procedural compliance, and proper information to the market with effect from the Trading Start Day.

   In particular, the Related Parties Procedure, among other things:

   – identifies cases of exemption from the procedure for the approval of operations with parties in the Bank's Single Perimeter. These exemptions include: (a) "low value operations", which mean operations carried out with a party in the Single Perimeter at a value per transaction of EUR 250,000.00, regardless of the type of operation; (b) operations with parties in the Single Perimeter classified as ordinary operations at arm's-length or market conditions, which still require the prior approval of the risk control department (CRO) as to whether these conditions are met; (c) operations with SPVs in the Single Perimeter only if – regardless of the size of the shareholding relationship – the SPVs are recognised in the Bank's consolidated financial statements using the line-by-line consolidation method in accordance with the applicable accounting standards;
   – identifies the sizing indicators that, if overrun, would classify the operation as a "more significant operation" or a "less significant operation" and governs the administration and decision-making procedures for these operations, with particular attention to the role of the Committee for Operations with Related Parties and Connected Parties.

* * *

By a decision of the Board of Directors of 26 July 2018, the Company also adopted an organisational model aimed at ensuring fairness and transparency in its activities, to protect its own position and image, the expectations of its shareholders, and its employees' jobs. The model is based on the specific requirements of legislative decree 231/2001. Also on 26 July 2018, the Company gave the Board of Statutory Auditors the function of supervision.

* * *

At the Prospectus Date, the Issuer can be qualified as an "SME" in accordance with the definition in Article 1(1)(w-quater.1) of the Consolidated Finance Law.

According to Article 1(1)(w-quater.1) of the Consolidated Finance Law, "SME" is "without affecting other provisions of law, small and medium companies, issuers of listed shares whose turnover even prior to the admission of its shares for trading was less than EUR 300 million or who have a market capitalization of less than EUR 500 million. Issuers of listed shares that have exceeded the above limits for three consecutive years are not classified as SMEs". The Issuer considers that it can be classified as an SME in accordance with the above provision. According to the audit of the financial statements for the year ended 31 December 2017, the Bank's turnover is below the EUR 300 million threshold, as the turnover figure - as determined in accordance with paragraph 1.1 of the Annex to the Regulation on Disciplinary Proceedings adopted by Consob in decision no. 18750 of 19 December 2013 as referred to in Article 2(b)(1)(b) of the Issuer's Regulation – is represented by the positive components of the intermediation margin plus other operating costs of approximately EUR 26.1 million.

The main provisions applicable to SMEs are listed below.

<u>Global public offering</u>

According to Article 106(1) of the Consolidated Finance Law, anyone who, after acquiring or increasing their voting rights, comes to hold more than thirty percent or has voting rights above thirty percent of the purchases can arrange a public offering addressed to all the holders of shares, on all of the shares admitted for trading on a regulated market in their possession. According to Article 106, comma 1-a of the Consolidated Finance Law, in companies other than SMEs, the offering referred to in Article 106(1) of the Consolidated Finance Law can also be arranged by anyone who, after purchases, comes to hold more than twenty-five percent if there is no other shareholder with a larger shareholding.

According to Article 106, paragraph 1-b of the Consolidated Finance Law, SMEs' bylaws can set a different threshold than the one indicated in Article 106(1) Consolidated Finance Law (namely thirty per cent of the share capital represented by shares with voting rights) but it cannot be less than twenty-five per cent or more than forty percent. If the bylaws are amended after the start of trading on a regulated market, any shareholders who did not agree with the decision can withdraw all or part of their shares. The rule on exercising the right of withdrawal and the procedure for liquidating the value of the withdrawal shares is the rule that applies in the case of withdrawal (Articles 2437-a, 2437-b and 2437-c of the Italian civil code). The Company's bylaws do not contain a different threshold other than the one set by the Consolidated Finance Law.

According to Article 106, paragraph 3-c of the Consolidated Finance Law, the offer obligation provided for in Article 106, paragraph 3b) of the Consolidated Finance Law does not apply to SMEs on condition that this is provided for in the bylaws, until the date of the meeting of shareholders called to approve the financial statements for the fifth year, post-listing. Article 106, paragraph 3b) of the Consolidated Finance Law refers to the compulsory offer resulting from purchases of more than 5% or an increase of voting rights by more than 5% of the purchases, by anyone who already owns the shareholding indicated in paragraphs 1 and 1-b without holding the majority of voting rights at the ordinary meeting of shareholders (known as an incremental public offering). The company did not adopt the option for an incremental public offering.

<u>Obligation for SMEs to disclose significant shareholdings</u>

According to Article 120(2) of the Consolidated Finance Law, for SMEs, the first threshold for disclosure of significant shareholdings is 5% of the share capital with voting rights.

17. EMPLOYEES

17.1 Employees of the Issuer

The table below shows the changes in the Issuer's workforce in the years ended 31 December 2018, 31 December 2017, 31 December 2016, and 31 December 2015.

Category	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Executives	34	2	2	2
Middle managers	59	23	20	19
White-collar	45	37	30	29
Other				
Total	**138**	**62**	**52**	**50**

With reference to the implementation of the Issuer's policy to expand its workforce, during the final quarter of 2018 the Company took on 26 executives, 38 middle managers and 12 clerical staff ("**New Hirings**").

With reference to employed personnel at 20 February 2019 the Issuer had 189 employees.

The Issuer has now largely completed the recruitment of the first and second lines of its managerial team and staff team, most of whom have already been in service since the Business Combination date. Recruitment will continue during the Plan period, in order to increase resources in as the business grows. During the two-year period 2019-2020, a major hiring campaign will take place, which will give the Issuer a total workforce of 410-510 FTE in 2020 (for details reference should be made to Paragraphs 13.5 and 13.6.1 of this Prospectus).

The potential beneficiaries of the stock option plan (SOP), for details of which reference should be made to Section One, Chapter 17, paragraph 17.3 of the Prospectus, are all part of the New Hirings. Of the 40 members of staff who are beneficiaries of the stock option plan as specified below, 30 potential beneficiaries were employed on the Prospectus Date, while the remaining 10 are included in the personnel to be hired by the end of 2020.

With regard to the specific guidelines that the Issuer intends to follow in order to attract qualified personnel to its business, the 2019 Remuneration Policy, which was approved by the ordinary Meeting on 18 January 2019, provides for a Total Reward system inclusive of fixed or variable short and long-term components, and for a development and training offer intended to give applicants a challenging, exciting working environment full of opportunities, and to incentivise and recognise the founding values and behaviours of illimity.

The variable long-term components (SOP ad ESOP), for details of which reference should be made to Section One, Chapter 17, Paragraph 17.3 of the Prospectus, are intended to bring the interests of management, and of the staff as a whole, into line with those of the long-term shareholders, in accordance with the strategy defined in the industrial plan.

17.2 Share ownership and stock options

Share ownership

Below are details about the number of shares in the company held by members of the Board of Directors and Board of Statutory Auditors and by the Top Managers, on the Prospectus Date.

The following should be noted: (i) Director Gennari holds 4,500 SPAXS Ordinary Shares, equal to 0.0076% of the share capital; (ii) Tetis (owned as to 98.67% by Metis, whose capital is 90%-owned by the CEO Corrado Passera and as to 5% by Director Brambilla) owns 1,425,600 SPAXS Special Shares and 2,138,400 SPAXS Ordinary Shares, equal to 3.60% of its ordinary share capital.

AC Valuecreations S.r.l. (full subsidiary Andrea Clamer) owns 14,400 SPAXS Special Shares and 21,600 SPAXS Ordinary Shares, equal to 0.04% of its ordinary share capital.

Finally, in the context of the Merger, the SPAXS Ordinary Shares and the SPAXS Special Shares will be exchanged for an equal number of Ordinary Shares and Special Shares. For information about the percentages of share ownership of the Issuer following the Merger, reference should be made to Chapter 18.1.

Stock option plans

As of the Prospectus Date, at the extraordinary Shareholders' Meeting on 18 January 2019, the Issuer authorised the adoption of stock option plans for the Company's employees and those of its subsidiaries, including a residual element of Top Managers with effect from the Effective Date of Merger. There are no other stock option plans for members of the Board of Directors or the Board of Statutory Auditors.

17.3 Employee share ownership agreements

On 18 January 2019, the Issuer's ordinary Shareholders' Meeting approved the remuneration and bonus policy of the Bank for 2019. This contains, among other things, rules on early terminations of contract/resignations (the "2019 Remuneration Policy"), in line with the applicable regulatory provisions and in particular, with Circular 285, Part I, Title IV, Chapter 2, Section I, Paragraph 5 and Section III, Paragraph 2 (on the structure of the variable component and the connection to risks borne), and also taking into account the planned admission of the Issuer's shares for trading on the MTA. The 2019 Remuneration Policy governs bonus schemes for members of bodies with strategic supervision, management and control functions and for the rest of the employees of the Bank and of its subsidiaries. It provides that staff will be paid a fixed component, which is partly decided on the basis of the applicable contractual provisions, and also a variable component. It also raises the ratio between the fixed and variable components of individual pay to "2:1", in accordance with the post-Merger bylaws.

As to the variable component, the 2019 Remuneration Policy provides that this can be serviced by:

- a long-term "Stock Option Plan" (SOP) for up to 40 employees of the Issuer and/or of its subsidiaries with the aim of bringing the interests of management and of employees in general in line with those of the long-term shareholders.The potential SOP beneficiaries are part of the New Hirings and all report directly to Top Management. In particular, 30 of the potential SOP beneficiaries were employees of the Issuer on the Prospectus Date, while the remaining 10 potential beneficiaries are included in the personnel to be hired by the end of 2020.

- a bonus scheme (the MBO) which is based on assessments of individual performance and performance of the Issuer and/or its subsidiaries, intended for: (i) the material risk takers of the Issuer or of companies controlled by it, apart from Top Management and (ii) other managers, and (iii) the rest of the Issuer's employees;
- an "Employee Stock Ownership Plan" (ESOP), which is intended to encourage all staff towards building value, by allowing them to participate in the Issuer's growth throughout the Plan period, and intended for all the employees of the Issuer and its subsidiaries, as indicated in more detail below;
- an extraordinary retention bonus designed to retain specific skills with the Issuer; this is to be paid in accordance with the provisions on bonuses;
- potential stability or no competition agreements, either paid on a permanent basis, or revocable;
- possible entry bonuses or buyouts.

All these components of variable pay have been examined and approved by the Remuneration Committee.

As these schemes have different characteristics, they are cumulative, although they still respect the ratio between the fixed and variable pay components as provided for in the 2019 Remuneration Policy.

Access to the variable pay component is always subject to conditions, connected to the Issuer's maintenance of capital and liquidity ratios that are in line with the applicable laws and regulations.

In accordance with the regulatory banking provisions and the 2019 Remuneration Policy, any bonuses that may be agreed for the early termination of employment contracts or resignations can be paid partially in ordinary shares.

As to the ratio between the variable and fixed payments of salary, the 2019 remuneration policy provides that:

(i) for the material risk takers of the Issuer and/or of the subsidiaries, who belong to the business functions other than Top Management, the variable component cannot exceed 200% of the fixed salary;
(ii) for the material risk takers of the Issuer and/or of the subsidiaries, who belong to the support functions, other than Top Management, the variable component cannot exceed 150% of the fixed salary;
(iii) for the material risk takers in the company control functions, the variable component cannot exceed one- third of the fixed salary component;
(iv) for the other staff, the variable salary component is always kept within the limit of 200% of the business functions and 100% for the other functions.

At the Prospectus Date, Top Management (including the CEO) was not among the recipients of the bonus schemes described above and therefore was not granted a variable pay component.

In accordance with the 2019 Remuneration Policy, all variable pay components are subject to clawbacks and all bonus schemes are subject to malus clauses, in accordance with the legal and regulatory provisions applicable to the Issuer.

Below is a brief description of the bonus plans approved by the Meeting of Shareholders of the Issuer on 18 January 2019.

Stock Option Plan (SOP)

The “Stock Option Plan” (“SOP”), whose main characteristics are listed below, is aimed at: (a) aligning the interests of Management with those of the shareholders over the long term; (b) rewarding the fulfilment of the objective of listing the Ordinary Shares and Conditional Share Rights on the MTA; and (c) supporting the growth of the Issuer and/or of its subsidiaries over the long term.

Adoption of the SOP was in line with the provisions of Circular 285 on remuneration and bonus policies and practices, and also with the recommendations in Article 6 of the Corporate Governance Code and the principles of the 2019 Remuneration Policy.

Object

In accordance with the 2019 Remuneration Policy, following the successful listing of the Issuer on the MTA, the SOP provides for the allocation of a maximum of 2,100,000 option rights (the “Option Rights”), to be exercised subject to the fulfilment of the Business Plan objectives and which will be served by a divisible paid capital increase, with the exclusion of the option rights under Article 2441(8) of the Italian civil code for a maximum of EUR 1,496,671.34, authorised by the Meeting on 18 January 2019.

For more information reference should be made to Section One, Chapter 21, Paragraph 21.1.7 of the Prospectus.

Recipients

The SOP is intended for up to 40 individuals who (i) can be classified as employees of the Issuer and/or of its subsidiaries on the Prospectus Date, or (ii) will be classified as employees of the Issuer and/or of its subsidiaries within 24 months from first allocation of the SOP, including managers with strategic responsibility including those with direct or indirect power and responsibility for the planning, direction and control of activities of the Issuer or of its subsidiaries as the case may be.

Top Management (including the CEO) and employees classified as Heads of control functions are not among the recipients of the SOP.

All SOP recipients are included in New Hirings reporting directly to top management. In particular, 30 of the potential SOP beneficiaries were employees of the Issuer on the Prospectus Date, while the remaining 10 potential beneficiaries are included in the personnel to be hired by the end of 2020.

Management of the Plan

In accordance with the decision made by the Meeting on 18 January 2019, the body currently responsible for implementing and managing the SOP is the Issuer's Board of Directors, which on 18 January 2018 approved the "Stock Option Plan Regulation", which governs the implementation of the SOP, without affecting the characteristics of the Plan which is examined and approved by the Meeting (the "SOP Regulation").

Allocation

The SOP Regulation provides that the Option Rights will be allocated to each recipient after a vesting period between the Trading Start day and 31 December 2023, in line with the Business Plan and subject to the conditions in the SOP Regulation.

The Strike Price is set at: (i) the arithmetical average of the official prices recorded for the SPAXS Ordinary Shares on AIM Italia on the trading days between the day preceding the Date of Allocation and the date of the preceding calendar month that has the same date as the date of allocation of the Option Rights (or, failing that, the day immediately prior to that) for the recipients at the time of the SOP launch (ii) the arithmetical average of the official prices recorded by the Ordinary Shares on the MTA on the trading days during the period between the day prior to the Date of Allocation and the day of the preceding calendar month that has the same date as the day of allocation of the Option Rights (or, failing that, the day immediately preceding that) for the remaining beneficiaries who will be named by 31 December 2020.

In accordance with the 2019 Remuneration Policy and the regulatory and supervisory provisions applicable to the Issuer, the beneficiaries' right to receive the Option Rights is subject to the fulfilment of the following conditions:

a) the reaching of "gate" objectives linked to the maintenance of certain capital and liquidity ratios, earnings, and the absence of any individual violations of laws or regulations;
b) the reaching of performance targets linked to the profitability of the Issuer and the maintenance of certain financial ratios (Cost/Income Ratio, ROE – ratio between net profits for the period and average net assets for the year, Gross Organic NPE ratio and the CET1 Capital Ratio); and
c) the continuation of the employment relationship between the beneficiary and the Issuer and/or its subsidiaries on the vesting date.

According to the SOP Regulation, the reaching of the above objectives will be checked by the Board of Directors (the "Option Rights Award Date") at the end of the vesting period, and 100% of the Option Rights accruing will then be allocated to the recipients upfront.

In accordance with Circular 285 on remuneration and bonus policies and practices, a pro rata principle will apply to the allocation of the Option Rights, compared to the maximum limit of variable pay over fixed pay, which is set by the Meeting on 18 January 2019.

The SOP also includes ex post adjustment mechanisms (malus clauses and clawbacks). The Option Right or the counter value in cash or shares, if shares have already been subscribed, may be revoked or returned, in full or in part, if within 5 years from the Option Rights Award Date, it is found that there was (i) behaviour that led to a "significant" loss for the Issuer or for its clientele; (ii) a breach of the conditions and limits on the acceptance of risk for those who may influence the management of the Bank and parties connected to it (Article 53(4) et seq TUB); (iii) a breach of the obligations on pay and bonuses; (iv) with reference to managers with strategic responsibility, if the data relating to the gate objectives or other objectives is subsequently found to be manifestly inaccurate; (v) fraud or gross negligence.

The SOP also includes a prohibition for beneficiaries on carrying out hedging transactions that may alter or affect the risk alignment in the SOP, as it is a share-based plan. Such transactions would result in the forfeiture of the Option Rights.

Exercise period

The Option Rights can be exercised after a 6-month lock up period starting from the Option Rights Award Date, for a maximum of three years, but no later than 31 December 2027. After that time the Option Rights can no longer be exercised.

The SOP period indicated above is in line with the indications in Circular 285 on pay and bonus policies and practices, and with the timeframe of the industrial plan.

Employee Stock Ownership Plan (ESOP)

The "Employee Stock Ownership Plan (ESOP)", whose main characteristics are listed below, is aimed at: (a) allowing all staff to share in the successful listing on the MTA; (b) motivating and engaging all staff throughout the duration of the Business Plan, by giving them the opportunity to own shares in the Company.

The ESOP was adopted in order to encourage employees to build value, by allowing them to participate in the growth of the Issuer and of its subsidiaries, in line with the provisions of Circular 285 on remuneration and bonus policies and practices, and also with the recommendations in Article 6 of the Corporate Governance Code, and the principles of the 2019 Remuneration Policy.

Object

In line with the 2019 Remuneration Policy, the ESOP provides for the free allocation of up to 700,000 Ordinary Shares, which will be issued in execution of the authority (Article 2443 of the Italian civil code) for the free increase of share capital (Article 2349(1) of the Italian civil code) up to a maximum of EUR 498,890.45, authorised by the Meeting on 18 January 2019. The Ordinary Shares will be allocated in five annual cycles.

For more information reference should be made to Section One, Chapter 21, Paragraph 21.1.7 of the Prospectus.

Recipients

The ESOP is intended for all the employees of the Issuer and/or of its subsidiaries, who have, either with the Company or with one of its direct or indirect subsidiaries (i) a permanent contract of employment, or (ii) a fixed term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment").

For the purposes of awarding Ordinary Shares under the ESOP (as described in more detail below) the recipients are separated into two categories, specifically (i) non-managerial employees, and (ii) managerial employees, who are employees that, on the Ordinary Shares Award Date have a Contract of Employment classified as managerial in accordance with the applicable collective labour agreement, with the Issuer or with one of its subsidiaries.

Management of the Plan

As decided by the Meeting on 18 January 2019, the body currently responsible for implementing and managing the ESOP is the Issuer's Board of Directors which on 18 January 2018 approved the "Employee Stock Ownership Plan Regulation", without affecting the characteristics of the Plan which is examined and approved by the Meeting (the "ESOP Regulation").

Allocation

The ESOP Regulation provides for the allocation, in each cycle, of a number of Ordinary Shares equal to the value of EUR 2,000 for each non-managerial employee, and of EUR 100 for managerial employees.

The number of Ordinary Shares to be allocated (i) to all beneficiaries apart from Managers, is EUR 2,000 / the arithmetical average of the official prices recorded for the Ordinary Shares on the MTA on the trading days between the day preceding the Date of Allocation of the Ordinary Shares and the date of the preceding calendar month that has the same date as the date of allocation of the Ordinary Shares (or, failing that, the day immediately prior to that); and (ii) for beneficiaries who are Managers, EUR 100 / the arithmetical average of the official prices recorded by the Ordinary Shares on the MTA on the trading days during the period between the day prior to the Date of Allocation of the Ordinary Shares and the day of the preceding calendar month that has the same date as the day of allocation of the Ordinary Shares (or, failing that, the day immediately preceding that). In both cases the number of Ordinary Shares will be rounded to the lower whole number.

The beneficiaries' entitlement to the Ordinary Shares is subject to the following conditions being met:

(a) admission for trading on the MTA, for the Ordinary Shares and Conditional Share Rights;

(b) the continuation of the employment relationship between the beneficiary and the Issuer and/or its subsidiary on the date of allocation of the Ordinary Shares;

e) the maintenance of certain capital and liquidity requirements (gate requirements), in line with the laws and regulations applicable on the date of allocation of the Ordinary Shares;

The fulfilment of these conditions for the purposes of awarding the Ordinary Shares will be verified by the Board of Directors and/or the body or persons authorised for that purpose by the Board itself.

The ESOP Regulation requires that the Ordinary Shares be held in a restricted account for each employee, for at least three years. The Ordinary Shares will become available to the employee on conclusion of the three-year restriction period.

The Ordinary Shares already deposited in the individual account can only be revoked by activating the clawback clause, in those cases provided for in the Remuneration Policy approved for the year of award of the Plan. The Issuer will request the revocation of Ordinary Shares, or request the return of the counter value in cash, if it is found, within 5 years from the payment, that there was (i) behaviour by the Beneficiary that led to a "significant" loss for the Issuer or for its clientele; (ii) a breach of the conditions and limits on the acceptance of risk for those who may influence the management of the Bank and parties connected to it (Article 53(4) et seq TUB); (iii) a breach of the obligations on pay and bonuses; (iv) with reference to managers with strategic responsibility, if the data relating to the gate objectives or other objectives is subsequently found to be manifestly inaccurate; (v) fraud or gross negligence.

Duration

The ESOP provides for five free annual allocations of Ordinary Shares. The first will correspond to the listing of the Issuer's Ordinary Shares and Conditional Share Rights on the MTA, while the remaining four will be during the first quarter of each year from 2020 until 2023, in line with the Business Plan objectives.

Bonus scheme for Material Risk Takers and other business function managers (MBO) 2019

The aim of the "MBO" is to recognise the progress made in achieving the Business Plan targets, to incentivise the adoption of behaviours that reflect the long-term planning, and to support the diffusion of a value creation culture, in line with the risk management objectives set out in the Issuer's Risk Appetite Framework and the applicable regulations.

Object

In line with the 2019 Remuneration Policy, upon fulfilment of the following conditions, the MBO allows for the award of a bonus, to be paid partly in cash and partly in ordinary shares, awarded free of charge. The Ordinary Shares will be issued in execution of the authority under Article 2443 of the Italian civil code, with a maximum duration of five years, for the free increase of share capital (Article 2349 (1) of the Italian civil code) up to a maximum of EUR 85,524.08, through the issue of up to 120,000 ordinary shares authorised by the Meeting on 18 January 2019. The maximum number of ordinary shares includes any ordinary shares that may be required to make payments related to the early termination of contracts of employment, and relating to the Issuer's remuneration policies approved during the period of five years' authority granted to the

Board of Directors, taking into account the relevant provisions of regulations and supervisory requirements applicable at the time.

For more information reference should be made to Section One, Chapter 21, Paragraph 21.1.7 of the Prospectus.

Recipients

The MBO, which will be implemented in different ways, is intended for all employees of the Bank with the exclusion of top management.

Payment of the annual bonus system (MBO)

With reference to the key personnel of the Issuer and/or of its subsidiaries, and to the other employees classified as business managers and reporting directly to Top Management, the payment will be made in line with the laws and regulations applicable to the Issuer, including Circular 285 on pay and bonus policies and practices, and the provisions of the 2019 Remuneration Policy. It will also take into account the MTA listing, in respect of the 80% upfront (75% in cash and 25% in Ordinary Shares), and the 20% deferred for two years (if there are no malus, this will be paid entirely in Ordinary Shares).

The Ordinary Shares component is subject to a 6-month lock up period, both for the upfront and for the deferred component.

If a particularly significant bonus is awarded, or if, in line with the Business Plan objectives, a variable/fixed pay ratio of more than 1:1 is set, the upfront component of the variable pay will be reduced to 60% (50% in cash and 50% in Ordinary Shares), while the deferred component will be paid over 3 years (without malus, 10% in cash in the 1st year, 20% in Ordinary Shares in the 2nd year, and 10% in cash in the 3rd year).

The Ordinary Shares component is subject to a 12-month lock up period, for the upfront and 6 months for the deferred component.

If the bonus awarded is below a certain threshold, the variable component will be paid entirely in cash.

In any case, the potential beneficiaries' right to receive the bonus provided for in the MBO is subject to the fulfilment of gate objectives, linked to the maintenance of certain capital and liquidity ratios in line with the provisions of the RAF (the CET1 ratio, Liquidity Coverage Ratio and Net Income), to the absence of any breaches of laws or regulations, and to performance targets, which are set in accordance with the industrial plan objectives.

The MBO also includes ex post adjustment mechanisms in line with Circular 285 on pay and bonus policies and practices, and the 2019 Remuneration Policy. A request will be made for the return of all or part of the full amount of the bonus paid if, within 5 years from payment of the upfront or deferred amounts, it is found that there was: (i) behaviour that led to a "significant" loss for the Issuer; (ii) a breach of the conditions and limits on the acceptance of risk for those who may influence the management of the Bank and parties connected to it (Article 53(4) et seq. TUB); (iii) a breach of the obligations on pay and bonuses; (iv) with reference to managers with strategic responsibility, if the data relating to the gate objectives or other objectives is subsequently found to be manifestly inaccurate; (v) fraud or gross negligence.

18. MAJOR SHAREHOLDERS

18.1 ISSUER'S MAJOR SHAREHOLDERS

The following table sets out the composition of the Issuer's share capital at the Prospectus Date, providing the names of the persons with material holdings on the basis of the notifications received pursuant to applicable laws and regulations and other information at the Issuer's disposal.

Shareholder	Number of shares	Percentage of capital with voting rights
SPAXS	43,015	99.17% (approximately)
Others	362(*)	0.83% (approximately)
TOTAL	**43,377**	**100%**

(*) It should be noted that with regard to the no. 362 shares indicated above, after the deadline of 2 February 2019 it has been established that sales rights were exercised for a total of nos. 74 shares.

At the Prospectus Date the share capital of SPAXS, the company controlling the Issuer and the company to be merged into the Issuer by way of the Merger, consists of:

(i) 59,373,241 SPAXS Ordinary Shares (of which 2,160,000 held by the Promoters, and more specifically 2,138,400 SPAXS Ordinary Shares held by Tetis and 21,600 SPAXS Ordinary Shares held by AC Valuecreation); and

(ii) 1,440,000 SPAXS Special Shares, all of which held by the Promoters, and more specifically 1,425,600 SPAXS Special Shares held by Tetis and 14,400 SPAXS Special Shares held by AC Valuecreation.

The SPAXS bylaws provide that the 1,440,000 SPAXS Special Shares: (i) shall be automatically converted into SPAXS Ordinary Shares using the conversion ratio of 1:8 if, by 20 September 2022 (the "Deadline"), the average price of the SPAXS Ordinary Shares traded on the AIM Italia or, if such be the case, on an Italian regulated market, is greater than or equal to EUR 13.9663866 per SPAXS Ordinary Share for at least 22 consecutive open market days; and (ii) shall be automatically converted into SPAXS Ordinary Shares using the conversion ratio of 1:1 if by the Deadline neither of the above two automatic conversions has occurred. Similar provisions are included in the Post-Merger Bylaws, a description of which can be found in Chapter 21, Paragraph 21.2 of the Prospectus.

The following table sets out the share ownership of SPAXS based on share capital with voting rights, as of the Prospectus Date, on the basis of notifications received pursuant to applicable law and the information available to SPAXS.

Share ownership of SPAXS	**Number of ordinary shares**	**% of share capital with voting rights**
SDP RAIF – Genesis[(1)]	5,868,050	9.88%
AMC Metis S.a.r.l.[(2)]	4,600,000	7.75%
Tensile-Metis Holdings S.a.r.l.[(3)]	3,700,000	6.23%
AZ Fund Management S.A.[(4)]	3,012,000	5.07%
Tetis S.p.A.[(5)]	2,138,400	3.60%
AC Valuecreations S.r.l. [(6)]	21,600	0.04%
Banca IMI	1,247,900	2.10%
Floating capital	38,785,291	65.32%
TOTAL ordinary shares of SPAXS	**59,373,241**	**100.00%**

(1) Investment fund managed by (AIFM) SDP Capital Management Ltd., a company whose share capital is held in full by the company SDP Partecipazioni S.r.l., whose share capital is, in turn, 70% held by Diaz della Vittoria Pallavicini and 30% held by SDP Advisory S.A., a Swiss company 100% owned by Diaz della Vittoria Pallavicini.

(2) Wholly owned subsidiary of Atlas Merchant Capital Fund LP, of which Board Member Diamond is the majority shareholder.

(3) Based on the information available to the Issuer, a company entirely owned by the Tensile Capital Partners Master Fund L.P, of which Tensile Capital Management LLC (of which Arthur Chiakai Young is both controlling shareholder and Managing Partner) is the management company for the same fund

(4) Member of the Azimut Group

(5) Tetis is a Promoter of SPAXS together with AC Valuecreations S.r.l.. The share capital of Tetis is held as to 98.67% by Metis S.p.A., whose share capital is held as to 90% by the Manging Director Corrado Passera, as to 5% by the Director Massimo Brambilla and as to 5% by Luca Arnaboldi. The remaining share capital of Tetis is represented by special category shares which are held by AC Valuecreations S.r.l. and by the Top Managers of the Bank, Enrico Fagioli, Francesco Mele and Carlo Panella.

(6) AC Valuecreations S.r.l. is wholly owned by Andrea Clamer, and at the Prospectus Date holds 21,600 ordinary shares of SPAXS. In this respect reference should be made to Paragraphs 14.2.1. and 14.2.3.

In addition, at the Prospectus Date, SPAXS has issued 28,492,827 Conditional Share Rights which embody the right to receive, at 20 September 2019 (being the first anniversary of the effective date of the Material Transaction), 1 newly-issued SPAXS Ordinary Share (the SPAXS Conversion Shares) for every 5 SPAXS Conditional Share Rights held.

As the SPAXS Conditional Share Rights can be freely traded on the AIM Italia, separately from the SPAXS Ordinary Shares, neither the Issuer nor SPAXS holds information in respect of the owners of the SPAXS Conditional Share Rights.

For the purposes of the Merger, after the cancellation of all the Issuer's shares existing at the Prospectus Date:

(i) the SPAXS Ordinary Shares will be exchanged for the Issuer's Ordinary Shares at a ratio of 1:1 and the SPAXS Special Shares will be exchanged for the Issuer's Special Shares at a ratio of 1:1;

(ii) the Issuer's shareholders other than SPAXS will be assigned illimity Ordinary Shares using an Assignment Ratio of 1:137.0726; and

(iii) the SPAXS Conditional Share Rights will all be cancelled and replaced by the Issuer's Conditional Share Rights, having the same features as the SPAXS Conditional Share Rights.

For further details of the Merger reference should be made to Chapter 5, Paragraph 5.1.5 and to Chapter 22 of the Prospectus. Further information on the Conditional Share Rights can be found in the Second Section, Chapter 4 of the Prospectus.

The following table provides details of the Issuer's shareholders, taking into consideration the effects:

(i) of the finalisation of the Merger,

(ii) of the assignment of all of the maximum 5,698,565 Conversion Shares (which, please recall, are newly-issued illimity ordinary shares) deriving from all 28,492,827 Conditional Share Rights issued, with regard to which, in order to estimate the maximum dilution specified below, it is assumed that all Conditional Share Rights are held by shareholders other than those specified in the following table and that therefore all of the Conversion Shares are assigned to those shareholders other than the parties represented in the table, and

(iii) of the conversion of all 1,440,000 Special Shares of the Issuer into 11,520,000 Ordinary Shares of the Issuer, if the condition set forth in the Bylaws for the conversion ratio of 1:8 is met (i.e., reaching the trigger correlated with Ordinary Share price trends in the MTA), or

(iv) of the conversion of all 1,440,000 Special Shares of the Issuer into 1,440,000 Ordinary Shares of the Issuer, if the condition set forth in the Bylaws for the conversion ratio of 1:1 is met (i.e., reaching of the deadline set forth in the Bylaws - 20 September 2022 - without reaching the trigger pursuant to point (iii) above).

Please note that the figures provided above and in the following table do not take into account the effect on the % of voting rights of the acquisition on completion of the Merger by the Bank of the 74 BIP ordinary shares for which the non-controlling shareholders exercised the sale right pursuant to and in accordance with art. 2505-bis, paragraph 1, of the Italian civil code, as it is insignificant. For more information in this respect, refer to Chapter 5, section 5.1 of this Prospectus.

Situation at the Prospectus Date		Post-merger situation	Post-merger situation, assignment of Conversion Shares associated with Conditional Share Rights	Fully diluted (post-merger, assignment of Conversion Shares associated with Conditional Share Rights and conversion of Special Shares)	
				Conversion of Special Shares with 1:1 ratio	Conversion of Special Shares with 1:8 ratio
Shareholder	**% of share capital with voting rights**	**% of share capital with voting rights**	**% of share capital with voting rights**	**% of share capital with voting rights**	**% of share capital with voting rights**
SPAXS S.p.A.(*)	99.17%	-	-	-	-
Minority shareholders of BIP	0.83%	0.08%	0.08%	0.075%	0.065%
SDP RAIF – Genesis(**)(1)	-	9.88%	9.01%	8.82%	7.66%
AMC Metis S.a.r.l.(**)(***) (2)	-	7.74%	7.06%	6.91%	6.00%(***)
Tensile-Metis Holdings S.a.r.l.(**) (3)	-	6.23%	5.68%	5.56%	4.83%
AZ Fund Management SA(**) (4)	-	5.07%	4.63%	4.53%	3.93%
Tetis S.p.A. (**)(***) (5)	-	3.60%	3.28%	5.35%	17.67%(***)
AC Valuecreations S.r.l. (**) (6)	-	0.04%	0.03%	0.05%	0.18%
Banca IMI (**)	-	2.10%	1.92%	1.87%	1.63%
Floating capital (**)	-	65.27%	68.31%	66.83%	58.04%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

(*) *As a result of the Merger, at the effective date SPAXS will become extinct as far as third parties are concerned.*

(**) *Shareholders of SPAXS at the Prospectus Date.*

(***) *To the best of the Issuer's knowledge and belief, according to the provisions of the term sheet agreed by Metis S.p.A. (which controls Tetis S.p.A.) and AMC Metis S.a.r.l. (which is controlled by Atlas Merchant Capital LP), for which reference should be made to the First Section, Chapter 14, Paragraph 14.2.1 of the Prospectus, the interest of Atlas in the Issuer could increase, and that of Tetis correspondingly decrease, for a maximum amount of 1% (on a fully diluted basis) of the Issuer's share capital.*

(1) *Investment fund managed by the (AIFM) company SDP Capital Management Ltd, a company whose share capital is entirely owned by SDP Partecipazioni S.r.l. company, whose share capital is in turn, owned by Diaz della Vittoria Pallavicini (70%) with the remaining 30% owned by the SPD Advisory S.A, a Swiss company entirely owned by Diaz della Vittoria Pallavicini.*

(2) *A company entirely controlled by Atlas Merchant Capital Fund LP, of which Director Diamond is the majority shareholder.*

(3) *Based on the information available to the Issuer, a company entirely owned by the Tensile Capital Partners Master Fund L.P, of which Tensile Capital Management LLC (of which Arthur Chiakai Young is both controlling shareholder and Managing Partner) is the management company for the same fund*

(4) *A company that is part of the Azimut Group.*

(5) *Tetis is the Promoting Company of SPAXS along with AC Valuecreations S.r.l.A 98.67% share of Tetis' share capital is owned by Metis S.p.A. A 90% stake of the share capital is owned by the Managing Director Corrado Passera, 5% by Director Massimo Brambilla and the remaining 5% by Luca Arnaboldi. The remaining share capital of Tetis is made up of special category shares which are owned by AC Valuecreations S.r.l. and by the Bank's top managers Enrico Fagioli, Francesco Mele and Carlo Panella.*

(6) *AC Valuecreations S.r.l. is a company whose shares are entirely owned by Andrea Clamer and, at the Prospectus Date, it holds no. 21,600 Ordinary Shares of SPAXS. On this point reference should be made to the preceding paragraphs 14.2.1 and 14.2.3.*

In comparison with the Prospectus Date, on the occurrence of the above conditions (points (i) and (ii) and therefore taking into account the completion of the Merger and the assignment of the Conversion Shares), the Issuer's ordinary shareholders, understanding these to be (a) the ordinary shareholders of SPAXS at the Prospectus Date other than the Promoters and (b) the Bank's ordinary shareholders at the Prospectus Date other than SPAXS, would hold an overall interest of (x) 82.2% in the Issuer's share capital, corresponding to a dilution, represented by voting rights in the Issuer, of 17.8% (assuming the conversion of all Special Shares with a conversion ratio of 1:8) and (y) 94.6%, corresponding to a dilution, represented by the voting rights in the Issuer, of 5.4% (assuming the conversion of all Special Shares with a conversion ratio of 1:1).

These dilutions would correspond to 17.9% and 5.5%, respectively, only for the ordinary shareholders of SPAXS at the Prospectus Date other than the Promoters, as well as a dilution for the shareholders of the Issuer other than the shareholders of SPAXS and the Promoters at the Prospectus Date, which would fall from a proportion of 0.08% to a proportion of 0.06% and 0.075%, respectively, of voting rights in the Issuer.

18.2 Voting rights other than those held by the Issuer's major shareholders

At the Prospectus Date, the Issuer has issued solely ordinary shares and has not issued shares with voting rights or rights of another nature other than ordinary shares.

At the Prospectus Date, the Issuer's subscribed and paid-share capital amounts to EUR 43,377,000, consisting of 43,377 ordinary shares.

At the effective date of the Merger, the Issuer's subscribed and paid-in share capital will amount to EUR 43,377,000, consisting of 59,422,861 Ordinary Shares and 1,440,000 Special Shares.

Further information on the composition of share capital as well as on the financial instruments subsequent to the Merger can be found in the First Section, Chapter 21 and Chapter 22 and in the Second Section, Chapter 4 of the Prospectus.

18.3 Entity controlling the Issuer

At the Prospectus Date, the Issuer is controlled by SPAXS by law, pursuant to Article 2359, paragraph 1, no. 1, of the Italian civil code and within the meaning of Article 93 of the TUF.

At the same date SPAXS is not controlled by any shareholder within the meaning of Article 2359, paragraph 1, and Article 93 of the TUF.

18.4 Arrangements that may result in a change of control of the Issuer

To the best of the Issuer's knowledge and belief, at the Prospectus Date there are no material shareholders' agreements within the meaning of Article 122 of the TUF, with the exception of the following:

Based on the information available to the Issuer, at the Prospectus Date, it has been ascertained that on 21 December 2018 Metis S.p.A. (a company chaired and controlled by Dott. Corrado Passera) and Atlas Merchant Capital Fund LP, have underwritten an agreement (term sheet) that prescribes, inter alia, that if certain conditions arise, including the conversion of SPAXS Special Shares (and, following the Merger, the Issuer's Special Shares) the Bank's shareholding owned by Atlas Merchant Capital Fund LP, via its subsidiary AMC Metis S.a.r.l., an Issuer shareholder following the Merger, may increase - via Tetis S.p.A., an Issuer shareholder following the Merger and a company that at the Prospectus Date is controlled by Metis S.p.A. – by a maximum amount of 1% (on a fully diluted basis).

This term sheet, the detailed provisions of which, at the Prospectus Date, have not yet been finalised by the parties, as the date of 28 February 2019 is set as the deadline for final agreements, also prescribes a general understanding between the same parties, relevant pursuant to art. 122 TUF and, therefore, subject to the legal information obligations once final agreement has been reached, regarding the representation of Atlas Merchant Capital Fund LP in the Issuer's Board of Directors according to the terms not yet finalised between the parties at the Prospectus Date.

19. RELATED PARTY TRANSACTIONS

19.1 Transactions with the Related Parties of BIP for the nine months ended 30 September 2018 and for the years ended 31 December 2017, 2016 and 2015 and up to the Prospectus Date

Introduction

The Issuer has identified Related Parties in accordance with International Financial Reporting Standards (IAS 24 Related Party Disclosures).

The Issuer has performed, and as part of its operations could perform in the future, transactions of a commercial and financial nature with related parties within the meaning of IAS 24.

In the Issuer's opinion, these transactions take place at arm's length. In this respect there can be no guarantee that if the transactions had been carried out between, or with, third parties, such parties would have negotiated and entered the relative agreements, or carried out the transactions governed by such, under the same conditions and by the same means.

On 17 December 2018 the Issuer adopted the "Regulation for dealing with transactions with persons forming part of the Bank's Combined Perimeter and transactions of personal interest" in accordance with Consob Regulation no. 17221 of 12 March 2010, as amended, and Bank of Italy Circular no. 263 of 27 December 2006, as amended and supplemented, on "Risk activities and conflicts of interest of banks and banking groups with Associated Persons".

Balances and transactions with the Related Parties of BIP as of and for the nine months ended 30 September 2018

The Issuer carried out Related Party transactions as part of its ordinary activities in the nine months ended 30 September 2018.

Pursuant to Consob Communication no. 6064293 of 28 July 2006, the following table sets out in a specific column the effects of Related Party transactions on the financial statements as of and for the nine months ended 30 September 2018, with amounts expressed in thousands of euros.

(Thousands of euros)	30/09/2018		
	Carrying amount	**of which with related parties**	**Related party percentage**
Assets			
Due from customers	457,926	31	0.01%
Representative			
Other		31	0.01%
Liabilities			
Due to customers	488,877	670	0.14%
Representative		230	0.05%
Other		440	0.09%
Securities issued	99,121	297	0.30%
Representative		111	0.11%
Other		186	0.19%
Other liabilities	18,520	1,506	8.13%
Representative		1,506	8.13%

(Thousands of euros)	30/09/2018		
	Carrying amount	**of which with related parties**	**Impact of related parties**
Costs			
Personnel expenses	6,240	2,456	39.36%
Representative		2,456	39.36%
Other			0.00%

Related party transactions giving rise to the item "Due to customers" regard deposits made by corporate officers and other related parties.

Related party transactions giving rise to the item "Securities issued" regard bonds issued by the Bank and certificates of deposit subscribed by corporate officers and other related parties.

Related party transactions giving rise to the item "Other liabilities" and those included in "Personnel expenses" mostly regard the remuneration of corporate officers.

Related party transactions included in "Other administrative expenses" regard corporate benefits for the relevant personnel.

Other information at 30 September 2018				
Description		**Carrying amount**	**of which with related parties**	**Related party percentage**
1	Guarantees given	198,120	99	0.05%
	2. Companies that exert significant influence		-	
	3. Subsidiaries		-	
	4. Associates		-	
	Key executives		-	
	Other related parties		99	
2	Irrevocable commitments to lend funds	6,721	0	0.00%
	2. Companies that exert significant influence		-	
	3. Subsidiaries		-	
	4. Associates		-	
	Key executives		-	
	Other related parties		-	
3	Custody and administration of securities	247,513	799	0.32%
	3.1 Securities issued by the bank that prepares the financial statements (*)	22,671	55	0.24%
	3. Subsidiaries		-	
	Shareholders per Art. 19 TUB		-	
	Key executives		20	
	Other related parties		35	
	3.2 Other securities	224,842	744	0.33%
	3. Subsidiaries		-	
	4. Associates		-	
	Key executives		406	
	Other related parties		339	

(*) *This item also includes the shares issued by BIP and stored under custody at the bank and is stated at nominal value.*

Related party transactions included in the item "Custody and administration of securities – Other securities" regard the administered deposits of corporate officers and other related parties.

Information on key executive compensation

The following table provides information on the remuneration categories of key executives and employees for the nine months ended 30 September 2018.

(Thousands of euros)	**BIP 30 September 2018**
a) short-term benefits for employees	2,255
b) post-employment benefits	16
c) other long-term benefits	-
d) employee severance benefits	27
e) share-based payments	-

Information on Related Party balances and transactions

The following table provides details of the Issuer's Related Party balances and transactions as of and for the nine months ended 30 September 2018.

(Thousands of euros)	BIP					
	As of and for the nine months ended 30 September 2018					
	Assets	Liabilities	Guarantees and commitments	Custody and administration	Expense	Income
Controlling companies	-	-	-	-	-	-
Companies that exert joint or significant control	-	-	-	-	-	-
Subsidiaries	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-
Key executives	-	3,311	-	406	(2,614)	1
Shareholders per Art. 19 TUB	-	-	-	-	-	-
Other related parties	31	625	99	339	(3)	4

Transactions with the Related Parties of BIP for the years ended 31 December 2017, 2016 and 2015.

The Issuer carried out Related Party transactions as part of its ordinary activities in the years ended 31 December 2017, 2016 and 2015.

Pursuant to Consob Communication no. 6064293 of 28 July 2006, the following table sets out in a specific column the effects of Related Party transactions on the financial statements as of and for the year, with amounts expressed in thousands of euros.

- Year ended 31 December 2017

(Thousands of euros)	31/12/2017		
	Carrying amount	of which with related parties	Impact of related parties
Assets			
Due from customers	326,049	1,583	0.49%
Representative		163	0.05%
Other		1,420	0.44%
Liabilities			
Due to customers	434,543	13,630	3.14%
Representative		677	0.16%
Other		12,953	2.98%
Securities issued	94,435	637	0.67%
Representative		216	0.23%
Other		421	0.45%

Thousands of euros	31/12/2017		
	Carrying amount	**of which with related parties**	**Impact of related parties**
Costs			
Personnel expenses	5,201	1,504	28.92%
Representative		1,504	28.92%
Other			0.00%

Related party transactions giving rise to the item "Due from customers" regard loans granted to corporate officers and other related parties.

Related party transactions giving rise to the item "Due to customers" regard deposits made by corporate officers and other related parties.

Related party transactions giving rise to the item "Securities issued" regard bonds issued by the Bank and certificates of deposit subscribed by corporate officers and other related parties.

Related party transactions giving rise to the item "Other liabilities" and those included in "Personnel expenses" regard the emoluments and remuneration of corporate officers and other related parties.

Related party transactions included in "Interest income" and "Interest expense"" regard the remuneration on loans and deposits made by corporate officers and other related parties.

Related party transactions included in "Other administrative expenses" regard corporate benefits for the relevant personnel.

Related party transactions included in "Other accruals to provisions" regard bonuses for the relevant personnel.

Other information at 31 December 2017

	Description	**Carrying amount**	**of which with related parties**		**Related party percentage**
1	Guarantees issued	18,817		107	0.57%
	Other related parties		107		
2	Irrevocable commitments to lend funds	281		0	0.00%
3	Custody and administration of securities	321,686		13,338	4.15%
	3.1 Securities issued by the bank that prepares the financial statements (*)	60,457		12,331	20.40%
	Shareholders per Art. 19 TUB		4,000		
	Key executives		240		
	Other related parties		8,091		
	3.2 Other securities	261,229		1,007	0.39%
	Key executives		334		
	Other related parties		673		

(*) This item also includes the shares issued by BIP and stored under custody at the bank and is stated at nominal value.
Other information has been prepared in accordance with the criteria defined in chapter 2, paragraph 7, of Bank of Italy Circular no. 262 "Other Information".

Related party transactions included in the item "Custody and administration of securities – Securities issued by the bank that prepares the financial statements" relate to the custody and administration of securities issued by the Bank made by corporate officers and other related parties.

Related party transactions included in the item "Custody and administration of securities – Other securities" regard the administered deposits of corporate officers.

Year ended 31 December 2016

Thousands of euros	**31/12/2016**		
	Carrying amount	**of which with related parties**	**Impact of related parties**
Assets			
Due from customers	299,451	9,396	3.14%
Representative		122	0.04%
Other		9,274	3.10%
Liabilities			
Due to customers	400,561	6,576	1.64%
Representative		623	0.16%
Other		5,953	1.49%
Securities issued	107,379	6,427	5.99%
Representative		5,853	5.45%
Other		574	0.53%

Thousands of euros	31/12/2016		
	Carrying amount	**of which with related parties**	**Impact of related parties**
Costs			
Personnel expenses	4,510	1,221	27.07%
Representative		1,221	27.07%
Other			0.00%

Related party transactions giving rise to the item "Due from customers" regard loans granted to corporate officers and other related parties.

Related party transactions giving rise to the item "Due to customers" regard deposits made by corporate officers and other related parties.

Related party transactions giving rise to the item "Securities issued" regard bonds issued by the Bank and certificates of deposit subscribed by corporate officers and other related parties.

Related party transactions giving rise to the item "Other liabilities" and those included in "Personnel expenses" regard the emoluments and remuneration of corporate officers and other related parties.

Related party transactions included in "Interest income" and "Interest expense"" regard the remuneration on loans and deposits made by corporate officers and other related parties.

Related party transactions included in "Other administrative expenses" regard corporate benefits for the relevant personnel.

Related party transactions included in "Other accruals to provisions" regard bonuses for the relevant personnel.

Other information at 31 December 2016

Description		**Carrying amount**	**of which with related parties**		**Related party percentage**
1	Guarantees given	16,305		1,239	7.60%
	Other related parties		1,239		
2	Irrevocable commitments to lend funds	2,638		0	0.00%
	Key executives		-		
-	Other related parties		-		
3	Custody and administration of securities	196,900		13,174	6.69%
	3.1 Securities issued by the bank that prepares the financial statements (*)	89,153		12,723	14.27%
	Shareholders per Art. 19 TUB		4,000		
	Key executives		475		
	Other related parties		8,248		
	3.2 Other securities	107,747		451	0.42%
	Key executives		88		
	Other related parties		363		

(*) *This item also includes the shares issued by BIP and stored under custody at the bank and is stated at nominal value.*

Other information has been prepared in accordance with the criteria defined in chapter 2, paragraph 7, of Bank of Italy Circular no. 262 "Other Information".

Related party transactions included in the item "Custody and administration of securities – Securities issued by the bank that prepares the financial statements" relate to the custody and administration of securities issued by the Bank made by corporate officers and other related parties.

Related party transactions included in the item "Custody and administration of securities – Other securities" regard the administered deposits of corporate officers.

- Year ended 31 December 2015

(Thousands of euros)	31/12/2015		
	Carrying amount	**of which with related parties**	**Related party percentage**
Assets			
Due from customers	222,665	8,508	3.82%
Representative			0.00%
Other		8,508	3.82%
Liabilities			
Due to customers	303,116	6,280	2.07%
Representative		573	0.19%
Other		5,707	1.88%
Securities issued	100,453	6,280	6.25%
Representative		5,849	5.82%
Other		431	0.43%

(Thousands of euros)	31/12/2015		
	Carrying amount	**of which with related parties**	**Related party percentage**
Costs			
Personnel expenses	3,969	988	24.89%
Representative		988	24.89%
Other			0.00%

Related party transactions giving rise to the item "Due from customers" regard loans granted to corporate officers and other related parties.

Related party transactions giving rise to the item "Due to customers" regard deposits made by corporate officers and other related parties.

Related party transactions giving rise to the item "Securities issued" regard bonds issued by the Bank and certificates of deposit subscribed by corporate officers and other related parties.

Related party transactions giving rise to the item "Other liabilities" and those included in "Personnel expenses" regard the emoluments and remuneration of corporate officers and other related parties.

Related party transactions included in "Interest income" and "Interest expense"" regard the remuneration on loans and deposits made by corporate officers and other related parties.

Related party transactions included in "Other administrative expenses" regard corporate benefits for the relevant personnel.

Related party transactions included in "Other accruals to provisions" regard bonuses for the relevant personnel.

OTHER INFORMATION at 31 December 2015

Description		Carrying amount	of which with related parties		Related party percentage
1	Guarantees issued	14,902		331	2.22%
	Other related parties		331		
2	Irrevocable commitments to lend funds	868		0	0.00%
	Key executives		-		
-	Other related parties		-		
3	Custody and administration of securities	132,161		13,076	9.89%
	3.1 Securities issued by the bank that prepares the financial statements (*)	75,745		12,763	16.85%
	Shareholders per Art. 19 TUB		4,000		
	Key executives		599		
	Other related parties		8,164		
	3.2 Other securities	56,416		313	0.55%
	Key executives		74		
	Other related parties		239		

(*) *This item also includes the shares issued by BIP and stored under custody at the bank and is stated at nominal value.*

Other information has been prepared in accordance with the criteria defined in chapter 2, paragraph 7, of Bank of Italy Circular no. 262 "Other Information".

Related party transactions included in the item "Custody and administration of securities – Securities issued by the bank that prepares the financial statements" relate to the custody and administration of securities issued by the Bank made by corporate officers and other related parties.

Related party transactions included in the item "Custody and administration of securities – Other securities" regard the administered deposits of corporate officers.

Information on key executive compensation

The following table provides information on the remuneration categories of key executives and employees for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP		
	Year ended 31 December		
	2017	2016	2015
a) short-term benefits for employees	939	744	721
b) post-employment benefits	23	17	17
c) other long-term benefits	-	-	-
d) employee severance benefits	39	30	30
e) share-based payments	-	-	-

Information on Related Party balances and transactions

The following table provides details of the Issuer's Related Party balances and transactions as of and for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP					
	Year ended 31 December 2017					
	Assets	Liabilities	Guarantees and commitments	Custody and administration	Expense	Income
Controlling companies	-	-	-	-	-	-
Companies that exert joint or significant control	-	-	-	-	-	-
Subsidiaries	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-
Key executives	163	966	-	334	(1,863)	6
Shareholders per Art. 19 TUB	27	-	-	-	(9)	-
Other related parties	1,421	13,472	107	673	(58)	244

(Thousands of euros)	BIP					
	Year ended 31 December 2016					
	Assets	Liabilities	Guarantees and commitments	Custody and administration	Expense	Income
Controlling companies	-	-	-	-	-	-
Companies that exert joint or significant control	-	-	-	-	-	-
Subsidiaries	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-
Key executives	122	6,663	-	88	(1,537)	1
Shareholders per Art. 19 TUB	3	-	-	-	-	-
Other related parties	9,274	6,539	1,239	363	(124)	448

(Thousands of euros)	BIP					
	Year ended 31 December 2015					
	Assets	Liabilities	Guarantees and commitments	Custody and administration	Expense	Income
Controlling companies	-	-	-	-	-	-
Companies that exert joint or significant control	-	-	-	-	-	-
Subsidiaries	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-
Key executives	-	6,539	-	74	(1,206)	1
Shareholders per Art. 19 TUB	16	-	-	-	-	-
Other related parties	8,508	6,270	331	239	(115)	70

With the exception of the subsequent events described in Paragraph 19.3, no Related Party transactions were carried out after 30 September 2018 and up to the Prospectus Date other than those forming part of the Bank's ordinary activities.

19.2 Transactions with the Related Parties of SPAXS for the period from the date of incorporation (20 December 2017) to 30 September 2018 and for the period from the date of incorporation (20 December 2017) to 30 June 2018 and up to the Prospectus Date

Introduction

SPAXS has identified Related Parties as required by International Financial Reporting Standards (IAS 24 Related Party Disclosures).

SPAXS has performed, and as part of its operations could perform in the future, transactions of a commercial and financial nature with related parties within the meaning of IAS 24.

In the opinion of SPAXS, these transactions take place at arm's length. In this respect there can be no guarantee that if the transactions had been carried out between, or with, third parties, such parties would have negotiated and entered the relative agreements, or carried out the transactions governed by such, under the same conditions and by the same means.

In accordance with Article 13 of the AIM Regulation and Article 10 of the OPC Regulation, SPAXS has adopted a procedure governing related party transactions (the "Procedure for related party transactions") which, among other things, applies to both "transactions of greater significance" and "transactions of lesser significance", a procedure identified in accordance with the principles and rules of Article 7 of the OPC Regulation, without prejudice to the Board of Director's exclusive competence for the transactions indicated below.

Transactions with Related Parties of SPAXS for the period from the date of incorporation (20 December 2017) to 30 September 2018 and for the period from the date of incorporation (20 December 2017) to 30 June 2018

The following is a summary of the Related Party transactions carried out by SPAXS and the resulting balances as of and for the period ended 30 September 2018 and as of and for the period ended 30 June 2018.

SPAXS carried out Related Party transactions as part of its ordinary activities in the nine months ended 30 September 2018.

(Euros)	**SPAXS**	
	30 September 2018	**30 June 2018**
Service costs	554,612	274,256
Trade payables	124,440	92,232

Service costs relate to the consultancy relationship with the company Neprix for assistance and support provided to analyse and evaluate third party non-performing loan packages as well as identify and evaluate potential target companies for business combinations. Trade payables consist of the portion of those costs not yet settled at the balance sheet date.

No Related Party transactions were carried out after 30 September 2018 and up to the Prospectus Date other than those forming part of the Group's ordinary activities.

19.3 Other transactions with Related Parties

As a result of the participation relationship between SPAXS and the Issuer at the Prospectus Date, the Merger is a Related Party transaction within the meaning of the "Procedure for related party transactions" adopted by SPAXS in accordance with the OPC Regulation and the "Regulation for transactions with personal interest and transactions with related parties" adopted by BIP in accordance with Bank of Italy Circular no. 263 of 27 December 2006, both as effective at the date of approval of the Draft Merger Terms. Accordingly the Draft Merger Terms were approved by the Boards of Directors of SPAXS and of BIP following the favourable opinion expressed, respectively, by the Board of Statutory Auditors of SPAXS on 30 October 2018 and by the Independent Directors of BIP on 29 October 2018 concerning the interest of the participating companies in completing the Merger as well as the convenience and substantial propriety of the relative conditions, all of which in compliance with the above-mentioned procedures and regulations.

Further details of the Merger and Draft Merger Terms may be found in Chapter 22, Paragraph 22.1 of this section of the Prospectus.

In addition, it should be noted that in the context of the Merger, on 30 October 2018 the Bank resolved to enter into:

(i) a purchase and sales agreement with Andrea Clamer and Andrea Battisti having as object the entire quota capital of Neprix, in exchange for fixed and unmodifiable consideration corresponding to the value of the equity of Neprix at the date on which the agreement shall be underwritten. On this point it should be noted that no expert evaluation is foreseen regarding the calculation of the fee and that, as far as the Issuer is aware and based on the last available figure, the estimated net capital of Neprix S.r.l at 31 December 2018 stood at approximately 23,000 euros. It should also be noted that the acquisition of said company by the Issuer shall constitute a transaction between related parties in relation to which, given the fee foreseen for the same which will be of such a low amount pursuant to the OPC procedure, the transaction shall not be subject to the procedure foreseen herein and no information document shall be drafted pursuant to the regulations concerning transactions with related parties and the relative procedure adopted by the Bank. Furthermore, said transaction has not yet taken place at the Prospectus Date as the execution of that sale will entail the establishment of a banking group and the correlated amendments to the Bylaws (to be adopted by the Shareholders' Meeting with the majorities required by law, as referred to in the Post-merger Bylaws), and is subject to the positive completion of the procedures required to that end by Bank of Italy regulations and the inclusion of the Issuer in the Register of Banking Groups. Once acquired, the company will become part of the banking group. At the Prospectus Date, it is deemed that this operation may be launched after the Merger and, subject to and compatible with the procedures described above, it may take place by the end of the third quarter of 2019, as well as

(ii) a service agreement with Neprix for the outsourcing of the services connected with the Bank's investment in portfolios of non-performing loans, effective subject to the finalisation of the above-mentioned acquisition of Neprix by the Bank. This service agreement envisages that the Bank will pay Neprix a fee for the provision of the services governed by the agreement that is calculated on the basis of parameters established in the agreement for each stage in the process of acquiring the non-performing loans and subsequently managing their recovery, in relation to the specific services that the Bank requests of Neprix. In this respect, pursuant to the service agreement, in performing the above services connected with the Bank's investment in non-performing loans, Neprix undertakes to guarantee certain specific quality levels as well as certain specific values that represent the minimum level that Neprix has to reach in rendering the services (the latter being the "Target Levels"). In order to ensure, from time to time, the efficiency, the effectiveness and the quality of the services rendered, the service agreement additionally provides for the possibility of reviewing and updating, at least on an annual basis, the quality levels, as well as the Target Levels. The service agreement has an indefinite term, nevertheless each party is entitled to withdraw at any time by giving at least 6 months notice, without prejudice to the fact that in order to ensure continuity of credit management, the effectiveness of the termination is subject to the replacement of Neprix with another entity having the requirements established by laws and regulations in force at the time and to the acceptance of the engagement by said entity. The stipulation of the service agreement is an intra-group transaction. Reference should be made to Chapters 6 and 22 of the Prospectus for further details of the acquisition of Neprix by BIP and the service agreement entered into with Neprix.

In addition to the above, the Bank has entered a consultancy agreement with Neprix, in force at the Prospectus Date, whose object is the performance of due diligence activities by Neprix on the non-performing loan portfolio for the purposes of the Bank's investment activity. For providing the consulting activities described in this agreement, the Bank will pay Neprix a fee calculated on the basis of the number of "man-days" actually worked by Neprix, considering the level of experience of the people performing the work and the valuation of each of these as established and agreed by the parties pursuant to the agreement. The consultancy agreement expires on the earlier of the following two dates: (i) the date on which the above-mentioned service agreement becomes effective and (ii) 30 June 2019, and will be replaced by the above-mentioned service agreement following the completion of the acquisition of Neprix, without prejudice to the Bank's right to withdraw at any time by giving at least one month's notice, without having to provide cause. Given its term, the consultancy agreement does not provide for renewal on expiry.

With regard to the above, it is noted that Andrea Clamer, one of the Bank's senior executives, holds 50% of the quota capital of Neprix (in this regard reference should be made to Paragraph 14.1.3 of the Prospectus).

20. FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

Introduction

The business combination between the Issuer and SPAXS S.p.A., approved by the respective shareholders' meetings and finalised on 20 September 2018 (please see below for a description) and the "reverse" merger to be carried out through the incorporation of the parent company SPAXS into the Issuer (for a description please see Paragraph 5.1.5 and Chapter 22 below), authorised by the Bank of Italy on 11 December 2018 and approved by the Extraordinary Shareholders' Meeting of the Issuer and SPAXS S.p.A. on 18 January 2019, is a case of complex financial history pursuant to Art. 4 bis of Regulation EC/809/2004, so it is necessary to include the financial information of the Issuer, of SPAXS and the pro-forma information of illimity, the company resulting from the Merger, in the Prospectus.

At 30 September 2018, the business combination also made it necessary to prepare the first consolidated financial statements of SPAXS S.p.A. in order to consolidate the data of the Issuer in the latter.

The information below represents the main profit and loss, financial position and cash flow data of BIP as of 30 September 2018 and 31 December 2017, 2016 and 2015.

On 18 July 2016 BIP acquired control of Banca Emilveneta. The consolidated financial statements to 31 December 2016 were prepared as a result of that operation. Subsequently, in a deed of merger of 2 August 2017, and in execution of the respective meeting resolutions, Banca Emilveneta was merged by incorporation into BIP. There was thus no need to prepare consolidated financial statements at 31 December 2017.

The cash flow, financial position and profit and loss information included in this Chapter is extracted from:

- the BIP interim financial statements relating to the nine-month period ended 30 September 2018 ("**BIP 9M 2018 Interim Financial Statements**") prepared in accordance with IAS 34 on interim financial reporting, approved by the BIP Board of Directors on 12 November 2018 and subject to a limited audit by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 15 November 2018;
- the BIP annual financial statements for the year ended 31 December 2017 (the "**2017 BIP Financial Statements**") prepared in accordance with the *International Financial Reporting Standards* issued by the *International Accounting Standard Board* and adopted by the European Union (IFRSs) as well as the measures issued in implementation of Article 43 of Legislative Decree no. 136/15, approved by the BIP Board of Directors on 29 March 2018 and audited by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 3 April 2018;
- the consolidated financial statements of BIP and its subsidiary for the year ended 31 December 2016 (the "**2016 BIP Financial Statements**") prepared in accordance with the *International Financial Reporting Standards* issued by the *International Accounting Standard Board* and adopted by the European Union (IFRSs) as well as the measures issued

in implementation of Article 43 of Legislative Decree no. 136/15, approved by the BIP Board of Directors on 30 March 2017 and audited by Deloitte & Touche S.p.A., which issued an unqualified report thereon dated 12 April 2017;

- the BIP annual financial statements for the year ended 31 December 2015 (the "**2015 BIP Financial Statements**") prepared in accordance with the *International Financial Reporting Standards* issued by the *International Accounting Standard Board* and adopted by the European Union (IFRSs) as well as the measures issued in implementation of Article 9 of Legislative Decree no. 38/05, approved by the BIP Board of Directors on 8 February 2016 and audited by Deloitte & Touche S.p.A., which issued an unqualified report thereon on 10 February 2016;
- the SPAXS interim consolidated financial statements relating to the period from its date of incorporation (20 December 2017) to 30 September 2018 ("**SPAXS 9M 2018 Interim Consolidated Financial Statements**") prepared in accordance with IAS 34 on interim financial reporting, approved by the BIP Board of Directors on 30 October 2018 and subject to a limited audit by KPMG S.p.A., which issued an unqualified report thereon dated 30 November 2018;
- the SPAXS interim financial statements relating to the period from its date of incorporation (20 December 2017) to 30 June 2018 ("**SPAXS 1H 2018 Interim Financial Statements**"), prepared in accordance with the *International Financial Reporting Standards* issued by the *International Accounting Standard Board* and adopted by the European Union (IFRSs), approved by the SPAXS Board of Directors on 30 October 2018 and audited by KPMG S.p.A., which issued an unqualified report thereon dated 22 November 2018;
- illimity's pro-forma financial statements relating to the nine-month period ended 30 September 2018 ("**3Q 2018 pro-forma financial statements**"), illustrating the effect of the business combination and any other significant events/extraordinary transactions, reviewed by KPMG S.p.A.;
- illimity's pro-forma financial statements relating to the six-month period ended 30 June 2018 ("**1H 2018 pro-forma financial statements**"), illustrating the effect of the business combination and any other significant events/extraordinary transactions, reviewed by KPMG S.p.A.;
- illimity's pro-forma statement of financial position for the year ended 31 December 2017 ("**2017 pro-forma financial statements**"), illustrating the effect of the business combination and any other significant events/extraordinary transactions, reviewed by KPMG S.p.A.

For more information on the pro-forma financial information giving retroactive effect to the business combination, reference should be made to Chapter 20, paragraph 20.2. To better understand the activities carried out by illimity, reference should also be made to the forecast information taken from illimity's 2018-2023 Business Plan, presented in Chapter 13.

20.1. Financial information of BIP for the years ended 31 December 2017, 2016 and 2015

The tables below show the Issuer's financial position, results and cash flows for the years ended 31 December 2017, 2016 and 2015.

Statement of Financial Position

The following table presents the statement of financial position of BIP as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Cash and cash equivalents	26,926	27,853	591	(927)	27,262	(3.33%)	> 100%
Financial assets held for trading	115	-	548,443	115	(548,443)	-	(100.00%)
Financial assets available for sale	607,906	595,352	-	12,554	595,352	2.11%	-
Due from banks	99,044	88,804	72,851	10,240	15,953	11.53%	21.90%
Due from customers	326,049	299,451	222,665	26,598	76,786	8.88%	34.48%
Equity investments	-	-	-	-	-	-	-
Property and equipment	1,652	1,472	428	180	1,044	> 100%	> 100%
Intangible assets	7	335	7	(328)	328	(97.91%)	> 100%
of which:							
Goodwill	-	327	-	(327)	327	(>100%)	>100%
Tax assets	6,285	7,500	4,742	(1,215)	2,758	(16.20%)	58.16%
a) current	2,995	3,118	2,575	(123)	543	(3.94%)	21.09%
b) deferred	3,290	4,382	2,167	(1,092)	2,215	(24.92%)	102.22%
as per Law no. 214/2011	2,054	2,243	1,563	(189)	680	(8.43%)	43.51%
Other assets	6,429	5,100	4,164	1,329	936	26.06%	22.48%
Total assets	**1,074,413**	**1,025,867**	**853,890**	**48,546**	**171,977**	**4.73%**	**20.14%**
Due to banks	470,623	447,774	380,429	22,849	67,345	5.10%	17.70%
Due to customers	434,543	400,561	303,116	33,982	97,445	8.48%	32.15%
Securities issued	94,435	107,379	100,453	(12,944)	6,926	(12.05%)	6.89%
Tax liabilities	3,717	4,534	6,362	(817)	(1,828)	(18.02%)	(28.73%)
a) current	1,607	2,040	2,585	(433)	(545)	(21.23%)	(21.08%)
b) deferred	2,110	2,493	3,777	(383)	(1,284)	(15.36%)	(34.00%)
Other liabilities	10,124	8,580	8,338	1,544	242	18.00%	2.90%
Severance pay	586	507	313	79	194	15.58%	61.98%
Provisions	315	325	250	(10)	75	(3.08%)	30.00%
b) other provisions	315	325	250	(10)	75	(3.08%)	30.00%
Valuation reserves	2,631	2,141	6,741	490	(4,600)	22.89%	(68.24%)
Reserves	10,662	6,931	3,324	3,731	3,607	53.83%	> 100%
Share capital	43,377	40,000	40,000	3,377	-	8.44%	0.00%
Profit (loss) for the year	3,399	1,148	4,563	2,251	(3,415)	> 100%	(74.84%)
Non-controlling interests	-	5,987	-	(5,987)	5,987	(100%)	-
Total liabilities and equity	**1,074,413**	**1,025,867**	**853,890**	**48,546**	**171,977**	**4.73%**	**20.14%**

Income Statement

The following table presents the income statement of BIP for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Interest and similar income	15,752	15,423	16,346	329	(923)	2.13%	(5.65%)
Interest and similar expense	(4,633)	(5,785)	(6,442)	1,152	657	(19.91%)	(10.20%)
Net interest income	**11,118**	**9,638**	**9,904**	**1,480**	**(266)**	**15.36%**	**(2.69%)**
Fee and commission income	4,851	3,903	2,902	948	1,001	24.29%	34.49%
Fee and commission expense	(515)	(598)	(368)	83	(230)	(13.88%)	62.50%
Net fee and commission income	4,336	3,305	2,534	1,031	771	31.20%	30.43%
Net profit (loss) from trading activities	**963**	**36**	**19**	**927**	**17**	**>100%**	**89.47%**
Profits (losses) on sale or repurchase of:	2,928	3,966	4,035	(1,038)	(69)	(26.17%)	(1.71%)
a) receivables	(516)	(448)	11	(68)	(459)	15.18%	(>100%)
b) available-for-sale financial assets	3,444	4,412	4,016	(968)	396	(21.94%)	9.86%
d) financial liabilities	-	2	8	(2)	(6)	(100.00%)	(75.00%)
Brokerage margin	**19,346**	**16,946**	**16,492**	**2,400**	**454**	**14.16%**	**2.75%**
Net impairment losses:	(3,494)	(5,605)	(2,132)	2,111	(3,473)	(37.66%)	>100%
a) receivables	(2,624)	(2,710)	(2,076)	86	(634)	(3.17%)	30.54%
b) available-for-sale financial assets	(841)	(2,861)	-	2,020	(2,861)	(70.60%)	(100%)
d) other financial transactions	(29)	(33)	(56)	4	23	(12.12%)	(41.07%)
Net operating profit (loss)	**15,852**	**11,341**	**14,360**	**4,511**	**(3,019)**	**39.78%**	**(21.02%)**
Administrative expenses:	(10,826)	(9,314)	(7,737)	(1,512)	(1,577)	16.23%	20.38%
a) personnel expenses	(5,201)	(4,510)	(3,969)	(691)	(541)	15.32%	13.63%
b) other administrative expenses	(5,625)	(4,805)	(3,768)	(820)	(1,037)	17.07%	27.52%
Net accruals to provisions	(160)	(176)	(144)	16	(32)	(9.09%)	22.22%
Impairment of tangible assets	(177)	(156)	(215)	(21)	59	13.46%	(27.44%)
Net impairment losses on intangible assets	(3)	(3)	(2)	-	(1)	0.00%	50.00%
Other operating income and expense	990	886	664	104	222	11.74%	33.43%
Operating expense	**(10,177)**	**(8,763)**	**(7,435)**	**(1,414)**	**(1,328)**	**16.14%**	**17.86%**
Goodwill impairment	(327)	-	-	(327)	-	(100%)	-
Profits (losses) on the sale of investments	-	-	-	-	-	-	-
Profit (loss) from continuing operations before taxes	**5,348**	**2,578**	**6,926**	**2,770**	**(4,348)**	**>100%**	**(62.78%)**
Income tax on profit (loss) from continuing operations	(1,949)	(1,725)	(2,362)	(224)	637	12.99%	(26.97%)
Profit (loss) from continuing operations after taxes	**3,399**	**853**	**4,563**	**2,546**	**(3,710)**	**>100%**	**(81.31%)**
Profit (loss) for the year	**3,399**	**853**	**4,563**	**2,546**	**(3,710)**	**>100%**	**(81.31%)**
Profit for the year attributable to non-controlling interests	**-**	**295**	**-**	**(295)**	**295**	**(100.00%)**	**100%**
Profit for the year attributable to the parent company	**-**	**1,148**	**-**	**(1,148)**	**1,148**	**(100.00%)**	**100%**

Statement of comprehensive income

The table below displays BIP's statement of comprehensive income for the years ended 31 December 2017, 2016 and 2015, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**	**2017 vs 2016**	**2016 vs 2015**
Profit (loss) for the year	3,399	853	4,563	2,546	(3,710)	>100%	(81.31%)
Other comprehensive income after taxes that will not be reclassified to profit or loss:							
Property and equipment	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Actuarial (gains) losses on defined benefit plans	(48)	(18)	28	(30)	(46)	>100%	(>100%)
Non-current assets held for sale	-	-	-	-	-	-	-
Share of valuation reserves of investments measured at equity	-	-	-	-	-	-	-
Other comprehensive income after taxes that may be reclassified to profit or loss							
Hedging of foreign investments	-	-	-	-	-	-	-
Exchange differences	-	-	-	-	-	-	-
Cash flow hedging	-	-	-	-	-	-	-
Financial assets available for sale	492	(4,582)	(61)	5,074	(4,521)	(>100%)	>100%
Non-current assets held for sale	-	-	-	-	-	-	-
Share of valuation reserves of investments measured at equity	-	-	-	-	-	-	-
Total other comprehensive income after taxes	**444**	**(4,601)**	**(33)**	**5,045**	**(4,568)**	**(>100%)**	**>100%**
Comprehensive income	**3,843**	**(3,748)**	**4,530**	**7,591**	**(8,278)**	**(>100%)**	**(>100%)**
Consolidated comprehensive income attrubutable to non-controlling interests		(334)		334	(334)	(100.00%)	-
Consolidated comprehensive income attrubutable to the parent company		**(3,414)**		**3,414**	**(3,414)**	**(100.00%)**	-

Statement of changes in equity

The following tables present the statement of changes in equity for the years ended 31 December 2017, 2016 and 2015.

Statement of changes in equity for the year ended 31 December 2017:

(Thousands of euros)	Balances at 31/12/2016	Change in opening balances	Balances at 01/01/2017	Allocation of the previous year's result		Changes during the year								Equity at 31/12/2017
						Transactions on equity							Comprehensive income for the year 2017	
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Acquisition of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options		
Share capital	40,000	-	40,000	-	-	-	3,377	-	-	-	-	-	-	43,377
a) ord. shares	40,000	-	40,000	-	-	-	3,377	-	-	-	-	-	-	43,377
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves:	7,087	-	7,087	1,501	-	-	2,075	-	-	-	-	-	-	10,662
a) profit	7,087	-	7,087	1,501	-	-	(509)	-	-	-	-	-	-	8,078
b) other	-	-	-	-	-	-	2,584	-	-	-	-	-	-	2,584
Valuation reserves	2,188	-	2,188	-	-	-	-	-	-	-	-	-	444	2,631
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	1,501	-	1,501	(1,501)	-	-	-	-	-	-	-	-	3,399	3,399
Equity	**50,775**	**-**	**50,775**	**-**	**-**	**-**	**5,452**	**-**	**-**	**-**	**-**	**-**	**3,843**	**60,070**

Statement of changes in equity for the year ended 31 December 2016:

(Thousands of euros)	Balances at 31/12/2015	Change in opening balances	Balances at 01/01/2016	Allocation of the previous year's result		Changes during the year									Group equity at 31/12/2016	Non-controlling interests at 31/12/2016	Total equity at 31/12/2016
						Transactions on equity								Comprehensive income for the year 2016			
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Acquisition of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in shareholdings				
Share capital	40,000	-	40,000	-	-		-	-	-	-	-	-	-	-	40,000	6,825	46,825
a) ord. shares	40,000	-	40,000	-	-		-	-	-	-	-	-	-	-	40,000	6,825	46,825
b) other shares		-		-	-	-	-	-	-	-	-	-	-	-			
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Reserves:	3,324	-	3,324	3,763	-		-	-	-	-	-	-	-	-	6,931	(504)	6,428
a) profit	3,324	-	3,324	3,763	-		-	-	-	-	-	-	-	-	6,931	(504)	6,428
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Valuation reserves	6,741	-	6,741	-	-		-	-	-	-	-	-	-	(4,601)	2,141	(39)	2,102
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Profit (loss) for the year	4,563	-	4,563	(3,763)	(800)	-	-	-	-	-	-	-	-	853	1,148	(295)	853
Equity	54,628	-	54,628	-	(800)		-	-	-	-	-	-	-	(3,748)	50,220	5,987	56,207
- of the group	54,628	-	54,628	-	(800)		-	-	-	-	-	-	-	(3,414)	-	-	50,220
- of non-controlling interests	-	-	-	-	-		-	-	-	-	-	-	-	(334)	-	-	5,987

Statement of changes in equity for the year ended 31 December 2015:

(Thousands of euros)	Balances at 31/12/2014	Change in opening balances	Balances at 01/01/2015	Allocation of the previous year's result		Changes during the year									Equity at 31/12/2015
				Reserves	Dividends and other allocations	Transactions on equity								Comprehensive income for the year 2015	
						Changes in reserves	Issue of new shares	Acquisition of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in shareholdings		
Share capital	40,000	-	40,000	-	-	0	-	-	-	-	-	-	-	-	40,000
a) ord. shares	40,000	-	40,000	-	-	0	-	-	-	-	-	-	-	-	40,000
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Reserves:	(12)	-	(12)	3,336	-	0	-	-	-	-	-	-	-	-	3,324
a) profit	(12)	-	(12)	3,336	-	0	-	-	-	-	-	-	-	-	3,324
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	6,774	-	6,774	-	-	0	-	-	-	-	-	-	-	(33)	6,741
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	4,536	-	4,536	(3,336)	(1,200)	-	-	-	-	-	-	-	-	4,563	4,563
Equity	**51,298**	**-**	**51,298**	**-**	**(1,200)**	**0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,530**	**54,628**

Statement of cash flows prepared using the indirect method

The following table presents the statement of cash flows prepared using the indirect method for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
A. OPERATING ACTIVITIES							
1. Operations	**5,290**	**5,106**	**4,694**	**184**	**412**	**3.60%**	**8.78%**
- result for the year (+/-)	3,399	1,148	4,563	2,251	(3,415)	>100%	(74.84%)
- gains/losses on financial assets held for trading and on assets/liabilities at fair value (-/+)	(40)	-	-	(40)	-	-	-
- gains/losses on hedging activities (-/+)	-	-	-	-	-	-	-
- net impairment losses (+/-)	3,408	5,223	2,009	(1,815)	3,214	(34.75%)	>100%
- net impairment of tangible and intangible assets (+/-)	180	159	217	21	(58)	13.21%	(26.73%)
- net accruals to provisions and other income/expense (+/-)	292	302	266	(10)	36	(3.31%)	13.53%
- unsettled taxes and duties (+)	(1,950)	(1,725)	(2,362)	(225)	637	13.04%	(26.97%)
- impairment of groups of assets held for disposal net of the tax effect (-/+)	-	-	-	-	-	-	-
- other adjustments (+/-)	-	-	-	-	-	-	-
2. Cash flows from financial assets	**(122,347)**	**(145,165)**	**(169,851)**	**22,818**	**24,686**	**(15.72%)**	**(14.53%)**
- financial assets held for trading	(75)	-	-	(75)	-	-	-
- financial assets at fair value	-	-	-	-	-	-	-

(Thousands of euros)	BIP						
	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
- available-for-sale financial assets	(53,148)	(46,063)	(68,611)	(7,085)	22,548	15.38%	(32.86%)
- due from banks: on demand	(19,252)	(5,213)	(12,937)	(14,039)	7,724	>100%	(59.70%)
- due from banks: other receivables	(312)	(10,740)	(35,911)	10,428	25,171	(97.09%)	(70.09%)
- due from customers	(55,553)	(79,115)	(49,524)	23,562	(29,591)	(29.78%)	59.75%
- other assets	5,992	(4,033)	(2,868)	10,025	(1,165)	(>100%)	40.62%
3. Cash flows from financial liabilities	**118,011**	**168,079**	**163,156**	**(50,068)**	**4,923**	**(29.79%)**	**3.02%**
- due to banks: on demand	4,002	-	-	4,002	-	-	-
- due to banks: other payables	44,750	67,345	66,075	(22,595)	1,270	(33.55%)	1.92%
- due to customers	72,135	97,445	81,886	(25,310)	15,559	(25.97%)	19.00%
- securities issued	(12,945)	6,926	10,909	(19,871)	(3,983)	(>100%)	(36.51%)
- financial liabilities held for trading	-	-	-	-	-	-	-
- financial liabilities at fair value	-	-	-	-	-	-	-
- other liabilities	10,069	(3,636)	4,285	13,705	(7,921)	(>100%)	(>100%)
Cash from (used in) operating activities	**953**	**28,021**	**(2,002)**	**(27,068)**	**30,023**	**(96.60%)**	**(>100%)**
B. INVESTING ACTIVITIES							
1. Cash from	**(1)**	**-**	**-**	**(1)**	**-**	**(100%)**	**-**
- sales of equity investments	-	-	-	-	-	-	-
- dividends received from investees	-	-	-	-	-	-	-
- sale of financial assets held to maturity	-	-	-	-	-	-	-
- sales of property and equipment	0	-	-	0	-	-	-
- sales of intangible assets	(1)	-	-	(1)	-	(100%)	-
- sale of subsidiaries and businesses	-	-	-	-	-	-	-
2. Cash used by	**(1,839)**	**(1,558)**	**(49)**	**(281)**	**(1,509)**	**18.04%**	**>100%**
- purchases of equity investments	-	-	-	-	-	-	-
- acquisitions of financial assets held to maturity	-	-	-	-	-	-	-
- purchases of property and equipment	(1,510)	(1,227)	(46)	(283)	(1,181)	23.06%	>100%
- purchases of intangible assets	(329)	(331)	(4)	2	(327)	(0.60%)	>100%
- acquisitions of subsidiaries and businesses	-	-	-	-	-	-	-
Net cash from (used in) investing activities	**(1,839)**	**(1,558)**	**(49)**	**(281)**	**(1,509)**	**18.04%**	**>100%**
C. FINANCING ACTIVITIES							
- issue/purchase of treasury shares	-	-	-	-	-	-	-
- issue/purchase of equity instruments	-	-	-	-	-	-	-
- dividend distribution and other purposes	-	800	1,200	(800)	(400)	(100.00%)	(33.33%)
Cash from (used in) financing activities	**-**	**800**	**1,200**	**(800)**	**(400)**	**(100.00%)**	**(33.33%)**
NET CASH GENERATED (USED) IN THE YEAR	**(886)**	**27,263**	**(851)**	**(28,149)**	**28,114**	**(>100%)**	**(>100%)**

20.1.1. General information

Banca Interprovinciale is an Italian joint-stock company, incorporated and existing under the laws of Italy, with its registered office at Via Emilia Est 107, postal code 41121, taxpayer identification number, VAT number and registration number with the Modena Companies Register 03192350365, REA (Economic and Administrative Index) number MO - 371478.

Banca Interprovinciale operates in the banking sector, at the Italian level, with a geographical focus on Emilia.

Banca Interprovinciale operates according to a retail banking model, with retail funding, and its customer base consists of SMEs and individual investors.

Banca Interprovinciale's main products are short- and long-term mortgage and unsecured loans for corporate clients, current account credit facilities, retail mortgage loans, current accounts and time deposits for both corporate and retail customers, with home-banking and mobile-banking service. Its product range is rounded out by highly secured, preferential loans for insolvency proceedings, mortgage credit facilities, trade receivable financing and various externally managed products (e.g., import/export advances, letters of credit and other forms of international financing).

20.1.2. Summary of accounting policies

The main accounting criteria and standards applied in preparing the 2017 BIP financial statements are presented below.

20.1.2.1. Statement of compliance with international accounting standards

In application of the rules set out in Article 43 of Legislative Decree no. 136/15, the financial statements have been prepared in full compliance with all IASs/IFRSs (International Accounting Standards/International Financial Reporting Standards) issued by the International Accounting Standards Board and the relevant interpretations of the International Financial Reporting Interpretation Committee (SIC and IFRIC) in effect as at the date of preparation, adopted by the European Commission according to the procedure governed by Regulation (EU) No 1606/2002.

The financial statements have also been prepared according to the templates and compilation rules issued by the Bank of Italy in Circular no. 262 of 22 December 2005, as amended and updated, and Legislative Decree no. 38 of 28 February 2005, "Exercise of the options provided for in Article 5 of Regulation (EC) No 1606/2002 on the application of international accounting standards".

The only exception to the above is compliance with the general assumptions of the "Framework for the Preparation and Presentation of Financial Statements" (hereinafter the "Framework"). Although the Framework explains the basic concepts of preparing and presenting financial statements, it has not been adopted at the time of writing. Nevertheless, the entire Framework offers a basis for evaluating how to resolve accounting problems and is particularly important in cases where there is no IAS or SIC that applies specifically to a given item.

Indeed, in such cases, where there is no standard or interpretation that applies specifically to a transaction, or other event or circumstance, in accordance with the provisions of the IAS, Management has used its professional judgement to prepare and apply an accounting methodology based on the following sources:

- The provisions and application guidance set out in the IASs and interpretations concerning similar or related cases;

- The definitions and general criteria for recognition and measurement set out in the IASB Framework;
- The most recent provisions issued by other accounting standard-setters that use a conceptually similar systematic framework to develop accounting standards;
- Other accounting literature;
- Established accounting practice.

20.1.2.2. General basis of preparation

The financial statements have been prepared according to the following general basis of preparation laid down in IFRS 1:

(i) Going concern

Assets, liabilities and off-balance-sheet transactions are measured assuming the entity will continue in operation for the foreseeable future. More information can be found in the "Main risks and uncertainties" section of the Directors' Report.

(ii) Accrual basis of accounting

Costs and revenues are recognised in accordance with the matching principle, regardless of when they are settled.

(iii) Consistency of presentation

The presentation and classification of items is maintained over time to ensure that information is comparable, unless specified otherwise in an International Accounting Standard or an Interpretation, or unless a change is required to improve the meaningfulness and reliability of the amounts reported. Where possible, any new presentation or classification criterion should be applied retroactively; in such a case, the nature and reason for the change, as well as the items affected, should also be described. Once again, the items are presented and classified based on the formats prepared by the Bank of Italy for bank financial statements with Circular 262/2005 as subsequently amended and supplemented, and in compliance with IAS 1.

(iv) Materiality and aggregation

Each material class of similar items is presented separately. Items that are dissimilar in terms of their nature or use are aggregated only if they are individually immaterial.

(v) Offsetting

Assets and liabilities, costs and revenues are not offset unless required or permitted by an International Accounting Standard or an Interpretation, or by the Bank of Italy's regulations for the preparation of bank financial statements.

(vi) Comparative information

Comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements, unless an International Accounting Standard or an Interpretation requires or permits otherwise. Any descriptive information that facilitates understanding of the data published is also included.

(vii) Framework

The application of international accounting standards also refers to the "Framework for the Preparation and Presentation of Financial Statements" (the "Framework"), even though it has not been adopted, particularly with regard to the fundamental clauses on financial statement preparation concerning the principle of substance over form, the specifically required concepts of the relevance and materiality of the above information, and the other premises that underlie the presentation of financial statements. The Framework is not an International Accounting Standard, and the latter should prevail in the event of a conflict, but it has been approved by the Board and was adopted by the IASB in April 2001, and as such it helps to shape future Standards and to review existing ones.

In application of the standards set out above, all figures in the financial statements are presented in euros. All figures in the notes and the report on operations are in thousands of euros, unless otherwise indicated.

The financial statements have therefore been prepared using the euro as the accounting currency and consist of the statement of financial position, income statement, statement of other comprehensive income, statement of changes in equity, statement of cash flows and notes. They are also accompanied by the directors' report on the bank's operations and situation.

Non-recurring events and transactions during the reporting period are presented in the directors' report on operations.

The notes provide the mandatory additional disclosures deemed necessary to a truthful and accurate account of the bank's situation.

Events after the reporting date that, in accordance with IAS 10, paragraphs 8 and 9, require an adjustment and/or new recognition, where applicable, are accounted for by adjusting all previously recognised amounts and/or recognising the new amounts.

20.1.2.3. New international accounting standards

New accounting international financial reporting standards, amendments and interpretations applied with effect from 1 January 2017

The following international financial reporting standards, amendments and interpretations were applied for the first time with effect from 1 January 2017.

Amendment to IAS 7 Disclosure Initiative

Amendment to IAS 7 Disclosure Initiative (published on 29 January 2016). The purpose of this document is to provide clarification aimed at improving the disclosure of financial liabilities. In particular, the amendments require disclosures intended to permit users of the financial statements to understand changes in liabilities resulting from financing transactions.

Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (published on 19 January 2016). The purpose of this document is to provide clarification regarding the recognition of deferred tax assets arising from unrealised losses when measuring financial assets in the available-for-sale category in certain circumstances and from the estimate of taxable income for future years. The adoption of these amendments did not have any effects on the Bank's financial statements.

International Financial Reporting Standards (IFRSs), amendments and IFRIC interpretations adopted by the European Union but not mandatorily applicable and not adopted in advance by the Bank as at 31 December 2017

IFRS 15 Revenues from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers (published on 28 May 2014 and subject to further clarification published on 12 April 2016), intended to replace the standards IAS 18 Revenue and IAS 11 Construction Contracts, in addition to the interpretations IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenues - Barter Transactions Involving Advertising Services. The Standard establishes a new revenue recognition model, which applies to all contracts with customers, except for those within the scope of application of other IASs/IFRSs, such as leases, insurance contracts and financial instruments. The fundamental steps in revenue recognition according to the new model are:
(i) identifying the contract with the customer;
(ii) identifying the performance obligations in the contract;
(iii) determining the price;
(iv) allocating the price to the performance obligations in the contract;
(v) revenue recognition criteria when the entity discharges each performance obligation.

The Standard applies with effect from 1 January 2018. The amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers were adopted by the European Union on 6 November 2017.

Final version of IFRS 9 Financial Instruments

Final version of IFRS 9 Financial Instruments (published on 24 July 2014). This document incorporates the results of the IASB's project aimed at replacing IAS 39. In other words, it introduces new criteria for the classification and measurement of financial assets and liabilities (along with the assessment of non-substantial modifications of financial liabilities). The Standard, applicable with effect from 1 January 2018, sets out new rules for classification, measurement, impairment and hedge accounting and consists of three main pillars:
(i) *Classification and measurement:*
In particular, the new Standard adopts a single approach to financial assets based on the business model applied to the financial instruments and the contractual cash flow characteristics of the financial assets, representing solely payments of principal and interest ("SPPI"), in order to determine the valuation approach. On the basis of the company's business model, "SPPI" financial assets may be classified as "held to collect contractual cash flows" (measured at amortised cost), "held both to collect contractual cash flows and to sell financial assets" (measured at fair value through other comprehensive income) or "held for trading" (measured at fair value through profit or loss). IFRS 9 does not modify the current

requirements for financial liabilities set out in IAS 39, with the exception of the accounting treatment of the entity's own credit risk, changes in which are taken to equity pursuant to IFRS 9, whereas the residual amount of the changes in the fair value of the liabilities are taken to profit or loss.

(ii) *Impairment:*

The Standard lays down a new impairment methodology in relation to the new classification model for financial assets. Instruments measured at amortised cost and at fair value through other comprehensive income – with the exception of irrevocably elected equity instruments – are subject to an impairment model based on forward-looking expected losses rather than incurred loss. The IASB introduced this model – requested in 2008 by the G20 following the financial crisis – in order to expedite loan losses with respect to IAS 39, which is instead based on the existence of evidence of incurred losses. The new Standard requires that the evaluation of the provision for impairment losses on financial assets be based on the concept of expected credit loss (ECL), according to a three-stage impairment model. The new measurement of the expected loss on financial assets depends on the debtor's credit risk and the increase in credit risk between initial recognition and the reporting date, as indicated below: (a) "12 month expected loss" (Stage 1), which applies to all exposures (with effect from initial recognition) in the absence of a significant increase in credit risk; and (b) "Lifetime expected loss" (Stage 2 and Stage 3), which applies when there has been a significant increase in credit risk, regardless of whether observed on an individual or collective basis.

(iii) *Hedge accounting:*

The main changes in the document relate to:

- the increase in the types of transactions eligible for hedge accounting;
- the change in the accounting treatment for forward contracts and options when included in a hedge accounting relationship in order to reduce income statement volatility;
- modifications of the efficacy test involving the replacement of the current methods based on a parameter of 80-125% according to the principle of the "economic relationship" between the hedged item and the hedging instrument. In addition, an assessment of the retrospective efficacy of the hedging relationship will no longer be required.

The increased flexibility of the new accounting rules is offset by additional disclosure requirements regarding the company's risk management activities. Since macro-hedging management is not provided for in IFRS 9, but is to be governed by a new standard, entities are allowed to implement the new standard to manage micro-hedging, in combination with the IAS, rather than continuing to adopt IAS 39 for all types of hedges.

Final version of IFRS 9 Financial Instruments

(i) *Classification and measurement.*

In terms of the business model, the analysis and survey of the various ways in which financial instruments are managed in order to generate cash flows were completed. The Bank, which is primarily a retail institution, generally intends to continue its current portfolio management strategy. Accordingly, no material changes in terms of the classification of financial assets are expected. With specific regard to securities, the Bank does not intend to carry out a structural revision of the business models within which financial instruments are currently managed, although upon FTA some Italian government bonds were reclassified to the HTC portfolio. At the level of the second driver, the SPPI test has been performed for each product type, and often for each relationship. The analyses of the cash flow characteristics of the financial instruments included in the existing portfolios did not indicate the need for any significant reclassifications at this time.

(ii) *Impairment.*

The Bank has determined the main aspects of impairment, which are currently being refined. With regard to the staging method, the qualitative and quantitative criteria for determining the significant increase in credit risk have been defined. In respect of the qualitative criteria, at present the following conditions for the classification of the loan portfolio to stage 2 have been identified:

- exposures past due by more than 30 days;
- forborne exposures.

The Bank has adopted the "delta notch" quantitative criterion.

In the case of debt securities, the bank has decided to adopt the simplification represented by the low credit risk exemption, as permitted by the Standard.

Stage 3 includes all relationships classified as in default status as at the reporting date according to the internal definition of non-performing loan that is consistent with the definition of default used for regulatory purposes.

Expected loss models inclusive of the effect of the forward-looking macro-economic cycle have been set up for the calculation of the expected credit loss (ECL) at one year (to be applied to Stage 1 exposures) and on a lifetime basis (to be applied to Stage 2 and Stage 3 exposures).

(iii) *IT Systems.*

In parallel with the Bank's activity, there is an ongoing consortium project, in which the IT info-provider CSE plays a central role in IT development. The IT consortium CSE is tasked with implementing the models for estimating provisions according to the new Standard and updating and developing legacy systems in view of the target model according to the new regulatory framework.

Regulation (EU) No 2017/2395 of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State allows entities, for a transitional period of five financial years, to include in Common Equity Tier 1 capital a portion of their increased expected credit loss provisions as a result of the application of the new accounting standard IFRS 9 (in effect from 1 January 2018) with respect to the provisions recognised upon FTA according to the previous Standard. Entities may decide whether to apply the transitional arrangements in question by informing the supervisory authorities by 1 February 2018, and may revoke their decision on a single occasion only with authorisation from the competent authority. Following the communication received from the Bank of Italy on 15 January 2018 regarding "IFRS 9 phase-in provisioning, capital conservation buffer and other prudential matters", on 29 January 2018 Banca Interprovinciale S.p.A. informed the supervisory authority that it had decided on full application of the transitional provisions (inclusive of paragraph 4) of the aforementioned Regulation (EU) No 2017/2395 of 12 December 2017 in order to mitigate the potentially significant negative effect on own funds of the accounting treatment of expected credit losses.

Accounting standards, amendments and IFRSs not yet adopted by the European Union

As at 31 December 2017 the competent bodies of the European Union had yet to conclude the adoption process required for the adoption of the amendments and standards set out below.

Amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions

Amendment to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on 20 June 2016), which contains clarification regarding the accounting treatment of vesting conditions for cash-settled share payment payments, the classification of shared-based payments with net settlement characteristics and the accounting treatment of amendments to the terms and conditions of share-based payment that modify its classification from cash-settled to equity-settled. The amendments apply with effect from 1 January 2018.

Annual Improvements to IFRSs: 2014-2016 Cycle

Annual Improvements to IFRSs: 2014-2016 Cycle, published on 8 December 2016 (including IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, and IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*), supplementing the pre-existing standards. Most of the amendments apply with effect from 1 January 2018.

Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration

Interpretation IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (published on 8 December 2016). The purpose of the Interpretation is to provide guidelines for transactions in foreign currencies, where non-monetary advances or prepayments are recognised prior to the recognition of the relevant asset, expense or income. The document provides instructions regarding how an entity is to determine the date of a transaction and therefore the spot exchange rate to be used in the event of a transaction in a foreign currency in which payment is made or received in advance. IFRIC 22 is applicable with effect from 1 January 2018.

Amendment to IAS 40 Transfers of Investment Property

Amendment to IAS 40 Transfers of Investment Property (published on 8 December 2016). The amendments in question clarify transfers of a property to or from investment property. In particular, an entity must reclassify a property to or from investment property solely where there is evidence that the use of the property has changed. This change must be attributed to a specific event that has occurred and therefore must not be limited to a change of intention by the entity's management. The amendments are applicable with effect from 1 January 2018.

IFRIC 23 Uncertainty over Income Tax Treatments

The IASB published the interpretative document IFRIC 23 *Uncertainty over Income Tax Treatments* on 7 June 2017. The document deals with uncertainties surrounding the tax treatment to be applied to income taxes. The document requires that uncertainties in determining tax liabilities or assets be reflected in the financial statements only when it is likely that the entity will pay or recover the amount concerned. In addition, the document does not contain any new disclosure obligations. Rather, it emphasises that an entity must establish whether it will be necessary to disclose the considerations applied by the management relating to the uncertainty surrounding the accounting treatment of taxes, in accordance with IAS 1. The new Interpretation applies with effect from 1 January 2019, but early application is permitted.

IFRS 9 Prepayment Features with Negative Compensation

Amendment to IFRS 9 *Prepayment Features with Negative Compensation* (published on 12 October 2017). This document specifies that instruments that allow for prepayment may pass the SPPI test even where the "reasonable additional compensation" to be paid in the event of prepayment is "negative compensation" for the lender. The amendment applies with effect from 1 January 2019, but early application is permitted.

Amendment to IAS 28 Long-term Interests in Associates and Joint Ventures

Amendment to IAS 28 *Long-term Interests in Associates and Joint Ventures* (published on 12 October 2017). The document clarifies the need to apply IFRS 9, including the requirements relating to impairment, to other long-term interests in associates and joint ventures to which the equity method is not applied. The amendment applies with effect from 1 January 2019, but early application is permitted.

Annual Improvements to IFRSs: 2015-2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle, published on 12 December 2017 (including IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements – Remeasurement of Previously Held Interest in a Joint Operation*, IAS 12 *Income Taxes – Income tax Consequences of Payments on Financial Instruments Classified as Equity* and IAS 23 *Borrowing Costs Disclosure of Interests in Other Entities – Borrowing costs Eligible for Capitalisation*), which include amendments to various Standards as part of the annual improvement process. The amendments apply with effect from 1 January 2019, but early application is permitted.

20.1.2.4. Main items of the financial statements

The following are the accounting standards adopted in preparing the financial statements as at and for the years ended 31 December 2017, 2016 and 2015. The criteria for recognising, classifying, measuring and derecognising income components are described in detail.

Financial assets held for trading

Recognition criteria

Spot purchases and sales of securities are recognised by settlement date, whereas derivative instruments are recognised by contract execution date.

Derivatives embedded in hybrid contracts not closely correlated to their host contracts and possessing the typical characteristics required by the definition of a derivative are separated from the host contracts and recognised at fair value.

Classification criteria

This category includes financial assets acquired or contracted for trading.

In particular, this item refers solely to debt and equity securities and non-hedging derivative instruments with positive values that fall within the definition of financial instruments held for trading provided in IAS 39, paragraph 9, and, as such, within the broader category of financial instruments designated at fair value through profit or loss.

Derivative contracts also include those embedded in hybrid financial instruments that have been separately recognised.

In accordance with IAS 39, securities are only classified to this portfolio on acquisition. However, derivative instruments held for trading may be used as hedging instruments where the conditions have been met, just as instruments in this portfolio are transferred to the trading portfolio when they no longer meet hedging requirements.

In rare circumstances, the amendment issued by the IASB to IAS 39 Financial Instruments: Recognition and Measurement and to IFRS 7 *Financial Instruments*: Disclosures permits certain financial assets other than derivatives to be reclassified out of the category designated at fair value through profit or loss (FVTPL). Non-derivative financial assets may be reclassified from the portfolios financial assets held for trading and financial assets available for sale to the loans and receivables portfolio provided that on reclassification they meet the requirements for inclusion in the loans and receivables portfolio and the entity documents that it has the intention and ability to hold the financial assets in question in portfolio for the foreseeable future or until maturity.

Measurement criteria

After initial recognition, financial instruments classified as held for trading and included in this item are measured at their valuation date fair value and the effects of any changes are taken directly to profit or loss.

One particular exception relates to equity securities not quoted in an active (efficient) market, whose current value cannot be reliably determined due to the excessive variability of estimates. By way of exception, the cost criterion is used solely for this category and for derivatives that have as their underlying equity securities with the above characteristics.

For listed securities, the fair value is equal to the closing prices on active markets, whereas for unlisted securities, reference is made to prices of similar instruments on an active market or the present value of future cash flows based on risk-reflecting (or perhaps risk-free) interest rates for similar investments. Pricing models are used to determine the various options.

Unlisted equity securities are valued using the average value of the results of applying two or more different income-, asset- or cash flow-based evaluations (normally used to value businesses) or using values observed in recent comparable transactions and for similar companies. If the variation coefficient of the results of these estimates exceeds the significance threshold set out in advance to determine the materiality of the variation, the equity security being valued and any related derivative are retained at book value. In this latter case, IAS 39 permits the waiving of the fair value measurement criterion, as mentioned earlier.

Of the financial instruments classified to this line item, only equity securities measured at their carrying amounts according to the above exception are tested for impairment, identifying any situations of insolvency of the issuers and quantifying any losses that may be associated with situations of impairment represented by the negative difference between the present value of the expected cash flows from the non-performing securities and their carrying amounts.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or when the assets are transferred along with substantially all the associated risks and rewards on the settlement date.

Income component recognition criteria

Interest on securities held for trading are recognised according to the applicable nominal interest rate. Residual amounts at period-end are measured according to the daily weighted average cost formula.

Interest income and dividends on securities held for trading are entered to the items of the income statement "Interest and similar income" and "Dividends and similar income". Realised and unrealised gains and losses on securities and derivative instruments are entered to the item of the income statement "Net profit (loss) from trading activities".

In accordance with IAS 18, dividends on equity securities are recognised on the date of effective accrual of the right to receive payment, which is normally the date on which the shareholders' meeting authorises payment.

Financial assets available for sale

Recognition criteria

Initial recognition occurs on the settlement date for debt or equity securities and on the disbursement date for loans.

Initial recognition is at fair value (purchase price), inclusive of the transaction costs or revenue directly attributable to the financial instrument. Where an asset is reclassified to this portfolio from the held-to-maturity portfolio, it is recognised at its fair value at the date of the transfer.

Classification criteria

All non-derivative financial assets designated as available for sale and not classified to another category, such as loans and receivables, held-to-maturity investments and financial assets held for trading, are classified to this residual category.

In particular, this item includes debt or equity securities that cannot be classified as held for trading or strategic investments in equity instruments issued by other entities with the aim of establishing or maintaining a long-term operational relationship, for which the application of the equity method or the proportional consolidation method is not appropriate. These are equity investments that are not held for trading purposes and that do not qualify as control, significant influence or joint control, as well as bonds not held for trading.

The item includes securities not held for profit-taking in the short term and not included in the portfolio of held-to-maturity investments in order to avoid triggering the rigid constraints imposed by the Standard on transfers affecting this portfolio, as well as minority interests not constituting control or a significant interest and securities held for sale in a generally shorter time frame than that of securities held for trading.

The publication in the Official Journal of the European Union no. 275 of 16 October 2008 of Regulation (EC) No 1004/08 of the European Commission marked the entry into force of the above amendments to IAS 39 aimed at allowing for limited reclassification in certain conditions, such as the current financial market crisis, of financial instruments classified as "Financial assets held for trading" to other categories in order to avoid measurement at fair value and/or through profit or loss.

The provisions of IAS 39 that permitted reclassifications from the category "Held-to-maturity investments" to the category "Available-for-sale financial assets" and vice versa remain in effect. In addition, assets may be reclassified from the available-for-sale portfolio to the loans and receivables portfolio and from fair value through profit or loss to the available-for-sale portfolio.

Measurement criteria

After initial recognition, financial assets included in the available-for-sale category are measured at fair value, without deducting any transaction costs that may be incurred for sale or other form of disposal.

Gains or losses on changes in fair value, with the exception of impairment losses (as the result of an impairment test) and foreign exchange gains and losses, are entered to a specific equity reserve ("Valuation reserve") until the date on which the asset is disposed of or derecognised, with the ensuing recognition in the income statement of the income or expense equal to the cumulative gain or loss in the above item of equity.

The fair value of the asset being measured is determined on the basis of the criteria set out above for financial assets held for trading.

Residual amounts at period-end are measured according to the daily weighted average cost formula. Structured securities are separated into their components (which are separately recognised) when the embedded derivative components present a different economic nature and risks from the underlying securities and may be considered independent derivative instruments.

The cost exception applies to equity securities classified as available for sale, just as it does to those held for trading, provided that both conditions are met, i.e. quoted prices in an active market are not available and fair value cannot be determined reliably.

Where there is objective evidence of impairment as the result of one or more events occurring after initial recognition, the total net loss, measured as the difference between the carrying amount of the asset and the present value of the future cash flows, discounted at the original effective interest rate, must be taken to the income statement. Where the evidence is found after a decrease in fair value taken to the dedicated equity reserve, the net loss previously entered to the valuation reserve is transferred directly to the income statement. The existence of objective impairment losses is verified at each annual or interim reporting date.

If the basis for the loss is ceases to apply due to events after the impairment date, recoveries are taken to the income statement for debt securities and to equity for equity instruments. However, recovery cannot result in a carrying amount above the amortised cost that would have applied if no impairment loss had been recognised.

Derecognition criteria

Financial assets available for sale are also derecognised when the contractual rights to the cash flows from the assets expire or when the asset is transferred along with substantially all of the associated risks and rewards.

Income component recognition criteria

Interest income is calculated by applying the effective interest rate (EIR) criterion. Accordingly, the capitalised costs or income included in the value of securities classified to this category are amortised through the income statement on the basis of residual duration.

Interest income and dividends on securities available for sale are entered to the items of the income statement “Interest and similar income” and “Dividends and similar income”. Realised gains and losses are taken to the item of the income statement “Profits (losses) on the sale or repurchase of: financial assets available for sale”. Fair value gains and losses are taken directly to equity (item “Valuation reserves”) and transferred to the income statement upon disposal (item “Profits (losses) on the sale or repurchase of: financial assets available for sale”) or impairment, where applicable (item “Net impairment losses: financial assets available for sale”).

In accordance with IAS 18, dividends on equity securities are recognised on the date of effective accrual of the right to receive payment, which is normally the date on which the shareholders' meeting authorises payment.

Financial assets held to maturity

As at 31 December 2017, 2016 and 2015, BIP had not activated the portfolio of financial assets held to maturity.

Loans and receivables

On-balance sheet loans and receivables

Recognition criteria

In accordance with IAS 39, paragraph 9 (Loans and receivables), non-derivative financial assets with fixed or determinable payments not quoted in an active market are classified to the category "Loans and receivables", except for:

1. assets that are intended for sale immediately or in the near term that must be held for trading and assets that on initial recognition are designated at fair value through profit or loss;
2. assets that on initial recognition are designated as available for sale;
3. assets the holder of which cannot recover substantially all the initial investment, for reasons other than default, which are classified as available for sale.

This category does not include interests in complexes of assets other than loans or receivables (for example, an interest in a mutual fund, etc.).

Such instruments are initially recognised as at the purchase or disbursement date, which for loans corresponds with the moment of acquisition of entitlement to receive the contractually established payment of the agreed sums.

Spot purchase and sale transactions that have yet to be settled (regular way) are recognised on the settlement date.

The initial recognition value is equal to the fair value of the financial asset, which is represented by the amount disbursed, inclusive of the costs and income directly attributable to the individual loan, determinable from the outset without regard to the timing of effective payment. Initial value is not inclusive of all expenses reimbursed by the debtor or attributable to internal administrative costs.

If a loan is disbursed at non-market conditions, its fair value is determined according to specific valuation techniques and the resulting difference between the fair value as thus determined and the amount disbursed is entered directly to the income statement.

Classification criteria

According to the definitions referenced in the section on recognition, this category refers to loans to customers and banks, whether disbursed directly or purchased from third parties, entered to items 60 “Due to banks” and 70 “Due to customers” of the statement of financial position, respectively.

The item also includes operating receivables other than those associated with payment for goods and services supplied, repurchase transactions, receivables originating from finance lease transactions and receivables originating from factoring activity, where existing.

As permitted by the amendment to IAS 39 approved by the IASB on 13 October 2008, financial instruments not quoted in regulated markets presenting fixed or determinable payments initially classified among financial assets at fair value through profit or loss and/or assets available for sale, which the company has the intention and the ability to hold for the foreseeable future or until maturity, may be reclassified as loans and receivables.

Measurement criteria

After initial recognition, loans and receivables are measured at amortised cost according to the effective interest method.

The amortised cost of a financial asset or liability is equal to its initial recognition value, net of repayments of principal, plus or minus impairment losses or recoveries and amortisation, according to the effective interest method, of the difference between the initial recognition value and nominal value.

This difference, subject to progressive amortisation with interest income recognised over the full duration of the asset being measured, essentially consists of directly attributable costs or revenues.

The effective rate of return (or internal rate of return) is the rate that precisely discounts the future payments or collections estimated over the entire expected life of the financial instrument, i.e. the rate that renders the present value of the instrument’s future cash flows equal to the amount disbursed, inclusive of the transaction costs and revenues directly attributable to the loan.

The amortised cost criterion is not used for short-term loans for which the discounting effect is believed to be negligible and which are therefore subject to the historical cost criterion.

Where a loan is initially recognised following the reclassification of a financial asset designated at fair value through profit or loss, the asset’s fair value as at the reclassification date represents its initial recognition value.

At each annual or interim reporting date, loans are tested for impairment in order to identify those that, due to the occurrence of particular events after their recognition, present objective evidence of impairment. A position becomes non-performing when it is foreseeable that the counterparty will be unable to discharge the obligations arising from the contract.

The impairment testing of loans consists of the individual or specific valuation step (selection of the individual impaired loans and estimation of the relevant losses) and the collective or portfolio valuation step (selection of uniform portfolios of performing loans, according to the incurred loss procedure, that present evidence of qualitative deterioration and an estimate of the relevant losses).

According to the Bank of Italy's instructions, the following impaired loans are tested separately:
1. bad debts;
2. unlikely-to-pay positions;
3. positions past due by more than 90 days.

The loss associated with each impaired loan is equal to the negative difference between its amortised cost and recoverable amount. That is to say, the loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the financial asset's effective interest rate.

The recoverable amount is equal to the present value of the expected principal and interest flows calculated on the basis of:
1. the expected recoverable amount of the loans, i.e. the value of the contractual flows of principal and interest, less expected losses and the costs incurred to recover the cash flows. These losses are calculated according to the debtors' specific ability to meet the obligations assumed, measured on the basis of all available information regarding the debtors' financial position, operating results and cash flow situation. The recoverable amount of loans is also determined taking account of any collateral or personal guarantees securing such loans, in addition to the foreseeable legal costs, determined on a lump-sum basis;
2. the expected recovery time, estimated by taking account of the existing recovery procedures (legal procedures, informal procedures, repayment plans, etc.) or, for performing loans, on the basis of a standard table defined in company policy, for which all probability of default on loans is associated with a predefined standard recovery time, except where otherwise indicated in specific cases by the monitoring office;
3. the interest rate for discounting, equal to the internal rate of return, determined according to contract, or to the original effective interest for fixed-rate positions.

The aforementioned expected recovery amount and times for bad debts and unlikely-to-pay positions are normally calculated and applied on a case-by-case basis by the loan monitoring officer and/or the legal affairs office, while also considering the historically observed recovery rates and times for similar risk positions, including in terms of size and economic sector of reference.

In particular, the following calculation parameters are used for bad debt positions:
- the recovery projections prepared by the legal affairs office on the basis of a percent LGD indicative of the loss and taking account of any collateral and/or personal guarantees considered valid in mitigating the risk and probable future legal expenses to be incurred for recovery;
- the expected recovery times estimated by the legal affairs office according to the above criteria;
- discounting rates equal to the internal rate of return.

The following calculation parameters are used for unlikely-to-pay positions:

- the recovery projections prepared by the loan monitoring office on the basis of a percent LGD indicative of the loss in the event of default and taking account of any guarantees, where "mitigating", and of a PD (probability of default) of the position in percent terms, in particular by assigning it to one of the standard risk brackets provided for in the policy;
- the expected recovery times associated with the individual risk brackets, as defined in the policy "Monitoring of anomalous positions and bad debts";
- discounting rates equal to the internal rate of return.

Individual risk positions past due by more than 90 days are valued by the loan monitoring office according to the criteria applied to the other categories of non-performing loans and taking account of the specific information available to it.

When determining recoverable cash flows within the framework of non-performing loan categories, property appraisal criteria have been taken into account where the loans are secured by mortgages. The loan monitoring policy requires that properties be appraised according to the "immediate market value" criterion, reduced by an additional haircut determined according to the type of property.

The collective measurement step is instead aimed at reflecting the state of deterioration of the credit quality of performing loans presenting uniform risk profiles. Loans are segmented into uniform portfolios for such purposes by grouping transactions and debtors that exhibit similar behaviour in terms of repayment capacity due to their risk level, economic characteristics, etc. The segmentation criteria adopted by BIP are currently represented by the following elements of analysis:

(a) customer segments according to the type of borrower (economic activity sector - SAE code);
(b) sub-segments within each of the segments set out in point a), as a function of the geographical areas of residence of customers.

The collective impairment loss for each portfolio is equal to the product of the total value of the portfolio (measured at amortised cost) and an impairment coefficient, in turn based on the product of the "proxy-PD" and "proxy-LGD" of the loans included in the portfolio concerned.

It bears reiterating that the proxy-PD parameter approximates the average probability of default of the various uniform portfolios. In the specific case, this parameter is determined as the average of the "Personalised flow of default rates for on-balance sheet loans" provided by the Centrale dei Rischi (Central Credit Register), which is used to determine default rates for the performing loan portfolio based on position status transitions by comparing the flow of adjusted bad debts to outstanding performing loans, with the same accounting date. The time horizon considered is equal to the last three available annual periods.

The proxy-LGD instead approximates the loss rate in the extreme eventuality of default. The probability of a loss in the event of default has been determined for individual risk categories and is based on the historical archive of observed losses on the basis of gross exposures at the time of default. The above rate is also believed to reflect the possible decline in the value of real-estate collateral.

In short, when conducting collective assessments of performing positions:

- the performing loan portfolio was segmented according to the above criteria;
- the probability of reclassification to bad debt status (the "default rate") of performing loans was estimated on a statistical basis using the "Personalised flow of default rates for on-balance sheet loans" provided by the Central Credit Register according to an evaluation of the risk associated with the target customer segment by sector and geographical area;
- the loss given default rate was determined on the basis of the archive of historically observable losses on exposure at default;
- percent haircuts were determined for the various segments of the overall portfolio of performing loans.

Performing exposures with forbearance measures were subject to a lump-sum haircut of 3%.

The reference is to the forbearance rules introduced with effect from September 2014: forborne exposures are situations in which the debtor is considered unable to meet its obligations punctually and to discharge the contractual conditions due to financial difficulties. In view of such difficulties, the creditor decides to modify the maturity and contractual conditions to permit the debtor to discharge or refinance part or all of the debt. Non-performing positions must remain in this status for a minimum period of one year (known as the "cure period"), after which it is evaluated whether the customer has restored compliance with the qualitative conditions before the positions may be reclassified as non-performing. Performing positions with forbearance measures must remain in this status for a minimum period of two years (known as the "probation period") before the position may cease to be classified as forborne and thus to be included in the related reports.

Any subsequent recoveries may not exceed the amount of previously recorded (individual and collective) impairment losses.

Derecognition criteria

A loan is only derecognised from the loan portfolio following sale to a third party when the legal transfer of title to the loan also entails the transfer of the risks and benefits associated with the transferred loan.

In any event, derecognition is always proportional to residual involvement, measured by exposure to changes in the value of the transferred loans and changes in the cash flows associated with the loans.

Income component recognition criteria

Interest income on loans is entered to item 10 of the income statement, "Interest and similar income". Gains and losses on disposal are entered to item 100, "Profits (losses) on the sale of: loans", whereas impairment losses are booked to item 130 of the income statement, "Net impairment losses: a) loans".

Credit commitments

Recognition and classification criteria

All credit commitments in the form of personal securities and security interests granted in respect of the obligations of third parties are included in the credit commitment portfolio.

The value of credit commitments on initial recognition is equal to their initial current value, which corresponds to the total amount of the fees collected in advance or to the present value of the fees to be collected in arrears.These fees are then transferred to the income statement on a pro-rata temporis basis.

Measurement criteria

Subsequent measurement is based on the principle of the greater of the value on initial recognition – minus the portions transferred on a pro-rata temporis basis to the income statement and plus any previously recognised impairment losses – and the value of the expected losses due to the deterioration of the solvency of the underlying debtors, calculated case by case for impaired credit commitments and on a lump-sum basis (according to the proxy-PD and proxy-LGD as determined above for loans to customers) for performing credit commitments.

In measuring credit commitments, the probability that such commitments will be enforced is first estimated according to the solvency of the underlying debtors. Performing credit commitments are also subject to portfolio impairment based on the percent haircuts defined for performing loans to customers. In other words, this is done without considering, from a prudential perspective, the tendency, if any, for such positions to be transformed into on-balance sheet loans.

Income component recognition criteria

Fees and commissions on credit commitments are taken to item 40 of the income statement, "Fee and commission income". Impairment losses are entered to item 130, "Net impairment losses: other financial transactions".

Financial assets at fair value

The portfolio of financial assets at fair value had not been activated as at 31 December 2017, 2016 or 2015.

Hedging Transactions

Recognition criteria

Hedging derivative instruments, where existing, are recognised according to the contract execution date. Each hedging transaction:

- is specifically recorded in ad hoc documentation describing the type of hedge, the nature of the hedged risk, the hedged position, the hedging instrument used, the strategy for

managing the hedged risk, the procedure for testing prospective and retrospective hedge effectiveness and the results of the periodic effectiveness tests;
- is subject to quarterly tests aimed at determining retrospective and prospective effectiveness, at inception and thereafter.

Classification criteria

This portfolio includes derivative instruments contracted to minimise the market risks associated with the hedged financial assets and liabilities, and, in particular, the interest-rate risk and equity risks to which structured and unstructured fixed-rate bonds are exposed (fair value hedging).

Measurement criteria

Both the hedging derivative instruments and the hedged positions (as limited to changes in value resulting from the hedged risks) are measured at fair value. Fair value measurement applies to the hedged instrument (inverse attraction), contrary to the previous national accounting standards, according to which the valuation criterion applied to the hedged assets/liabilities determined the valuation of the hedging derivatives. Cash-flow hedges for which only the valuation of the hedging derivative is entered to the specific equity reserve represent an exception.

Another exception has to do with the use of fair value through profit or loss for financial instruments held for trading involved in a hedging transaction to which hedge accounting rules apply, in respect of the ineffective portion.

Derecognition criteria

All hedging transactions are derecognised when they expire, are unwound prematurely or revoked, or the effectiveness tests are not passed.

Income component recognition criteria

The balance of the differentials accrued on derivative instruments hedging interest risk are entered, according to sign, to item 10 of the income statement, "Interest and similar income" or "Interest and similar expense" (along with the interest accrued on the hedged positions). Unrealised capital gains and losses on both the hedging derivative instruments and the hedged positions are booked to item 90, "Net hedging profit (loss)".

Equity investments

Definition

(a) Subsidiaries

A "subsidiary" is defined as a company over which the Parent exercises control. Such a condition occurs when the latter is exposed to variable returns or holds rights on those returns resulting from its relationship with the subsidiary and at the same time it has the ability to influence those returns by exercising its power over that entity. The presence of potential voting rights and contractual rights that grant their holder the power to exert a significant influence over the subsidiary's returns are also considered when determining the existence of control.

(b) Companies subject to joint control

A "company subject to joint control" is defined as a company governed by a contractual arrangement whereby the parties to it that hold joint control enjoy rights over the net assets of the arrangement. Joint control assumes that control over the arrangement is shared contractually and that it only exists when the unanimous consent of all the parties that share the control is required for decisions that regard important activities.

(c) Associates

An "associate" is defined as a company in which the investor exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee company but not to control or have joint control of it.

Recognition criteria

Equity investments are recognised at purchase cost.

Classification criteria

This portfolio includes equity investments in companies in which the bank holds at least 20% of voting rights or which are otherwise subject to significant influence.

Measurement criteria

Equity investments are measured at cost. Any objective evidence that an equity investment has been subject to impairment is assessed as at each annual or interim reporting date. The recoverable amount is then calculated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value. Any decrease in value below the carrying amount thus determined is booked, during the year concerned, to item 210 of the income statement, "Profits (losses) from equity investments". Any future reversals of impairment are also included in the item where the reasons for the original impairment no longer apply.

Derecognition criteria

Equity investments are derecognised in the statement of financial position when the contractual rights to the cash flows from the financial assets expire or when the financial assets are sold with the substantial transfer of all the risks and rewards deriving from ownership of them.

Income component recognition criteria

Impairment losses are entered to item 210 of the income statement, "Profits (losses) from equity investments". Any future reversals of impairment are also included in the item where the reasons for the original impairment no longer apply. Profits or losses on the sale of equity investments measured at equity are also included in this item.

Property and equipment

Recognition criteria

Property and equipment are recognised at purchase cost, inclusive of all additional charges and subsequent expenses incurred to improve their initial economic functionality (generally, non-routine maintenance expenses).

The carrying amounts of property and equipment are equal to their cost on initial recognition, less accumulated depreciation and any impairment losses resulting from impairment tests.

In accordance with IFRS 1, in the financial statements of first-time adoption of international accounting standards deemed cost may be used to determine the carrying amounts of property and equipment, intangible assets and investment property. The exception granted by the above Standard made it possible to avoid the retroactive reconstruction of the cost on initial recognition in accordance with IAS 16, IAS 17, IAS 38 and IAS 40. Accordingly, the estimated cost of items that must be recognised in the financial statements of first-time adoption of IASs is equal to the fair value of the asset as at the date of transition, or the value at which the items are presented according to the previous standards, even where such value includes revaluations not consistent with IFRSs, provided that the revaluation was, as at the date on which it was prepared, more or less equivalent to the fair value of the revalued assets as at the same date, or the amortised cost according to IFRSs, adjusted to take account of an appropriate price-indexing rate.

Classification criteria

This portfolio includes property and equipment consisting solely of assets for functional use employed for administrative purposes or in the provision of goods and services (non-investment property, installations, machinery, furnishings, etc.).

It also includes improvements and incremental expenses on leased third-party properties from which future economic benefits are expected to flow, provided that they relate to identifiable, separable property and equipment.

Property and equipment include assets used within the framework of leasing contracts to the extent that the company enjoys the future benefits generated by the activity and exercises control, although legal title is retained by the lessor.

Measurement criteria

All items of property and equipment with finite useful lives are measured at amortised cost. Assets with finite useful lives are depreciated by systematically entering depreciation charges to the income statement according to the residual useful lives of the assets concerned.

The duration of the depreciation schedule corresponds to the period from the moment the assets become available for use until their use is expected to cease.The costs of renovating leased third-party properties are depreciated over the shorter of the period in which the improvements may be used and the residual term of the lease. The depreciation schedules adopted are on a straight-line basis. It is periodically determined whether there have been substantial changes in the original conditions requiring modification of the initial depreciation schedules.

Assets with indefinite useful lives are not depreciated. This sub-category of property and equipment includes land, separated from the value of free-standing buildings on the basis of external appraisals aimed at determining its fair value, and artistic assets, the value of which is normally destined to increase over time, and which have not been measured at fair value, as instead done for the previous type of assets.

Property and equipment are tested for impairment in circumstances indicative of impairment losses, and in any event at the end of each annual or interim period. Impairment losses occur when the recoverable amount of an asset – which corresponds to the greater of its value in use (the present value of the asset's economic functions) and its value in exchange (presumed disposal value, net of transaction costs) – falls below its carrying amount, net of the depreciation charges recognised until that time.Any impairment losses are taken to the income statement.

If the rationale for an impairment loss cease to apply, the loss is recovered. Such recoveries may not exceed the value that the asset would have had, net of depreciation, in the absence of previous impairment losses.

Derecognition criteria

Property and equipment are derecognised when they are disposed of or when they have ceased to perform any economic function.

Income component recognition criteria

Periodic depreciation charges and impairment losses, if any, are booked to item 170 of the income statement, "Net impairment losses/recoveries on tangible assets", whereas any gains and losses on disposal are entered to item 240, "Gains (losses) on the disposal of equity investments".

Intangible assets

Recognition criteria

Intangible assets are recognised at purchase cost, inclusive of additional charges and subsequent costs incurred to improve their economic functions. An intangible asset is only recognised if the future economic benefits flowing from the asset will be realised and the cost of the asset may be reliably determined. Otherwise, the costs are expensed directly to the income statement for the year.

Goodwill is equal to the positive difference between the costs incurred to acquire the underlying business operations and the corresponding share of equity deriving from the application of the fair value to the assets, liabilities and contingent liabilities at the transaction date, which coincides, pursuant to IFRS 3, with the date on which the fee is paid and control over the acquired company is obtained.

Recognition of goodwill is subject to checks that the acquired business entity has sufficient capacity to generate income in the future. If this difference is negative or if the goodwill is not supported by the investee company's future profitability, the difference is recognised in the income statement.

Classification criteria

This portfolio includes software and goodwill, which are multi-year, intangible production factors. Classification is subject to the principle of identifiability provided that the assets derive from legal or contractual rights.

Measurement criteria

Intangible assets with fine useful lives are measured according to the amortised cost method. The duration of the relevant amortisation schedules corresponds to the estimated useful lives of the assets and the amortisation charges are distributed on a straight-line basis.

Like all intangible assets with indefinite useful lives, goodwill is not amortised, but periodically tested for impairment. The negative difference between the recoverable value of each cash generating unit that includes a certain goodwill and the value of the respective book equity represents an impairment loss. The recoverable value of one unit is taken as the higher of its value in use (present value of expected future cash flows) and its exchange value (assumed sale value or fair value less costs to sell).

Where there are indicators of impairment, and in any event at least once a year, intangible assets are subject to impairment testing, i.e. a test is performed to check the adequacy of the value of the goodwill by identifying the cash generating units to which the goodwill is attributed and, if the value of the goodwill is less than the recoverable value, any impairment losses not likely to regain value in the future are recorded in the income statement.

Derecognition criteria

Intangible assets are derecognised from the financial statements when they have completely exhausted their economic functionality or upon disposal.

Income component recognition criteria

Periodic amortisation charges and impairment losses, if any, are entered to item 180 of the income statement, "Net impairment losses/recoveries on intangible assets". Impairment losses on goodwill, if any, are entered to item 230 of the income statement, "Goodwill impairment".

Non-current assets and liabilities and disposal groups held for sale

Recognition and classification criteria

Non-current assets and disposal groups held for sale, according to the definition provided in IFRS 5, are entered to this item. For classification purposes, the assets and liabilities or disposal group must be immediately available for sale and management's intention to proceed with disposal in the near term must be supported by active, concrete plans.

Measurement criteria

Non-current assets and disposal groups held for sale are measured at the lesser of their carrying amount and their fair value, less costs to sell.

Income component recognition criteria

The assets and liabilities in question are entered to the items of the balance sheet 150, "Non-current assets and groups of assets held for disposal" and 90, "Liabilities associated with non-current assets held for sale". The relevant expenses and income, net of the tax effect, are entered to item 310 of the income statement, "Profit (loss) from discontinued operations after taxes". The results of the measurement in accordance with IFRS 5 of equity investments classified as "individual assets" are entered to item 210, "Profits (losses) from equity investments".

Current and deferred taxes

Recognition and classification criteria

In accordance with the balance sheet liability method, the accounting items of current and deferred taxation comprise:

1. current tax assets, i.e. overpayments on obligations to be fulfilled in accordance with applicable corporation tax laws and regulations;
2. current tax liabilities, i.e. payables to be made in accordance with applicable corporation tax laws and regulations;

3. deferred tax assets, i.e. tax savings on future income as a result of deductible temporary differences (charges deductible in future in accordance with applicable corporation tax laws and regulations);
4. deferred tax liabilities, i.e. future income tax payables as a result of taxable temporary differences (differences in the taxation of revenue or advanced deductions of charges in accordance with applicable corporation tax laws and regulations).

Deferred tax assets are recognised only if it is probable that they will be recovered based on their ability to generate taxable income.

Deferred tax liabilities are recognised with the sole exception of increases in assets subject to tax deferral relating to equity investments and reserves subject to tax deferral.

Deferred tax assets and liabilities are recognised in the statement of financial position at pre-closing balances and with no offsetting, while current tax assets and liabilities are offset where there is a legally enforceable right to do so and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income component recognition criteria

The counter-entry for tax assets and liabilities (both current and deferred) is usually found in the income statement (item 260 Income tax on profit (loss) from continuing operations). If, on the other hand, the current or deferred taxation to be recognised pertains to business combinations or transactions whose results must be directly allocated to equity, the resulting tax assets and liabilities are included in the calculation of goodwill or charged to equity.

Current and deferred taxes

Recognition and measurement criteria

Provisions include amounts set aside for obligations incumbent on the Institution, the occurrence of which is certain or highly probable, but the amount or timing of fulfilment of which is uncertain. Provisions for liabilities that are expected to be discharged in more than 12 months are recognised at their present values, where the discounting effect of the value of money is significant.

Provisions are therefore liabilities of an unknown amount and maturity which are recognised in the financial statements when the following conditions occur simultaneously:
1. there is a present obligation (legal or constructive) as a result of a past event;
2. it is probable that the use of resources suitable for producing economic benefits will be required to fulfil the obligation;
3. the amount deriving from the fulfilment of the obligation can be reliably estimated.

The amount recognised as a provision represents the best estimate of the expenditure required to fulfil the existing obligation at the reporting date and reflects the risks and uncertainties that inevitably characterise multiple facts and circumstances. The amount of a provision is measured by the present value of the expenditure that it is assumed will be necessary to settle the obligation where the effect of the present value is a substantial aspect. Future events that might affect the amount required to settle the obligation are taken into consideration only if there is sufficient objective evidence that they will occur.

Therefore, if the incurment of the charge is significantly deferred, meaning the discounting effect is also significant, accruals are determined by discounting the expenses that it is assumed will be needed to settle the obligation at a discount rate before taxes that reflects current market assessments of the present value of money and the specific risks associated with the liability. Accruals to provisions are recognised in the income statement, which also includes the interest expense accrued on the provisions being discounted. Each provision is used solely to cope with the outflows for which it was set up. The provisions are adjusted at every reporting date to reflect the best current estimate.

A contingent liability, however, is defined as:

a) a possible obligation, the result of past events, the existence of which will be confirmed only by the occurrence or (non-occurrence) of future events that are not totally under the control of the enterprise;
b) a present obligation that is the result of past events, but which is not recognised in the financial statements because:
   - it is improbable that financial resources will be needed to settle the obligation;
   - the amount of the obligation cannot be measured with sufficient reliability.

Contingent and improbable liabilities are not recognised in the financial statements but they are reported, unless the probability of using resources is remote or the phenomenon in question is not significant.

Post-employment benefits are separated according to whether they arise from "defined-contribution plans" or "defined-benefit plans", based on the legal and financial substance of the obligation. Under defined-contribution plans, the company pays fixed contributions on a contractual basis to an external fund, and therefore it has no legal or implicit obligation to pay, on top of the contribution, additional amounts if the fund does not have sufficient assets to pay all the benefits to the employees. Under defined-benefit plans, the bank guarantees the payment of benefits to entitled parties and assumes the actuarial risk, but not the investment risk, insofar as the sums destined to pay the future entitlements are not invested in particular assets separated from the bank's general assets. These plans are funded through the dedicated reserve recognised in the item Provisions: a) post-employment benefits and similar obligations.

Accruals pertaining to long-term benefits refer to seniority bonuses to be paid to employees under the terms of the collective agreement and are measured in the item Provisions: other provisions. These benefits are recognised based on an actuarial method set out in IAS 19 which is similar to the one described for post-employment benefits, the difference being that actuarial gains or losses are recognised in the income statement fully in the year in which they occur, as are changes in the liabilities resulting from revisions to the plan. These accruals are determined based on an expert report by an independent actuary.

The item "Provisions: b) other provisions" also includes provisions for bonuses for key personnel to be paid on a deferred basis in cash, provisions for presumed losses on law suits brought against the company, including bankruptcy claw-back actions, estimated outlays for litigation for customer complaints regarding securities brokerage, other estimated outlays for legal obligations existing as at the date of preparation of the financial statements, including any accruals for employee redundancy incentives and the related social-security and welfare contributions.

Derecognition criteria

A provision is reversed when it becomes improbable that an outflow of resources will be required to discharge the obligation and the rationale for the provision has therefore ceased to apply.

Income component recognition criteria

Accruals to provisions are entered to item 160 of the income statement, "Net accruals to provisions".

Amounts due and securities issued

Recognition and classification criteria

The items relating to amounts due to customers and to banks and to securities issued include various instruments (not held for trading) used to raise funds from third parties.

The liabilities in question are recognised (when issued or placed with a new holder) on the basis of the settlement date principle and cannot be transferred to the held-for-trading portfolio. Interest is recognised at the applicable internal rate of return.The residual balance of the securities at the end of the period is determined according to the daily weighted average cost formula. Structured securities are separated into their components (which are separately recognised) when the embedded derivative components present a different economic nature and risks from the underlying securities and may be considered independent derivative instruments.

Measurement criteria

When issued (or when placed with a new holder), financial liabilities are recognised at fair value (equal to the amount of the funds raised), adjusted by any transaction costs and revenues. Valuation is subsequently based on the amortised cost principle, except for short-term liabilities.

Derecognition criteria

Liabilities are derecognised when they are repurchased, discharged or redeemed at maturity on the basis of the settlement date principle.

Income component recognition criteria

Interest expense is entered to item 20 of the income statement, "Interest and similar expense". Any gains and losses on repurchase are entered to item 1009 d), "Profits (losses) on the sale or repurchase of: financial liabilities".

Financial liabilities held for trading

Recognition and classification criteria

This portfolio includes all non-hedging derivative instruments with negative fair values, including those separated from structured instruments for accounting purposes and any "technical uncovered short positions" in securities, under the sub-items "Due to banks" and "Due to customers".

The same criteria for recognition, derecognition, valuation and measurement apply as for financial assets held for trading, with the appropriate adaptations.

Financial liabilities at fair value

The portfolio of financial liabilities at fair value had not been activated as at 31 December 2017, 2016 and 2015.

Transactions in foreign currency

Recognition and classification criteria

Transactions in foreign currencies refer to all assets and liabilities denominated in currencies other than the euro. They are initially converted into euro at the spot exchange rates in effect on the date of each transaction. At the reporting date, items in foreign currencies are converted at the current spot exchange rates.

Derecognition criteria

The criteria indicated for the corresponding line items are applied. The exchange rate used is that as at the discharge date.

Measurement criteria

At every year-end or period-end close, financial statement items in foreign currency are valued as follows:

- monetary items are converted at the exchange rate as at the reporting date;
- non-monetary items measured at historical cost are converted at the exchange rate in effect on the transaction date;

- non-monetary items at fair value are converted using the exchange rates in effect at the reporting date.

Foreign exchange differences arising from the settlement of monetary elements or the conversion of monetary elements at rates other than those used in the initial conversion or previous financial statement conversion are taken to the income statement in the period in which they arise. When a gain or loss relating to a non-monetary element is recognised in equity, the exchange difference associated with that element is also recognised in equity. On the other hand, when a gain or loss is recognised in the income statement, the relative exchange difference is also recognised in the income statement.

Income component recognition criteria

Foreign exchange differences are entered to item 80 of the income statement, "Net profit (loss) from trading activities", except for those attributable to valuation reserves for securities available for sale, which are entered directly to the said reserves.

Other information

Treasury shares

The treasury shares present in the portfolio are recognised in a specific item as a deduction from equity. Repurchased treasury shares are recognised at cost and are therefore not evaluated.

The results of buying, selling, issuing or cancelling treasury shares are never recognised in the income statement, but, in compliance with applicable accounting rules, on their disposal, the positive or negative differences between their sale price and corresponding book value are recognised respectively as increases or decreases in item 170 Net premiums.

Accruals and deferrals

Accruals and deferrals that include expenses and income attributable to the period accrued on assets and liabilities are recognised in the financial statements as an adjustment to the assets and liabilities to which they refer.

Revenue and costs

Revenue is recognised when it is collected or, in any event, in the case of the sale of goods or products, when it is probable that future economic benefits will flow to the entity and those benefits can be measured reliably, and in the case of services, when these are provided. Specifically:
- remunerative interest is recognised on a pro-rated basis, at the contractual interest rate, or the effective interest rate, where amortised cost is applied;
- interest on arrears, when provided for by contract, is only taken to the income statement when it is effectively collected;

- dividends are taken to the income statement in the year in which distribution is authorised;
- fees and commission revenues on services are recognised, on the basis of the existence of contractual agreements, in the period in which the services concerned were rendered;
- revenues on the sale of financial instruments, determined by the difference between the consideration paid and collected on the transaction and the fair value of the instrument, are taken to the income statement upon recognition of the transaction if the fair value may be determined on the basis of parameters or recent transactions observable on the same market as that in which the instrument is traded. When such reference values are not readily observable, or there is reduced liquidity, the financial instrument is recognised at a value equal to the price of the transaction, less the commercial margin; the difference with respect to the fair value is recorded in the income statement during the life of the transaction via a gradual reduction, in the valuation model, of the corrective factor associated with reduced liquidity;
- gains and losses on the trading of financial instruments are taken to the income statement when the sale is concluded, on the basis of the difference between the consideration paid or collected and the recognition value of the instruments concerned;
- revenues on the sale of non-financial assets are recognised when the sale is concluded, unless most of the risks and benefits associated with the asset have been retained.

Costs are recorded in the income statement for the periods to which their relative income relates.

If costs and revenues may be associated in a generic, indirect manner, the costs are recognised in multiple periods, according to rational procedures and on a systematic basis. Those costs that cannot be matched with the related revenues are immediately charged to the income statement.

Employee benefits

Employee benefits are defined as all types of remuneration paid by an entity in return for the services rendered by its employees. Employee benefits include:

(a) short-term benefits (other than termination benefits or equity-based compensation) that are expected to be paid in full within twelve months after the end of the period in which the employees render the related service;

(b) post-employment benefits payable after the conclusion of employment;

(c) plans for post-employment benefits, i.e. agreements pursuant to which the entity provides benefits after the employment relationship has ended;

(d) long-term benefits, other than those above, that are expected to be paid in full within twelve months after the end of the period in which the employee rendered their service.

Leaving entitlement and defined-benefit plans

Pursuant to IAS 19 Employee Benefits, the employees' leaving entitlement was deemed to be a "post-employment benefit" classified as a "defined-benefit plan" until 31 December 2006. Accordingly, this had to be recognised based on the actuarial value determined using the projected unit credit method.

The actuarial valuation of the employees' leaving entitlement was carried out based on the "accrued benefits" approach using the projected unit credit method as provided for in Articles 64-66 of IAS 19. This approach is founded on assessments that express the average present value of pension obligations accrued based on the service rendered by the employee up to the period in which the assessment is made, while projecting future payments.

Following the changes introduced by Law no. 296 of 27 December 2006 and subsequent decrees and regulations (the "Pension Reform") issued in the first few months of 2007, the employees' leaving entitlement accrued since 1 January 2007 is deemed to be a defined-contribution plan, meaning that contributions accrued during the period have been recognised in full as costs and presented as payables in the item Employees' leaving entitlement after deduction of any contributions already paid.

On 16 June 2011, the IASB issued an amended version of IAS 19 modifying the accounting of defined-benefit plans and termination benefits for financial periods beginning on or after 1 January 2013, and making provision for early application. It also eliminated the option to use the corridor approach to account for actuarial gains and losses, which must be recognised directly in the statement of comprehensive income (OCI) so that the statement of financial position can display the total net surplus/deficit of the plan. Accruals for leaving entitlement provisions, seniority bonuses and supplementary pension payments are recognised in "Administrative expense: personnel costs". Actuarial gains and losses are recognised in OCI.

Fair Value

The fair value is the amount at which an asset (or liability) could be traded in a transaction between independent parties with a reasonable degree of knowledge about market conditions and significant information regarding the object being traded. A fundamental assumption when calculating fair value is that an entity is fully operational and does not need to liquidate or considerably reduce its assets, or to enter into transactions at unfavourable conditions. The fair value reflects the credit quality of the instrument insofar as it incorporates counterparty risk.

Methods of determining fair value

For listed securities, the fair value is equal to the closing prices on active markets, whereas for unlisted securities, reference is made to prices of similar instruments on an active market or the present value of future cash flows based on risk-reflecting (or perhaps risk-free) interest rates for similar investments. Pricing models are used to determine the various options.

Unlisted equity securities are valued using the average value of the results of applying two or more different income-, asset- or cash flow-based evaluations (normally used to value businesses) or using values observed in recent comparable transactions and for similar companies. If the variation coefficient of the results of these estimates exceeds the significance threshold set out in advance to determine the materiality of the variation, the equity security being valued and any related derivative are retained at book value. In this latter case, IAS 39 permits the waiving of the fair value measurement criterion, as mentioned earlier.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability, or for a shorter period when certain conditions occur (for example, a review of market interest rates).

After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process.

Receivables, financial assets held to maturity and available for sale (limited to the interest component recognised in the income statement), payables and securities issued are measured at amortised cost. Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees. Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not charged back to the customer.

Transaction costs do not include costs/income referring to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination and for underwriting, facility or arrangement. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction, are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as service fees received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction.

Impairment

At each reporting date, financial assets not classified to the items "Financial assets held for trading" and "Financial assets at fair value" are tested for impairment in order to verify whether there is objective evidence indicating that the carrying amount of the assets may not be fully recoverable.

An asset is impaired if there is objective evidence of a reduction in the originally estimated future cash flows as a result of specific events. The loss must be able to be quantified reliably and must be correlated with actual, and not merely expected, events.

Impairment testing is conducted on a case-by-case basis for financial assets that present specific evidence of impairment and collectively for financial assets for which individual testing is not required or for which individual testing did not identify an impairment loss. Collective measurement is based on grouping financial assets into uniform risk classes by the characteristics of the debtor/issuer, economic sector, geographical area, presence of any guarantees and other relevant factors.

Amounts due from customers and banks are tested individually for impairment where classified as bad debts, unlikely-to-pay positions or past-due exposures according to the Bank of Italy definitions, in accordance with IASs/IFRSs. Such non-performing loans undergo a case-by-case measurement process and the amount of the impairment loss on each position is equal to the difference between its carrying amount at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated applying the effective interest rate. The expected cash flows take account of expected recovery times, the presumed realisable value of any guarantees and the costs it is believed will be incurred to recover the credit exposure. Cash flows relating to positions expected to be recovered in the near term are not discounted, since the time value factor is not significant.

Positions for which objective evidence of a loss has not been identified on an individual basis are tested for impairment collectively. This assessment applies to uniform categories of positions from the standpoint of credit risk and the related loss percentages are estimated taking account of a series of factors that allow the value of the latent loss in each category of positions to be estimated. The parameters of the calculation model provided for in the new supervisory regulations, represented by PD (probability of default) and LGD (loss given default), are also used – where applicable – for measurement purposes in the financial statements. See Section 4 of Part A for a more thorough discussion.

The impairment testing process for assets available for sale is based on verifying whether there are indicators of impairment and calculating the impairment loss, if any. IAS 39.58 in fact requires that it be determined whether there is objective evidence that a financial asset has become impaired at each reporting date.

Paragraph 67 establishes that "when a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss within equity should be reclassified to profit or loss even though the asset has not been derecognised."

Paragraph 68 clarifies that "the amount of the loss that should be reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss". The entire negative equity reserve is therefore to be taken to the income statement where there is evidence of impairment. The difference between the carrying amount and recoverable amount represents an impairment loss.

IAS 39 provides that the recoverable amount, i.e. the amount at which the financial asset is to be recognised, is fair value for financial instruments classified as AFS. Financial assets in the available-for-sale portfolio are tested for impairment whenever there occur events indicating that the investment may be impaired.

The procedure consists of two phases: identifying situations of impairment resulting in a loss and quantifying the amount of the losses associated with the situations of impairment. Such losses are equal to the negative difference between fair value and carrying amount. The criteria applied by the Bank to identify situations of impairment involving the AFS portfolio distinguish between debt securities and equity securities.

Objective evidence that a debt security has become impaired may be identified on the basis of the list of loss events presented in IAS 39.59, namely: significant financial difficulty of the issuer; a breach of contract, such as a default or delinquency in interest or principal payments; the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; it being probable that the issuer will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for that financial asset because of financial difficulties.

In the case of rated bonds, a downgrade of the issuer is also taken into account. In this regard, it is believed that a downgrade of a debt security to a rating class below investment grade is indicative of a need to conduct an impairment test, whereas, in the other cases, the decline in creditworthiness is to be assessed in conjunction with the other available factors.

In the case of bonds, account is taken of the availability of specialised sources (for example, investment indications supplied by financial institutions, rating reports, etc.) or information available from info-providers (e.g., Bloomberg, Reuters, etc.) used to determine the issuer's situation of deterioration more precisely. In the absence of such elements, where possible, reference is made to the quoted prices of bonds similar to that considered in terms of financial characteristics and standing of the issuer.

In the case of equity securities (including funds), it is reasonable to assume that the shares in portfolio are to be tested for impairment before the bonds issued by the same issuer. Accordingly, indicators that the debt securities issued by a company are impaired, or impairment losses on such debt securities, are strong indicators that the same company's equity securities are impaired.

Furthermore, in order to determine whether there is evidence of the impairment of an equity security, in addition to the presence of the events indicated in IAS 39.59, and the considerations set out above, where applicable, the two following events are to be considered (IAS 39.61): a) significant changes with adverse effects relating to technologies, markets, economic or legal environment relating to the issuer, indicating that the cost of the investment can no longer be recovered; and b) a significant or prolonged decline in the fair value of the investment below its costs. In further detail, the following parameters constitute objective evidence of impairment: the fair value of the security is 30% lower than its initial recognition value or the fair value has remained lower than the carrying amount for a period of more than six months.

The need to recognise an impairment loss on equity securities also takes account of the following situations, individually or collectively: the fair value of the investment is significantly lower than its purchase cost or in any event is significantly lower than that of similar companies in the same sector; the company's management is not considered to be of adequate standing, or in any event capable of ensuring a recovery of share prices; the credit rating is found to have declined since the purchase date; a significant decline in the issuer's profits, cash flows or net financial position since the acquisition date; a reduction or suspension of the distribution of dividends;

disappearance of an active market for the bonds issued; changes in the issuer's legislative, economic or technological environment that have an adverse impact on its income, assets or cash flow situation; negative prospects for the market, sector or geographical area in which the issuer operates.

Fair value disclosure

Qualitative information

In the amendments to IFRS 7, paragraph 27b, implemented by Regulation (EC) No 1165/2009 of 27/11/2009, the IASB requires that the fair value of each class of financial asset or liability must be disclosed separately.

Fair value is defined as the price that would be received for the sale of an asset or paid for the transfer of a liability in a regular transaction between market participants under current conditions as at the measurement date in the main market or the most advantageous market (exit price). IFRS 13 establishes a three-level fair value hierarchy for measuring the fair values of financial and non-financial assets and liabilities based on the presence or absence of observable market parameters:

- *Quoted prices in active markets (Level 1):*

Valuation is based on (unadjusted) quoted prices in active markets for identical assets or liabilities.

- *Valuation methods based on observable market parameters (Level 2):*

The valuation of a financial instrument is based on the quoted market prices of similar assets or valuation techniques in which all significant factors, including credit and liquidity spreads, are derived from observable market data. This level entails the use of moderate discretionary elements in valuation, inasmuch as all parameters used are drawn from the market (for the same security or for similar securities) and calculation methods allow the quoted prices on active markets to be replicated.

- *Valuation methods based on unobservable market parameters (Level 3):*

Fair value is determined through the use of valuation techniques based to a considerable degree on significant inputs not observable on the market and therefore entails the use of estimates and assumptions by management.

In the case of financial instruments at fair value (typically assets and liabilities held for trading, financial assets at fair value, financial assets available for sale and hedging derivatives), the maximum priority is assigned to quoted prices in active markets and the lowest priority to the use of unobservable inputs, which entail greater discretion, in accordance with the fair value hierarchy set out above.

In determining fair value, the Bank uses information based on market data obtained from independent sources, whenever available, since such information is considered the best evidence of fair value. In such cases, fair value is the market price of the instrument being measured (mark to market), i.e. without modification or re-composition of the instrument, based on prices quoted in an active market, and is classified to level 1 of the fair value hierarchy. The Institution obtains securities prices from the platform/provider Bloomberg, which is generally regarded as an active market for securities for which there are counterparties willing to quote prices and conclude transactions. A market is regarded as active when transactions occur with sufficient frequency and volume to provide information useful to determining the price on an ongoing basis. The following are normally considered active markets:

- the regulated markets for the securities and derivatives, with the exception of the Luxembourg exchange;
- organised trading systems;
- certain OTC electronic trading facilities (e.g., Bloomberg), subject to certain conditions based on the presence of a certain number of contributors with executable offers and characterised by a bid-ask spread (i.e. the difference between the price at which a counterparty undertakes to sell a security, the ask price, and the price at which it undertakes to purchase it, the bid price) within a given tolerance range based on the type and maturity of the security;
- the secondary market for shares of UCIs, represented by the official NAV (net asset value), on the basis of which the issuing management company guarantees the expeditious redemption of the shares. In particular, this refers to harmonised, open-ended UCIs characterised as a category of investment by high levels of transparency and liquidity.

Where mark to market is not applicable, due to the absence of directly observable prices on markets considered active, it is necessary to make use of valuation techniques that maximise reliance on information available from the market, according to the following valuation approaches:

- Comparable approach: in such cases, the fair value of the instrument is based on the prices observed in recent transactions involving similar instruments in active markets, adjusted appropriately to take account of the differences in the instruments and market conditions;
- Model valuation: in the absence of observable transactions prices for the instrument being measured or similar instruments, a valuation model must be adopted; such models must be of proven reliability in estimating identical "operating" prices and thus be in widespread use among market participants.

Generally, in the absence of mark-to-market prices, the following price measurement methods are used:

- debt securities are measured according to the discounted cash flow method, adjusted as appropriate to take account of issuer risk;
- unlisted equity securities are measured on the basis of direct transactions involving the same security or similar securities observed over an appropriate period of time with respect to the measurement date, according to the market multiple method based on comparable companies and, alternatively, on valuation methods based on cash flows, income and assets;
- investments in UCIs other than those of the harmonised, open-ended variety are measured on the basis of the NAVs made available by the fund administrator or management company. Such investments typically include private-equity funds, real-estate funds and hedge funds;
- derivative contracts are measured on the basis of multiple models, according to the input factors (rate risk, volatility, foreign exchange risk, price risk, etc.) that influence their valuation, while also taking account of various fair value adjustments.

Fair level levels 2 and 3: valuation techniques and inputs used

The following types of investments are normally considered level 2:

- OTC derivative financial instruments the fair value of which is determined using pricing models, which may be based on both observable and unobservable inputs; however, observable inputs are deemed insignificant to the determination of the overall fair value;
- equity securities not quoted in active markets, measured according to the market multiples technique, by reference to a selected sample of companies comparable to the security being measured, rather than being measured on the basis of actual transactions over a period reasonably close to the measurement date;
- own or third-party debt securities not quoted in active markets, the inputs for which – inclusive of credit spreads – are drawn from market sources;
- hedge funds characterised by significant levels of transparency and liquidity, measured on the basis of the NAV provided by the management company/fund administrator.

The following financial instruments are generally considered level 3:

- debt securities characterised by complex financial structures for which sources not available to the public are normally used; such sources consist of non-binding quotes and are not corroborated by market evidence;
- illiquid equity securities for which there are no observable recent or comparable transactions;
- debt securities issued by entities in financial difficulty, for which there are no significant observable market prices;
- real-estate funds valued on the basis of the most recent available NAV;
- private-equity funds valued on the basis of the most recent available NAV, adjusted, where appropriate, to take account of events not reflected in share valuation or to reflect a different valuation of the fund's underlying assets;
- hedge funds characterised by significant levels of illiquidity for which it is believed that the process of determining the value of the fund's assets requires, to a significant degree, the adoption of a series of assumptions and estimates. Fair value measurement is based on the NAV.The NAV may be adjusted as appropriate to take account of the limited liquidity of the investment, i.e. of the period of time between the date of the redemption request and effective redemption, and to take account of any investment exit fees.

The fair value of financial assets and liabilities measured at fair value on a recurring basis, for which prices directly observable on active markets are not available, must therefore be based on the mark-to-model approach (comparable approach or model valuation). The only items measured at fair value on a recurring basis are financial assets and liabilities, as represented below.

Debt securities are normally measured according to the discounted cash flow method, adjusted as appropriate to take account of issuer risk.The value of the optional component of structured securities must be determined, while also taking account of adequate spreads reflecting the liquidity risk and model risk that may be inherent in such structures.

Unlisted equity securities are normally measured on the basis of direct transactions involving the same security or similar securities observed within an appropriate interval of the measurement date, according to the market multiples method based on comparable companies or, alternatively, valuation methods based on cash flows, income and assets.

Investments in UCIs not of the harmonised, open-ended variety are generally measured on the basis of the NAV made available by the fund administrator or management company. Such investments typically include private-equity funds, real-estate funds and hedge funds.

Over-the-counter (OTC) derivatives are generally measured on the basis of multiple models according to the input factors (interest rate risk, volatility, foreign exchange risk, price risk, etc.) that influence their valuation, while also taking account of various fair value adjustments.

As at the reporting date, in accordance with internal rules and procedures, the proprietary securities portfolio consisted primarily of quoted debt securities, accordingly assigned to fair value level 1 or 2, or of securities for which there exist quoted prices (without adjustments) in an active market for the assets or liabilities being measured, or the fair value of which is determined through the use of techniques based on variables directly (or indirectly) observable on the market.

Italian government bonds, which constitute a large majority of the portfolio, are allocated to level 1. They are measured at the official closing price on the last trading day, Friday, 29 December 2017, on the Milan Stock Exchange, MOT segment (website www.borsaitaliana.it), and the data is verified through the provider Six-Telekurs. The quantities held by the Institution are not sufficient to indicate that prices would be substantially modified in the event of the sale of the securities. In addition, our securities are traded on the MTS wholesale market, on the Bond Vision regulated market (managed by Borsa Italiana), reserved for banking operators, and are quoted on MTFs (multilateral trading facilities) such as EuroTLX and Hi-MTF, in which bid and ask quotes are normally present. The above considerations support the allocation of these securities to level 1 of the fair value hierarchy.

Other bonds and shares of UCIs, primarily issued by major Italian banks, are assigned to level 2 of the hierarchy. Such securities are measured at bid prices submitted by the active contributor to the Bloomberg circuit (i.e., the Bloomberg Generic BGN, calculated by the system as the average prices submitted by the various contributors to the system) with an executable price on the final day of trading (29 December 2017).

All minority interests held at the reporting date are classified as level 3, among securities measured without reference to observable market data. The equity investment in Banca Carim S.p.A. is an investment in an equity instrument without a quoted price in an active market. It had been written off at the reporting date. Minor equity interests are also held in Visa (acquired by BIP when joining the international Visa circuit, in view of the issuance of ATM cards for use on the international Visa circuit) and in Sinergia. The Bank is enrolled in the Interbank Deposit Protection Fund's Voluntary Scheme and thus holds an indirect interest in the banks subject to its intervention, with a residual value of approximately 8 thousand euros.

There were no changes in valuation techniques for which explanations are to be provided as at the reporting date.

Valuation processes and sensitivity

Unobservable parameters capable of impacting the valuation of level 3 instruments are normally represented by the estimates and assumptions underlying the models used to measure investments in equity instruments and shares of UCITS.

Fair value hierarchy

For transitions between the different fair value levels, the Bank adopts the following principles:
- presence or absence of a price on a regulated market;
- presence or absence of a price on an unregulated market or one or more counterparties willing/committed to price the security;
- whether or not a sufficient quantity of the financial instrument is held to envisage a negative oscillation of its value/price;
- new elements on which to base the application of a new methodology;
- the timeframe (date of event or change, start and end of financial period) will be the same for the changes between the various valuation categories.

For fair value level 2 securities held:
- there have been no transitions between different fair value levels;
- the methodology used is the market price (most recently available Bloomberg BGN bid quote), without making changes or adjustments to it;
- since the financial instruments are only fixed- or variable-rate debt securities (bonds), this methodology reflects market interest rates and the degree of risk associated with counterparty issuers;
- this is the same methodology used in the previous year and for the same securities.

For fair value level 3 securities held:
- there have been no transitions between different fair value levels;
- the methodology is the same one used in the previous year, i.e. historical cost;
- since neither the quantity of equities held nor the accounting methodology used has changed, no profits or losses were recorded;
- in the absence of quotations in active markets and additional elements such as, for example, the annual financial statements, the cost method is the only one that can get close to the fair value of the security.

The different fair value levels can therefore be summarised as follows:

Level 1

The valuation is based on observable inputs, i.e., quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the instrument measurement date. A quoted price in an active market, i.e. a market where the quoted prices reflect “ordinary”, unforced transactions and are readily and regularly available, provides the most reliable evidence of fair value. Indeed, these prices should be used on a priority basis to properly value the reference financial instruments (the mark-to-market approach). In order to determine the fair value of the securities listed in an active market, the quoted prices used are those on the final day of the financial period under review.

Securities quoted in an active market include equity securities quoted in regulated markets, bonds quoted on the EuroMot circuit and securities for which continuous prices are available from the main contribution platforms, representing effective, regular market transactions occurring over a normal reference period. Derivatives for which a quoted price in an active reference market (such as IDEM) is available are also regarded as quoted in an active market, since such markets are considered to be highly liquid. The fair value of such instruments is calculated with reference to the relevant closing prices observed on the final day of the month on the respective markets of quotation. Shares of UCIs, mutual funds, open-end investment companies (SICAVs) and hedge funds are considered level 1 when they are quoted in an active market. An official NAV reported by the manager is also considered level 1 if it is readily available on the reporting date and is not adjusted to take account of liquidity risk and/or counterparty risk.

Level 2

The valuation takes place using methods employed when the instrument is not listed in an active market and is based on inputs not included in Level 1. The financial instrument is valued based on prices inferable from market prices of similar assets or using valuation techniques in which all significant factors are inferred from observable market parameters. The resulting price lacks discretion as the most significant parameters used were drawn from the market and the calculation methodologies used replicate quoted prices in active markets. In the absence of an active market, estimation methods are used based on the valuation of quoted instruments that have analogous characteristics, values recognised in recent comparable transactions or using valuation models calling for the discounting of future cash flows also taking into account all risk factors correlated with the instruments and which are based on observable market data.

Level 3

The valuation is carried out using methods consisting of valuing the unlisted instrument using significant inputs not observable in the market and therefore which require the use of estimates and assumptions on the part of the management ("Mark to Model Approach").

Other information

There is no information to be presented pursuant to IFRS 13, paragraphs 51, 93 (i) and 96 as at 31 December 2017, 2016 and 2015, inasmuch as:

- there are no assets measured at fair value on the basis of highest and best use;
- the Bank does not use the option to measure fair value at total portfolio exposure level in order to take into account the offsetting of the credit and market risk of a given group of financial assets or financial liabilities (the exception mentioned in IFRS 13, paragraph 48).

Quantitative disclosure

Fair value hierarchy

The following information is provided in accordance with IFRS 7, adopted by Reg. (EC) No 1165 of 27 November 2009, for portfolios of financial assets and liabilities measured at fair value, on the basis of the three-level hierarchy presented above.

Assets and liabilities at fair value on a recurring basis: breakdown by fair value levels

(Thousands of euros)	**31 December 2017**				**31 December 2016**				**31 December 2015**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
1. Financial assets held for trading	-	115	-	115	-	-	-	-				
2. Financial assets at fair value	-	-	-	-	-	-	–	-				
3. Financial assets available for sale	572,295	35,599	12	607,906	533,125	61,519	708	595,352	497,716	47,219	3,508	548,443
4. Hedging derivatives	-	-	-	-	-	-	-	-				
5. Property and equipment		-	-	-	-	-	-	-				
6. Intangible assets	-	-	-	-	-	-	-	-				
Total	**572,295**	**35,714**	**12**	**608,021**	**533,125**	**61,519**	**708**	**595,352**	**497,716**	**47,219**	**3,508**	**548,443**
1. Financial liabilities held for trading	-	-	-	-	-	-	-	-				
2. Financial liabilities at fair value	-	-	-	-	-	-	-	-				
3. Hedging derivatives	-	-	-	-	-	-	-	-				
Total	-	-	-	-	-	-	-	-	-	-	-	-

Instruments measured to a significant degree on the basis of unobservable parameters (Level 3) constitute a marginal share (0.001%) of total financial assets at fair value, represented at the reporting date exclusively by investments classified to the portfolio "Financial assets available for sale". The same portfolio includes equity investments measured using the historical cost method.

There were no liabilities measured at fair value on a recurring basis as at 31 December 2017, 2016 and 2015.

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

(Thousands of euros)	31 December 2017				31 December 2016				31 December 2015			
	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
1. Financial assets held to maturity	-	-	-	-	-	-	-	-	-	-	-	-
2. Due from banks	99,044	-	-	99,044	88,804	-	-	88,804	72,851	-	-	72,851
3. Due from customers	326,049	-	-	345,986	299,451	-	-	320,363	222,665	-	-	238,576
4. Property and equipment held for investment purposes	-	-	-	-	-	-	-	-	-	-	-	-
5. Non-current assets and groups of assets held for disposal	-	-	-	-		-	-	-	-	-	-	-
Total	**425,093**	**-**	**-**	**445,030**	**388,255**	**-**	**-**	**409,167**	**295,516**	**-**	**-**	**311,427**
1. Due to banks	470,623	-	-	470,623	447,774	-	-	447,775	380,429	-	-	380,429
2. Due to customers	434,543	-		434,987	400,561	-	-	400,579	303,116	-	-	303,138
3. Securities issued	94,435	-	26,362	70,068	107,379	-	44,422	65,253	100,453	-	44,993	58,555
4. Liabilities associated with non-current assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total	**999,601**	**-**	**26,362**	**975,678**	**955,714**	**-**	**44,422**	**913,607**	**783,998**	**-**	**44,993**	**742,122**

For the other financial instruments recognised at amortised cost and broadly classified among receivables from banks or customers, securities issued or held-to-maturity financial assets, a fair value was determined for the purpose of disclosure in the Notes to the Financial Statements, as required by IFRS 7.

Disclosure on "day one profit/loss"

IFRS 7, paragraph 28 requires disclosure of the "day one profit or loss" to be recognised in the income statement at the end of the year, as well as reconciliation with the initial balance. "Day one profit or loss" is taken to mean the difference between the fair value of a financial instrument acquired or issued at initial recognition (transaction price) and the amount determined on that date using a measurement technique. In this regard, it should be noted that there is nothing requiring disclosure in this section.

20.1.3 Notes to the financial statements

20.1.3.1 Assets

Cash and cash equivalents

The following table presents the composition of cash and cash equivalents as at 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
a) Cash and cash equivalents	632	546	506	86	40	15.75%	7.91%
b) Demand deposits at central banks	26,294	27,307	85	(1,013)	27,222	(3.71%)	> 100%
Total	**26,926**	**27,853**	**591**	**(927)**	**27,262**	**(3.33%)**	**4,612.86%**

As at 31 December 2017, the item "Cash and cash equivalents" amounted to 26.9 million euros, down by 3% on 27.8 million euros as at 31 December 2016. The decline was attributable to a reduction of demand deposits with central banks (-4%).

Financial assets held for trading

The following table presents the composition of financial assets held for trading as at 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
A. Balance sheet assets							
1. Debt instruments	-	-	-	-	-	-	-
- Structured securities	-	-	-	-	-	-	-
- Other debt instruments	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	-
3. Units of UCITS	115	-	-	115	-	100% –	-
4. Loans	-	-	-	-	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-
Total A	**115**	**-**	**-**	**115**	**-**	**100% –**	**-**
B. Derivative instruments	-	-	-	-	-	-	-
1. Financial derivatives	-	-	-	-	-	-	-
- for trading	-	-	-	-	-	-	-
- connected with the fair value option	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-
- for trading	-	-	-	-	-	-	-
- connected with the fair value option	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total A+B	**115**	**-**	**-**	**115**	**-**	**100% –**	**-**

As at 31 December 2017 financial assets held for trading amounted to 0.1 million euros. The increase was due to the greater amount of shares of UCIs (100%).

The following table presents the composition of the above financial assets by level of the fair value hierarchy.

(Thousands of euros)	FY 2017			FY 2016			FY 2015		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
A. Balance sheet assets									
1. Debt instruments	-	-	-	-	-	-	-	-	-
- Structured securities	-	-	-	-	-	-	-	-	-
- Other debt instruments	-	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	-	-	-
3. Units of UCITS	-	115	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-	-
Total A	**-**	**115**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments	-	-	-	-	-	-	-	-	-
1. Financial derivatives	-	-	-	-	-	-	-	-	-
- for trading	-	-	-	-	-	-	-	-	-
- connected with the fair value option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-
- for trading	-	-	-	-	-	-	-	-	-
- connected with the fair value option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total A+B	**-**	**115**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Financial assets available for sale

The following table presents the composition of financial assets available for sale as at 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1. Debt instruments	607,795	594,544	544,835	13,251	49,709	2.23%	9.12%
a) Governments and central banks	565,273	543,338	497,716	21,935	45,622	4.04%	9.17%
b) Other public entities	-	-	-	-	-	-	-
c) Banks	39,544	42,993	47,119	(3,449)	(4,126)	(8.02%)	(8.76%)
d) Other issues	2,978	8,213	-	(5,235)	8,213	(63.74%)	-
2. Equity instruments	12	708	3,508	(696)	(2,800)	(98.31%)	(79.82%)
a) Banks	8	700	3,500	(692)	(2,800)	(98.86%)	(80.00%)
b) Other issuers	4	8	8	(4)	-	(50.00%)	0.00%
- insurance companies	-	-	-	-	-	-	-
- financial companies	-	-	8	-	(8)	-	(100.00%)
- non-financial companies	4	8	-	(4)	8	(50.00%)	-
- other	-	-	-	-	-	-	-
3. Units of UCITS	**99**	**100**	**100**	**(1)**	**-**	**(1.00%)**	**0.00%**
4. Loans	-	-	-	-	-	-	-
a) Governments and central banks	-	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-	-
c) Banks	-	-	-	-	-	-	-
d) Other parties	-	-	-	-	-	-	-
Total	**607,906**	**595,352**	**548,443**	**12,554**	**46,909**	**2.11%**	**8.55%**

As at 31 December 2017 financial assets available for sale amounted to 607.9 million euros, up by 2% from 595.3 million euros as at 31 December 2016. The increase was primarily due to the greater amount of debt securities (+2%).

In further detail, as at 31 December 2017 debt securities classified as available for sale were represented by equity interests not constituting control, a significant interest or joint control.

Due from banks

The following table presents the composition of amounts due from banks as at 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	31 December			**Changes**		**Change %**	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**	**2017 vs 2016**	**2016 vs 2015**
A. Due from central banks	-	-	-	-	-	-	-
1. Restricted deposits	-	-	-	-	-	-	-
2. Compulsory reserve	-	-	-	-	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
B. Due from banks	99,044	88,804	72,851	10,240	15,953	11.53%	21.90%
1. Loans	99,044	88,804	72,851	10,240	15,953	11.53%	21.90%
1.1 Current accounts and demand deposits	49,928	39,735	34,521	10,193	5,214	25.65%	15.10%
1.2 Time deposits	49,116	49,069	38,330	47	10,739	0.10%	28.02%
1.3. Other loans	-	-	-	-	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-
- Finance leases	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
2. Debt instruments	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	-	-	-	-
Total	**99,044**	**88,804**	**72,851**	**10,240**	**15,953**	**11.53%**	**21.90%**

As at 31 December 2017 amounts due from banks amounted to 99 million euros, up by 12% from 88.8 million euros as at 31 December 2016. The increase was due to the rise in loans (+12%), current accounts and time deposits (+26%).

Due from customers

The following table presents the composition of amounts due from customers as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	31 December											
	2017				2016				2015			
	Carrying amount			*Fair value*	Carrying amount			*Fair value*	Carrying amount			*Fair value*
	Performing	Non-performing		L3	Performing	Non-performing		L3	Performing	Non-performing		L3
		Purchased	Other			Purchased	Other			Purchased	Other	
1. Loans	315,876	-	10,173	345,986	289,870	-	9,581	292,448	218,195	-	4,470	238,576
1.1. Current accounts	104,792	-	3,478	-	108,052	-	4,278	-	98,323	-	1,278	-
1.2. Repurchase agreements (assets)	-	-	-	-	-	-	-	-	-	-	-	-
1.3. Mortgage loans	200,061	-	6,643	-	169,210	-	5,012	-	111,218	-	3,159	-
1.4. Credit cards, personal loans and one-fifth of salary loans	1,380	-	5	-	823	-	-	-	96	-	-	-
1.5. Finance leases	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
1.7. Other loans	9,643	-	47	-	11,785	-	291	-	8,558	-	33	-
2. Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**315,876**	**-**	**10,173**	**345,986**	**289,870**	**-**	**9,581**	**292,448**	**218,195**	**-**	**4,470**	**238,576**

As at 31 December 2017 amounts due from customers amounted to 315.9 million euros, up from 289.9 million euros as at 31 December 2016. The increase was due to the greater amounts of loans and credit cards.

Equity investments

The following table presents the composition of equity investments as at 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
A. Opening balances	**8,054**	**-**	**-**	**8,054**	**-**	**-**	**-**
B. Increases	-	8,054	-	(8,054)	8,054	(100.00%)	-
B1. Purchases	-	8,054	-	(8,054)	8,054	(100.00%)	-
B2. Recoveries	-	-	-	-	-	-	-
B3. Revaluations	-	-	-	-	-	-	-
B4. Other changes	-	-	-	-	-	-	-
C. Decreases	**(8,054)**	**-**	**-**	**(8,054)**	**-**	**-**	**-**
C1. Sales	-	-	-	-	-	-	-
C2. Impairment losses	-	-	-	-	-	-	-
C3. Other changes	(8,054)	-	-	(8,054)	-	-	-
D. Closing balances	**-**	**8,054**	**-**	**(8,054)**	**8,054**	**(100.00%)**	**-**
E. Total revaluations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
F. Total impairment	**-**	**-**	**-**	**-**	**-**	**-**	**-**

There were no equity investments as at 31 December 2017, following the cancellation of the shares of Banca Emilveneta S.p.A., subject to merger by absorption with effect for legal purposes from 1 October 2017 and with retroactive effect for accounting and tax purposes from 1 January 2017.

Property and equipment

The following table presents the composition of property and equipment as at 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1. Owned assets	**1,652**	**1,472**	**428**	**180**	**1,044**	**12.23%**	**> 100%**
a) land	-	-	-	-	-	-	-
b) buildings	1,096	1,146	-	(50)	1,146	(4.36%)	-
c) furniture	218	132	178	86	(46)	65.15%	(25.84%)
d) electronic systems	68	71	75	(3)	(4)	(4.23%)	(5.33%)
e) other	270	123	175	147	(52)	> 100%	(29.71%)
2. Assets acquired under finance lease	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-	-
e) other	-	-	-	-	-	-	-
Total	**1,652**	**1,472**	**428**	**180**	**1,044**	**12.23%**	**> 100%**

As at 31 December 2017 property and equipment amounted to 1.6 million euros, up by 12% from 1.5 million euros as at 31 December 2016.The increase was due to the greater amounts of furnishings (+65%) and other tangible assets (>100%).

Specifically, the "Others" category includes electrical systems, air conditioning systems, alarm systems, lighting fixtures, works of art and other smaller fixed assets.

Intangible assets

The following table presents the composition of intangible assets as at 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
A.1. Goodwill	**-**	**327**	**-**	**(327)**	**327**	**(100.00%)**	**-**
A.1.1 attributable to the Group	-	327	-	-	327	-	-
A.1.2 attributable to minority interests	-	-	0	-	0	-	(100.00%)
A.2. Other intangible assets	**7**	**8**	**7**	**(1)**	**1**	**(12.50%)**	**14.29%**
A.2.1.Assets at cost:	7	8	7	(1)	1	(12.50%)	14.29%
a) Intangible assets generated internally	-	-	-	-	-	-	-
b) Other assets	7	8	7	(1)	1	-	-
A.2.2 Assets measured at fair value:	-	-	-	-	-	-	-
a) Intangible assets generated internally	-	-	-	-	-	-	-
b) Other assets	-	-	-	-	-	-	-
Total	**7**	**335**	**7**	**(328)**	**328**	**(97.91%)**	**> 100%**

As at 31 December 2017 tangible assets amounted to 7 thousand euros, up by 97.9% from 0.3 million euros as at 31 December 2016.The decline was due solely to the write-off of the goodwill arising from acquisition of control of Banca Emilveneta in 2016.

Tax assets and liabilities

The following table presents the composition of tax assets and liabilities as at 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Current Tax Assets	2,995	3,118	2,575	(123)	543	(3.94%)	21.09%
Deferred Tax Assets	3,290	4,382	2,167	(1,092)	2,215	(24.92%)	> 100%
Total Tax Assets	**6,285**	**7,500**	**4,742**	**(1,215)**	**2,758**	**(16.20%)**	**58.16%**

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Current Tax Liabilities	1,607	2,040	2,585	(433)	(545)	(21.23%)	(21.08%)
Deferred tax liabilities	2,110	2,493	3,777	(383)	(1,284)	(15.36%)	(34.00%)
Total tax liabilities	**3,717**	**4,533**	**6,362**	**(816)**	**(1,829)**	**(18.00%)**	**(28.75%)**

As at 31 December 2017 tax assets amounted to 6.3 million euros, down by 16% from 7.5 million euros as at 31 December 2016.The decline was due to the decrease in current tax assets (-4%) and deferred tax assets (-25%).

As at 31 December 2017 tax liabilities amounted to 3.7 million euros, down by 18% from 4.5 million euros as at 31 December 2016.The decline was due to the decrease in current tax liabilities (-21%) and deferred tax liabilities (-15%).

In further detail, it was decided to recognise deferred tax assets on the amount by which impairment losses on amounts due from customers exceeded the limit on deduction set by Article 106 of the Consolidated Income Tax Law (TUIR), inasmuch as it is probable that there will be taxable future income against which to utilise the unused tax losses and tax credits.

Other assets

The following table presents the composition of other assets as at 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Tax credits from the tax authorities and other tax administrations	2,868	3,021	2,418	(153)	603	(5.06%)	24.94%
Cheques of third parties in hand	369	702	266	(333)	436	(47.44%)	> 100%
Bills and documents of third parties in portfolio	536	-	20	536	(20)	-	(100.00%)
Guarantee deposits	20	20		-	20	0.00%	-
Fees to be charged to customers	336	287	260	49	27	17.07%	10.38%
Items in the course of collection	3	-	72	3	(72)	-	(100.00%)
Items being processed	1,093	586	777	507	(191)	86.52%	(24.58%)
Accrued income	219	154	90	65	64	42.21%	71.11%
Prepaid expenses	488	89	46	399	43	> 100%	93.48%
Leasehold improvements	177	163	211	14	(48)	8.59%	(22.75%)
Other	320	8	4	312	4	> 100%	100.00%
Total other assets	**6,429**	**5,100**	**4,164**	**1,329**	**936**	**26.06%**	**22.48%**

As at 31 December 2017 other assets amounted to 6.4 million euros, up by 26% from 5.1 million euros as at 31 December 2016.The increase was primarily due to the greater amount of items in processing (+86%), prepaid expenses (>100%) and other assets (>100%).

Specifically, capitalised leasehold property restructuring costs are allocated to leasehold improvements because for the duration of the lease the user company has control of, and can obtain future economic benefits from, the assets. Such costs are amortised in the shorter of the period in which the improvements may be used and the residual duration of the lease, which may not exceed the term of the lease agreement. It was decided to recognise deferred tax assets in respect of the amount by which impairment losses on amounts due from customers exceeded the limit on deduction set by Article 106 of the Consolidated Income Tax Law (TUIR), inasmuch as it is probable that there will be taxable future income against which to utilise the unused tax losses and tax credits.

20.1.3.2 Liabilities and equity

Due to banks

The following table presents the composition of the Issuer's amounts due to banks as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1. Due to central banks	399,257	381,178	360,093	18,079	21,085	4.74%	5.86%
2. Due to banks	71,366	66,596	20,336	4,770	46,260	7.16%	227.48%
2.1. Current accounts and demand deposits	4,002	-	-	4,002	-	-	-
2.2. Restricted deposits	2,502	906	-	1,596	906	176.16%	-
2.3. Loans	64,862	65,688	20,336	(826)	45,352	(1.26%)	223.01%
2.3.1 Repurchase agreements	64,862	60,788	20,336	4,074	40,452	6.70%	198.92%
2.3.2 Other	-	4,900	-	(4,900)	4,900	(100.00%)	-
2.4. Liabilities for commitments to repurchase own equity instruments	-	-	-	-	-	-	-
2.5. Other payables	-	2	-	(2)	2	(100.00%)	-
Total	**470,623**	**447,774**	**380,429**	**22,849**	**67,345**	**5.10%**	**17.70%**
Fair value – level 1	-	-	-	-	-	-	-
Fair value – level 2	-	-	-	-	-	-	-
Fair value – level 3	470,623	447,774	380,429	22,849	67,345	5.10%	17.70%
Total fair value	**470,623**	**447,774**	**380,429**	**22,849**	**67,345**	**5.10%**	**17.70%**

Amounts due to central banks of 360 million euros consist of time deposits held with the European Central Bank secured by admissible securities. They refer to TLTRO series I transactions of 257 million euros maturing in September 2018, TLTRO series II transactions of 8.8 million euros maturing in June 2020 and a residual portion of sundry deposits, primarily maturing in three months.

Interbank funding consists mainly (85% as at 31 December 2017, 85.13% as at 31 December 2016 and 95% as 31 December 2015) of amounts due from central banks. Amounts due to banks stood at 470,623 thousand euros in 2017, at 447,774 thousand euros in 2016 and at 380,429 thousand euros in 2015, accounting for 44% of total liabilities and equity in 2017, 44% in 2016 and 45% in 2015.

Due to customers

The following table presents the composition of the Issuer's amounts due to customers as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1. Current accounts and demand deposits	400,246	378,512	282,161	21,734	96,351	5.74%	34.15%
2. Restricted deposits	25,932	19,881	19,181	6,051	700	30.44%	3.65%
3. Loans	6,561	1,644	1,482	4,917	162	> 100%	10.93%
3.1 Repurchase agreements	-	-	-	-	-	-	-
3.2 Other	6,561	1,644	1,482	4,917	162	> 100%	10.93%
4. Liabilities for commitments to repurchase own equity instruments	-	-	-	-	-	-	-
5. Other payables	1,804	524	292	1,280	232	> 100%	79.45%
Total	**434,543**	**400,561**	**303,116**	**33,982**	**97,445**	**8.48%**	**32.15%**
Fair value – level 1	-	-	-	-	-	-	-
Fair value – level 2	-	-	-	-	-	-	-
Fair value – level 3	434,987	400,579	303,138	34,408	97,441	8.59%	32.14%
Total fair value	**434,987**	**400,579**	**303,138**	**34,408**	**97,441**	**8.59%**	**32.14%**

This item primarily includes payables to customers for current accounts, deposit accounts and repurchase agreements.

Direct funding, which in 2017 accounted for 40% of total liabilities and equity, has risen gradually from 303,116 thousand euros in 2015 to 400,561 thousand euros in 2016 and then to 434,543 thousand euros in 2017.

Current accounts represent the main form of customer funding, accounting for 92% in 2017, 94% in 2016 and 93% in 2015.

Securities issued

The following table presents the composition of securities issued as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
A. Securities							
1. Bonds	26,362	44,423	44,161	(18,061)	262	(40.66%)	0.59%
1.1 structured	-	-	-	-	-	-	-
1.2 other	26,362	44,423	44,161	(18,061)	262	(40.66%)	0.59%
2. Other securities	68,073	62,956	56,292	5,117	6,664	8.13%	11.84%
2.1 structured	-	-	-	-	-	-	-
2.2 other	68,073	62,956	56,292	5,117	6,664	8.13%	11.84%
Total	**94,435**	**107,379**	**100,453**	**(12,944)**	**6,926**	**(12.05%)**	**6.89%**

The carrying amount of bonds in issue held by customers as at the reporting date was 26 million euros. Certificates of deposit presented a carrying amount of 68 million euros and are included in other securities in level 3 of the fair value hierarchy.

The following table presents the composition of the securities held by the Issuer as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	**31 December 2017**				**31 December 2016**				**31 December 2015**			
	Carrying amount	**L1**	**L2**	**L3**	**Carrying amount**	**L1**	**L2**	**L3**	**Carrying amount**	**L1**	**L2**	**L3**
A. Securities												
1. Bonds	26,362	-	26,362	-	44,423	-	44,422	-	44,161	-	44,993	-
1.1 structured	-	-	-	-	-	-	-	-	-	-	-	-
1.2 other	26,362	-	26,362	-	44,423	-	44,422	-	44,161	-	44,993	-
2. Other securities	68,073	-	-	70,068	62,956	-	-	65,253	56,292	-	-	58,555
2.1 structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 other	68,073	-	-	70,068	62,956	-	-	65,253	56,292	-	-	58,555
Total	**94,435**	**-**	**26,362**	**70,068**	**107,379**	**-**	**44,422**	**65,253**	**100,453**	**-**	**44,993**	**58,555**

Other liabilities

The following table presents the composition of other liabilities as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	**BIP**						
	31 December			**Changes**		**Change %**	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**	**2017 vs 2016**	**2016 vs 2015**
Balance on illiquid items in portfolio	-	2,595	2,919	(2,595)	(324)	(100.00%)	(11.10%)
Taxes payable to the tax authorities and other tax administrations	2,577	2,446	2,489	131	(43)	5.36%	(1.73%)
Due to social security institutions	220	212	186	8	26	3.77%	13.98%
Amounts available to customers	53	45	436	8	(391)	17.78%	(89.68%)
Other payables to personnel	740	668	627	72	41	10.78%	6.54%
Items in the course of payment	1	-	-	1	-	-	-
Items being processed	5,577	1,483	1,048	4,094	435	> 100%	41.51%
Risk hedging for guarantees issued and commitments	202	173	139	29	34	16.76%	24.46%
Accrued expenses	30	24	26	6	(2)	25.00%	(7.69%)
Deferred income	92	112	90	(20)	22	(17.86%)	24.44%
Other	632	822	378	(190)	444	(23.11%)	> 100%
Total	**10,124**	**8,580**	**8,338**	**1,544**	**242**	**18.00%**	**2.90%**

Taxes liabilities due to the Treasury and other taxation authorities refer to substitute tax and electronic stamp duty to be paid, in addition to other withholdings and amounts to be paid to the Treasury on behalf of customers.

The sub-item "Others" consists mainly of payables to suppliers for services rendered.

Severance pay

The following table presents the composition of severance pay as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
A. Opening balances	380	313	283	67	30	21.41%	10.60%
B. Increases	226	196	71	30	125	15.31%	> 100%
B.1 Accruals for the year	79	88	71	(9)	17	(10.23%)	23.94%
B.2 Other changes	147	108	-	39	108	36.11%	-
- of which, due to business combination	*110*	*105*	-	*5*	*105*	*4.76%*	-
C. Decreases	(20)	(2)	(41)	(18)	39	> 100%	(95.12%)
C.1 Indemnities paid	(20)	(2)	(1)	(18)	(1)	> 100%	100.00%
C.2 Other changes	-	-	(40)	-	40	-	(100.00%)
D. Closing balances	586	507	313	79	194	15.58%	61.98%

Provisions

The following table presents the composition of provisions as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1. Company pension funds	-	-	-	-	-	-	-
2. Other provisions	315	325	250	(10)	75	(3.08%)	30.00%
2.1 Legal disputes	-	17	17	(17)	-	(100.00%)	0.00%
2.2 Expenses for personnel	315	308	233	7	75	2.27%	32.19%
2.3 Other	-	-	-	-	-	-	-
Total	**315**	**325**	**250**	**(10)**	**75**	**(3.08%)**	**30.00%**

The "Legal disputes" provision was established to deal with any losses arising from proceedings against the company under way, the amount of which, based on IAS 37, can be reliably estimated. These are proceedings against the company and claw-backs for which the future expense and the duration of the dispute have been estimated. Commitments not yet due have not been discounted as this would not be significant.

The "Personnel expenses" provision of the total amount of 315 thousand euros relates to:

- long-term compensation relating to the productivity bonus and the incentives system;
- other long-term benefits relating to the seniority bonus.

An actuarial valuation has been conducted on this item by an independent actuary, as required by IAS 19, using methods analogous to those specified for Employees' leaving entitlement.

The following table presents the annual changes in provisions during the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	31 December 2017			31 December 2016			31 December 2015		
	Pension provisions	Other provisions	Total	Pension provisions	Other provisions	Total	Pension provisions	Other provisions	Total
A. Opening balances	-	**325**	**325**	-	**250**	**250**	-	**142**	**142**
B. Increases	-	**177**	**177**	-	**176**	**176**	-	**143**	**143**
B1.Accruals for the year	-	177	177	-	176	176	-	143	143
B2. Changes due to the passage of time	-	-	-	-	-	-	-	-	-
B3. Changes due to modification of the discount rate	-	-	-	-	-	-	-	-	-
B4. Other changes	-	-	-	-	-	-	-	-	-
C. Decreases	-	**(187)**	**(187)**	-	**(101)**	**(101)**	-	**(35)**	**(35)**
C1. Use during the year	-	(187)	(187)	-	(99)	(99)	-	(35)	(35)
C2. Changes due to modification of the discount rate	-	-	-	-	-	-	-	-	-
C3. Other changes	-	-	-	-	(2)	(2)	-	-	-
D. Closing balances	-	**315**	**315**	-	**325**	**325**	-	**250**	**250**

Equity

The following table presents the composition of equity as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP						
	31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1. Share capital	43,377	40,000	40,000	3,377	-	8.44%	0.00%
2. Share premium reserve	-	-	-	-	-	-	-
3. Reserves	10,662	6,931	3,324	(3,731)	3,607	(53.83%)	> 100%
5.Valuation reserves	2,632	2,141	6,741	491	(4,600)	22.93%	(68.24%)
6. Non-controlling interests	-	5,987	-	(5,987)	5,987	(100%)	-
7. Profit for the year	3,399	1,148	4,563	2,251	(3,415)	> 100%	(74.84%)
Total	**60,070**	**56,207**	**54,628**	**3,863**	**1,579**	**6.87%**	**2.89%**

The Bank's share capital amounted to 43 million euros, divided into 43,377 ordinary shares with a par value of 1,000 euros each. Each ordinary share confers the right to one vote in the Shareholders' Meeting. No savings shares have been issued. On 26/05/2016 an extraordinary session of the Shareholders' Meeting approved an increase in share capital up to 55,000,000 euros, to be implemented in one or more tranches within three years of the date of registration of the minutes of the meeting with the competent Companies Register.At the time of this writing, the increase of 15 million euros had yet to be subscribed.The original 40 million euros, in addition to the increase of 3.377 million euros in service of the merger, have been fully paid in, for a total of 43,377,000 euros.Authorised share capital amounts to 58,377,000 euros.

The legal reserve, established in accordance with the law, must be equal to at least one-fifth of share capital. It was formed previously by setting aside at least one-twentieth of annual net profits. If the reserve were to be reduced, it would need to be replenished through the obligation to allocate one-twentieth of profits.

Equity is defined by international accounting standards on a residual basis, "what remains from the corporate assets after deducting all liabilities". From a financial standpoint, equity represents the monetary value of the resources contributed by the owners or generated by the enterprise.

Pursuant to Article 2427, paragraph 1, no. 7-bis) of the Italian civil code, the following table provides an overview of equity items, broken down by origin and possible use and distribution as at 31 December 2017.

(Thousands of euros)	**Amount**	**Possible use**	**Distributable share**	**Summary of use in three previous years**	
				for coverage of losses	**for other reasons**
Share capital	**43,377**	**-**	**0**		
Share premium reserve	**-**	**A,B,C (1)**	**0**		
Valuation reserves	**2,632**		**0**		
Assets available for sale	2,677	(3)	-		
Actuarial gains (losses) on employee benefit plans	(45)		-		
Reserves	**10,662**		**10,028**		
Legal reserve	634	A,B,C (2)	0		
Treasury share reserve	-	A,B,C	0		
Retained earnings (losses carried forward)	(21)	A,B,C	(21)		
Other reserves	10,049	A,B,C	10,049		
Profit (loss) for the year	**3,399**				
Total	**60,070**		**10,028**		

Other information

Guarantees issued and commitments

The following table presents the composition of guarantees issued and commitments as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP		
	31 December		
	2017	2016	2015
1) Guarantees issued of a financial nature	**6,286**	**5,556**	**5,410**
a) Banks	141	574	531
b) Customers	6,145	4,982	4,879
2) Guarantees issued of a commercial nature	**12,531**	**10,749**	**9,492**
a) Banks	10	278	354
b) Customers	12,521	10,471	9,138
3) Irrevocable commitments to disburse funds	**281**	**2,638**	**868**
a) Banks	-	-	-
i) certain use	-	-	-
ii) uncertain use	-	-	-
b) Customers	281	2,638	868
i) certain use	-	-	-
ii) uncertain use	281	2,638	868
4) Commitments underlying credit derivatives: protection sales	-	-	-
5) Assets lodged as security for obligations of third parties	-	-	-
6) Other commitments	-	-	-
Total	**19,098**	**18,943**	**15,770**

As at 31 December 2017 guarantees and commitments issued amounted to 19.1 million euros, up from 18.9 million euros as at 31 December 2016. The increase was due to the greater guarantees issued of a financial and commercial nature.

Assets lodged as security for own liabilities and commitments

The following table presents the composition of assets lodged as security for own liabilities and commitments as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP		
	31 December		
	2017	2016	2015
3. Financial assets available for sale	515,781	497,311	393,766
Total	**515,781**	**497,311**	**393,766**

As at 31 December 2017 assets lodged as security for own liabilities amounted to 515.8 million euros and consisted of financial assets available for sale.

As at 31 December 2017 the item was composed of own government bonds deposited with banks and central banks.

Management and brokerage on account of third parties

The following table presents the composition of securities managed and brokered on account of third parties as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP		
	31 December		
	2017	2016	2015
3. Custody and administration of securities	**1,242,248**	-	-
a) third-party securities on deposit: associated with depository bank services (excluding portfolio management)	-	-	-
1. securities issued by the bank preparing the financial statements	-	-	-
2. other securities	-	-	-
b) third-party securities on deposit (excluding portfolio management): other	321,686	196,900	132,161
1. securities issued by the bank preparing the financial statements	60,457	89,153	75,745
2. other securities	261,229	107,747	56,416
c) third-party securities on deposit with third parties	317,721	193,811	129,161
d) own securities on deposit with third parties	602,841	585,771	509,771

As at 31 December 2017 securities subject to management and brokerage on account of third parties amounted to 1,242.2 million euros, inclusive of securities subject to custody and administration contracts, recognised at nominal value, also including securities received from third parties to secure credit transactions in which ancillary custody and administration service is rendered, and proprietary securities of 602.8 million euros collectively deposited with the depositary bank Nexi S.p.A.

20.1.3.3 Income statement

Interest

Interest and similar income

The following table presents the composition of interest and similar income for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	As at 31 December			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1. Financial assets held for trading	-	-	-	-	-	-	-
2. Financial assets available for sale	6,117	6,960	8,716	(843)	(1,756)	(12.11%)	(20.15%)
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from banks	364	279	40	85	239	30.47%	>100%
5. Due from customers	9,271	8,184	7590	1,087	594	13.28%	7.83%
6. Financial assets at fair value	-	-	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-	-	-
8. Other assets	-	-	-	-	-	-	-
Total	**15,752**	**15,423**	**16,346**	**329**	**-923**	**2.13%**	**(5.65%)**

Interest and similar income amounted to 15.7 million euros in the year ended 31 December 2017, up by 2% from 15.4 million euros in the year ended 31 December 2016. The increase was due to the greater interest on amounts due from banks (+30%) and on amounts due from customers (+13%), and to a reduction in interest on financial assets available for sale (-12%).

A breakdown of interest and similar income by item/technical form is provided below.

(Thousands of euros)	**BIP**								
	Year ended 31 December 2017			**Year ended 31 December 2016**			**Year ended 31 December 2015**		
	Securities	**Loans**	**Total**	**Securities**	**Loans**	**Total**	**Securities**	**Loans**	**Total**
1. Financial assets held for trading	-	-	-	-	-	-	-	-	-
2. Financial assets available for sale	6,117	-	6,117	6,960	-	6,960	8,716	-	8,716
3. Financial assets held to maturity	-	-	-	-	-	-	-		-
4. Due from banks	-	364	364	-	279	279	-	40	40
5. Due from customers	-	9,271	9,271	-	8,184	8,184	-	7,590	7,590
6. Financial assets at fair value	-	-	-	-	-	-	-		-
7. Hedging derivatives	-	-	-	-	-	-	-		-
8. Other assets	-	-	-	-	-	-	-	-	-
Total	**6,117**	**9,635**	**15,725**	**6,960**	**8,463**	**15,423**	**8,716**	**7,630**	**16,346**

Interest and similar expense

The following table presents the composition of interest and similar expense for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	**As at 31 December**			**Changes**		**Change %**	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**	**2017 vs 2016**	**2016 vs 2015**
1. Due to central banks	(235)	(225)	(225)	(10)	-	4.44%	–
2. Due to banks	(87)	(50)	(7)	(37)	(43)	74.00%	>100%
3. Due to customers	(1,927)	(2,641)	(3,276)	(714)	(635)	(27.04%)	(19.38%)
4. Securities issued	(2,384)	(2,869)	(2,934)	(485)	(65)	(16.90%)	(2.22%)
5. Financial liabilities held for trading	-	-	-	-	-	-	-
6. Financial liabilities at fair value	-	-	-	-	-	-	-
7. Other liabilities and provisions	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total	**(4,633)**	**(5,785)**	**(6,442)**	**(1,152)**	**(657)**	**(19.91%)**	**(10.20%)**

Interest and similar expense amounted to 4.3 million euros in the year ended 31 December 2017, down by 20% from 5.8 million euros in the year ended 31 December 2016.The decrease was due to the lesser interest on amounts due to customers (-27%) and on securities issued (-17%), along with an increase in interest on amounts due to banks (+74%) and amounts due to central banks (+4%).

A breakdown of interest and similar expense by item/technical form is provided below.

(Thousands of euros)	BIP								
	Year ended 31 December 2017			**Year ended 31 December 2016**			**Year ended 31 December 2015**		
	Payables	**Securities**	**Total**	**Payables**	**Securities**	**Total**	**Payables**	**Securities**	**Total**
1. Due to central banks	(235)	-	(235)	(225)	-	(225)	(225)	-	(225)
2. Due to banks	(87)	-	(87)	(50)	-	(50)	(7)	-	(7)
3. Due to customers	(1,927)	-	(1,927)	(2,641)	-	(2,641)	(3,276)	-	(3,276)
4. Securities issued	-	(2,384)	(2,384)	-	(2,869)	(2,869)	-	(2,934)	(2,934)
5. Financial liabilities held for trading	-	-	-	-	-	-	-	-	-
6. Financial liabilities at fair value	-	-	-	-	-	-	-	-	-
7. Other liabilities and provisions	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-	-
Total	**(2,249)**	**(2,384)**	**(4,633)**	**(2,916)**	**(2,869)**	**(5,785)**	**(3,508)**	**(2,934)**	**(6,442)**

Fees

Fee and commission income

The following table presents the composition of fee and commission income for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
a) guarantees issued	340	283	209	57	74	20.14%	35.41%
b) credit derivatives	-	-	-	-	-	-	-
c) management, brokerage and consultancy services:	404	197	197	207	-	>100%	-
1. securities trading	-	-	-	-	-	-	-
2. currency trading	4	5	-	(1)	5	(20.00%)	>100%
3. portfolio management:	-	-	-	-	-	-	-
3.1. individual	-	-	-	-	-	-	-
3.2. collective	-	-	-	-	-	-	-
4. custody and administration of securities	12	10	6	2	4	20.00%	66.67%
5. custodian bank	-	-	-	-	-		
6. placement of securities	175	73	55	102	18	>100%	32.73%
7. reception and transmission of orders	114	73	110	41	(37)	56.16%	(33.64%)
8. advisory services	56	-	-	-	-		-
8.1 investment	-	-	-	56	-	>100%	-
8.2 structured finance	56	-	-	56	-	>100%	-
9. distribution of third-party services	43	36	26	7	10	19.44%	38.46%
9.1 asset management	-	-	-	-	-	-	-
9.1.1. individual	-	-	-	-	-	-	-
9.1.2. collective	-	-	-	-	-	-	-
9.2. insurance products	2	-	-	2	-	-	-
9.3. other products	41	36	26	5	10	13.89%	38.46%
d) collection and payment services	**901**	**886**	**604**	**15**	**282**	**1.69%**	**46.69%**
e) securitisation servicing	-	-	-	-	-	-	-
f) factoring services	-	-	-	-	-	-	-
g) tax collection services	-	-	-	-	-	-	-
h) management of multilateral trading facilities	-	-	-	-	-	-	-
i) keeping and management of current accounts	**3,061**	**2,234**	**1,877**	**827**	**357**	**37.02%**	**19.02%**
j) other services	**145**	**303**	**15**	**(158)**	**288**	**(52.15%)**	**>100%**
Total	**4,851**	**3,903**	**2,902**	**948**	**1,001**	**24.29%**	**34.49%**

As at 31 December 2017 fee and commission income amounted to 4.8 million euros, up by 24% from 3.9 million euros as at 31 December 2016. The increase was due to the rise in guarantees issued (+20%), management, brokerage and advisory services (>100%), collection and payment services (+2%) and current account keeping and management services (+37%), alongside a reduction in other services (-52%).

In further detail, as at 31 December 2017, within management, brokerage and advisory services, the fees paid by Allfunds and UBI Pramerica for the distribution of funds, in addition to the fees paid by Fraer Leasing S.p.A. relating to the brokerage of finance lease operations, were included among the distribution of other products, whereas the sub-item "current account keeping and management" also includes the fund commitment fee.

Fee and commission expense

The following table presents the composition of fee and commission expense for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	BIP						
	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
a) guarantees received	**(73)**	**(83)**	**(28)**	**10**	**(55)**	**(12.05%)**	**>100%**
b) credit derivatives	-	-	-	-	-	-	-
c) management and brokerage services:	**(50)**	**(42)**	**(38)**	**(8)**	**(4)**	**>100%**	**10.53%**
1. securities trading	(18)	(12)	(21)	(6)	9	50.00%	(42.86%)
2. currency trading	-	-	-	-	-	-	-
3. portfolio management:	-	-	-	-	-	-	-
3.1. own	-	-	-	-	-	-	-
3.2. on delegation by third parties	-	-	-	-	-	-	-
4. custody and administration of securities	(32)	(30)	(17)	(2)	(13)	6.67%	76.47%
5. securities placement	-	-	-	-	-	-	-
6. off-site offering of financial instruments, products and services	-	-	-	-	-	-	-
d) collection and payment services	**(217)**	**(221)**	**(200)**	**4**	**(21)**	**(1.81%)**	**10.50%**
e) other services	**(175)**	**(252)**	**(102)**	**77**	**(150)**	**(30.56%)**	**>100%**
Total	**(515)**	**(598)**	**(368)**	**83**	**(230)**	**(13.88%)**	**62.50%**

As at 31 December 2017 fee and commission expense amounted to 515 thousand euros, down by 14% from 598 thousand euros as at 31 December 2016.The decrease was due to the reduction in guarantees received (-12%), collection and payment services (-2%) and other services (-31%), and the increase in management, brokerage and advisory services (>100%).

In further detail, in the year ended 31 December 2017, fees paid to non-employee financial agents have also been included with other services.

Net profit (loss) from trading activities

The following table presents the composition of the net profit (loss) from trading activities for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1. Financial assets held for trading	**919**	**4**	**-**	**915**	**4**	**>100%**	**>100%**
1.1 Debt securities	-	-	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-	-	-
1.3 Units of UCIs	919	-	-	919	-	>100%	-
1.3 Loans	-	-	-	-	-	-	-
1.4 Others	-	-	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-	-	-
2.2 Payables	-	-	-	-	-	-	-
2.3 Others	-	-	-	-	-	-	-
3. Financial assets and liabilities:		**-**	**-**	**-**	**-**	**-**	**-**
Foreign exchange differences	**44**	**32**	**19**	**12**	**13**	**37.50%**	**68.42%**
4. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives	-	-	-	-	-	-	-
- on debt securities and interest rates	-	-	-	-	-	-	-
- on equity securities and share indexes	-	-	-	-	-	-	-
- on currencies and gold	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
4.2 Credit derivatives	-	-	-		-	-	-
Total	**963**	**36**	**19**	**927**	**17**	**>100%**	**89.47%**

Net profit (loss) from trading activities amounted to 963 thousand euros during the year ended 31 December 2017, up by 100% from 36 thousand euros during the year ended 31 December 2016.The increase was primarily the result of the gains realised on the sale of shares of the fund Soprarno Reddito e Crescita, originally classified as held for trading.

Profits (losses) on sale/repurchase

The following table presents the composition of profits (losses) on sale/repurchase for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Financial assets	**2,928**	**3,964**	**4,027**	**(1,036)**	**(63)**	**(26.14%)**	**(1.56%)**
1. Receivables from banks	-	-	-	-	-	-	-
2. Receivables from customers	(516)	(448)	11	(68)	(459)	15.18%	>100%
3. Financial assets available for sale	3,444	4,412	4,016	(968)	396	(21.94%)	9.86%
3.1 Debt securities	3,444	4,403	4,016	(959)	387	(21.78%)	9.64%
3.2 Equity securities	-	9	-	(9)	9	(100%)	100%
3.3 Units of UCIs	-	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-	-
Financial liabilities	**-**	**2**	**8**	**(2)**	**(6)**	**(100.00%)**	**(75.00%)**
1. Due to banks	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-
3. Securities issued	-	2	8	-	-	-	-
Total	**2,928**	**3,966**	**4,035**	**(1,038)**	**(69)**	**(26.17%)**	**(1.71%)**

During the year ended 31 December 2017, profits (losses) on sale/repurchase amounted to 2.9 million euros, down by 26% from 4 million euros during the year ended 31 December 2016.

In further detail, profits on the sale of assets available for sale during the year ended 31 December 2017 consisted mainly of the gains realised on the sale of various Italian government bonds.

Net impairment losses/recoveries on loans

The following table presents the composition of net impairment losses/recoveries on loans for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	Year ended 31 December 2017							Total 31/12/2017
	Impairment losses			Recoveries				
	Specific		Portfolio	Specific		Portfolio		
	Derecognition	Other		From interest	Other	From interest	Other	
A. Due from banks	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
B. Due from customers	(37)	(4,064)	(332)	528	1,281			(2,624)
- Loans	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
Other receivables	(37)	(4,064)	(332)	528	1,281	-	-	(2,624)
- Loans	(37)	(4,064)	(332)	528	1,281	-	-	(2,624)
- Debt securities								
Total	**(37)**	**(4,064)**	**(332)**	**528**	**1,281**	**-**	**-**	**(2,624)**

(Thousands of euros)	Year ended 31 December 2016							Total 31/12/2016
	Impairment losses			Recoveries				
	Specific		Portfolio	Specific		Portfolio		
	Derecognition	Other		From interest	Other	From interest	Other	
A. Due from banks	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
B. Due from customers	(32)	(2,750)	(672)	357	428		(41)	(2,710)
- Loans	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
Other receivables	(32)	(2,750)	(672)	357	428	-	(41)	(2,710)
- Loans	(32)	(2,750)	(672)	357	428	-	(41)	(2,710)
- Debt securities								
Total	**(32)**	**(2,750)**	**(672)**	**357**	**428**	**-**	**(41)**	**(2,710)**

(Thousands of euros)	Year ended 31 December 2015							Total 31/12/2015
	Impairment losses			Recoveries				
	Specific		Portfolio	Specific		Portfolio		
	Derecognition	Other		From interest	Other	From interest	Other	
A. Due from banks	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
B. Due from customers	(2)	(2,294)	(398)	273	345		-	(2,076)
- Loans	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
Other receivables	(2)	(2,294)	(398)	273	345	-	-	(2,076)
- Loans	(2)	(2,294)	(398)	273	345	-	-	(2,076)
- Debt securities								
Total	**(2)**	**(2,294)**	**(398)**	**273**	**345**	**-**	**-**	**(2,076)**

Net impairment losses/recoveries on financial assets available for sale

The following table presents the composition of net impairment losses/recoveries on financial assets available for sale for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	Year ended 31 December 2017				Total 31/12/2017
	Impairment losses		Recoveries		
	Specific		Specific		
	Derecognition	Other	From interest	Other	
A. Debt securities	-	-	-	-	-
B. Equity securities	-	(841)	-	-	(841)
C. Shares of UCIs	-	-	-	-	-
D. Loans to banks	-	-	-	-	-
E. Loans to customers	-	-	-	-	-
Total	**-**	**(841)**	**-**	**-**	**(841)**

(Thousands of euros)	Year ended 31 December 2016				Total 31/12/2016
	Impairment losses		Recoveries		
	Specific		Specific		
	Derecognition	Other	From interest	Other	
A. Debt securities	-	-	-	-	-
B. Equity securities	-	(2,861)	-	-	(2,861)
C. Shares of UCIs	-	-	-	-	-
D. Loans to banks	-	-	-	-	-
E. Loans to customers	-	-	-	-	-
Total	**-**	**(2,861)**	**-**	**-**	**(2,861)**

(Thousands of euros)	Year ended 31 December 2015				Total 31/12/2015
	Impairment losses		Recoveries		
	Specific		Specific		
	Derecognition	Other	From interest	Other	
A. Debt securities	-	-	-	-	-
B. Equity securities	-	-	-	-	-
C. Shares of UCIs	-	-	-	-	-
D. Loans to banks	-	-	-	-	-
E. Loans to customers	-	-	-	-	-
Total	-	-	-	-	-

Net impairment losses/recoveries on other financial assets

The following table presents the composition of net impairment losses/recoveries on other financial for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	Year ended 31 December 2017							Total 31/12/2017
	Impairment losses			Recoveries				
	Specific		Portfolio	Specific		Portfolio		
	Derecognition	Other		From interest	Other	From interest	Other	
A. Guarantees issued	0	(2)	(27)	-	-	-	-	(29)
B. Credit derivatives	-	-	-	-	-	-	-	-
C. Commitments to lend funds	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-
Total	**0**	**(2)**	**(27)**	-	-	-	-	**(29)**

(Thousands of euros)	Year ended 31 December 2016							Total 31/12/2016
	Impairment losses			Recoveries				
	Specific		Portfolio	Specific		Portfolio		
	Derecognition	Other		From interest	Other	From interest	Other	
A. Guarantees issued		(16)	(17)	-	-	-	-	(33)
B. Credit derivatives	-	-	-	-	-	-	-	-
C. Commitments to lend funds	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-
Total		**(16)**	**(17)**	-	-	-	-	**(33)**

(Thousands of euros)	Year ended 31 December 2015							Total 31/12/2015
	Impairment losses			Recoveries				
	Specific		Portfolio	Specific		Portfolio		
	Derecognition	Other		From interest	Other	From interest	Other	
A. Guarantees issued	-		(56)	-	-	-	-	(56)
B. Credit derivatives	-	-	-	-	-	-	-	-
C. Commitments to lend funds	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-
Total	**-**	**0**	**(56)**	**-**	**-**	**-**	**-**	**(56)**

Administrative expenses

Personnel costs

The following table presents the composition of personnel expenses for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1. Employees	**(4,326)**	**(3,767)**	**(3,377)**	**(559)**	**(390)**	**14.84%**	**11.55%**
a) salaries and wages	(3,053)	(2,642)	(2,367)	(411)	(275)	15.56%	11.62%
b) social security costs	(914)	(780)	(715)	(134)	(65)	17.18%	9.09%
c) severance indemnity	(2)	(1)	-	-	-	-	-
d) social security expenses	-	-	-	-	-	-	-
e) accrual to provision for severance pay entitlement	(79)	(75)	(71)	(4)	(4)	5.33%	5.63%
f) accrual to provision for pensions and similar obligations	-	-	-	-	-	-	-
- defined-contribution	-	-	-	-	-	-	-
- defined-benefit	-	-	-	-	-	-	-
g) contributions to external supplementary pension plans:	(110)	(99)	(82)	(11)	(17)	11.11%	20.73%
- defined-contribution	(110)	(99)	(82)	(11)	(17)	11.11%	20.73%
- defined-benefit	-	-	-	-	-	-	-
h) other expenses	-	-	-	-	-	-	-
i) other employee benefits	(168)	(170)	(142)	2	(28)	(1.18%)	19.72%
2. Other active personnel	**(156)**	**(122)**	**(171)**	**(34)**	**49**	**27.87%**	**(28.65%)**
3. Directors and statutory auditors	**(719)**	**(621)**	**(421)**	**(98)**	**(200)**	**15.78%**	**47.51%**
4. Retired personnel	-	-	–	-	-	-	-
5. Recoveries of the cost of employees seconded out	-	-	–	-	-	-	-
6. Reimbursement of the cost of employees seconded in	-	-	–	-	-	-	-
Total	**(5,201)**	**(4,510)**	**(3,969)**	**(691)**	**(541)**	**15.32%**	**13.63%**

Administrative expenses amounted to 5.2 million euros during the year ended 31 December 2017, up by 16% from 4.5 million euros during the year ended 31 December 2016. The increase was due to the greater costs of employees (+15%), other personnel in service (+28%) and directors and statutory auditors (+16%).

In further detail, the increase in the cost of employees of 559 thousand euros and in the cost of directors and statutory auditors of 98 thousand euros was due to the merger with Banca Emilveneta.

The following table presents the employee headcount as at 31 December 2017, 2016 and 2015.

	31 December		
	2017	2016	2015
Employees	**60**	**57**	**46**
Managers	2	2	2
Middle managers	22	20	18
Other employees	36	35	26
Other personnel	**10**	**9**	**10**
Total	**70**	**66**	**56**

As at 31 December 2017 the average employee headcount was 60, up from 57 employees as at 31 December 2016.The increase in headcount of six employees is to be attributed to the merger with Banca Emilveneta.

Other administrative expenses

The following table presents the composition of other administrative expenses for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	Year ended December 31			Changes		Change %	
	2017	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**	**2017 vs 2016**	**2016 vs 2015**
Rent for properties	(352)	(332)	(328)	(20)	(4)	6.02%	1.22%
Maintenance on properties, hardware/ software and other assets	(93)	(68)	(92)	(25)	24	36.76%	(26.09%)
Property management	(183)	(148)	(140)	(35)	(8)	23.65%	5.71%
Postal	(49)	(49)	(35)	-	(14)	0.00%	40.00%
Telephone and data transmission	(211)	(219)	(157)	8	(62)	(3.65%)	39.49%
Leasing of machines and software	(13)	(13)	(11)	-	(2)	0.00%	18.18%
Third-party data processing services	(833)	(622)	(438)	(211)	(184)	33.92%	42.01%
IT consultancy	(110)	(12)	(3)	(98)	(9)	>100%	>100%
Outsourcing services	(273)	(235)	(186)	(38)	(49)	16.17%	26.34%
Advertising, promotional and perks	(412)	(368)	(344)	(44)	(24)	11.96%	6.98%
Fees for certifications	(97)	(78)	(57)	(19)	(21)	24.36%	36.84%
Professional and advisory services	(931)	(585)	(389)	(346)	(196)	59.15%	50.39%
Transport	(48)	(42)	(28)	(6)	(14)	14.29%	50.00%
Information and company registry	(314)	(264)	(204)	(50)	(60)	18.94%	29.41%
Insurance premiums	(10)	(22)	(16)	12	(6)	(54.55%)	37.50%
Surveillance and security	(11)	(11)	(9)	-	(2)	0.00%	22.22%
Motor vehicle usage expenses	(141)	(119)	(110)	(22)	(9)	18.49%	8.18%
Printing and stationery	(100)	(84)	(68)	(16)	(16)	19.05%	23.53%
Sundry contributions	(238)	(220)	(117)	(18)	(103)	8.18%	88.03%
Sundry expenses	(14)	(13)	(18)	(1)	5	7.69%	(27.78%)
Indirect taxes and duties	(1,192)	(1,301)	(1,018)	109	(283)	(8.38%)	27.80%
Of which, contributions to the National Resolution Fund	*(230)*	-	-	*(230)*	-	*>100%*	*0.00%*
Total	**(5,625)**	**(4,805)**	**(3,768)**	**(820)**	**(1,037)**	**17.07%**	**27.52%**

Other administrative expenses amounted to 5.6 million euros during the year ended 31 December 2017, up by 17% from 4.8 million euros during the year ended 31 December 2016.

In further detail, the year ended 31 December 2017 included one-off charges relating to strategic consultancy and the merger with Banca Emilveneta, in addition to expenses arising from the said merger with Banca Emilveneta, but not due following the integration with Banca Interprovinciale, primarily relating to the IT system, consultancy, outsourced services, intermediation, etc. Data-processing services include the other services rendered by the outsourcer CSE Consorzio Servizi Bancari S.c.a.r.l. and the intermediation expenses incurred in respect of the services rendered by ICBPI. Sundry contributions refer to contributions to various organisations such as Consob, Consorzio CBI, the Interbank Deposit Protection Fund, the Deposit Guarantee System, ISVAP and others. The contributions to the National Resolution Fund have been included among indirect taxes and duties.

Net accruals to provisions

The following table presents the composition of net accruals to provisions for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Accrual to the provision for personnel expenses	(177)	(176)	(144)	(1)	(32)	0.57%	22.22%
Accruals to the provision for legal disputes	17	-	-	17	-	>100%	-
Accruals to the provision for miscellaneous risks and charges		-	-	-	-	-	-
Total	**(160)**	**(176)**	**(144)**	**16**	**32**	**9.09%**	**22.22%**

Impairment of tangible assets

The following table presents the composition of net impairment losses/recoveries on property and equipment for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
A. Property and equipment	-	-	-	-	-	-	-
A.1 Owned	(177)	(156)	(215)	(21)	59	13.46%	(27.44%)
- For business use	(177)	(156)	(215)	(21)	59	13.46%	(27.44%)
- For investment	-	-	-	-	-	-	-
A.2 Acquired under finance lease	-	-	-	-	-	-	-
- For business use	-	-	-	-	-	-	-
- For investment	-	-	-	-	-	-	-
Total	**(177)**	**(156)**	**(215)**	**(21)**	**59**	**13.46%**	**(27.44%)**

Net impairment losses on property and equipment amounted to 177 thousand euros during the year ended 31 December 2017, up by 13% from 156 thousand euros during the year ended 31 December 2016. The increase was due to the greater depreciation of the property acquired through the merger with Banca Emilveneta S.p.A., which was not found to be impaired.

Net impairment losses on intangible assets

The following table presents the composition of net impairment losses/recoveries on intangible assets for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
A. Intangible assets	-	-	-	-	-	-	-
A.1 Owned	(3)	(3)	(2)	-	(1)	-	50.00%
- Internally generated by the company	-			-	-	-	-
- Other	(3)	(3)	(2)	-	(1)	-	50.00%
A.2 Acquired under finance lease	-	-	-	-	-	-	-
Total	**(3)**	**(3)**	**(2)**	**-**	**(1)**	**-**	**50.00%**

Other operating income and expense

The following table presents the composition of other operating income and expense for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

Other operating expense

(Thousands of euros)	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Contingent liabilities	-	-	-	-	-	-	-
Amortisation of expenses for leasehold improvements	(53)	(51)	(51)	(2)	-	3.92%	0.00%
Other operating expense	(41)	(22)	(19)	(19)	(3)	86.36%	15.79%
Total	**(94)**	**(73)**	**(70)**	**(21)**	**(3)**	**28.77%**	**4.29%**

Other operating income

(Thousands of euros)	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
Recovery of misc. customer expenses for deposit and current account costs	124	177	91	(53)	86	(29.94%)	94.51%
Recovery of other customer expenses	-	-	-				
Recovery of indirect taxes	930	781	643	149	138	19.08%	21.46%
Other income	30	1	-	29	1	>100%	>100%
Total	**1,084**	**959**	**734**	**125**	**225**	**13.03%**	**30.65%**

Other operating expenses amounted to 94 thousand euros during the year ended 31 December 2017, up by 29% from 73 thousand euros during the year ended 31 December 2016.

Other operating income amounted to 1.1 million euros during the year ended 31 December 2017, up by 13% from 959 thousand euros during the year ended 31 December 2016.

In further detail, recoveries of deferred tax liabilities of 930 thousand euros refer to recoveries of substitute tax and electronic stamp duty from customers.

Income taxes on profit (loss) from continuing operations

The following table presents the composition of income taxes on profit (loss) from continuing operations for the years ended 31 December 2017, 2016 and 2015 and changes in absolute and percent terms.

(Thousands of euros)		Year ended December 31			Changes		Change %	
		2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1.	Current taxes	(1,612)	(2,041)	(2,575)	429	534	(21.02%)	(20.74%)
2.	Change in current taxes for previous periods	23	-	6	23	(6)	0.00%	(100.00%)
3.	Reduction in current taxes for the period	-	-	-	-	-	0.00%	0.00%
3.bis	Reduction of current taxes for the year due to tax credits pursuant to Law 214/2011	(85)	-	-	(85)	-	0.00%	0.00%
4.	Change in prepaid taxes	(293)	336	207	(629)	129	(>100%)	62.32%
5.	Change in deferred taxes	18	(20)	-	38	(20)	(>100%)	0.00%

Income taxes on profit (loss) from continuing operations amounted to 2 million euros during the year ended 31 December 2017, up by 13% from 1.7 million euros during the year ended 31 December 2016.

In further detail, current taxes for the year ended 31 December 2017 amounted to 1.6 million euros, composed of company income tax (IRES) of 1.2 million euros and regional business tax (IRAP) of 380 thousand euros.

20.1.3.4 Regulatory capital and capital adequacy ratios

Regulatory capital

Regulatory capital as at the reporting date was calculated by taking account of the effects of the application of IASs/IFRSs and on the basis of the instructions provided by the supervisory authority in Circular 285, "Prudential Supervisory Provisions for Banks". The harmonised new rules for banks and investment firms set out in the European regulation ("CRR") and directive ("CRD IV") dated 26 June 2013, which transposed into European Union law the standards set by the Basel Committee on Banking Supervision (known as the "Basel 3 Framework"), became applicable with effect from 1 January 2014.The regulation (CRR) is directly applicable at national level, without the need to be transposed, and forms what is known as the "Single Rulebook", whereas the directive (CRD IV) must be transposed into national legislation.

In 2013 Community institutions therefore approved Directive 2013/36/EU, known as "CRD IV", and Regulation (EU) No 575, known as "CRD", which transpose into the law of the European Union the standards set by the Basel Committee on Banking Supervision (known as the "Basel 3 Framework"). The rules began to be applied with effect from 1 January 2014 according to the dictates laid down by the Bank of Italy in Circulars 285 ("New Supervisory Provisions for Banks") and 286 ("Instructions for the Completion of Prudential Reports for Banks and Brokers") and published at the end of 2013.

In order to implement and facilitate the application of the new Community rules, and in order to carry out a thorough revision and simplification of the supervisory regulations for banks, the Bank of Italy then issued, on 19 December 2013, Circular 285, "Prudential Supervisory Provisions for Banks", which:

- transposes the provisions of CRD IV, implementation of which is the responsibility of the Bank of Italy, according to the Consolidated Banking Law;
- indicates how the national discretion granted to national authorities under Community legislation was exercised;
- lays down a complete, organic, and rational framework integrated with the directly applicable Community rules, so as to facilitate their use by operators.

The transitional arrangements regarding own funds included in Part Two, Chapter 14, of Circular 285 of 17 December 2013, provide for, in Section II, paragraph 2, an option not to include in any element of own funds unrealised gains and losses relating to exposures in debt securities issued by the central governments of European Union Member States held in the portfolio of financial assets available for sale. In accordance with the foregoing, the supervisory authority has been formally notified of the intention of maintaining the approach based on full neutralisation of gains and losses, i.e. of continuing to apply this decision over time to all securities of this kind held in the AFS portfolio. The option remains in effect until year-end, since due to the application with effect from 1 January 2018 of the new international accounting standard IFRS 9, adopted by Regulation (EU) No 2016/2067 of 22 November 2016, replacing the accounting standard IAS 39 Financial Instruments: Recognition and Measurement, the deadline for the transitional arrangements has expired.

In fact, pursuant to Article 467(2) CRR, the faculty exercised by the Bank of Italy to allow banks to opt to exclude all gains and losses on exposures to central governments classified to the AFS accounting portfolio was limited until the adoption of accounting standard IFRS 9 in replacement of IAS 39.

In fact, pursuant to Article 467(2) CRR, the faculty exercised by the Bank of Italy to allow banks to opt to exclude all gains and losses on exposures to central governments classified to the AFS accounting portfolio was limited until the adoption of accounting standard IFRS 9 in replacement of IAS 39.

Own funds (which under previous rules constituted "regulatory capital") are the first line of defence against the risks associated with overall banking activity and represent the main parameter of reference for evaluating bank solidity. They consist of the sum of:

- Common Equity Tier 1 (CET1) capital;
- Additional Tier 1 (AT1) capital;
- Additional Tier 2 (T2) capital.

Common Equity Tier 1 capital consists primarily of capital and earnings reserves, inclusive of undistributed earnings for the period, whereas Additional Tier 2 capital includes part of the valuation reserves for available-for-sale securities. On the other hand, Banca Interprovinciale did not have any elements eligible for inclusion in Additional Tier 1 capital.

The following table presents the composition of the company's own funds as at 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP		
	31 December		
	2017	2016	2015
A. Common Equity Tier 1 capital before the application of prudential filters	**60,070**	**51,841**	**53,828**
– of which, CET1 instruments subject to transitional provisions	2,631	-	-
B. Prudential filters on CET1 (+/-)	**(34)**	**(46)**	**-**
C. CET1 gross of elements to be deducted and the effects of the transitional arrangements (A+/-B)	**60,036**	**51,795**	**53,828**
D. Elements to be deducted from CET1	**(7)**	**(373)**	**(278)**
E. Transitional arrangements – Impact on CET1 (+/-)	**(2,460)**	**(2,547)**	**(6,916)**
F. Total Common Equity Tier 1 (CET1) capital (C-D+/-E)	**57,569**	**48,875**	**46,634**
G. Additional Tier 1 (AT1) capital gross of elements to be deducted and the effects of the transitional arrangements	**-**	**224**	**-**
– of which, AT1 instruments subject to transitional provisions	-	-	-
H. Elements to be deducted from AT1	**-**	**38**	**-**
I. Transitional arrangements – Impact on AT1 (+/-)	**-**	**(262)**	**-**
L. Total Additional Tier 1 capital (G-H+/-I)	**-**	**-**	**-**
M. Additional Tier 2 (T2) capital gross of elements to be deducted and the effects of the transitional arrangements	**-**	**299**	**-**
– of which, T2 instruments subject to transitional provisions	-	-	-
N. Elements to be deducted from T2	**-**	**-**	**-**
O. Transitional arrangements – Impact on T2 (+/-)	**27**	**-**	**2**
P. Total Additional Tier 2 capital (M-N+/-O)	**27**	**299**	**2**
Q. Total own funds (F+L+P)	**57,596**	**49,174**	**46,636**

The following table presents capital requirements and regulatory capital adequacy ratios for the years ended 31 December 2017, 2016 and 2015.

(Thousands of euros)	BIP					
	31 December 2017		**31 December 2016**		**31 December 2015**	
	Unweighted amounts	**Unweighted amounts/ requirements**	**Unweighted amounts**	**Unweighted amounts/ requirements**	**Unweighted amounts**	**Unweighted amounts/ requirements**
A. RISK ASSETS						
A.1 Credit and counterparty risk	1,077,231	305,049	1 ,021,247	300,318	844,692	235,396
1. Standard approach	1,077,231	305,049	1 ,021,247	3 00,318	844,692	235,396
2. Internal rating approach	-	-	-	-	-	-
2.1 Basic	-	-	-	-	-	-
2.2 Advanced	-	-	-	-	-	-
3. Securitisation	-	-	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS						
B.1 Credit and counterparty risk		24,404		24,025		18,832
B.2 Credit valuation adjustment risk		6		8		5
B.3 Settlement risks		-		-		-
B.4 Market risks		37		-		-
1. Standard method		37		-		-
2. Internal models		-		-		-
3. Concentration risk		-		-		-
B.5 Operational risk		2,196		2,203		1,634
1. Basic method		2,196		2 ,203		1,634
2. Standardised method		-		-		-
3.Advanced method		-		-		-
B.6 Other calculation elements		-		-		-
B.7 Total prudential requirements		26,643		2 6,236		20,471
C. RISK ASSETS AND CAPITAL ADEQUACY RATIOS						
C.1 Risk-weighted assets		333,038		327,950		255,888
C.2 Common Equity Tier 1 capital / Risk-weighted assets (CET1 capital ratio)		17.29%		14.90%		18.22%
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)		17.29%		14.90%		18.22%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)		17.29%		14.99%		18.23%

As at 31 December 2017 risk-weighted assets (RWAs) amounted to 333 million euros, up by 5 million euros compared with 31 December 2016.

The change in the aggregate was due to the stability of the capital absorption associated with both credit risk (24.4 million euros as at 31 December 2017) and operational risk (2.2 million euros as at 31 December 2017), alongside an increase in the capital absorption associated with market risk (+100%).

As a result of the foregoing, as at 31 December 2017 both the ratio of Common Equity Tier 1 capital to risk-weighted assets and the ratio of Total Own Funds to risk-weighted assets stood at 17.29% (14.90% as at 31 December 2016).

20.1.3.5 OTHER INFORMATION

20.1.3.5.1 Risks and hedging policies

In respect of its banking activity, the issuer is exposed to the following risks:

a) credit risk;
b) market risks:
   - interest-rate risk;
   - price risk;
   - foreign exchange risk;
c) liquidity risk; and
d) operational risks.

Credit risk

Qualitative Information

The main risks to which Banca Interprovinciale is exposed relate to governmental and banking counterparties (available-for-sale securities portfolio), mainly retail customers and only occasionally corporate customers. Activities with respect to retail customers consist of granting residential mortgages to private parties or granting ordinary credit lines as well as credit facilities against company receivables.

Within the framework of the credit quality monitoring policy, particular attention is devoted to the granting of loans to both households and businesses in the light of the particular economic situation. In particular, so as to more efficiently oversee the granting of credit facilities, dedicated agreements have been entered into with various credit guarantee consortia (Confidi) eligible for the counter-guarantee of the Central Guarantee Fund pursuant to Law 662/96, Article 2, paragraph 100, letter A).

Nonetheless, in pursuit of its mission, the Bank has continued to ensure access to credit for valid business projects and is prepared to bear the greater risks that may arise from a potential deterioration of the economic scenario. One positive element with respect to this last aspect, also during the current recession, is the good structure of guarantees securing most loans.

Credit risk management policies

Organisational aspects

Banca Interprovinciale attaches great importance to monitoring credit risks and the control systems necessary to lay the foundation for:

- ensuring structural and significant value creation amid an environment of controlled risk;
- protecting the Bank's financial stability and image;
- properly and transparently presenting the inherent risk of the Bank's credit portfolio.

The main operational factors contributing to credit risk regard:

- The credit facility screening process;
- Credit risk management;
- Exposure monitoring;
- (Any) debt collection activities.

At present, the organisational entities responsible for managing and controlling the risk in question are, for level 1, the network structure (in particular the direct relationship manager), and for subsequent level 2 controls, respectively: the Credit department, the Risk Management (Credit Monitoring) department, reporting directly to General Management, and the Legal department.

Loan portfolio quality improvement is pursued by adopting specific operating methods throughout the credit relationship management phases (contact and screening, approval and disbursement, monitoring and disputes). Credit risk oversight is pursued starting with the very first screening and granting phases by:

- verifying the prerequisites for granting a credit facility, with a particular focus on checking the current and outlook capacity of the customer to generate income and, especially, sufficient cash flows to honour the debt;
- assessing the nature and extent of the loan requested in relation to the actual needs and capital, financial and economic capacities of the applicant, the performance of the relationship already in place and sources of repayment;
- the presence of Economic Groups.

Management, measurement and control systems

Surveillance and monitoring activities are currently based on a system of internal controls aimed at optimal credit risk management. In particular, this activity takes place through recourse to performance measurement and monitoring methodologies.

These methodologies take into consideration all aspects characterising customer relationships, from customer details (information on the customer's residence, business, legal nature, most recent decision made on the position, adverse events, corporate structure, anomalies found in the Central Credit Register, status and relative doubtful positions, relationship managers and, lastly, whether the position is in default), to information relating to the credit facilities (type, credit line granted, operational credit line, use, overdrafts/availability and credit line expiry date), to details on the guarantees securing the facilities, in addition to information relating to significant position management aspects. It interacts with credit management and control processes and procedures, favouring greater efficiency in the credit monitoring process, the capitalisation of information and greater effectiveness in the recovery process.

A new line of credit is opened and granted on the basis of a process of analysing the profit and loss and financial position information of the counterparty, along with qualitative information about the company, the purpose of the loan and the market in which it carries on business, as well as the presence and assessment of the financial value of any collateral guarantees.

For all counterparties, after an initial screening by the network structure, a detailed analysis is conducted by the Credit Office, the result of which is submitted to the competent decision-making body (individual or group depending on internal regulations in force), with respect to granting a line of credit that takes into consideration the degree of risk and the type of operations expected, also in relation to the purpose. In evaluating the application, the presence of an internal rating, valid only for management purposes, attributed by the S.A.r.a. procedure managed by the outsourcer Cse Consulting, is also taken into due consideration.

The screening is conducted by means of an electronic web-based credit line application process, which is used for granting credit as well as for reviews in all screenings and makes it possible to optimise and automate the acquisition of all data that can be extracted from databases and historical archives, both internal and external.

The readily realisable value of guarantees is updated periodically.

Credit risk mitigation techniques

In order to mitigate credit risk, when the credit facility is granted, the acquisition of various guarantees is customarily required, consisting primarily of collateral on property or securities and personal guarantees, consortium guarantees and various types of commitments and covenants correlated with the structure of and reason for the transaction.

In general, the decision as to whether a guarantee should be obtained is based on an assessment of the customer's creditworthiness as well as the characteristics of the transaction. After this analysis, it may be deemed appropriate to request supplementary guarantees to mitigate the risk, taking into account the presumed recoverable value offered by the guarantee.

The value of financial collateral is periodically monitored by comparing the present value of the guarantee with its initial value, so as to enable the manager to promptly intervene if there is a significant reduction in the guarantee.

Non-performing financial assets

The network structures managing the relationship use objective and subjective criteria to propose the classification of impaired credit exposures. The former are essentially linked to surpassing specific limits as defined in the accounts matrix (Bank of Italy circular 272), while the latter relate to other anomalies that may be identified in relation to the credit relationship itself and/or "external" factors such as adverse events, anomalies identified in the Central Credit Register, databases and other sources of information.

Exposures relating to insolvent customers are classified as non-performing, even if this has not been confirmed in court, as are positions in which the situation of objective difficulty is no longer only temporary.

The determination of the two statuses described above is irrespective of the nature and consistency of any guarantees securing the credit facilities. Value adjustments, measured on each individual position, reflect criteria of prudence in relation to the possibility of recovery, also connected to the presence of any collateral guarantees, and are subject to periodic verification.

All non-performing positions are managed by the Legal Service, which aims to boost debt collection capabilities and optimise the ratio between costs and the percentage collected. Thus, activities are oriented towards economic results, privileging out-of-court solutions when possible and focusing attention on prompt and speedy recovery.

A loan may be returned to performing status if the following two conditions are satisfied:

- the entire amount past due on a position classified as a problem or restructured loan must be paid;
- presence of other conditions relating to the economic/financial situation of the customer which make it possible to unequivocally deduce that it will be able to punctually honour upcoming deadlines.

Quantitative Information

The following table presents the composition of exposures by portfolio and credit quality as at 31 December 2017.

(Thousands of euros)	BIP					
	Non-performing	**Unlikely to pay**	**Impaired past-due exposures**	**Non-impaired past-due exposures**	**Non-impaired assets**	**Total**
1. Financial assets available for sale	-	-	-	-	607,795	607,795
2. Financial assets held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	-	-	99,044	99,044
4. Due from customers	4,913	5,144	116	8,863	307,013	326,049
5. Financial assets at fair value	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
Total 31 December 2017	**4,913**	**5,144**	**116**	**8,863**	**1,013,852**	**1,032,888**

The following table presents the composition of exposures by portfolio and credit quality as at 31 December 2016.

(Thousands of euros)	BIP					
	Non-performing	**Unlikely to pay**	**Impaired past-due exposures**	**Non-impaired past-due exposures**	**Non-impaired assets**	**Total**
1. Financial assets available for sale	-	-	-	-	594,543	594,543
2. Financial assets held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	-	-	88,804	88,804
4. Due from customers	3,823	5,361	397	10,904	2 78,966	299,451
5. Financial assets at fair value	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
Total 31 December 2016	**3,823**	**5,361**	**397**	**10,904**	**962,313**	**982,798**

The following table presents the composition of exposures by portfolio and credit quality as at 31 December 2015.

(Thousands of euros)	BIP					
	Non-performing	**Unlikely to pay**	**Impaired past-due exposures**	**Non-impaired past-due exposures**	**Non-impaired assets**	**Total**
1. Financial assets available for sale	-	-	-	-	5 44,835	544,835
2. Financial assets held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	-	-	7 2,851	72,851
4. Due from customers	663	3,589	218	16,409	2 01,786	222,665
5. Financial assets at fair value	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
Total 31 December 2015	**663**	**3,589**	**218**	**16,409**	**819,472**	**840,351**

The following table presents the composition of the issuer's financial assets by gross and net values as at 31 December 2017.

(Thousands of euros)	BIP						
	Non-performing assets			**Non-impaired assets**			**Total (net exposure)**
	Gross exposure	**Specific impairment losses**	**Net exposure**	**Gross exposure**	**Portfolio impairment losses**	**Net exposure**	
1. Financial assets available for sale	-	-	-	607,795	-	607,795	607,795
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	99,044	-	99,044	99,044
4. Due from customers	18,377	(8,204)	10,173	319,314	(3,438)	315,876	326,049
5. Financial assets at fair value	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total 31 December 2017	**18,377**	**(8,204)**	**10,173**	**1,026,153**	**(3,438)**	**1,022,715**	**1,032,888**

The following table presents the composition of the issuer's financial assets by gross and net values as at 31 December 2016.

(Thousands of euros)	BIP						
	Non-performing assets			**Non-impaired assets**			**Total (net exposure)**
	Gross exposure	**Specific impairment losses**	**Net exposure**	**Gross exposure**	**Portfolio impairment losses**	**Net exposure**	
1. Financial assets available for sale	-	-	-	594,543	-	594,543	594,543
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	88,804	-	88,804	88,804
4. Due from customers	18,645	(9,064)	9,581	292,990	(3,120)	289,870	299,451
5. Financial assets at fair value	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total 31 December 2016	**18,645**	**(9,064)**	**9,581**	**976,337**	**(3,120)**	**973,217**	**982,798**

The following table presents the composition of the issuer's financial assets by gross and net values as at 31 December 2015.

(Thousands of euros)	**BIP**						
	Non-performing assets			**Non-impaired assets**			**Total (net exposure)**
	Gross exposure	**Specific impairment losses**	**Net exposure**	**Gross exposure**	**Portfolio impairment losses**	**Net exposure**	
1. Financial assets available for sale	-	-	-	544,835	-	544,835	544,835
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	72,851	-	72,851	72,851
4. Due from customers	8,395	(3,925)	4,470	220,385	(2,190)	218,195	222,665
5. Financial assets at fair value	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total 31 December 2015	**8,395**	**(3,925)**	**4,470**	**838,071**	**(2,190)**	**835,881**	**840,351**

The following table shows the performance of gross non-performing on-balance sheet exposures to customers as at 31 December 2017.

(Thousands of euros)	**BIP**		
	Non-performing	**Unlikely to pay**	**Impaired past-due exposures**
A. Initial gross exposure	**1,966**	**6,348**	**407**
- of which: exposures transferred but not derecognised	-	-	-
B. Increases	**12,060**	**6,413**	**134**
B.1 reclassification from performing loans	2,015	2,713	121
B.2 transfers from other categories of non-performing exposures	3,265	-	-
B.3 other increases	6,780	3,700	13
of which, due to business combination	*6,732*	*3,180*	*13*
C. Decreases	**(3,499)**	**(5,032)**	**(420)**
C.1 reclassification to performing credit exposures	-	(393)	(253)
C.2 derecognition	(2,806)	(945)	(11)
C.3 collections	(94)	(485)	(100)
C.4 realised on disposal	(83)	-	-
C4. bis losses on disposal	(516)	-	-
C.5 transfers to other categories of non-performing exposures	-	(3,209)	(56)
C.6 other decreases	-	-	-
A. Final gross exposure	**10,527**	**7,729**	**121**
- of which: exposures transferred but not derecognised	-	-	-

The following table shows the performance of gross non-performing on-balance sheet exposures to customers as at 31 December 2016.

(Thousands of euros)	BIP		
	Non-performing	**Unlikely to pay**	**Impaired past-due exposures**
A. Initial gross exposure	**1,972**	**6,184**	**239**
- of which: exposures transferred but not derecognised	-	-	-
B. Increases	**9,331**	**11,168**	**890**
B.1 reclassification from performing loans	1,200	3,537	164
B.2 transfers from other categories of non-performing exposures	4,580	479	-
B.3 other increases	3,551	7,152	726
C. Decreases	**(2,606)**	**(7,824)**	**(709)**
C.1 reclassification to performing credit exposures	-	(754)	(1)
C.2 derecognition	(115)	(623)	(1)
C.3 collections	(658)	(1,868)	(224)
C.4 realised on disposal	(210)	-	-
C4. bis losses on disposal	(1,623)	(2,626)	-
C.5 transfers to other categories of non-performing exposures	-	(1,953)	(483)
C.6 other decreases	-	-	-
A. Final gross exposure	**8,697**	**9,528**	**420**
- of which: exposures transferred but not derecognised	-	-	-

The following table shows the performance of gross non-performing on-balance sheet exposures to customers as at 31 December 2015.

(Thousands of euros)	BIP		
	Non-performing	**Unlikely to pay**	**Impaired past-due exposures**
A. Initial gross exposure	**2,192**	**5,210**	**583**
- of which: exposures transferred but not derecognised	-	-	-
B. Increases	**556**	**4,753**	**261**
B.1 reclassification from performing loans	293	2,984	232
B.2 transfers from other categories of non-performing exposures	236	1,350	-
B.3 other increases	27	419	29
C. Decreases	**(776)**	**(3,779)**	**(605)**
C.1 reclassification to performing credit exposures	-	(921)	(195)
C.2 derecognition	(2)	(12)	(1)
C.3 collections	(774)	(1,293)	(376)
C.4 realised on disposal	-	-	-
C4. bis losses on disposal	-	-	-
C.5 transfers to other categories of non-performing exposures	-	(1,553)	(33)
C.6 other decreases	-	-	-
A. Final gross exposure	**1,972**	**6,184**	**239**
- of which: exposures transferred but not derecognised	-	-	-

The following table shows total impairment losses in comparison with total on-balance sheet credit exposures to customers as at 31 December 2017.

(Thousands of euros)	**BIP**					
	Non-performing		**Unlikely to pay**		**Non-performing past-due exposures**	
	Total	**Of which: forborne exposures**	**Total**	**Of which: forborne exposures**	**Total**	**Of which: forborne exposures**
A. Initial total impairment losses	**(896)**	**(367)**	**(2,829)**	**(1,727)**	**(22)**	**(4)**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**(8,549)**	**(824)**	**(1,656)**	**(1,433)**	**(6)**	**(16)**
B.1 impairment losses	(3,203)	(76)	(1,656)	(797)	(6)	(16)
B.1.bis losses on disposal	(516)	-	-	-	-	-
B.2 transfers from other categories of non-performing exposures	(850)	(560)	-	-	-	-
B.3 other increases	(3,980)	(188)	-	(636)	-	-
of which, due to business combination	*(3,979)*	*(101)*	*(1,338)*	*(541)*	-	-
C. Decreases	**3,831**	**174**	**1,900**	**1,083**	**23**	**19**
C.1 recoveries on valuation	940	93	719	343	16	15
C.2 recoveries on collection	233	60	178	65	3	-
C2. bis gains on disposal	-	-	-	-	-	-
C.3 derecognition	2,141	21	158	119	-	-
C.4 transfers to other categories of non-performing exposures	-	-	845	556	4	4
C.5 other decreases	517	-	-	-	-	-
D. Final total impairment losses	**(5,614)**	**(1,017)**	**(2,585)**	**(2,077)**	**(5)**	**(1)**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

The following table shows total impairment losses in comparison with total on-balance sheet credit exposures to customers as at 31 December 2016.

(Thousands of euros)	**BIP**					
	Non-performing		**Unlikely to pay**		**Non-performing past-due exposures**	
	Total	**Of which: forborne exposures**	**Total**	**Of which: forborne exposures**	**Total**	**Of which: forborne exposures**
A. Initial total impairment losses	**(1,309)**	**(186)**	**(2,596)**	**(1,935)**	**(21)**	-
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**(5,624)**	**(323)**	**(4,489)**	**(1,169)**	**(28)**	**(9)**
B.1 impairment losses	(819)	(102)	(2,055)	(699)	(16)	(4)
B.1.bis losses on disposal	(448)	-	-	-	-	-
B.2 transfers from other categories of non-performing exposures	(1,782)	(221)	(5)	(5)	-	-
B.3 other increases	(2,575)	-	(2,429)	(465)	(12)	(5)
C. Decreases	**2,059**	**41**	**2,918**	**837**	**26**	**5**
C.1 recoveries on valuation	248	41	355	136	14	-
C.2 recoveries on collection	164	-	211	92	7	-
C2. bis gains on disposal	-	-	2	-	-	-
C.3 derecognition	1,199	-	567	-	-	-
C.4 transfers to other categories of non-performing exposures	-	-	1,783	120	5	5
C.5 other decreases	448	-	-	489	-	-
D. Final total impairment losses	**(4,874)**	**(468)**	**(4,167)**	**(2,267)**	**(23)**	**(4)**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

The following table shows total impairment losses in comparison with total on-balance sheet credit exposures to customers as at 31 December 2015.

(Thousands of euros)	**BIP**					
	Non-performing		**Unlikely to pay**		**Non-performing past-due exposures**	
	Total	**Of which: forborne exposures**	**Total**	**Of which: forborne exposures**	**Total**	**Of which: forborne exposures**
A. Initial total impairment losses	**(971)**	**-**	**(1,216)**	**(537)**	**(57)**	**(2)**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**(595)**	**(191)**	**(2,055)**	**(1,503)**	**(21)**	**-**
B.1 impairment losses	(536)	(180)	(1,824)	(1,501)	(21)	-
B.1.bis losses on disposal	-	-	-	-	-	-
B.2 transfers from other categories of non-performing exposures	(59)	(11)	(231)	(2)	-	-
B.3 other increases	-	-	-	-	-	-
C. Decreases	**257**	**5**	**675**	**105**	**57**	**2**
C.1 recoveries on valuation	171	5	359	88	43	-
C.2 recoveries on collection	85	-	27	6	11	-
C2. bis gains on disposal	-	-	-	-	-	-
C.3 derecognition	1	-	2	-	-	-
C.4 transfers to other categories of non-performing exposures	-	-	287	11	3	2
C.5 other decreases	-	-	-	-	-	-
D. Final total impairment losses	**(1,309)**	**(186)**	**(2,596)**	**(1,935)**	**(21)**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

Large risks

As at 31 December 2017 there were 23 large risk positions of 930 million euros nominal:

- 624 million in respect of central governments, primarily due to investments in government bonds;
- 101 million in respect of 13 corporate counterparties, within the framework of ordinary lending to customers (compared with 101 million but in respect of 17 positions as at 31/12/2016);
- 204 million in respect of several major banking groups.

The effective overall risk position may be quantified, after weighting, at approximately 187 million euros, of which 124 million euros relating to banking groups and 62 million euros to corporate counterparties.

The following table has therefore been prepared to provide adequate information regarding loan concentration. It shows the exposure and risk position for groups of related clients that by carrying amount have an exposure of 10% or more of admissible capital for regulatory purposes.

(Thousands of euros)	BIP					
	31 December 2017		31 December 2016		31 December 2015	
	Carrying amount	Weighted value	Carrying amount	Weighted value	Carrying amount	Weighted value
a) Amount	929,677	186,616	847,266	173,200	704,657	142,235
b) Number		23		22		21

Market risk

Interest-rate risk and price risk - regulatory trading book

Qualitative Information

Only financial instruments included in the "supervisory trading book", as defined by supervisory regulations governing market risks, are considered when completing this section.

As at the reporting date, there were financial assets allocated to the trading book, in particular an interest in an UCI.

"Market risk" is the risk associated with adverse changes in market parameters such as interest rates, exchange rates, prices and volatility.

The main method used to measure market risk is Value at Risk (hereinafter "VaR"). VaR is a measure, calculated according to probabilistic methods, of the maximum amount that may be lost over a given time horizon and at a specific confidence level.

Management processes and measurement methods for interest-rate risk and price risk

IASs/IFRSs require that instruments classified to the held-for-trading portfolio be measured at fair value through profit or loss. The best estimate of the fair value of a financial instrument quoted in an active market is represented by the relevant quoted prices themselves (mark-to-market), obtained from information providers (Bloomberg, Thomson, Reuters, etc.).

However, the value expressed by the market of reference for a quoted financial instrument, even where admitted to trading on organised markets, is to be regarded as insignificant where the instruments are illiquid. Financial products are considered illiquid if they are not traded on markets offering adequate levels of liquidity and transparency capable of providing ready, objective parameters of reference for undertaking transactions. Accordingly, due to the limited volumes traded, the low trading frequency and concentration of the free float, mark to market does not represent the instrument's effective "presumed realisable value".

The fair values of unquoted or illiquid financial instruments are determined by applying valuation techniques aimed at determining the price that the instrument would have had on the market in a free exchange between counterparties motivated by normal commercial considerations. Such techniques include:

- reference to the market prices of similar instruments with the same risk characteristics as those being measured (the comparable approach);
- valuation according to generally accepted market pricing models (i.e., the Black & Scholes formula, discounted cash flow model, etc.) or internal models generally, based on market input data and, in some cases, on estimates/assumptions (mark to model).

The fair value of mutual funds not traded on active markets is based on published NAV (net asset value).

The fair value of OTC (over-the-counter) derivative contracts is based on pricing techniques that differ according to the type of underlying (discounted cash flow model, closed option pricing formulae, Monte Carlo simulations, interest rate models such as Hull & White, etc.).

Some complex (i.e., structured or synthetic) financial products may be valued by:

- separating the product into its fundamental components;
- applying valuation models capable of generating numerical scenarios identified according to a probability density function that can be used to determine the simulate pay-offs to be measured for the complex product being valued;
- valuation models used to determine the value of the components resulting from the above points (fundamental components or simulated pay-offs), along with the operating market prices adopted as inputs for the models or to determine the valuation of certain components thereof (e.g., implicit inflation for inflation-linked instruments).

Other complex financial products – for which there is no valuation model commonly accepted by the market and for which all descriptive information regarding the product is not available – may be particularly problematic to assess. Such products may be measured:

- using the Bank's internal valuation models capable of producing a fair value to be compared, in any event, with the operating bid prices obtained from independent counterparties;
- in the absence of validated internal models, by referring to operating bid prices obtained from independent market counterparties.

Quantitative Information

The following table presents the distribution of the regulatory trading book by the residual contractual maturity of financial assets and liabilities denominated in euro as at 31 December 2017.

(Thousands of euros)	31 December 2017							
	On demand	**Three months or less**	**From more than three months to six months**	**From more than six months to one year**	**From more than one year to five years**	**From five to ten years**	**Over ten years**	**Indefinite maturity**
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**4**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	4	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	4	-	-	-	-	-	-
Long positions	-	5	-	-	-	-	-	-
Short positions	-	1	-	-	-	-	-	-

The following table presents the distribution of the regulatory trading book by the residual contractual maturity of the financial assets and liabilities denominated in currencies other than the euro as at 31 December 2017.

(Thousands of euros)	31 December 2017							
	On demand	**Three months or less**	**From more than three months to six months**	**From more than six months to one year**	**From more than one year to five years**	**From five to ten years**	**Over ten years**	**Indefinite maturity**
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(4)**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	(4)	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(4)	-	-	-	-	-	-
Long positions	-	1	-	-	-	-	-	-
Short positions	-	5	-	-	-	-	-	-

The following table presents the distribution of the regulatory trading book by the residual contractual maturity of financial assets and liabilities denominated in euro as at 31 December 2016.

(Thousands of euros)	31 December 2016							
	On demand	**Three months or less**	**From more than three months to six months**	**From more than six months to one year**	**From more than one year to five years**	**From five to ten years**	**Over ten years**	**Indefinite maturity**
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**202**	-	-	-	-	-	-
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	202	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	202	-	-	-	-	-	-
Long positions	-	258	-	-	-	-	-	-
Short positions	-	56	-	-	-	-	-	-

The following table presents the distribution of the regulatory trading book by the residual contractual maturity of financial assets and liabilities denominated in euro as at 31 December 2015.

(Thousands of euros)	31 December 2015							
	On demand	**Three months or less**	**From more than three months to six months**	**From more than six months to one year**	**From more than one year to five years**	**From five to ten years**	**Over ten years**	**Indefinite maturity**
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
Long positions	-	12	-	-	-	-	-	-
Short positions	-	12	-	-	-	-	-	-

Interest-rate risk and price risk - banking book

Qualitative Information

Interest-rate risk consists of changes in interest rates that are reflected in:

- net interest income, and thus in the bank's profits (cash-flow risk);
- the net present value of assets and liabilities, affecting the present value of future cash flows (fair value risk).

In order to measure, monitor and manage interest-rate risk and price risk on all banking book cash flows, the impact of any expected changes in market conditions on profits is analysed and the various risk-return alternatives are evaluated to determine management choices.

Exposure to interest-rate risk is thus generally assess from two different points of view. From the short-term perspective, it is possible to take the "profits view" focused on the impact of changes in interest rates on profits accrued or booked. The component of income taken most into consideration is net interest income, calculated as the difference between interest-bearing assets and liabilities.

For a long-term perspective on the effects of changes in interest rates, it is possible to adopt the "economic value view", which represents a method of evaluating the sensitivity of the bank's equity to rate movements.

Quantitative Information

The following table presents the distribution of the banking book by the residual contractual maturity of the financial assets and liabilities denominated in euro as at 31 December 2017.

Type *(Thousands of euros)*	BIP							
	31 December 2017							
	On demand	Three months or less	Over three months Up to six months	Over six months Up to one year	Over one year Up to five years	Over five years Up to ten years	Over ten years	Indefinite maturity
1. On-balance sheet assets	**168,146**	**258,407**	**445,816**	**8,099**	**82,114**	**64,955**	**3,940**	**-**
1.1 Debt securities	-	42,349	434,030	-	69,527	61,890	-	-
– with early repayment option	-	2,028	-	-	30,472	-	-	-
– Other	-	40,321	434,030	-	39,055	61,890	-	-
1.2 Loans to banks	49,294	43,835	5,000	-	-	-	-	-
1.3 Loans to customers	118,852	172,223	6,786	8,099	12,587	3,065	3,940	-
– current accounts	106,097	-	1	96	2,076	-	-	-
– other loans	12,755	172,223	6,785	8,003	10,511	3,065	3,940	-
– with early repayment option	12,479	164,128	6,311	7,907	7,530	2,648	2,600	-
– Other	276	8,095	474	96	2,981	417	1,340	-
2. On-balance sheet liabilities	**410,338**	**180,812**	**11,856**	**256,619**	**136,824**	**419**	**1,355**	**-**
2.1 Payables to customers	405,650	12,803	5,865	2,467	5,107	419	1,355	-
– current accounts	397,892	12,803	5,827	2,429	4,792	-	-	-
- other amounts due	7,758	-	38	38	315	419	1,355	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	7,758	-	38	38	315	419	1,355	-
2.2 Payables to banks	4,260	160,862	-	234,170	70,830	-	-	-
– current accounts	4,003	-	-	-	-	-	-	-
- other amounts due	257	160,862	-	234,170	70,830	-	-	-
2.3 Debt securities	428	7,147	5,991	19,982	60,887	-	-	-
– with early repayment option	-	6,107	5,350	15,926	26,295	-	-	-
– Other	428	1,040	641	4,056	34,592	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(39,533)**	**7,081**	**7,171**	**20,680**	**3,830**	**770**	**-**
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	(39,533)	7,081	7,171	20,680	3,830	770	-
- Options	-	(39,533)	7,081	7,171	20,680	3,830	770	-
+ Long positions	-	2,921	7,102	7,837	20,680	3,830	770	-
+ Short positions	-	42,454	21	666	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

The following table presents the distribution of the banking book by the residual contractual maturity of the financial assets and liabilities denominated in currencies other than the euro as at 31 December 2017.

Type *(Thousands of euros)*	**BIP**							
	31 December 2017							
	On demand	**Three months or less**	**Over three months Up to six months**	**Over six months Up to one year**	**Over one year Up to five years**	**Over five years Up to ten years**	**Over ten years**	**Indefinite maturity**
1. On-balance sheet assets	**664**	**748**	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-		-	-	-	-	-	-
1.2 Loans to banks	664	251	-	-	-	-	-	-
1.3 Loans to customers	-	497	-	-	-	-	-	-
– current accounts	-	497	-	-	-	-	-	-
– other loans	-	-	-	-	-	-	-	-
– with early repayment option	-	497	-	-	-	-	-	-
– Other	-	501	-	-	-	-	-	-
2. On-balance sheet liabilities	**878**	-	-	-	-	-	-	-
2.1 Payables to customers	878	-	-	-	-	-	-	-
– current accounts	878	-	-	-	-	-	-	-
- other amounts due	-	501	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
2.2 Payables to banks	-	-	-	-	-	-	-	-
– current accounts	-	-	-	-	-	-	-	-
- other amounts due	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

The following table presents the distribution of the banking book by the residual contractual maturity of the financial assets and liabilities denominated in euro as at 31 December 2016.

Type *(Thousands of euros)*	**BIP**							
	31 December 2016							
	On demand	**Three months or less**	**Over three months Up to six months**	**Over six months Up to one year**	**Over one year Up to five years**	**Over five years Up to ten years**	**Over ten years**	**Indefinite maturity**
1. On-balance sheet assets	**166,686**	**205,813**	**395,672**	**15,182**	**117,877**	**79,299**	**125**	**-**
1.1 Debt securities	-	12,121	391,818	10,305	101,050	79,252	-	-
– with early repayment option	-	6,051	-	2,075	20,573	2,990	-	-
– Other	-	6,070	391,818	8,230	80,477	76,262	-	-
1.2 Loans to banks	38,526	49,036	-	-	-	-	-	-
1.3 Loans to customers	128,160	144,656	3,854	4,877	16,827	47	125	-
– current accounts	109,503	0	-	106	2,719	-	-	-
– other loans	18,657	144,656	3,854	4,771	14,108	47	125	-
– with early repayment option	9,245	137,142	2,868	3,392	9,435	-	-	-
– Other	9,412	7,514	986	1,379	4,673	47	125	-
2. On-balance sheet liabilities	**379,872**	**199,311**	**19,373**	**28,900**	**326,148**	**44**	**126**	**-**
2.1 Payables to customers	379,692	9,827	1,802	4,137	3,900	44	126	-
– current accounts	373,027	9,827	1,798	4,133	3,867	-	-	-
- other amounts due	6,665	-	4	4	33	44	126	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	6,665		4	4	33	44	126	-
2.2 Payables to banks	180	171,688	-	-	275,000	-	-	-
– current accounts	-	-	-	-	-	-	-	-
- other amounts due	180	171,688	-	-	275,000	-	-	-
2.3 Debt securities	-	17,796	17,571	24,763	47,248	-	-	-
– with early repayment option	-	6,288	8,323	8,894	18,220	-	-	-
– Other	-	11,508	9,248	15,869	29,028	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with early repayment option	-		-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(1,031)**	**46**	**97**	**554**	**279**	**55**	**-**
3.1 With underlying securities	-	-	-		-	-	-	-
- Options	-	-	-		-	-	-	-
+ Long positions	-		-		-	-	-	-
+ Short positions	-		-		-	-	-	-
- other derivatives	-		-		-	-	-	-
+ Long positions	-		-		-	-	-	-
+ Short positions	-		-		-	-	-	-
3.2 Without underlying securities	-	(1,031)	46	97	554	279	55	-
- Options	-	(1,031)	46	97	554	279	55	-
+ Long positions	-	6	46	97	554	279	55	-
+ Short positions	-	1,037	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**1,085**	**(644)**	**(68)**	**(372)**	**-**	**-**	**-**	**-**
+ Long positions	1,559	-	-	-	-	-	-	-
+ Short positions	474	644	68	372	-	-	-	-

The following table presents the distribution of the banking book by the residual contractual maturity of the financial assets and liabilities denominated in currencies other than the euro as at 31 December 2016.

Type *(Thousands of euros)*	**BIP**							
	31 December 2016							
	On demand	**Three months or less**	**Over three months Up to six months**	**Over six months Up to one year**	**Over one year Up to five years**	**Over five years Up to ten years**	**Over ten years**	**Indefinite maturity**
1. On-balance sheet assets	**1,242**	**901**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	1,242	-	-	-	-	-	-	-
1.3 Loans to customers	-	901	-	-	-	-	-	-
– current accounts	-	-	-	-	-	-	-	-
– other loans	-	901	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	901	-	-	-	-	-	-
2. On-balance sheet liabilities	**1,030**	**906**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Payables to customers	1,030	-	-	-	-	-	-	-
– current accounts	1,030	-	-	-	-	-	-	-
- other amounts due	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
2.2 Payables to banks	-	906	-	-	-	-	-	-
– current accounts	-	-	-	-	-	-	-	-
- other amounts due	-	906	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

The following table presents the distribution of the banking book by the residual contractual maturity of the financial assets and liabilities denominated in euro as at 31 December 2015.

Type *(Thousands of euros)*	**BIP**							
	31 December 2015							
	On demand	**Three months or less**	**Over three months Up to six months**	**Over six months Up to one year**	**Over one year Up to five years**	**Over five years Up to ten years**	**Over ten years**	**Indefinite maturity**
1. On-balance sheet assets	**142,331**	**151,044**	**300,236**	**8,606**	**99,958**	**136,214**	**109**	**-**
1.1 Debt securities	-	5,192	297,536	8,172	97,867	136,068	-	-
– with early repayment option	-	1,036	-	-	29,814	-	-	-
– Other	-	4,156	297,536	8,172	68,053	136,068	-	-
1.2 Loans to banks	32,676	38,322	-	-	-	-	-	-
1.3 Loans to customers	109,655	107,530	2,700	434	2,091	146	109	-
– current accounts	99,375	-	-	19	207	-	-	-
– other loans	10,280	107,530	2,700	415	1,884	146	109	-
– with early repayment option	9,393	100,307	2,614	392	1,426	105	-	-
– Other	887	7,223	86	23	458	41	109	-
2. On-balance sheet liabilities	**282,121**	**179,514**	**10,040**	**28,754**	**281,576**	**37**	**110**	**-**
2.1 Payables to customers	282,023	1,512	972	13,954	2,663	37	110	-
– current accounts	275,972	1,512	969	13,951	2,635	-	-	-
- other amounts due	6,051	-	3	3	28	37	110	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	6,051	-	3	3	28	37	110	-
2.2 Payables to banks	92	170,336	-	-	210,000	-	-	-
– current accounts	-	-	-	-	-	-	-	-
- other amounts due	92	170,336	-	-	210,000	-	-	-
2.3 Debt securities	6	7,666	9,068	14,800	68,913	-	-	-
– with early repayment option	-	4,427	1,871	3,067	14,396	-	-	-
– Other	6	3,239	7,197	11,733	54,517	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**8,318**	**-**	**-**	**-**	**(8,279)**	**-**	**-**
3.1 With underlying securities	-	8,318	-	-	-	(8,279)	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other derivatives	-	8,318	-	-	-	(8,279)	-	-
+ Long positions	-	8,318	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	8,279	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

The following table presents the distribution of the banking book by the residual contractual maturity of the financial assets and liabilities denominated in currencies other than the euro as at 31 December 2015.

Type *(Thousands of euros)*	**BIP**							
	31 December 2015							
	On demand	**Three months or less**	**Over three months Up to six months**	**Over six months Up to one year**	**Over one year Up to five years**	**Over five years Up to ten years**	**Over ten years**	**Indefinite maturity**
1. On-balance sheet assets	**1,853**	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	1,853	-	-	-	-	-	-	-
1.3 Loans to customers	-	-	-	-	-	-	-	-
– current accounts	-	-	-	-	-	-	-	-
– other loans	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**1,845**	-	-	-	-	-	-	-
2.1 Payables to customers	1,845	-	-	-	-	-	-	-
– current accounts	1,845	-	-	-	-	-	-	-
- other amounts due	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
2.2 Payables to banks	-	-	-	-	-	-	-	-
– current accounts	-	-	-	-	-	-	-	-
- other amounts due	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– Other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

Banking book: internal models and other methods for the sensitivity analysis

There are no internal models or other validated methods for sensitivity analysis. However, constructing a series of internal models, even where not validated (not considering early repayment scenarios), permits the institution to conduct sensitivity analyses normally associated with a scenario involving a parallel shift in the rate curve of +200 bps.

The exposure to interest-rate risk associated with the assets and liabilities included in the banking book is periodically assessed using the simplified approach set out in Annex C to Bank of Italy Circular 285, valid for measuring the internal capital absorbed by the said risk. In order to monitor compliance with the limit set in the RAF and to ensure, in any event, that it is limited to 20% of the ratio of the change in economic value to own funds, the value of the banking book is periodically analysed both in a stress scenario with a parallel rate shock of +/- 200 bps and in ordinary conditions, using the 99th percentile (for a rate increase) or 1st percentile (for a rate decrease) as the rate shock, on the basis of empirical observations over a period 12 months, for a total observation period of six years, in both cases while ensuring that rates do not become negative. The analysis is also extended to a scenario identified in advance by the institution in order to complete the valuation, assuming a bank-specific scenario, more relevant to the institution's specific qualities, in the light of the said institution's historical experience.

As at year-end, all measurements indicate an increase in value. Accordingly, the requirement for the interest-rate risk associated with the banking book is therefore zero, even in the event of application of the aforementioned parallel scenario of +200 basis points for all maturities.

The exposure to interest-rate risk is measured, through gap analyses and sensitivity analysis, for all financial instruments, whether assets or liabilities, not included in the trading book according to supervisory regulations. An estimate of the change in net interest income is also prepared, in addition to the sensitivity analysis. The sensitivity of net interest income is measured according to an approach that enables an estimate of the expected change in net interest income as a result of a shock to the curves generated by items subject to rate revision over a time horizon (gapping period) of 12 months from the date of the analysis. The analysis contemplates the change in net interest income on both demand items and term items. This measure indicates the effect of changes in market rates on net interest income over the next 12 months, from a simplified perspective of constant assets and liabilities, excluding potential effects deriving from new operations or future changes in the mix of assets and liabilities. The change in net interest income would amount to approximately 6.3 million euros in the positive rate shock scenario of +200 bps, whereas in the negative shock scenario of -200 bps, subject to a restriction preventing negative rates, the change would be nil. In addition, another scenario has been developed with a floor equal to the 3M Euribor (a more realistic scenario given the current rate curve situation). In this scenario, a negative shock of -200 bps would result in an effect on net interest income of -0.1 million euros.

The impact of variable-rate securities on net interest income is significant, considering that as at the reporting date variable rate securities amounted to approximately 452 million euros nominal i.e., 76% of debt securities as at the reporting date). In the event of a parallel shift in the interest-rate curve of +200 bps, the quantifiable increase in net interest income associated with variable-rate securities would amount to approximately 9 million euros.

Exchange-rate risk

<u>Qualitative Information</u>

Exchange-rate risk is determined on the basis of mismatches between assets and liabilities in foreign currencies (spot and forward) relating to each outward currency (i.e., other than the euro). The main sources of risk are:

- loans and deposits in foreign currencies with corporate and retail customers;
- holdings of financial instruments in foreign currencies;
- holdings of shares of UCIs, if any, even where denominated in euro, for which it is not possible to determine the composition of the underlying investments by currency and/ or for which the maximum limit on investments in foreign currencies is not known and binding;
- trading of foreign bank notes.

Foreign-exchange risk is calculated according to the method proposed by the Bank of Italy and is determined as 8% of the net foreign exchange position. The said position is determined as the larger (in absolute terms) of the sum of net long positions and the sum of net short positions (position per currency), to which the foreign exchange exposure implicit in any investments in UCIs is added. Accordingly, the internal model based on VAR is not used when calculating capital requirements for market risks.

The exposure to foreign exchange risk is therefore determined according to the net foreign exchange position based on a method compliant with the supervisory regulations. Neither equity investments nor property and equipment are included when determining the net foreign exchange position.

The foreign exchange risk deriving from banking book exposures is eliminated through systematic offsetting against funding/lending transactions in the same currency as the original transaction.

Quantitative Information

The following table presents the distribution of assets, liabilities and derivatives by currency of denomination as at 31 December 2017.

(Thousands of euros)	BIP					
	31 December 2017					
	US dollars	**Pounds sterling**	**Yen**	**Swiss Francs**	**Canadian dollars**	**Other currencies**
1. Financial assets	**1,414**	**-**	**-**	**-**	**-**	**1**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	4	-	-	-	-	-
A.3 Loans to banks	913	-	-	-	-	1
A.4 Loans to customers	497	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**21**	**14**	**-**	**4**	**-**	**-**
C. Financial liabilities	1,379	-	-	-	-	-
C.1 Due to banks	501	-	-	-	-	-
C.2 Due to customers	878	-	-	-	-	-
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	(8)	-	-	-	-	-
– Options	-	-	-	-	-	-
Long positions	-	-	-	-	-	-
Short positions	-	-	-	-	-	-
– Other	(8)		-	-	-	-
Long positions	-	2	-	-	-	-
Short positions	8	2	-	-	-	-
Total assets	**1,435**	**16**	**-**	**4**	**-**	**1**
Total liabilities	**1,387**	**2**	**-**	**-**	**-**	**-**
Imbalance (+/-)	**48**	**14**	**-**	**4**	**-**	**1**

The following table presents the distribution of assets, liabilities and derivatives by currency of denomination as at 31 December 2016.

(Thousands of euros)	BIP					
	31 December 2016					
	US dollars	**Pounds sterling**	**Yen**	**Swiss Francs**	**Canadian dollars**	**Other currencies**
1. Financial assets	**2,138**	**4**	**-**	**1**	**-**	**2**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	3	-	-	-	-	-
A.3 Loans to banks	1,234	4	-	1	-	2
A.4 Loans to customers	901	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**18**	**8**	**-**	**6**	**-**	**1**
C. Financial liabilities	1,936	-	-	-	-	-
C.1 Due to banks	906	-	-	-	-	-
C.2 Due to customers	1,030	-	-	-	-	-
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	(202)	-	-	-	-	-
– Options	-	-	-	-	-	-
Long positions	-	-	-	-	-	-
Short positions	-	-	-	-	-	-
– Other	(202)	-	-	-	-	-
Long positions	-	-	-	-	-	56
Short positions	202	-	-	-	-	56
Total assets	**2,156**	**12**	**-**	**7**	**-**	**59**
Total liabilities	**2,138**	**-**	**-**	**-**	**-**	**56**
Imbalance (+/-)	**18**	**12**	**-**	**7**	**-**	**3**

The following table presents the distribution of assets, liabilities and derivatives by currency of denomination as at 31 December 2015.

(Thousands of euros)	BIP					
	31 December 2015					
	US dollars	**Pounds sterling**	**Yen**	**Swiss Francs**	**Canadian dollars**	**Other currencies**
1. Financial assets	**1,640**	**168**	-	-	-	**44**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	-	-	-
A.3 Loans to banks	1,640	168	-	-	-	44
A.4 Loans to customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**12**	**9**	-	**5**	-	-
C. Financial liabilities	1,635	167	-	-	-	44
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	1,635	167	-	-	-	44
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	-	-	-	-	-	-
– Options	-	-	-	-	-	-
Long positions	-	-	-	-	-	-
Short positions	-	-	-	-	-	-
– Other	-	-	-	-	-	-
Long positions	-	-	-	-	-	12
Short positions	-	-	-	-	-	12
Total assets	**1,652**	**177**	-	**5**	-	**56**
Total liabilities	**1,635**	**167**	-	-	-	**56**
Imbalance (+/-)	**17**	**10**	-	**5**	-	-

Liquidity risk

Qualitative Information

Liquidity risk refers to the ability to meet payment obligations and/or procure additional funding on the market (funding liquidity risk), or to the possibility that the value at which certain assets are liquidated may diverge significantly from current market values (market liquidity risk).

The framework of the liquidity risk measurement, monitoring and management system is laid down in the policy on liquidity risk (policy on liquidity management strategies and processes and related emergency plan) approved by corporate governance bodies.The company risk policy is accompanied by the emergency liquidity management plan (the Contingency Funding Plan or CFP), the main purpose of which is to protect the bank's assets in situations of liquidity strain by preparing crisis management strategies and procedures for securing sources of funding in an emergency.

This document sets out the rules governing the pursuit and maintenance, through coordinated, efficient funding and lending policies, of a sufficient level of diversification of sources of funding and an appropriate structural balance between sources and uses of funding. The system for managing short-term liquidity laid down in the Policy is based on a set of early-warning thresholds and limits consistent with the general principles that inspire liquidity management. The policy thus identifies the company functions and bodies involved in liquidity management.

The finance office, with the aid of the planning and management control office, seeks to maintain a low level of exposure to liquidity risk by setting up a system of safeguards and limits based on a gap analysis of cash inflows and outflows by residual maturity bracket. The main goal in liquidity risk management is to meet payment obligations and to raise additional funds on the market, while minimising costs and not jeopardising future potential income.

In further detail, liquidity risk is handled by measuring, monitoring and managing expected liquidity needs on the basis of a net liquidity balance analysis model, supplemented by stress tests sufficient for assessing the institution's ability to face to crisis scenarios characterised by a rising level of severity. The net liquidity balance is based on the operational liquidity ladder, through a comparison, over a time horizon of up to three months, of projected cash flows with counterbalancing capacity. The cumulative sum of the expected cash flows and counterbalancing capacity, for each time bracket, quantifies the liquidity risk assessed in various stress scenarios.

The goals of stress testing are evaluating the institution's vulnerability to exceptional, yet plausible events and enabling a better assessment of the exposure to liquidity risk of the institution's mitigation and monitoring systems and survival period in hypothetical adverse scenarios. Stress scenarios – divided into basic and internal scenarios – are structured on the basis of a series of risk factors that may affect either the cumulative mismatch between inflows and outflows or the liquidity reserve, chiefly:

- retail funding risk: the volatility of demand liabilities in business with ordinary customers and the repurchase of own securities;
- off-balance sheet liquidity risk: the use of available margins on irrevocable credit facilities granted;
- market liquidity risk: a reduction in the value of the securities that constitute the liquidity reserve and an increase in the margins required for the position in derivative financial instruments.

Monitoring of the level of coverage of expected liquidity requirements through an adequate liquidity reserve level is accompanied by daily monitoring of the exposure on the interbank market. The contingency funding plan is activated when the above limits and warning levels are exceeded.

Finally, structural equilibrium is pursued through the use of models that assess the degree of stability of liabilities and the degree of liquidity of assets in order to contain the risk associated with the transformation of maturities to within a tolerance limit deemed acceptable by management. The assessment of the degree of stability of liabilities and the degree of liquidity of assets is based primarily on residual maturity criteria.

As at the reporting date, the bank did not present a significant risk profile in terms of liquidity requirements. In addition, the bank also implemented appropriate instruments for managing this risk in accordance with the principle of sound and prudent management and in view of the planned development of business volumes.

Quantitative Information

The following table presents the breakdown by timing of the issuer's financial assets and liabilities denominated in euro as at 31 December 2017.

Items / time brackets *(Thousands of euros)*	BIP									
	Year ended 31 December 2017									
	On demand	From more than one day to seven days	From more than seven days to 15 days	From more than 15 days to one month	From more than one month to three months	From more than three months to six months	From more than six months to one year	From more than one year to five years	Over five years	Indefinite maturity
A. Balance sheet assets	**155,812**	**10,268**	**6,086**	**15,324**	**43,493**	**25,023**	**152,283**	**415,693**	**203,890**	**4,761**
A.1 Government bonds	-	-	5,061	-	429	2,567	123,038	275,500	152,000	-
A.2 Other debt securities	-	-	-	10,062	374	266	115	31,400	-	-
A.3 Shares of UCIs	214	-	-	-	-	-	-	-	-	-
A.4 Loans	155,598	10,268	1,025	5,262	42,690	22,190	29,130	108,793	51,890	4,761
- Banks	49,294	10,000	-	-	29,074	5,000	-	-	-	4,761
- Customers	106,304	268	1,025	5,262	13,616	17,190	29,130	108,793	51,890	-
B. On-balance sheet liabilities	**405,887**	**405**	**2,417**	**7,319**	**171,136**	**12,654**	**257,879**	**137,965**	**3,978**	**-**
B.1 Deposits and current accounts	403,380	11	2,041	4,084	8,675	5,842	2,449	4,792	-	-
- Banks	4,003	-	-	-	2,000	-	-	-	-	-
- Customers	399,377	11	2,041	4,084	6,675	5,842	2,449	4,792	-	-
B.2 Debt securities	444	394	376	3,235	3,599	6,452	20,901	60,399	-	-
B.3 Other liabilities	2,063	-	-	-	158,862	360	234,529	72,774	3,978	-
C. Off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	8	-	-	-	-	-	-	-	-
- Long positions	-	10	-	-	-	-	-	-	-	-
- Short positions	-	2	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	721	-	-	1	-	26	647	3,457	1,434	-

The following table presents the breakdown by time bracket of the issuer's financial assets and liabilities in currencies other than the euro as at 31 December 2017.

Items / time brackets *(Thousands of euros)*	**BIP**									
	Year ended 31 December 2017									
	On demand	**From more than one day to seven days**	**From more than seven days to 15 days**	**From more than 15 days to one month**	**From more than one month to three months**	**From more than three months to six months**	**From more than six months to one year**	**From more than one year to five years**	**Over five years**	**Indefinite maturity**
A. Balance sheet assets	**664**	-	-	**754**	-	-	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Shares of UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	664	-	-	754	-	-	-	-	-	-
- Banks	664	-	-	250	-	-	-	-	-	-
- Customers	-	-	-	504	-	-	-	-	-	-
B. On-balance sheet liabilities	**878**	-	-	**502**	-	-	-	-	-	-
B.1 Deposits and current accounts	878	-	-	502	-	-	-	-	-	-
- Banks	-	-	-	502	-	-	-	-	-	-
- Customers	878	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	(8)	-	-	-	-	-	-	-	-
- Long positions	-	2	-	-	-	-	-	-	-	-
- Short positions	-	10	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

The following table presents the breakdown by timing of the issuer's financial assets and liabilities denominated in euro as at 31 December 2016.

Items / time brackets *(Thousands of euros)*	**BIP**									
	Year ended 31 December 2016									
	On demand	**From more than one day to seven days**	**From more than seven days to 15 days**	**From more than 15 days to one month**	**From more than one month to three months**	**From more than three months to six months**	**From more than six months to one year**	**From more than one year to five years**	**Over five years**	**Indefinite maturity**
A. Balance sheet assets	**131,125**	**1,016**	**549**	**13,049**	**63,762**	**55,656**	**71,164**	**407,894**	**229,822**	**4,036**
A.1 Government bonds	-	-	19	-	981	38,311	30,807	277,000	184,325	-
A.2 Other debt securities	-	-	-	4,211	4,497	424	10,512	30,400	3,000	-
A.3 Shares of UCIs	100	-	-	-	-	-	-	-	-	-
A.4 Loans	131,025	1,016	530	8,838	58,284	16,921	29,845	100,494	42,497	4,036
- Banks	38,495	-	-	-	45,000	-	-	-	-	4,036
- Customers	92,530	1,016	530	8,838	13,284	16,921	29,845	100,494	42,497	-
B. On-balance sheet liabilities	**377,802**	**5,268**	**2,442**	**58,137**	**134,094**	**20,614**	**30,103**	**326,771**	**170**	**-**
B.1 Deposits and current accounts	376,995	341	1,989	3,895	3,742	2,218	4,244	3,933	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	376,995	341	1,989	3,895	3,742	2,218	4,244	3,933	-	-
B.2 Debt securities	18	27	453	5,242	12,564	18,222	25,653	46,812	-	-
B.3 Other liabilities	789	4,900	-	49,000	117,788	174	206	276,026	170	-
C. Off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	202	-	-	-	-	-	-	-	-
- Long positions	-	258	-	-	-	-	-	-	-	-
- Short positions	-	56	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	(1,430)	85	0	502	393	78	372	-	-	-
- Long positions	129	85	0	502	393	78	372	-	-	-
- Short positions	1,559	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

The following table presents the breakdown by time bracket of the issuer's financial assets and liabilities in currencies other than the euro as at 31 December 2016.

Items / time brackets *(Thousands of euros)*	**BIP**									
	Year ended 31 December 2016									
	On demand	**From more than one day to seven days**	**From more than seven days to 15 days**	**From more than 15 days to one month**	**From more than one month to three months**	**From more than three months to six months**	**From more than six months to one year**	**From more than one year to five years**	**Over five years**	**Indefinite maturity**
A. Balance sheet assets	**1,242**	**-**	**-**	**-**	**921**	**-**	**-**	**-**	**-**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Shares of UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	1,242	-	-	-	921	-	-	-	-	-
- Banks	1,242	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	921	-	-	-	-	-
B. On-balance sheet liabilities	**1,030**	**-**	**-**	**-**	**909**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	1,030	-	-	-	909	-	-	-	-	-
- Banks	-	-	-	-	909	-	-	-	-	-
- Customers	1,030	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	(202)	-	-	-	-	-	-	-	-
- Long positions	-	56	-	-	-	-	-	-	-	-
- Short positions	-	258	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

The following table presents the breakdown by time bracket of the issuer's financial assets and liabilities in currencies other than the euro as at 31 December 2015.

Items / time brackets *(Thousands of euros)*	**BIP**									
	Year ended 31 December 2015									
	On demand	**From more than one day to seven days**	**From more than seven days to 15 days**	**From more than 15 days to one month**	**From more than one month to three months**	**From more than three months to six months**	**From more than six months to one year**	**From more than one year to five years**	**Over five years**	**Indefinite maturity**
A. Balance sheet assets	**1,853**	-	-	-	-	-	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Shares of UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	1,853	-	-	-	-	-	-	-	-	-
- Banks	1,853	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B. On-balance sheet liabilities	**1,845**	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	1,845	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	1,845	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	12	-	-	-	-	-	-	-	-
- Short positions	-	12	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

The following table presents the breakdown by timing of the issuer's financial assets and liabilities denominated in euro as at 31 December 2015.

Items / time brackets *(Thousands of euros)*	BIP									
	Year ended 31 December 2015									
	On demand	**From more than one day to seven days**	**From more than seven days to 15 days**	**From more than 15 days to one month**	**From more than one month to three months**	**From more than three months to six months**	**From more than six months to one year**	**From more than one year to five years**	**Over five years**	**Indefinite maturity**
A. Balance sheet assets	**107,813**	**81**	**618**	**10,560**	**55,463**	**16,834**	**37,448**	**432,002**	**154,807**	**3,322**
A.1 Government bonds	-	-	8	-	1,834	4,079	6,921	331,000	128,000	-
A.2 Other debt securities	-	-	-	5,554	261	389	7,398	34,400	-	-
A.3 Shares of UCIs	100	-	-	-	-	-	-	-	-	-
A.4 Loans	107,713	81	610	5,006	53,368	12,366	23,129	66,602	26,807	3,322
- Banks	32,676	-	-	-	35,000	-	-	-	-	3,322
- Customers	75,037	81	610	5,006	18,368	12,366	23,129	66,602	26,807	-
B. On-balance sheet liabilities	**280,422**	**662**	**657**	**64,937**	**96,017**	**10,893**	**30,208**	**300,043**	**148**	-
B.1 Deposits and current accounts	280,029	10	9	45	1,569	1,033	14,134	2,704	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	280,029	10	9	45	1,569	1,033	14,134	2,704	-	-
B.2 Debt securities	8	652	648	892	6,112	9,721	15,935	68,272	-	-
B.3 Other liabilities	385	-	-	64,000	88,336	139	139	229,067	148	-
C. Off-balance sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	8,318	-	-	-	-	-	-	(8,000)	-
- Long positions	-	8,330	-	-	-	-	-	-	-	-
- Short positions	-	12	-	-	-	-	-	-	8,000	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Operational risk

Qualitative Information

Operational risk is the risk of incurring losses due to inadequate or dysfunctional procedures, human resources and internal systems, or due to external events. This category also includes losses due to fraud, human error, interruption of operation, unavailability of systems, breach of contract and natural catastrophes. This definition does not encompass strategic and reputational risk, but does include legal risk, understood as the risk arising from breaches of laws and other applicable legislation, failure to fulfil contractual and non-contractual responsibilities and other disputes that may arise with counterparties in the course of operations.

Operational risks, which represent a highly diverse class, are not typical risks of banking activity or business activity. Such risks may be internal or external in origin and the scope of their occurrence may also extend outside the company.

Operational risk is characterised by cause-effect relationships that as a result of one or more triggers give rise to the adverse event or effect directly associated with an economic loss. Accordingly, an operating loss is defined as the sum total of the negative economic effects arising from events of an operational nature, recorded in company accounts, sufficient to have an impact on the income statement.

The main sources of operational risk are: the low reliability, in terms of efficacy and efficiency, of operating processes, internal and external fraud, operating errors, the quality level of physical and logical security, the inadequacy of the IT system to the scope of operations, increasing reliance on automation, the outsourcing of company functions, the use of few suppliers, the adoption of changes of strategy, the presence of incorrect personnel management and training policies and, lastly, social and environmental impacts.

Operational risk management is a component of the integrated risk management strategy that aims to contain the total risk level, in part through the prevention of phenomena relating to the propagation and transformation of risks. Operational risk management activity is inspired by the following guiding principles:

- increasing overall operating efficiency;
- preventing the occurrence or reducing the probability of events that may potentially give rise to operating losses through the appropriate measures of a procedural and organisational nature;
- mitigating the expected effects of such events;
- transferring the risks that it is not intended to retain through contractual instruments of an insurance nature;
- protecting the brand and reputation.

The process of identifying, assessing and monitoring operating risks is aimed at mitigation measures based on the use of insurance policies that offer broad coverage of the various types of potentially detrimental events, implemented through the transfer of specific types of risks.

The general accounting and management control office is responsible for systematic, structured collection of loss data from the various units of the company, performing the appropriate analyses, assessing operational risks with appropriate frequency and proposing appropriate management mitigation measures. The model for assessing and measuring operational risks is based on the use of internal operating loss data, collected from the network of company personnel and is intended for internal management purposes only. Banca Interprovinciale uses the BIA method for reporting purposes.

The disaster recovery plan, which establishes the technical and organisational measures for responding to events that result in the unavailability of data-processing centres, falls within the framework of criticality management. The plan, aimed at permitting the functioning of IT procedures serving as alternatives to production sites, is an integral part of the business continuity plan approved by the Board of Directors on 15 January 2014.

Legal risks

The economic risks arising from pending legal proceedings involving the Bank are provisioned for in the financial statements in an amount and manner consistent with international accounting standards.The amount of the accrual is estimated on the basis of various factors, primarily relating to the expected outcome of the litigation, and in particular, the probability of an unfavourable outcome for the Bank, and factors used to determine the amount that the Bank would be required to pay the adverse party in the event of such an unfavourable outcome.

The expected outcome of the litigation (risk of an unfavourable outcome) takes account, for each position, of the legal aspects cited at trial, assessed in the light of case law, the concrete evidence produced at trial and the progress of the proceedings. On appeal, past experience and all other useful elements are also considered, including, in some cases, expert opinions that make it possible to take adequate account of the possible course of the dispute.

The amount due in the event of an unfavourable outcome is expressed in absolute terms and is based on the value estimated given the status of the proceedings, the amount sought by the adverse party, an internal technical estimate based on accounting data and/or information brought to light at trial and, in particular, the amount established by the court-appointed expert witness, where one is appointed, and any expenses due in the event of an unfavourable outcome. Where it is not possible to determine a reliable estimate, provisions are recognised as long as it remains impossible to predict the outcome of the proceedings and determine a reliable estimate of the eventual loss.

The following table presents the issuer's main legal risks as at 31 December 2017, 31 December 2016 and 31 December 2015.

	BIP						
	Year ended December 31			Changes		Change %	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017 vs 2016	2016 vs 2015
1. Anatocism	-	-	-	-	-	-	-
2. Bankruptcy claw-back	1	-	-	1	-	100.00%	-
3. Financial instruments		-	-	-	-	-	-
4. Sundry (credit recovery, trading of credit instruments, etc.)	1	-	1	1	(1)	100.00%	(100.00%)
Total	**2**	**-**	**1**	**2**	**1**	**>100%**	**(100.00%)**

Quantitative Information

Banca Interprovinciale uses the BIA (basic indicator approach) to calculate regulatory requirements. According to this approach, capital requirements are calculated by applying a regulatory coefficient of 15% to an indicator representative of company operating volume, identified as the three-year average of the relevant indicator determined in accordance with Article 316 of Regulation (EU) No 575/2013.

Other risks

Excessive leverage risk

Prudential regulations define excessive leverage risk as "the risk that a particularly high level of debt to equity may render the bank vulnerable, necessitating the adoption of corrections to its business plan, including the sale of assets at a loss, which could also entail impairment losses to its remaining assets". During the process of setting the risk appetite and approving the strategic plan, the Board of Directors resolved on a leverage risk appetite of 3.75%. The strategic objective for management is to monitor this risk by containing asset dynamics to within limits compatible with a long-term equilibrium, so as to avoid jeopardising the institution's stability. Leverage stood at 5.11% as at the reporting date. See the report on operations for a thorough examination of the changes in the index in the various periods.

Excessive leverage risk extends to the entire financial statements, to exposures arising from the holding of derivatives and off-balance sheet assets and is assumed in the course of core business activity. It is closely related to planning and capital management activities. The degree of the exposure to risk is an expression of the strategic and development guidelines prepared by the Board of Directors. Risk exposure is mitigated through capital management and asset management measures, while remaining within the limits laid down in the strategic plan, as in effect from time to time. A possible increase in risk associated with the recognition of expected or realised losses that reduce capital is also taken into account.

Measurement of excessive leverage risk is based on the leverage ratio regulatory parameter. This measure, which does not incorporate risk corrections/weightings, acts as a complement to pillar one capital requirements. This also contributes to containing the accumulation of leverage at the systemic level. The risk exposure is also assessed on the basis of other indicators capable of identifying mismatches, if any, between assets and liabilities (structural and operational maturity ladder).

Settlement risk

Risk associated with transactions not subject to concurrent settlement, i.e. transactions in debt instruments, equity instruments, foreign currencies and goods (excluding sales transactions with a repurchase undertaking and securities or commodities lending or borrowing translations not settled after the relevant delivery dates). Article 378 CRR requires that credit institutions determine their own funds requirements for settlement risk by calculating the price difference at which they are exposed when such differences may give rise to a loss. The difference between the agreed settlement price and its current market value is used to determine the risk associated with transactions the settlement of which is not concurrent with actual delivery.

CVA risk

To be understood as an adjustment of the mid-market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the current market value of the counterparty risk in respect of the institution, but not the current market value of the institution's credit risk in respect of the counterparty. Article 382 CRR requires that credit institutions calculate their own funds requirements for CVA risk for all OTC derivative instruments and for all assets, except for credit derivatives recognised for the reduction of the amounts of exposures weighted for credit risk. The calculation of own funds for CVA risk must include securities lending transactions if the institution's exposures to CVA risk arising from such transactions are material. On the other hand, transactions with a qualified central counterparty must be excluded. Banca Interprovinciale applies the standardised method provided for in Article 384 CRR, considering all counterparties with and without CSAs.

Transfer risk

The risk that a bank with an exposure to an entity that obtains financing in a currency other than that in which it collects its main sources of income may incur losses due to the debtor's difficulties in converting its currency into the currency of denomination of the exposure.

Sovereign risk

The investment in Italian government bonds – almost all of which are included in the AFS portfolio – entails exposure to the credit risk of the Italian Republic, which, as for all other issuers, may manifest in the form of lower creditworthiness and, in the extreme hypothesis, insolvency. The exposure is regularly monitored and reported to the governing bodies.

Strategic risk

This is the present or prospective risk of a decline in profits or capital as a result of changes in the operating environment or misguided company decisions, inadequate implementation of decisions or a poor ability to react to changes in the competitive scenario. The exposure to strategic risk is not associated with specific operating activities, but with the adequacy of the decisions and implementation efficacy. The risk is associated in particular with the phases of determination of company strategies and the relevant implementation phases, consisting of the preparation of the business plan, commercial planning, budgeting, management control and monitoring of the markets and competitive scenario, capital allocation and capital management.

By creating, approving and monitoring the annual planning and progress of the Strategic Plan, management exerts strategic control over the course of the various areas of activities and risks associated with the activities conducted.

Compliance risk

This is the risk of incurring legal or administrative penalties, significant financial losses or damage to reputation as a result of breaches of imperative legislation (laws and regulations) or internal policies and procedures (e.g., by-laws, codes of conduct, corporate governance codes, etc.). The institution devotes particular attention to legal compliance risk, considering the adoption of the highest standards of compliance with the law to be a means of maintaining its reputation.

Money-laundering risk

This is the risk of incurring potential legal and reputational risks arising from potential involvement in unlawful activities associated with money-laundering and terrorist financing. In accordance with applicable supervisory regulations, the bank has set up a specialist function within its organisational structure tasked with general supervision of management of such AML risk, as well as providing the required support and advice at the branch level.

Reputational risk

This is the current or prospective risk of a decline in profits or capital due to a negative perception of the bank's image by customers, counterparties, the bank's shareholders, investors or supervisory authorities. Employees, the company and the local community are also included in company analyses. By the same token, reputation is also an essential intangible resource and is considered a distinctive element on which a lasting competitive advantage is based.

This risk relates above all to relations with stakeholders and the community. It may also arise from factors external to the company and unrelated to the institution's operations (for example, the spread of inaccurate or baseless information or phenomena affecting the system that may involve the various institutions without distinction).The first, fundamental safeguard for managing reputation risk is a shared system of values, principles and rules of conduct guiding the behaviour of all personnel. Such a system has been explicitly set out in the internal Code of Conduct.

Reputation – currently strong and positive – is constantly monitored, protected and developed, and does not currently appear exposed to particular risks, although the current crisis scenario has to some extent had repercussions on the entire financial system.

20.2 Pro-Forma Financial Information

Preamble

This chapter presents the Issuer's pro forma financial position as at 31 December 2017 and the pro-forma financial position as at 30 June 2018 and 30 September 2018, the income statement and cash flow statements for the periods of six and nine months, ended those dates (the "**Pro-Forma Statements**") together with notes explaining, retroactively, the significant effects of the business combination and the reverse merger of SPAXS into BIP which will result in the creation of the company illimity. The Pro-Forma statements to 31 December 2017 also represent, retroactively, the effects of the transactions made by SPAXS prior to the Business Combination, including the placement of the ordinary shares and the Conditional Share Rights of SPAXS and the Promoter Companies Capital Increase (collectively the "**Operations**").

On 12 April 2018, through a series of investments, almost all the shareholders of the Issuer and SPAXS signed an agreement relating to the Issuer's acquisition by SPAXS (a special purpose acquisition company).

The agreement provided for the cash acquisition by SPAXS of ordinary shares of the Issuer, and the contribution by some of the Issuer's shareholders, of shares in the Issuer, to pay a capital increase authorised for the purpose by SPAXS.

The operation was completed on 20 September 2018, by means of:
(i) the acquisition by SPAXS of 34,655 ordinary shares at a price of approximately EUR 44.7 million;
(ii) the conferment of 8,360 ordinary shares of the Issuer (equivalent to approximately 19,27% of the share capital) in execution and for payment of the reserved capital increase authorised by the Meeting of Shareholders of SPAXS of 8 August 2018 and carried out with the issue of 981,144 new ordinary SPAXS shares in favour of the Bank's conferring shareholders.

Following that operation, SPAXS held 43,015 ordinary shares of the Issuer, corresponding to approximately 99.165% of its share capital, which represents the shareholding held by SPAXS in the Issuer on the Prospectus Date.

The Pro-Forma Statements as at 31 December 2017 were prepared on the basis of historic data taken from:
- BIP 2017 financial statements, approved by the Board of Directors on 29 March 2018, audited by Deloitte & Touche S.p.A., whose report, containing no reservations, is annexed to this Prospectus;
- the financial situation of SPAXS as at 31 December 2017 and for the period between 20 December 2017, the date of its incorporation, to 31 December 2017 (the "**SPAXS Financial Position**") prepared in accordance with the IFRS.

With reference to 31 December 2017, only the pro-forma balance sheet has been prepared, and the effects of the Operations on the income statement and cash flow statement have not been presented, as SPAXS was incorporated on 20 December 2017 with a share capital of EUR 50,000 and did not trade during the period between the date of its incorporation and 31 December 2017. Therefore the contribution of the consolidation to the income statement and cash flow statement of SPAXS to the pro-forma income statement and cash flow statement for 2017 would not be significant and those Pro-Forma Statements would not provide significant additional financial information compared to the Issuer's historic data.

The Pro-Forma Statements for the six months ended 30 June 2018 were prepared on the basis of historic data taken from:
- the Issuer's interim financial statements to 30 June 2018 and for the six-month period ended that date, prepared in accordance with the IAS 34 Interim Financial Reporting approved by the Board of Directors on 30 October 2018 (the "**BIP Interim Financial Statements 1H 2018**") and were fully audited by KPMG S.p.A.;

- SPAXS Interim Financial Statements 1H 2018, approved by the Board of Directors on 30 October 2018 and fully audited by KPMG S.p.A.

The Pro-Forma Statements for the nine months ended 30 September 2018 were prepared on the basis of the SPAXS Interim Consolidated Financial Statements 9M 2018, approved by the Board of Directors of SPAXS on 30 November 2018 and which underwent a limited audit by KPMG S.p.A.

The SPAXS Financial Position SPAXS and the SPAXS Interim Financial Statements 1H 2018, which were used as a basis to prepare the pro-forma figures and were prepared in accordance with the IFRS, were reclassified in the banking financial reporting model used by BIP.

The Pro-Forma Statements have been prepared for illustrative purposes only and were obtained by making the appropriate adjustments to the historic data, to retroactively reflect the significant effects of the Business Combination and, with reference to the Pro-Forma Financial Statements as at 31 December 2017, of the Operations. Based on the contents of Consob communication no. DEM/1052803 of 5 July 2001, those effects were retroactively reflected as if the Operations had been carried out, for the purposes of preparing the pro-forma financial positions for 31 December 2017, 30 June 2018 and 30 September 2018 and, for the preparation of the pro-forma income statement and pro-forma cash flow statement for the six- and nine-month periods ending respectively on 30 June 2018 and 30 September 2018, as if the Operations had been carried out on 1 January 2018.

The pro-forma statements have been prepared solely for illustrative purposes. As they are based on assumptions, by their very nature, they represent a hypothetical situation. If the Operations had been carried out on the reference dates used to prepare the pro-forma data instead of on their respective effective dates, the historical data would not necessarily be the same as the pro-forma data.

The pro-forma financial information has been prepared in compliance with the accounting criteria and standards adopted by the Issuer in its historical financial statements. For a description of the accounting standards used to prepare the BIP 2017 Financial Statements, the BIP 1H 2018 Interim Financial Statements, the SPAXS Interim Financial Statements 1H 2018 and the SPAXS Interim Consolidated Financial Statements 9M 2018, please refer to the relative notes to the financial statements annexed to this Prospectus. With reference to the SPAXS Financial Position as at 31 December 2017, the accounting standards are essentially the same as those used to prepare the SPAXS Interim Financial Statements 1H 2018 as there were no effects of applying IFRS 9 and IFRS 15.

Finally, it was not possible to include, in the pro-forma financial information, the effects of the acquisitions of the NPL Portfolios completed to date, considering that the Issuer does not have the full historic data relating to the receipts from the debt recovery, nor does it have historic income data for the NPL portfolios given the nature of those assets and the fact that the non-performing loans do not generate interest on the financial statements of the banks from which they were acquired. In the Issuer's opinion, including such information may be inaccurate, not significant or potentially misleading as those effects would, as far as the income is concerned, be based on prospective earning expectations and not on actual or objectively measurable data.

20.2.1 Presentation of the Pro-Forma Statements

The Pro-Forma Statements are presented in a multi-column format in order to provide details of the Operations subject to the pro-forma adjustments.

The Pro-Forma Consolidated Statements cannot, by their nature, provide a representation of the Issuer's prospective capital and financial position considering that they were compiled in order to retroactively reflect the effects of subsequent operations that were not relevant on the dates of the Pro-Forma periods, although the accounting rules on common acceptance and the use of reasonable assumptions have been followed.

For an accurate interpretation of the information given from the pro-forma data, the following aspects also need to be considered:
(i) as these representations are built on assumptions, if the Operations had been carried out on the reference dates used to prepare the pro-forma data instead of on their respective effective dates, the historic data would not necessarily be the same as the pro-forma data;
(ii) the pro-forma does not reflect the prospective data as they were prepared in a way that represents the significant effects that can be isolated and objectively measured, from the Operations, without taking into account the potential effects due to changes in management policies and operational decisions resulting from the Operations.

Furthermore, considering that the pro-forma data has a different purpose than the historic financial state, and the effects of the Operations with reference to the balance sheet, income statement and cash flow statement were calculated in a different way, the Pro-Forma Consolidated Statements should be read and interpreted separately, without looking for accounting links between the two documents.

The main Pro-Forma adjustments are described below.

Right of Withdrawal

The Pro-Forma Statements were also prepared with reference to the exercising of the right of withdrawal (the "**Right of Withdrawal**"), considering the number of ordinary shares of SPAXS, for which the Right of Withdrawal was exercised, which were unopted and not placed with third parties at the end of the shareholder and third-party offer period. The table below summarises the results of the exercising of the Right of Withdrawal and the re-placement of the withdrawn shares:

Description	Date of conclusion	Number of shares
End of the period for exercising the Right of Withdrawal	23 August 2018	(5,090,851)
End of the period of offer of the shares under option and pre-emption to the SPAXS shareholders	04 October 2018	722,948
End of the period of offer of shares to third parties	12 November 2018	600,000
Total withdrawn shares net of re-placements		**3,767,903**

The Right of Withdrawal requires that after the business combination has been approved by the Meeting of Shareholders of SPAXS, the shareholders who did not approve the business combination can exercise their rights, upon payment of a liquidation amount to be determined in accordance with the bylaws and Article 2437B (3) of the Italian civil code. The Right of Withdrawal only relates to the ordinary shares and therefore any shareholder who decides to exercise the Right of Withdrawal will continue to hold the Conditional Share Rights combined with the Ordinary Shares covered by the Right of Withdrawal that were issued on the Trading Start Day.

The liquidation value of the ordinary shares in the event of exercise of the Right of Withdrawal, under the terms of the bylaws and in accordance with Article 2437-b, (3) of the Italian civil code is determined on the basis of the value of the company's assets and in particular, the size of the Restricted Sums. The directors have assumed that the liquidation value of the ordinary shares being withdrawn is EUR 10 per share, as described in the "Board of Directors' report on the liquidation value in favour of the withdrawing shareholders of SPAXS S.p.A. in accordance with Article 2437-B of the Italian civil code, of 18 July 2018.

Acquisition of BIP and reverse merger

The following assumptions were also used, consistent with the assessments conducted by the management with respect to the compliance of these provisional accounting methods with IFRS 3::

- it was considered that the value of all the issuer's shares would be EUR 56 million, based on the provisions of the contracts made between SPAXS and the Bank's previous shareholders. Those agreements provide for the acquisition of a controlling stake in 99.2% in BPI shares, which would be paid, as to 79.9% in cash, with the remaining 19.3% to be paid by means of newly issued SPAXS shares to be paid through the conferment of shares in the Issuer;
- the difference between the purchase price of the Issuer's shares, considering both the portion paid in cash and the portion paid in shares of the Issuer and the corresponding share of the Issuer's book net equity on the acquisition date, is provisionally entered as goodwill in the assets on the balance sheet in accordance with IFRS 3. According to IFRS 3, goodwill represents the excess cost paid for the acquisition over and above the fair value of the assets (including identifiable intangible assets) acquired and the liabilities and contingent liabilities assumed.

  The Issuer's net book value as at 30 September 2018, the closing date nearest to the relevant date for the application of IFRS 3 (20 September 2018), was used to provisionally determine the goodwill.This value was not adjusted to represent the fair value of the assets and liabilities recognised in the balance sheet of BIP as at 30 September 2018 at values other than fair value (such as loans to customers and banks, securities issued and other financial liabilities) as it is believed that the accounting value of said items was a reasonable approximation of fair value. In addition, in order to calculate goodwill, the significant accounting effects between the acquisition date of 20 September 2018 and the reference date of the financial situation of 30 September 2018, were considered.

  In detail, the significant effects regarded the change in fair value of HTCS securities between the two dates. Such securities, which did not experience any changes in the period between 20 and 30 September 2018, and were already accounted for at fair value in the reference statement at 30 September 2018, were adjusted to fair value at 20 September 2018. Due to the deterioration in the spread on Italian government bonds from 20 to 30 September 2018 and the resulting decline in market prices, this adjustment had a positive effect on the value at which the net assets were initially recognised in SPAXS's consolidated financial statements as at 30 September 2018, amounting to EUR 1,496 thousand net of the relative tax effect.

Likewise, the value of initial recognition of HTC securities was adjusted to the fair value inferable from market prices on 20 September 2018. The above-mentioned HTC securities were identified on a preliminary basis as the most significant component of the net assets acquired, and were not recognised in the reference accounting statement at fair value. The HTC securities that did not experience any fluctuation between 20 and 30 September 2018 are indeed accounted for in the reference statement at amortised cost; the recognition of the relative fair value, considering the prices of Italian government bonds, thus had a negative effect on the net assets at the acquisition date equal to EUR 7,628 thousand net of the relative tax effect.

The equity of the Issuer recognised in the reference accounting statement as at 30 September 2018 includes a payment for a future share capital increase of EUR 50 million, made by the shareholder SPAXS in the period between 20 and 30 September 2018. This amount was thus reversed on a preliminary basis from the equity of Banca Interprovinciale and eliminated as a balancing entry to the acquisition cost.

On 31 December 2017, no adjustment was made to the net equity of the Issuer with reference to the above-mentioned adjustments relating to the HTCS and HTC security, as, on the financial statements to 31 December 2017 those securities had been recognised in accordance with IAS 39 under Available for sale, and therefore they followed different measurement and classification criteria compared to IFRS 9 according to which those securities were recognised in 2018.

The purchase cost for 99.165% of the Issuer's shares was EUR 55.6 million and was determined considering the consideration in cash (EUR 44.7 million) and the fair value of the component settled by means of SPAXS shares (EUR 10.9 million).

At 30 September 2018, SPAXS used the partial goodwill method to determine goodwill on a provisional basis.

The table below summarises the results of the process of allocating the price at fair value of the net assets acquired and the preliminary goodwill calculation.

Note that the differences between the book net equity of the Issuer on 31 December 2017, 30 June 2018 and 30 September 2018 and the value of the net equity on the acquisition date are charged to the item "Other liabilities" in accordance with the principles for preparing Pro-Forma Statements.

Description		Amounts in millions of Euro		
		31 December 2017	30 June 2018	30 September 2018
Book net equity of the Issuer (100%)	A	60.1	51.0	90.3
Adjustments:				
Future capital increase payment	B	-	-	(50.0)
Fair value of HTC securities at 20 September 2018, net of the relative tax effect	C	-	(7.6)	(7.6)
Change in fair value of HTCS securities from 20 September to 30 September 2018, net of the relative tax effect	D	-	1.5	1.5
Total adjustments	E=B+C+D	-	(6.1)	(56.1)
Preliminary fair value of net assets acquired	F=A-E	60.1	44.9	34.2
Minority interests	G=F*0.835%	0.5	0.4	0.3
Preliminary fair value of net assets acquired	H	34.2	34.2	34.2
Percentage of the Issuer's share capital held by SPAXS	I	99.165%	99.165%	99.165%
Preliminary fair value of net assets acquired attributable to SPAXS	K=H*I	33.9	33.9	33.9
Cash purchase of Issuer's shares (79.9%)	L	44.7	44.7	44.7
Purchase of Issuer's shares with SPAXS shares (19.3%)	M	10.9	10.9	10.9
Issuer acquisition cost	N=L+M	55.5	55.5	55.5
Provisional goodwill	O=N-K	21.6	21.6	21.6
Other liabilities	P=(F-G)+O-N	25.7	10.6	0.0

- various non-recurring costs connected to the placement of Ordinary Shares have been considered, for a total of EUR 10,506,000 (EUR 7,032,000 net of fiscal effect), for which it was assumed that the bank commission of EUR 10,035,000 would be paid in cash at the same time as the Material Transaction, while the remainder would be entered under Other liabilities;
- it was assumed that the reverse merger of SPAXS into the Issuer had been completed, with the consequential recognition (i) of the fiscal effects at a corporation tax (IRES) rate of 27.5%, (ii) of the fiscal benefit from the economic growth incentive (ACE) calculated on the basis of the 1.5% rate in force in 2018, and (ii) the deferred taxation relating to the tax loss realised by SPAXS;
- it was assumed that SPAXS would be unable to deduct VAT and consequently the VAT relating to the costs incurred by SPAXS has been charged as a cost on the income statement, or recognised under other liabilities; if the company carries out VAT-liable activities in the future, it may carry the VAT as a deduction on the costs incurred;

The effects that may result from the allocation of the price paid in accordance with IFRS 3 may differ, even significantly, from the preliminary values stated in the attached Pro-Forma Consolidated Statements, depending on the fair value of the assets acquired and the liabilities accepted, including the potential liabilities. The future income statements will also reflect the effects of those allocations, not included in the attached pro-forma income statement.

Other assumptions used in the Pro-Forma Consolidated Statements.

The following effects were also considered, when preparing the Pro-Forma Consolidated Statements:

- it was assumed that the Rent for the building in Via Ferrante Aporti, Milan, would be invoiced to SPAXS with the applicable VAT rate. The amount of the rent was determined by linearisation of the rising amounts provided for in the contract;

- a provisional business structure was considered, which does not take into account the costs of implementing the new information systems and increasing staffing levels.

In preparing the Pro-Forma Statements no consideration was given to the following items, as they were considered to be insignificant or of an amount that cannot currently be determined:

- some of the structural costs pertaining to SPAXS operational holding company mainly including the adjusted costs relating to the fees paid to the executive bodies after the business combination;
- the financial income from the investment of funds obtained through placement of the Ordinary Shares and the SPAXS Conditional Share Rights and the Initial Funds;
- the acquisition of the NPL Portfolios completed by the Issuer to date, considering that the Issuer does not have the full historical data relating to the receipts from the debt recovery, nor does it have historical income data for the NPL portfolios given the nature of those assets and the fact that the non-performing loans do not generate interest in the financial statements of the banks from which they were acquired. The Issuer believes that including such information may be inaccurate, not significant or potentially misleading as those effects would, as far as the income is concerned, be based on prospective earning expectations and not on actual or objectively measurable data;
- the proposed acquisition of Neprix, approved by the Issuer's Board of Directors on 30 October 2018, as that company was recently incorporated - in December 2017 – and this only consists of infra group operations. The Neprix financial statements for the six months ended 30 June 2018 and the nine-month period ended 30 September 2018 showed, respectively, total assets of EUR 169,000 and EUR 191,000 and income - only earned in relation to SPAXS - of EUR 225,000 and EUR 455,000. For these reasons, also taking into account the cancellation of relations between the two companies, the inclusion of Neprix on the Pro-Forma Statements was not considered significant.

20.2.2 Pro-Forma Statements as at 31 December 2017

Presentation of adjusted Pro-Forma Statements as at 31 December 2017

The pro-forma financial position as at 31 December 2017 presents, respectively:

(i) in the first column (i), headed "SPAXS", the SPAXS Financial Position;

(ii) in the second column (ii), headed "BIP", the BIP 2017 Financial Statements;

(iii) the third column (iii), named "Aggregate", shows the values resulting from the addition of columns (i) and (ii);

(iv) the fourth column (iv), headed "Adjustments", shows the pro-forma adjustments relating to the placement of the ordinary shares and Conditional Share Rights, and to the SPAXS Promoter Companies Capital Increase between January and February 2018, net of the fiscal effects;

(v) the fifth column (v), headed "Withdrawal", shows the pro-forma adjustments relating to the effects of the holders of SPAXS ordinary shares exercising their Right of Withdrawal;

(vi) the sixth column (v), headed "Acquisition", shows the pro-forma adjustments relating to the effects of the acquisition by SPAXS of 99.2% of the BIP shares;

(vii) the seventh column (vii), headed "Consolidation and reverse merger", shows the pro-forma adjustments relating to the effects of the consolidation of BIP into SPAXS and the reverse merger of SPAXS into BIP;

(viii) the eighth column (viii), headed "Pro-Forma", shows the pro-forma illimity data resulting from the sum of columns (iii) to (vii).

Pro-forma balance sheet as at 31 December 2017

(In thousands of Euro)		SPAXS (i)	BIP (ii)	Aggregate (iii)	PRO-FORMA ADJUSTMENTS				PRO-FORMA (viii)
					Adjustments (iv)	Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
10	Cash and cash equivalents	13	26,926	26,939	37	–	–	–	26,976
20	Financial assets at fair value through profit or loss	–	214	214	–	–	–	–	214
	a) financial assets held for trading	–	115	115	–	–	–	–	115
	b) financial assets designated at fair value	–		–	–	–	–	–	–
	c) financial assets subject to mandatory fair-value valuation	–	99	99	–	–	–	–	99
30	Financial assets at fair value through other comprehensive income	–	553,511	553,511	–	–	–	–	553,511
40	Financial assets at amortised cost	–	479,389	479,389	607,915	(37,679)	(44,739)	–	1,004,886
	a) due from banks	–	99,044	99,044	607,915	(37,679)	(44,739)	–	624,541
	b) trade receivables	–	380,345	380,345	–	–	–	–	380,345
50	Hedging derivatives	–	–	–	–	–	–	–	–
60	Adjustments in value of generic hedging financial assets (+/-)	–	–	–	–	–	–	–	–
70	Equity investments	–	–	–	–	–	55,532	(55,532)	–
80	Technical reinsurance reserves	–	–	–	–	–	–	–	–
90	Property and equipment	–	1,652	1,652	–	–	–	–	1,652
100	Intangible assets	–	7	7	–	–	–	21,643	21,650
	Of which goodwill	–	–	–	–	–	–	*21,643*	*21,643*
100	Tax assets	14	6,285	6,299	3,474	–	–	–	9,773
	a) current	–	2,995	2,995	–	–	–	–	2,995
	b) deferred	14	3,290	3,304	3,474	–	–	–	6,778
120	Non-current assets and groups of assets held for disposal	–	–	–	–	–	–	–	–
130	Other assets	–	6,429	6,429	–	–	–	–	6,429
	Total assets	**27**	**1,074,413**	**1,074,440**	**611,426**	**(37,679)**	**10,793**	**(33,889)**	**1,625,091**

	(In thousands of Euro)	**SPAXS (i)**	**BIP (ii)**	**Aggregate (iii)**	**Adjustments (iv)**	**PRO-FORMA ADJUSTMENTS**			**PRO-FORMA (viii)**
						Withdrawal (v)	**Acquisition (vi)**	**Consolidation and reverse merger (vii)**	
10	Financial liabilities at amortised cost	–	999,601	999,601	–	–	–	–	999,601
	a) due to banks	–	470,623	470,623	–	–	–	–	470,623
	b) due to customers	–	434,543	434,543	–	–	–	–	434,543
	c) Securities issued	–	94,435	94,435	–	–	–	–	94,435
20	Financial liabilities held for trading	–		–	–	–	–	–	–
30	Financial liabilities designated at fair value	–		–	–	–	–	–	–
40	Hedging derivatives	–		–	–	–	–	–	–
50	Adjustments in value of generic hedging financial liabilities (+/-)	–		–	–	–	–	–	–
60	Tax liabilities	–	3,717	3,717	–	–	–	–	3,717
	a) current	–	1,607	1,607	–	–	–	–	1,607
	b) deferred	–	2,110	2,110	–	–	–	–	2,110
70	Liabilities associated with non-current assets held for sale	–		–	–	–	–	–	–
80	Other liabilities	58	9,923	9,981	471			25,679	36,131
90	Severance pay	–	586	586	–	–	–	–	586
100	Provisions for risks and charges:	–	516	516	–	–	–	–	516
	a) commitments and guarantees issued	–	202	202	–	–	–	–	202
	b) pensions and similar obligations	–		–	–	–	–	–	–
	c) other provisions for risks and charges	–	315	315	–	–	–	–	315
170	Share capital	13	43,377	43,390	61,787	–	981	(62,781)	43,377
	Reserves	(44)	16,693	16,649	549,168	(37,679)	9,812	3,213	541,163
	Equity	(31)	60,070	60,039	610,955	(37,679)	10,793	(59,568)	584,540
	Total liabilities and net equity	**27**	**1,074,413**	**1,074,440**	**611,426**	**(37,679)**	**10,793**	**(33,889)**	**1,625,091**

Description of pro-forma adjustments as at 31 December 2017

The following pro-forma adjustments have been recognised:

Adjustments

- Increase of EUR 37,000 in cash and cash equivalents due to the settlement of amounts payable to shareholders for the fractions due on the SPAXS share capital at the time of formation, assumed as paid as of 31 December 2017;
- an increase of EUR 607.9 million in bank receivables, relating to the proceeds from the placement of ordinary shares and the SPAXS Conditional Share Rights, and to the Promoter Companies Capital Increase, net of commission paid to placement banks, of EUR 10.1 million;

- an increase of EUR 3.5 million relating to the recognition of tax on commission paid to the placement banks, of EUR 3.3 million, and the recognition of tax on consulting costs in relation to the placement of the Ordinary Shares, of EUR 0.2 million;
- an increase of EUR 0.5 million in other liabilities, relating to the consulting costs pertaining to the placement of Ordinary Shares, which were assumed not to have been settled as of 31 December 2017;
- an increase of EUR 611 million in group net equity, due to the effects of the assets and liabilities described above.

Withdrawal

- a reduction of EUR 37.7 million in bank receivables, equal to the pro-forma monetary expense resulting from the exercise of the right of Withdrawal on 3,767,903 and a liquidation amount of EUR 10;
- a reduction of EUR 37.7 million in reserves, reflecting the Company's acquisition of the own shares indicated above, for a total of EUR 37.7 million.

Acquisition

- an increase of EUR 55.5 million in the SPAXS stake in BIP, relating to SPAXS' acquisition of 99.2% of the shareholding in BIP through a part-cash settlement for which the remainder was paid through a capital increase reserves for the BIP selling shareholders;
- a reduction of EUR 44.7 million in bank receivables, following the above acquisition, for the portion of the price paid in cash;
- an increase of EUR 10.8 million in group net equity relating to the effect of the capital increase reserved for the BIP selling shareholders in order to acquire the share of the target for the part paid in shares, equal to EUR 10.8 million.

Consolidation and reverse merger

- a decrease of EUR 55.5 million in the SPAXS shareholding in BIP following the elimination of BIP net equity on 31 December 2017 of EUR 60.1 million, recognition of goodwill of EUR 21.6 million;
- an increase in reserves and decrease of the minority interest net equity totalling EUR 0.5 million in order to eliminate the third-party interest as a result of the reverse merger of SPAXS into BIP;
- an increase in reserves and decrease of the share capital of EUR 19.4 million in order to reflect the results of the reverse merger of SPAXS into BIP.

20.2.3 Pro-Forma Statements as at 30 June 2018

Presentation of adjusted Pro-Forma Statements as at 30 June 2018

The Pro-Forma Statements show, respectively:

(i) in the first column (i), headed "SPAXS", the SPAXS Interim Financial Statements 1H 2018;

(ii) in the second column (ii), headed "BIP", the BIP Interim Financial Statements 1H 2018;

(iii) the third column (iii), named "Aggregate", shows the values resulting from the addition of columns (i) and (ii);

(iv) the fourth column (iv), "Adjustments", shows the pro-forma adjustments relating: (1) to the fiscal effects relating to the costs of placement and the other listing costs, (2) to the costs of ordinary management net of the related fiscal effect, (3) to the reclassification of listing costs, which were deferred to show them as if they had already been paid in cash (4) to the recognition of the fiscal benefit deriving from the economic growth incentive (ACE) and recognition of the deferred taxes pertaining to the SPAXS fiscal loss;

(v) the fifth column (v), headed "Withdrawal", shows the pro-forma adjustments relating to the effects of the holders of SPAXS ordinary shares exercising their Right of Withdrawal;

(vi) the sixth column (v), headed "Acquisition", shows the pro-forma adjustments relating to the effects of the acquisition by SPAXS of 99.2% of the BIP shares;

(vii) the seventh column (vii), headed "Consolidation and reverse merger", shows the pro-forma adjustments relating to the effects of the consolidation of BIP into SPAXS and the reverse merger of SPAXS into BIP;

(viii) the eighth column (viii), headed "Pro-Forma", shows the pro-forma illimity data resulting from the sum of columns (iii) to (vii).

Finally, in reference to the cashflow statement it should be noted that the item "Changes in the pro-forma income statement not reflected in the pro-forma financial position" indicate the cash flows not reflected in the pro-forma financial position in order to match the figures relating to end-of-period cash assets to the date given in the pro-forma statement of financial position; as already mentioned, the pro-forma statement of financial position reflects the execution of the Operation on 30 June 2018, while the pro-forma cashflow statement shows the effects as if it took place on 1 January 2018, as required by the CONSOB communication no. DEM/1052803 of 5 July 2001.

Pro-forma balance sheet as at 30 June 2018

		SPAXS (i)	BIP (ii)	Aggregate (iii)	PRO-FORMA ADJUSTMENTS				PRO-FORMA (viii)
					Adjustments (iv)	**Withdrawal (v)**	**Acquisition (vi)**	**Consolidation and reverse merger (vii)**	
10	Cash and cash equivalents	-	16,811	16,811	-	-	-	-	16,811
20	Financial assets at fair value through profit or loss	-	29,489	29,489	-	-	-	-	29,489
	a) financial assets held for trading	-	29,390	29,390	-	-	-	-	29,390
	b) financial assets designated at fair value	-	-	-	-	-	-	-	-
	c) financial assets subject to mandatory fair-value valuation	-	99	99	-	-	-	-	99
30	Financial assets at fair value through other comprehensive income	-	425,247	425,247	-	-	-	2,235	427,482
40	Financial assets at amortised cost	613,698	541,997	1,155,695	(6,667)	(37,679)	(44,739)	(11,396)	1,055,214
	a) due from banks	613,698	76,975	690,673	(6,667)	(37,679)	(44,739)		601,588
	b) trade receivables		465,022	465,022	-	-	-	(11,397)	453,625
50	Hedging derivatives	-	-	-	-	-	-	-	-
60	Adjustments in value of generic hedging financial assets (+/-)	-	-	-	-	-	-	-	-
70	Equity investments	-	-	-			55,532	(55,532)	-
80	Technical reinsurance reserves	-	-	-	-	-	-	-	-
90	Property and equipment	6	1,857	1,863	-	-	-	-	1,863
100	Intangible assets	-	5	5	-	-	-	21,643	21,648
	Of which goodwill	-	-	-	-	-	-	*21,643*	*21,643*
110	Tax assets	-	8,001	8,001	3,474	-	-	3,030	14,505
	a) current	-	1,435	1,435	-	-	-	-	1,435
	b) deferred	-	6,566	6,566	3,474	-	-	3,030	13,070
120	Non-current assets and groups of assets held for disposal	-	-	-	-	-	-	-	-
130	Other assets	9	12,414	12,423	-	-	(4,483)	-	7,940
	Total assets	**613,713**	**1,035,821**	**1,649,534**	**(3,193)**	**(37,679)**	**6,310**	**(40,020)**	**1,574,952**

		SPAXS (i)	BIP (ii)	Aggregate (iii)	PRO-FORMA ADJUSTMENTS				PRO-FORMA (viii)
					Adjustments (iv)	Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
10	Financial liabilities at amortised cost	-	965,909	965,909	-	-	-	-	965,909
	a) due to banks	-	367,110	367,110	-	-	-	-	367,110
	b) due to customers	-	496,063	496,063	-	-	-	-	496,063
	c) Securities issued	-	102,736	102,736	-	-	-	-	102,736
20	Financial liabilities held for trading	-	-	-	-	-	-	-	-
30	Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
40	Hedging derivatives	-	-	-	-	-	-	-	-
50	Adjustments in value of generic hedging financial liabilities (+/-)	-	-	-	-	-	-	-	-
60	Tax liabilities	-	978	978	-	-	-	-	978
	a) current	-	451	451	-	-	-	-	451
	b) deferred	-	527	527	-	-	-	-	527
70	Liabilities associated with non-current assets held for sale	-	-	-	-	-	-	-	-
80	Other liabilities	9,825	17,090	26,915	(6,667)		-	10,616	30,864
90	Severance pay	-	546	546	-	-	-	-	546
100	Provisions for risks and charges:	-	287	287	-	-	-	-	287
	a) commitments and guarantees issued	-	57	57	-	-	-	-	57
	b) pensions and similar obligations	-	230	230	-	-	-	-	230
	c) other provisions for risks and charges	-	-	-	-	-	-	-	-
170	Share capital	61,800	43,377	105,177	-	-	981	(62,781)	43,377
	Reserves	542,088	7,634	549,722	3,474	(37,679)	5,329	12,145	532,991
	Equity	603,888	51,011	654,899	3,474	(37,679)	6,310	(50,636)	576,368
	Total liabilities and net equity	**613,713**	**1,035,821**	**1,649,534**	**(3,193)**	**(37,679)**	**6,310**	**(40,021)**	**1,574,952**

Pro-forma income statement for the six months ending as at 30 June 2018

		SPAXS (i)	BIP (ii)	Aggregate (iii)	PRO-FORMA ADJUSTMENTS				PRO-FORMA (viii)
					Adjustments (iv)	Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
10	Interest and similar income	245	7,111	7,356	-	-	-	794	8,150
	of which interest income calculated using the effective interest method	-	4,798	4,798	-	-	-	-	4,798
20	Interest and similar expense	-	(2,051)	(2,051)	-	-	-	-	(2,051)
30	Net interest income	245	5,060	5,305	-	-	-	794	6,099
40	Fee and commission income	-	2,408	2,408	-	-	-	-	2,408
50	Fee and commission expense	-	(270)	(270)	-	-	-	-	(270)
60	Net fee and commission income	-	2,138	2,138	-	-	-	-	2,138
70	Dividends and similar income	-	-	-	-	-	-	-	-
80	Net trading result	-	(706)	(706)	-	-	-	-	(706)
90	Net hedging result	-	-	-	-	-	-	-	-
100	Profit (loss) from sale or repurchase of:	-	1,936	1,936	-	-	-	-	1,936
	a) financial assets at amortised cost	-	-	-	-	-	-	-	-
	b) financial assets at fair value through other comprehensive income	-	1,936	1,936	-	-	-	-	1,936
	c) financial liabilities	-	-	-	-	-	-	-	-
110	Net profit (loss) from other financial assets and liabilities at fair value through profit or loss	-	127	127	-	-	-	-	127
	a) financial assets and liabilities designated at fair value	-	-	-	-	-	-	-	-
	b) other financial assets mandatorily at fair value	-	127	127	-	-	-	-	127
120	Brokerage margin	245	8,556	8,801	-	-	-	794]	9,595
130	Net write-downs/write-backs for credit risk of:	-	(1,216)	(1,216)	-	-	-	-	(1,216)
	a) financial assets at amortised cost	-	(1,115)	(1,115)	-	-	-	-	(1,115)
	b) financial assets at fair value through other comprehensive income	-	(101)	(101)	-	-	-	-	(101)
140	Gains/losses from contract amendments without cancellations	-	-	-	-	-	-	-	-
150	Net operating profit (loss)	245	7,340	7,585	-	-	-	794	8,379
160	Net premiums	-	-	-	-	-	-	-	-
170	Balance of other income/ costs from insurance management	-	-	-	-	-	-	-	-
180	Net result of financial and insurance management	-	-	-	-	-	-	-	-
190	Administrative expenses:	(3,888)	(6,426)	(10,314)	(2,409)	-	(4,483)	-	(17,206)
	a) personnel expenses	(39)	(2,849)	(2,888)	(1,536)				(4,424)

		SPAXS (i)	BIP (ii)	Aggregate (iii)	PRO-FORMA ADJUSTMENTS				PRO-FORMA (viii)
					Adjustments (iv)	Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
	b) other administrative expenses	(3,849)	(3,577)	(7,426)	(873)		(4,483)		(12,782)
200	Net provisions for risks and charges	-	(82)	(82)	-	-	-	-	(82)
	a) commitments and guarantees issued		5	5	-	-	-	-	5
	b) other net accruals		(87)	(87)	-	-	-	-	(87)
210	Impairment of tangible assets	(1)	(111)	(112)	-	-	-	-	(112)
220	Net impairment losses on intangible assets	-	(2)	(2)	-	-	-	-	(2)
230	Other operating costs/ income		356	356	-	-	-	-	356
240	**Operating expense**	**(3,889)**	**(6,264)**	**(10,153)**	**(2,409)**	**-**	**(4,483)**	**-**	**(17,045)**
250	Gains (losses) from equity investments			-	-	-	-	-	-
260	Net result of fair-value valuation of tangible and intangible assets			-	-	-	-	-	-
270	Goodwill impairment			-	-	-	-	-	-
280	Gains (losses) from disposal of investments		(2)	(2)	-	-	-	-	(2)
290	**Profit (loss) from current operations inclusive of taxes**	**(3,643)**	**1,074**	**(2,569)**	**(2,409)**	**-**	**(4,483)**	**794**	**(8,668)**
300	Income taxes on current operations		(393)	(393)	3,073	(78)		(263)	2,340
310	**Profit (loss) from current operations net of taxes**	**(3,643)**	**681**	**(2,962)**	**664**	**(78)**	**(4,483)**	**531**	**(6,328)**
320	Profit (loss) from disposed operations net of taxes	-	-	-	-	-	-	-	-
330	**Profit (loss) for the year**	**(3,643)**	**681**	**(2,962)**	**664**	**(78)**	**(4,483)**	**531**	**(6,328)**
	of which non-recurring				*247*	*(78)*	*(4,483)*		*(4,314)*

Pro-forma cash flow statement for the six months ending as at 30 June 2018

	SPAXS (i)	BIP (ii)	Aggregate (iii)	PRO-FORMA ADJUSTMENTS				PRO-FORMA (viii)
				Adjustments (iv)	Withdrawal (v)	Acquisition (vi)	Consolidation and reverse merger (vii)	
Net cash generated/absorbed by operations	369	(10,432)	(10,063)	1,939	(78)	(4,483)	531	(12,154)
Net cash generated/absorbed by investment activities	(607,900)	317	(607,583)	–	37,679	–	–	(569,904)
Net cash generated/absorbed by funding activities	607,531	–	607,531	–	(37,679)	–	–	569,852
Changes to pro-forma income statement not reflected in pro-forma balance sheet	–	–	-	(1,939)	78	4,483	(531)	2,091
NET CASH GENERATED (USED) IN THE PERIOD	**-**	**(10,115)**	**(10,115)**	**–**	**–**	**–**	**–**	**(10,115)**
Cash and cash equivalents at start of year	–	26,926	26,926	–	–	–	–	26,926
Total net cash generated/absorbed during the year	-	(10,115)	(10,115)	–	–	–	–	(10,115)
Cash and cash equivalents: effect of changes in exchange rates	–	–	-	–	–	–	–	-
Cash and cash equivalents at end of year	-	16,811	16,811	–	–	–	–	16,811

Description of pro-forma adjustments as at 30 June 2018

The following pro-forma adjustments have been recognised:

- on the pro-forma balance sheet:

  Adjustments

  – reclassification of bank commission included under deferred listing costs, of EUR 6.7 million, to reduce the Other liabilities and financial assets valued at amortised cost item, on the assumption that that amount would be paid in cash on the reference date of the pro-forma balance sheet;

  – an increase of EUR 3.5 million relating to the recognition of tax on commission paid to the placement banks, of EUR 3.3 million, and the recognition of tax on consulting costs in relation to the placement of the Ordinary Shares, of EUR 0.2 million;

  – an increase of EUR 3.5 million in net equity, due to the effects of the assets described above.

  Withdrawal

  – a reduction of EUR 37.7 million in bank receivables, equal to the pro-forma monetary expense resulting from the exercise of the right of Withdrawal on 3,767,903 and a liquidation amount of EUR 10;

  – a reduction of EUR 37.7 million in the share premium reserves, to reflect the cancellation of the SPAXS ordinary shares relating to withdrawing shareholders, as per the SPAXS meeting of shareholders' decision of 8 August 2018.

Acquisition

- an increase of EUR 55.5 million in the SPAXS stake in BIP, relating to SPAXS' acquisition of 99.2% of the shareholding in BIP through a part-cash settlement for which the remainder was paid through a capital increase reserves for the BIP selling shareholders;
- a reduction of EUR 44.7 million in bank receivables, following the above acquisition, for the portion of the price paid in cash;
- an increase of EUR 10.8 million in group net equity relating to the effect of the capital increase reserved for the BIP selling shareholders in order to acquire the share of the target for the part paid in shares, equal to EUR 10.8 million.
- a reduction in other assets and a reduction in reserves of EUR 4.5 million, relating to consulting services aimed at sourcing new investors.

Consolidation and reverse merger

- a decrease of EUR 55.5 million in the SPAXS shareholding in BIP following the elimination of BIP net equity of EUR 51.0 million, recognition of goodwill of EUR 21.6 million;
- an increase in financial assets valued at fair value through comprehensive income of EUR 2.2 million to reflect the change in fair value of HTCS securities for the period 20 September 2018 to 30 September 2018. Such securities, which did not experience any changes in the period between 20 and 30 September 2018, and were already accounted for at fair value in the reference statement at 30 September 2018, were adjusted to fair value at 20 September 2018. Due to the deterioration in the spread on Italian government bonds from 20 to 30 September 2018 and the resulting decline in market prices, this adjustment had a positive effect on the value at which the net assets were initially recognised as part of the process of allocating the purchase cost to the net assets acquired;
- decrease in financial assets at amortised cost of EUR 11.4 million to adjust the value of initial recognition of HTC securities to the fair value inferable from market prices on 20 September 2018, as part of the purchase price allocation process. The HTC securities that did not experience any fluctuation between 20 and 30 September 2018 are accounted for in the reference statement at amortised cost; the recognition of the relative fair value, considering the prices of Italian government bonds, thus had a negative effect on the net assets at the acquisition date;
- an increase of EUR 3 million in tax assets, relating to the fiscal effects of the previous paragraphs;
- an increase in reserves and decrease of the share capital of EUR 19.4 million in order to reflect the results of the reverse merger of SPAXS into BIP;
- an increase in reserves and decrease of the minority interest net equity totalling EUR 0.4 million in order to eliminate the third-party interest as a result of the reverse merger of SPAXS into BIP;

• on the pro-forma income statement:

Adjustments

- an increase of EUR 1.5 million in personnel cost, to reflect the non-recurring costs relating to the extraordinary operation during the period;
- an increase of EUR 0.9 million in admin costs to reflect the cost of the Rent at Ferrante Aporti;

- a reduction of EUR 3.1 million in taxes, relating to the impact of the fiscal effects of the above adjustments, of EUR 0.8 million, the recognition of deferred taxes on the SPAXS losses, of EUR 1 million, and the recognition of the tax break from the economic growth incentive, of EUR 1.3 million.

Withdrawal

- an increase of EUR 0.1 million in taxes, relating to the adjusted tax break from the economic growth incentive (ACE) following the exercise of the right of withdrawal by the holders of SPAXS Ordinary Shares.

Acquisition

- an increase in admin costs of EUR 4.5 million, relating to consulting services aimed at sourcing new investors.

Consolidation and reverse merger

- increase in interest income of EUR 0.8 million to reflect the higher interest deriving from the application of the different effective interest rate recalculated considering the different carrying amount in the consolidated financial statements of the HTC and HTCS securities as a result of the purchase price allocation process and the effective interest rate of the HTC and HTCS securities used in the Issuer's accounting statement as at 30 June 2018;
- an increase of EUR 0.3 million in taxes, relating to the fiscal effect of the adjustment referred to above.

• on the pro-forma cash flow statement:

Adjustments

- an increase in the item "Cash generated/absorbed by operations" of EUR 1.9 million to reflect the cash generated by operations, in reference to the adjustments described above.

Withdrawal

- an increase in the item "Cash generated/absorbed by operations" of EUR 0.1 million to reflect the cash generated by operations, in reference to the adjustments described above;
- an increase in the item "Cash generated/absorbed by investment activity" and a reduction in the item "Cash generated/absorbed by funding activity" of EUR 37.7 million, to reflect the cash generated by investment activity, in reference to the adjustments described above.

Acquisition

- an increase in the item "Cash generated/absorbed by operations" of EUR 4.5 million to reflect the cash absorbed by operations, in reference to the adjustments described above.

Consolidation and reverse merger

- an increase in the item "Cash generated/absorbed by operations" of EUR 0.5 million to reflect the cash generated by operations, in reference to the adjustments described above.

20.2.4 Pro-Forma Statements as at 30 September 2018

Presentation of adjusted Pro-Forma Statements as at 30 September 2018

The Pro-Forma Statements show, respectively:

(i) in the first column (i), headed "SPAXS consolidated", the SPAXS Interim Financial Statements 9M 2018;

(ii) the second column (iv), "Adjustments", shows the pro-forma adjustments relating: (1) to the fiscal effects relating to the costs of placement and the other listing costs, (2) to the costs of ordinary management net of the related fiscal effect, (3) to the reclassification of listing costs, which were deferred to show them as if they had already been paid in cash (4) to the recognition of the fiscal benefit deriving from the economic growth incentive (ACE) and recognition of the deferred taxes pertaining to the SPAXS fiscal loss;

(iii) the third column (v), headed "Withdrawal", shows the pro-forma adjustments relating to the effects of the holders of SPAXS ordinary shares exercising their Right of Withdrawal;

(iv) the fourth column (vii), headed "Reverse merger", shows the pro-forma adjustments relating to the effects of the consolidation of BIP into SPAXS;

(v) the fifth column (v), headed "Pro-Forma", shows the pro-forma illimity data resulting from the sum of columns (i) to (iv).

Finally, in reference to the cash flow statement it should be noted that the item "Changes in the pro-forma income statement not reflected in the pro-forma financial position" indicate the cash flows not reflected in the pro-forma financial position in order to match the figures relating to end-of-period cash assets to the date given in the pro-forma statement of financial position; as already mentioned, the pro-forma statement of financial position reflects the execution of the Operation on 30 September 2018, while the pro-forma cash flow statement shows the effects as if it took place on 1 January 2018, as required by the CONSOB communication no. DEM/1052803 of 5 July 2001.

Pro-forma balance sheet as at 30 September 2018

		SPAXS consolidated (i)	PRO-FORMA ADJUSTMENTS			PRO-FORMA (v)
			Adjustments (ii)	Withdrawal (iii)	Reverse merger (iv)	
10	Cash and cash equivalents	76,596	-	-		76,596
20	Financial assets at fair value through profit or loss	29,392	-	-		29,392
	a) financial assets held for trading	29,293	-	-		29,293
	b) financial assets designated at fair value	-	-	-		-
	c) financial assets subject to mandatory fair-value valuation	99	-	-		99
30	Financial assets at fair value through other comprehensive income	291,596	-	-		291,596
40	Financial assets at amortised cost	1,039,138	(6,667)	(37,679)		994,792
	a) due from banks	592,609	(6,667)	(37,679)		548,263
	b) trade receivables	446,529	-	-		446,529
50	Hedging derivatives	-	-	-		-
60	Adjustments in value of generic hedging financial assets (+/-)	-	-	-		-
70	Equity investments	-				-
80	Technical reinsurance reserves	-	-	-		-
90	Property and equipment	1,842	-	-		1,842
100	Intangible assets	21,648	-	-		21,648
	Of which goodwill	*21,643*	-	-		*21,643*
110	Tax assets	14,092	3,475	-		17,567
	a) current	1,383	-	-		1,383
	b) deferred	12,709	3,475	-		16,184
120	Non-current assets and groups of assets held for disposal	-	-	-		-
130	Other assets	15,214	-	-		15,214
	Total assets	**1,489,518**	**(3,192)**	**(37,679)**	**-**	**1,448,647**

		SPAXS consolidated (i)	PRO-FORMA ADJUSTMENTS			PRO-FORMA (v)
			Adjustments (ii)	Withdrawal (iii)	Reverse merger (iv)	
10	Financial liabilities at amortised cost	845,601	-	-		845,601
	a) due to banks	257,603	-	-		257,603
	b) due to customers	488,877	-	-		488,877
	c) Securities issued	99,121	-	-		99,121
20	Financial liabilities held for trading	-	-	-		-
30	Financial liabilities designated at fair value		-	-		-
40	Hedging derivatives	-	-	-		-
50	Adjustments in value of generic hedging financial liabilities (+/-)	-	-	-		-
60	Tax liabilities	335	-	-		335
	a) current	-	-	-		-
	b) deferred	335	-	-		335
70	Liabilities associated with non-current assets held for sale	-	-	-		-
80	Other liabilities	82,758	(6,667)	(50,909)		25,182
90	Severance pay	564	-	-		564
100	Provisions for risks and charges:	443	-	-		443
	a) commitments and guarantees issued	85	-	-		85
	b) pensions and similar obligations	358	-	-		358
	c) other provisions for risks and charges	-	-	-		-
170	Share capital	62,781	-	-	(19,404)	43,377
	Reserves	496,751	3,475	13,230	19,689	533,145
	Group net equity	559,532	3,475	13,230	285	576,521
	Net equity of minority interests	285	-	-	(285)	-
	Total liabilities and net equity	**1,489,518**	**(3,192)**	**(37,679)**	**-**	**1,448,647**

Pro-forma income statement for the six months ending as at 30 September 2018

		SPAXS consolidated (i)	PRO-FORMA ADJUSTMENTS			PRO-FORMA (v)
			Adjustments (ii)	Withdrawal (iii)	Reverse merger (iv)	
10	Interest and similar income	402	10,689	-	1,191	12,282
	of which interest income calculated using the effective interest method	-	*7,269*	-	-	*7,269*
20	Interest and similar expense	-	(3,101)	-	-	(3,101)
30	**Net interest income**	**402**	**7,588**	**-**	**1,191**	**9,181**
40	Fee and commission income	-	3,608	-	-	3,608
50	Fee and commission expense	-	(396)	-	-	(396)
60	**Net fee and commission income**	**-**	**3,212**	**-**	**-**	**3,212**
70	Dividends and similar income	-	-	-	-	-
80	Net trading result	-	(792)	-	-	(792)
90	Net hedging result	-	-	-	-	-
100	Profit (loss) from sale or repurchase of:	-	(8,684)	-	-	(8,684)
	a) financial assets at amortised cost	-	-	-	-	-
	b) financial assets at fair value through other comprehensive income	-	(8,684)	-	-	(8,684)
	c) financial liabilities	-	(0)	-	-	(0)

		SPAXS consolidated (i)	PRO-FORMA ADJUSTMENTS			PRO-FORMA (v)
			Adjustments (ii)	Withdrawal (iii)	Reverse merger (iv)	
110	Net profit (loss) from other financial assets and liabilities at fair value through profit or loss	-	127	-	-	127
	a) financial assets and liabilities designated at fair value	-	-	-	-	-
	b) other financial assets mandatorily at fair value	-	127	-	-	127
120	**Brokerage margin**	**402**	**1,451**	**-**	**1,191**	**3,044**
130	Net write-downs/write-backs for credit risk of:	-	(2,808)	-	-	(2,808)
	a) financial assets at amortised cost	-	(2,815)	-	-	(2,815)
	b) financial assets at fair value through other comprehensive income	-	7	-	-	7
140	Gains/losses from contract amendments without cancellations	-	-	-	-	-
150	**Net operating profit (loss)**	**-**	**(1,357)**	**-**	**1,191**	**(166)**
160	Net premiums	-	-	-	-	-
170	Balance of other income/costs from insurance management	-	-	-	-	-
180	**Net result of financial and insurance management**	**-**	**-**	**-**	**-**	**-**
190	Administrative expenses:	(8,245)	(17,257)	-	-	(25,502)
	a) personnel expenses	(233)	(6,240)	-	-	(6,473)
	b) other administrative expenses	(8,011)	(11,017)	-	-	(19,028)
200	Net provisions for risks and charges	-	-	-	-	-
	a) commitments and guarantees issued	-	-	-	-	-
	b) other net accruals	-	-	-	-	-
210	Impairment of tangible assets	(3)	(173)	-	-	(175)
220	Net impairment losses on intangible assets	-	(2)	-	-	(2)
230	Other operating costs/income	(0)	683	-	-	683
240	**Operating expense**	**(8,247)**	**(16,748)**	**-**	**-**	**(24,996)**
250	Gains (losses) from equity investments	-	-	-	-	-
260	Net result of fair-value valuation of tangible and intangible assets	-	-	-	-	-
270	Goodwill impairment	-	-	-	-	-
280	Gains (losses) from disposal of investments	-	(2)	-	-	(2)
290	**Profit (loss) from current operations inclusive of taxes**	**(7,846)**	**(18,107)**	**-**	**1,191**	**(24,762)**
300	Income taxes on current operations	-	9,072	(117)	(394)	8,562
310	**Profit (loss) from current operations net of taxes**	**(7,846)**	**(9,035)**	**(117)**	**797**	**(16,200)**
320	Profit (loss) from disposed operations net of taxes	-	-	-	-	-
330	**Profit (loss) for the year**	**(7,846)**	**(9,035)**	**(117)**	**797**	**(16,200)**
	of which non-recurring		*(4,124)*	*(117)*		*(4,241)*

Pro-forma cash flow statement for the six months ending as at 30 September 2018

	SPAXS consolidated (i)	PRO-FORMA ADJUSTMENTS Adjustments (ii)	Withdrawal (iii)	Reverse merger (iv)	PRO-FORMA (v)
Net cash generated/absorbed by operations	(400,009)	(9,035)	(51,025)	797	(459,272)
Net cash generated/absorbed by investment activities	(28,309)	–	37,679	–	9,370
Net cash generated/absorbed by funding activities	504,914	–	13,229	–	518,143
Changes to pro-forma income statement not reflected in pro-forma balance sheet	–	9,035	117	(797)	8,355
NET CASH GENERATED (USED) IN THE PERIOD	**76,596**	**–**	**–**	**–**	**76,596**
Cash and cash equivalents at start of year	–	–	–	–	–
Total net cash generated/absorbed during the year	76,596	–	–	–	76,596
Cash and cash equivalents: effect of changes in exchange rates	–	–	–	–	–
Cash and cash equivalents at end of year	76,596	–	–	–	76,596

Description of pro-forma adjustments as at 30 September 2018

The following pro-forma adjustments have been recognised:

- on the pro-forma balance sheet:

  Adjustments

  – reclassification of bank commission included under deferred listing costs, of EUR 6.7 million, to reduce the Other liabilities and financial assets valued at amortised cost item, on the assumption that that amount would be paid in cash on the reference date of the pro-forma balance sheet;

  – an increase of EUR 3.5 million relating to the recognition of tax on commission paid to the placement banks, of EUR 3.3 million, and the recognition of tax on consulting costs in relation to the placement of the Ordinary Shares, of EUR 0.2 million;

  – an increase of EUR 3.5 million in net equity, due to the effects of the assets described above.

  Withdrawal

  – a reduction of EUR 37.7 million in bank receivables, equal to the pro-forma monetary expense resulting from the exercise of the right of Withdrawal on 3,767,903 shares, and a liquidation amount of EUR 10;

  – a reduction of other liabilities by EUR 50.9 million in order to cancel out the maximum liability relating to all the shares covered by the exercise of the Right of Withdrawal recognised on the SPAXS consolidated financial statements as at 30 September 2018, as the actual expense resulting from the withdrawal is represented by the pro-forma adjustment referred to above;

  – an increase of EUR 13.2 million in reserves, to reflect the effects of the previous paragraphs.

  Reverse merger

  – an increase in reserves and decrease of the share capital of EUR 19.4 million in order to reflect the results of the reverse merger of SPAXS into BIP;

  - an increase in reserves and decrease of the minority interest net equity totalling EUR 0.3 million in order to eliminate the third-party interest as a result of the reverse merger of SPAXS into BIP;
- on the pro-forma income statement:

  Adjustments

  - inclusion of the BIP Income Statement income statement for the nine months ending as at 30 September 2018;
  - an increase of EUR 1.3 million in Other admin costs to reflect the recurring costs of ordinary management such as the costs of the Rent at Ferrante Aporti;
  - a reduction of EUR 9.1 million in taxes, relating to the impact of the fiscal effects of the above adjustments, of EUR 0.4 million, the recognition of deferred taxes on the SPAXS losses, of EUR 2.2 million, and the recognition of the tax break from the economic growth incentive, of EUR 1.9 million, and the taxes on the BIP interim position, as at 30 September 2018, of EUR 4.6 million.

  Withdrawal

  - an increase of EUR 0.1 million in taxes, relating to the adjusted tax break from the economic growth incentive (ACE) following the exercise of the right of withdrawal by the holders of SPAXS Ordinary Shares.

  Reverse merger

  - increase in interest income of EUR 1.2 million to reflect the higher interest deriving from the application of the different effective interest rate recalculated considering the different carrying amount in the consolidated financial statements of the HTC and HTCS securities as a result of the purchase price allocation process and the effective interest rate of the HTC and HTCS securities used in the Issuer's accounting statement as at 30 September 2018;
  - an increase of EUR 0.4 million in taxes, relating to the fiscal effect of the adjustment referred to above;
- on the pro-forma cash flow statement:

  Adjustments

  - an increase in the item "Cash generated/absorbed by operations" of EUR 9 million to reflect the cash absorbed by operations, in reference to the adjustments described above.

  Withdrawal

  - an increase in the item "Cash generated/absorbed by operations" of EUR 51 million to reflect the cash generated by operations, in reference to the adjustments described above;
  - an increase in the item "Cash generated/absorbed by investment activity" of EUR 37.7 million and a reduction in the item "Cash generated/absorbed by funding activity" of EUR 13.2 million, to reflect the cash generated by investment activity, in reference to the adjustments described above.

  Reverse merger

  - an increase in the item "Cash generated/absorbed by operations" of EUR 0.8 million to reflect the cash generated by operations, in reference to the adjustments described above.

20.3. Annual financial statements

20.3.1. Issuer's financial statements for past years

The Prospectus contains the information taken from the Issuer's individual financial statements for the years ending 31 December 2017 and 2015 and the consolidated financial statements for the year ending 31 December 2016.

On 18 July 2016 BIP acquired control of Banca Emilveneta. The consolidated financial statements to 31 December 2016 were prepared as a result of that operation. Subsequently, in a deed of merger of 2 August 2017, and in execution of the respective meeting resolutions, Banca Emilveneta was merged by incorporation into BIP. There was thus no need to prepare consolidated financial statements to 31 December 2017.

20.4. Audit of financial information from past years

20.4.1. Declaration confirming that the financial information from past years has been audited

The Issuer's individual financial statements for the years ending 31 December 2017, 2016 and 2015 were legally audited by Deloitte, which issued its reports (without reservations) on 3 April 2018, 12 April 2017 and 10 February 2016 (for the respective reports reference should be made to the Appendix).

20.4.2. Other information in the Prospectus checked by the auditors

Apart from the information taken from the Issuer's financial statements for the years ending 31 December 2017, 2016 and 2015 and from the financial position pertaining to the period ending 30 September 2018, the Prospectus does not include other information of the Issuer that has undergone a full or limited audit by the firms responsible for providing a legal audit of the Bank's accounts: Deloitte and KPMG.

20.4.3. Data taken from sources other than the Issuer's financial statements

The prospectus also contains SPAXS financial information relating to the period from formation (20 December 2017) to 30 June 2018 and to the period from formation until 30 September 2018, taken from the SPAXS interim financial statements. They underwent a limited and full audit, respectively.

20.5. Date of latest financial information

The latest financial information contained in Chapter 20 of the Prospectus refers to the interim financial statements to 30 September 2018, approved by the Board of Directors on 12 November 2018.

20.6 Interim Financial Information as at 30 September 2018, 2017 and 31 December 2017

The tables below show the Issuer's financial position, results and cash flows for the nine months ended 30 September 2018 and 2017, and for the year ended 31 December 2017.

Following the entry into force of IFRS 9 on 1 January 2018 and the Issuer's decision not to restate the values of the previous period (a choice permitted by IFRS 9), the appropriate restatements were made to enable comparison with the previous period, which was prepared in compliance with IAS 39 and is presented in accordance with Bank of Italy Circular 262 (5th update of 22 December 2017).

Statement of Financial Position

The table below displays the assets and liabilities of BIP as at 30 September 2018 and 31 December 2017.

(Thousands of euros)	BIP			
	30 September 2018	**31 December (restated) 2017**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
Cash and cash equivalents	76,596	26,926	49,670	> 100%
Financial assets at fair value through profit or loss	29,392	214	29,178	> 100%
a) financial assets held for trading	29,293	115	29,178	> 100%
b) financial assets designated at fair value	-	-	-	-
c) other financial assets mandatorily at fair value	99	99	-	0%
Financial assets at fair value through other comprehensive income	289,361	553,511	(264,150)	(47.72%)
Financial assets at amortised cost	532,354	479,389	52,965	11.05%
a) due from banks	74,429	99,044	(24,615)	(24.85%)
b) due from customers	457,926	380,345	77,581	20.40%
Equity investments	-	-	-	-
Property and equipment	1,810	1,652	158	9.56%
Intangible assets	5	7	(2)	(28.57%)
of which:				
Goodwill	-	-	-	-
Tax assets	11,062	6,285	4,777	76.01%
a) current	1,383	2,995	(1,612)	(53.82%)
b) deferred	9,679	3,290	6,389	> 100%
Other assets	15,189	6,429	8,760	> 100%
Total assets	**955,769**	**1,074,413**	**(118,644)**	**(11.04%)**
Financial liabilities at amortised cost	845,601	999,601	(154,000)	(15.41%)
a) due to banks	257,603	470,623	(213,020)	(45.26%)
b) due to customers	488,877	434,543	54,334	12.50%
c) securities issued	99,121	94,435	4,686	4.96%
Tax liabilities	335	3,717	(3,382)	(90.99%)
a) current	-	1,607	(1,607)	(100.00%)
b) deferred	335	2,110	(1,775)	(84.12%)
Other liabilities	18,520	9,923	8,597	86.64%
Severance pay	564	586	(22)	(3.75%)
Provisions	443	516	(73)	(14.15%)
a) commitments and guarantees issued	85	202	(117)	(57.92%)
c) other provisions	358	315	43	13.65%
Valuation reserves	(5,196)	2,631	(7,827)	(> 100%)
Reserves	64,589	10,662	53,927	> 100%
Share capital	43,377	43,377	-	0%
Profit (loss) for the year	(12,464)	3,399	(15,863)	(> 100%)
Non-controlling interests		-	-	-
Total liabilities and equity	**955,769**	**1,074,413**	**(118,644)**	**(11.04%)**

The figures at 31 December 2017 (determined in accordance with IAS 39) have been restated on the basis of the new line items arising from the reclassifications made necessary under the new classification criteria introduced by IFRS 9, which therefore did not lead to any changes in terms of total assets and total liabilities. These consist of aggregate restatements of items included in the statement of financial position as required by Circular 262/2005 of the Bank of Italy - 5th revision of 22 December 2017.

Income Statement

The table below displays the results of BIP for the nine-month periods ended 30 September 2018 and 2017.

(Thousands of euros)	BIP			
	30 September		Changes 2018 vs 2017	Changes 2018 vs 2017
	2018	2017 (restated)		
Interest and similar income	10,689	11,436	(747)	(6.53%)
of which interest income calculated using the effective interest method	7,269	8,524	(1,255)	(14.72%)
Interest and similar expense	(3,101)	(3,393)	292	(8.61%)
Net interest income	**7,588**	**8,043**	**(455)**	**(5.66%)**
Fee and commission income	3,608	3,240	368	11.36%
Fee and commission expense	(396)	(424)	28	(6.60%)
Net fee and commission income	**3,212**	**2,816**	**396**	**14.06%**
Net profit (loss) from trading activities	**(792)**	**910**	**(1,702)**	**(>100%)**
Profits (losses) on sale or repurchase of:	(8,684)	1,672	(10,356)	(>100%
a) financial assets at amortised cost	-	-	-	-
b) financial assets at fair value through other comprehensive income	(8,684)	1,673	(10,357)	(>100%)
c) financial liabilities	-	(1)	1	(100.00%)
Net profit (loss) from other financial assets and liabilities at fair value through profit or loss	127	(527)	654	(>100%)
a) financial assets and liabilities designated at fair value	-	-	-	-
b) other financial assets mandatorily at fair value	127	(527)	654	(>100%)
Brokerage margin	**1,451**	**12,914**	**(11,463)**	**(88.76%)**
Net impairment losses:	(2,808)	(993)	(1,815)	>100%
a) financial assets at amortised cost	(2,815)	(993)	(1,822)	>100%
b) financial assets at fair value through other comprehensive income	7	-	7	-
Net operating profit (loss)	**(1,357)**	**11,921**	**(13,278)**	**(>100%)**
Administrative expenses:	(15,947)	(7,356)	(8,591)	>100%
a) personnel expenses	(6,240)	(3,582)	(2,658)	74.20%
b) other administrative expenses	(9,707)	(3,774)	(5,933)	>100%
Net accruals to provisions	(237)	(149)	(88)	59.06%
a) commitments and guarantees issued	(23)	(36)	13	(36.11%)
b) other net accruals	(214)	(113)	(101)	89.38%
Impairment of tangible assets	(173)	(83)	(90)	>100%
Net impairment losses on intangible assets	(2)	(2)	-	0.00%
Other operating income and expense	683	676	7	1.04%
Operating expense	**(15,675)**	**(6,913)**	**(8,762)**	**>100%**
Goodwill impairment	-	-	-	-
Profits (losses) on the sale of investments	(2)	-	(2)	-
Profit (loss) from continuing operations before taxes	**(17,034)**	**5,008**	**(22,042)**	**(>100%**
Income tax on profit (loss) from continuing operations	4,569	(1,777)	6,346	(>100%
Profit (loss) from continuing operations after taxes	**(12,464)**	**3,230**	**(15,694)**	**(>100%)**
Profit (loss) for the year	**(12,464)**	**3,230**	**(15,694)**	**(>100%)**

The figures at 30 September 2017 (determined in accordance with IAS 39) have been restated on the basis of the new line items arising from the reclassifications made necessary under the new classification criteria introduced by IFRS 9, which therefore did not lead to any changes in terms of total assets and total liabilities.These consist of aggregate restatements of items included in the statement of financial position as required by Circular 262/2005 of the Bank of Italy - 5th revision of 22 December 2017.

Statement of comprehensive income

The table below displays BIP's statement of comprehensive income for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017 (restated)		
Profit (loss) for the year	**(12,464)**	**3,230**	**(15,695)**	**(>100%)**
Other comprehensive income after taxes that will not be reclassified to profit or loss:				
Equity instruments designated at fair value through other comprehensive income	5	4	2	42.48%
Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-	-	-
Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	-
Property and equipment	-	-	-	-
Intangible assets	-	-	-	-
Defined-benefit plans	17	-	17	-
Non-current assets and groups of assets held for disposal	-	-	-	-
Share of valuation reserves of investments measured at equity	-	-	-	-
Other comprehensive income after taxes that may be reclassified to profit or loss			-	-
Hedging of foreign investments	-	-	-	-
Exchange differences	-	-	-	-
Cash flow hedging	-	-	-	-
Hedging instruments (elements not designated)			-	-
Financial assets (other than equity instruments) at fair value through other comprehensive income	(9,601)	451	(10,053)	(>100%)
Non-current assets and groups of assets held for disposal	-	-	-	-
Share of valuation reserves of investments measured at equity	-	-	-	-
Total other comprehensive income after taxes	**(9,580)**	**455**	**(10,035)**	**(>100%)**
Comprehensive income	**(22,044)**	**3,685**	**(25,729)**	**(>100%)**

The data as at 30 September 2017 (determined in accordance with IAS 39) have been redirected to the new accounting items as per the reclassifications required based on the new classification criteria introduced by IFRS 9, which do not therefore result in any changes to the total assets or total liabilities. These are aggregates that have been restated in the statement of financial position as envisaged by Bank of Italy Circular 262/2005 - 5th update of 22 December 2017.

Statement of changes in Equity

The table below displays the statement of changes in equity of BIP for the nine-month periods ended 30 September 2018 and 2017.

• *30 September 2018*

(Thousands of euros)	Balances at 31/12/2017	Change in opening balances	Balances at 01/01/2018	Allocation of the previous year's result		Changes during the year								Shareholders' equity at 30.09.2018
							Transactions on equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Acquisition of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 30.09.2018	
Share capital:	**43,377**	**-**	**43,377**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**43,377**
a) ord. shares	43,377	-	43,377	-	-	-	-	-	-	-	-	-	-	43,377
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reserves:	**10,662**	**530**	**11,192**	**3,399**	**-**	**50,000**	**(3)**	**-**	**-**	**-**	**-**	**-**	**-**	**64,589**
a) profit	8,078	530	8,608	3,399	-	-	(3)	-	-	-	-	-	-	12,005
b) other	2,584	-	2,584	-	-	50,000	-	-	-	-	-	-	-	52,584
Valuation reserves	**2,631**	**1,753**	**4,384**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9,580)**	**(5,196)**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) for the year	**3,399**	**-**	**3,399**	**(3,399)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(12,464)**	**(12,464)**
SHAREHOLDERS' EQUITY	**60,070**	**2,283**	**62,353**	**-**	**-**	**50,000**	**(3)**	**-**	**-**	**-**	**-**	**-**	**(22,044)**	**90,306**

• *30 September 2017*

(Thousands of euros)	Balances at 31/12/2016	Change in opening balances	Balances at 01/01/2017	Allocation of the previous year's result		Changes during the year								Shareholders' equity at 30.09.2018
							Transactions on equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Acquisition of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 30.09.2017	
Share capital:	**40,000**	**-**	**40,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40,000**
a) ord. shares	40,000	-	40,000	-	-	-	-	-	-	-	-	-	-	40,000
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reserves:	**7,087**	**-**	**7,087**	**1,501**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,587**
a) profit	7,087	-	7,087	1,501	-	-	-	-	-	-	-	-	-	8,587
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	**2,188**	**-**	**2,188**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**455**	**2,643**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) for the year	**1,501**	**-**	**1,501**	**(1,501)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,230**	**3,230**
SHAREHOLDERS' EQUITY	**50,775**	**-**	**50,775**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,685**	**54,460**

Statement of cash flows prepared using the indirect method

The table below displays the statement of cash flows of BIP for the nine-month periods ended 30 September 2018 and 2017.

(Thousands of euros)	BIP			
	30 September		Changes	Change %
	2018	2017	2018 vs 2017	2018 vs 2017
A. OPERATING ACTIVITIES				
1. Operations	**(4,233)**	**3,050**	**(7,283)**	**(>100%)**
- result for the period (+/-)	(12,464)	3,230	(15,694)	(>100%)
- gains/losses on financial assets held for trading and on assets/ liabilities at fair through profit or loss (-/+)	822	-	822	-
- gains/losses on hedging activities (-/+)	-	-	-	-
- net value adjustments for credit risk (+/-)	2,324	1,317	1,007	76.45%
- net impairment of tangible and intangible assets (+/-)	175	85	90	>100%
- net accruals to provisions and other income/expense (+/-)	343	194	149	76.65%
- taxation and unsettled tax credits (+)	4,568	(1,777)	6,345	(>100%)
- impairment of groups of operating assets net of the tax effect (-/+)	-	-	-	-
- other adjustments (+/-)	-	-	-	-
2. Cash flows from financial assets	**160,414**	**(127,860)**	**288,274**	**(>100%)**
- financial assets held for trading	(30,000)	-	(30,000)	-
- financial assets designated at fair value	-	-	-	-
- financial assets mandatorily at fair value	(99)	-	(99)	-
- financial assets at fair value through other comprehensive income	318,552	(78,989)	397,541	(>100%)
- financial assets at amortised cost	(109,592)	(51,401)	(58,191)	>100%
- other assets	(18,447)	2,530	(20,977)	(>100%)
3. Cash flows from financial liabilities	**(106,843)**	**123,913**	**(230,756)**	**(>100%)**
- financial liabilities at amortised cost	(154,001)	122,105	(276,106)	(>100%)
- financial liabilities held for trading	-	-	-	-
- financial liabilities designated at fair value	-	-	-	-
- other liabilities	47,158	1,808	45,350	>100%
Cash from (used in) operating activities	**49,338**	**(898)**	**50,236**	**(>100%)**
B. INVESTING ACTIVITIES				
1. Cash from	**-**	**1**	**(1)**	**(100.00%)**
- sales of equity investments	-	-	-	-
- dividends received from investees	-	-	-	-
- sales of property and equipment	-	1	(1)	(100.00%)
- sales of intangible assets	-	-	-	-
- sales of businesses	-	-	-	-
2. Cash used by	**332**	**(131)**	**463**	**(>100%)**
- purchases of equity investments	-	(12)	12	(100.00%)
- purchases of property and equipment	332	-	332	-
- purchases of intangible assets	-	(118)	118	(100.00%)
- purchases of businesses	-	(1)	1	(100.00%)
Net cash from (used in) investing activities	**332**	**(131)**	**463**	**(>100%)**
C. FINANCING ACTIVITIES				
- issue/purchase of treasury shares	-	-	-	-

(Thousands of euros)	BIP			
	30 September		Changes	Change %
	2018	2017	2018 vs 2017	2018 vs 2017
- issue/purchase of equity instruments	-	-	-	-
- dividend distribution and other purposes	-	(800)	800	(100.00%)
Cash from (used in) financing activities	**-**	**(800)**	**800**	**(100.00%)**
NET CASH GENERATED (USED) IN THE PERIOD	**49,670**	**(1,828)**	**51,498**	**(>100%)**

Reconciliation *(Thousands of euros)*	30 September		Changes	Change %
	2018	2017	2018 vs 2017	2018 vs 2017
Cash and cash equivalents at the beginning of the period	26,926	27,812	(886)	(3.18%)
Net increase in cash and cash equivalents in the period	49,670	(1,828)	51,498	(>100%)
Cash and cash equivalents at the end of the period	76,596	25,984	50,612	>100%

The figures at 30 September 2017 have been restated on the basis of the new items required by the 5th revision of Circular 262/2005 of the Bank of Italy without leading to any change in the cash generated/absorbed during the period.

20.6.1 Summary of accounting policies

The main accounting principles and criteria used to prepare the BIP 9M 2018 Interim Financial Statements at 30 September 2018 are described below.

20.6.1.1. Statement of compliance with international accounting standards

The Interim Financial Statements at 30 September 2018 were prepared in compliance with IAS 34 Interim Financial Reporting, with reference to Circular 262/2005 of the Bank of Italy as subsequently updated and in accordance with the recognition and measurement criteria set out by the IAS/IFRS issued by the International Accounting Standards Board (IASB) and with the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission.

The only exception to the above is compliance with the general assumptions of the "Framework for the Preparation and Presentation of Financial Statements" (hereinafter the "Framework"). Although the Framework explains the basic concepts of preparing and presenting financial statements, it has not been adopted at the time of writing. Nevertheless, the entire Framework offers a basis for evaluating how to resolve accounting problems and is particularly important in cases where there is no IAS or SIC that applies specifically to a given item.

Indeed, in such cases, where there is no standard or interpretation that applies specifically to a transaction, or other event or circumstance, in accordance with the provisions of the IAS, Management has used its professional judgement to prepare and apply an accounting methodology based on the following sources:

- the provisions and application guidelines contained in IAS standards and interpretations dealing with similar or related cases;
- the definitions and general recognition and measurement criteria set out in the IASB's Framework;

- the most recent provisions issued by other accounting standards bodies that use a similar conceptual framework to develop accounting standards;
- other accounting literature;
- tried-and-tested accounting practices.

20.6.1.2. General preparation criteria

The Interim Financial Statements at 30 September 2018 are based on the following general preparation principles set out by IAS 1:

(i) Going concern

Assets, liabilities and off-balance-sheet transactions are measured assuming the entity will continue in operation for the foreseeable future. More information can be found in the "Main risks and uncertainties" section of the Directors' Report.

(ii) Accrual basis of accounting

Costs and revenues are recognised in accordance with the matching principle, regardless of when they are settled.

(iii) Consistency of presentation

The presentation and classification of items is maintained over time to ensure that information is comparable, unless specified otherwise in an International Accounting Standard or an Interpretation, or unless a change is required to improve the meaningfulness and reliability of the amounts reported. Where possible, any new presentation or classification criterion should be applied retroactively; in such a case, the nature and reason for the change, as well as the items affected, should also be described. Once again, the items are presented and classified based on the formats prepared by the Bank of Italy for bank financial statements with Circular 262/2005 as subsequently amended and supplemented, and in compliance with IAS 1.

(iv) Materiality and aggregation

Each material class of similar items is presented separately. Items that are dissimilar in terms of their nature or use are aggregated only if they are individually immaterial.

(v) Offsetting

Assets and liabilities, costs and revenues are not offset unless required or permitted by an International Accounting Standard or an Interpretation, or by the Bank of Italy's regulations for the preparation of bank financial statements.

(vi) Comparative information

Comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements, unless an International Accounting Standard or an Interpretation requires or permits otherwise. Any descriptive information that facilitates understanding of the data published is also included.

(vii) Framework

The application of international accounting standards also refers to the "Framework for the Preparation and Presentation of Financial Statements" (the "Framework"), even though it has not been adopted, particularly with regard to the fundamental clauses on financial statement preparation concerning the principle of substance over form, the specifically required concepts of the relevance and materiality of the above information, and the other premises that underlie the presentation of financial statements. The Framework is not an International Accounting Standard, and the latter should prevail in the event of a conflict, but it has been approved by the Board and was adopted by the IASB in April 2001, and as such it helps to shape future Standards and to review existing ones.

The Interim Financial Statements at 30 September 2018 have been prepared using the same recognition and measurement criteria for components of the statement of financial position and income statement envisaged by the IAS/IFRS used to prepare the Financial Statements at 31 December 2017, except for the application of the new IFRS 9 and IFRS 15; the same criteria will be used to prepare the Financial Statements at 31 December 2018.

The financial statements have been laid out in compliance with the provisions of the 5th revision of Circular 262/05, whereas the Financial Statements at 31 December 2017 were laid out in accordance with the different provisions of the 4th revision. Pursuant to IAS 1 Presentation of Financial Statements, the statement of financial position and income statement data for the periods being compared have been reclassified to the new financial statement items using the methodology set out below.

20.6.1.3. Transition to the new accounting standards IFRS 9 and IFRS 15

<u>Accounting standards IFRS 9 and IFRS 15</u>

Introduction

As of 1 January 2018, IFRS 9 Financial Instruments replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The IASB set about replacing IAS 39 primarily in order to respond to concerns that emerged during the financial crisis surrounding how quickly impairment losses on financial assets are recognised. IFRS 9 was published by the IASB on 24 July 2014 and adopted at EU level via publication in the Official Gazette of the European Union of Regulation (EU) No 2016/2067 of 22 November 2016.

As of 1 January 2018, IFRS 15 Revenue from Contracts with Customers replaces IAS 18 Revenue and IAS 11 Construction Contracts as well as IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services. IFRS 15 was published by the IASB on 28 May 2014 and adopted at EU level via publication in the Official Gazette of the European Union of Regulation (EU) No 2016/1905 of 22 September 2016.

The Interim Financial Statements were prepared in application of the provisions of IFRS 9 and IFRS 15. The purpose of this paragraph is to provide adequate disclosure on the transition from IAS 39 Financial Instruments: Recognition and Measurement and IAS 18 Revenue, the provisions of which were applied up to 31 December 2017, to IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers respectively.

Along with a description of the transition process and the qualitative and quantitative impacts of their first-time adoption, this paragraph therefore provides an overview of the most significant aspects of the two new standards.

As provided for expressly in Legislative Decree 38/2005, the Bank of Italy, having retained its powers to define the financial statements and notes thereto, issued the 5th revision of Circular 262/05 "Banks' financial statements: layout and preparation" on 22 December 2017 in order to adopt the new elements arising from application of the new standards.

IFRS 9: the three pillars

IFRS 9 is broken down into three areas: classification and measurement, impairment and hedge accounting.

(i) Classification and measurement

The financial asset categories envisaged by IAS 39 have been replaced by new categories into which financial assets are classified (and measured) based on the business model for how they are managed as well as their objective characteristics.

IAS 39 categories	**IFRS 9 categories**
Fair Value Through Profit or Loss (FVTPL)	Fair Value Through Profit or Loss (FVTPL)
Available For Sale (AFS)	Fair Value Through Other Comprehensive Income (FVOCI)
Held To Maturity (HTM) Loans & Receivables (L&R)	Amortised Cost (AC)

(ii) Impairment

The so-called incurred loss model has been replaced by a model based on expected credit loss (ECL); this is a significant change and the fundamental reason behind the new accounting standard.

(iii) Hedge Accounting

The general framework set out in IAS 39 has been replaced by a new one that aims to better reflect management's risk management policies in financial reporting. Non-financial institutions in particular are expected to benefit from this change.

FTA IFRS 9 impact summary: Equity

1 January 2018 is the date of initial application of IFRS 9, so the effects of the new standard on book equity are shown as of that date, based on the fact that IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires that the effects of the transition are recognised in the appropriate equity reserves. The primary aim of this is to reconstruct the impact that there would have been on equity had the provisions of the newly applied standards been adopted on a continuing basis.

As at 1 January 2018, the impact on book equity of introducing the new standard was +2.3 million euros, net of the tax effect, comprising:

(1) +1.5 million euros from the application of the new classification and measurement rules

(2) +0.8 million euros from the reduction of funds based on the new impairment provisions;

FTA IFRS 9 impact summary: Expected credit loss

The transitional reduction in funds at 1 January 2018, as reported in the table below, is attributable to the new impairment provisions on cash and off-balance-sheet exposure to banks and customers.

IFRS 15

IFRS 15 Revenue from Contracts with Customers sets out the rules on measuring revenues deriving from contractual obligations with customers. IFRS 15 should be applied only if the counterparty is a customer. The customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

The entity must apply IFRS 15 to all contracts with customers, except for:
- leases within the scope of IAS 17 Leases;
- insurance contracts within the scope of IAS 4 Insurance Contracts;
- financial instruments and other contractual rights or obligations within the scope of: IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures;
- non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

IFRS 15: the pillars

The new accounting standard requires that revenues are recognised using an approach based on the following five steps:

(i) *identify the contracts with a customer*
the contract is an agreement between two or more parties that creates enforceable rights and obligations. The contract may be written, verbal or implicit based on the habitual commercial practices of the entity;

(ii) *identify the performance obligations in the contract*
an individual contract may contain the promise to deliver a good or service to the customer. When it recognises the contract, the entity estimates the goods or services that have been explicitly or implicitly promised therein and identifies each commitment to transfer a distinct good or service as a performance obligation.

(iii) *determine the transaction price*
the price is the amount the entity expects to receive in exchange for transferring goods or services to the customer. The price may be a fixed amount and may include variable or non-monetary components. With regard to variable components, the standard introduces potential elements of estimation in the calculation of the overall transaction price.

(iv) *allocate the transaction price to the performance obligations in the contracts*
where a contract has multiple performance obligations, an entity will allocate the transaction price to each performance obligation based on the standalone selling prices of each individual good or service contained in the contract. The selling price itself is the price at which the entity would separately sell the promised good or service to the customer. The

best indication of the selling price is the observable price of the good or service when the entity separately sells these in similar circumstances to similar customers;

(v) *recognise revenue when (or as) the entity satisfies a performance obligation*
revenue is recognised only when the customer obtains control of the transferred good or service.The revenue to be recognised is the amount allocated to the performance obligation that is satisfied at a point in time or over time. For performance obligations satisfied over time, the entity recognises revenue during that period of time using a suitable method for measuring the extent to which the performance obligation has been satisfied so far.

IFRS 15: impacts

Analysis was performed on the revenue from contracts with customers in the items "Fee and commission income", particularly with reference to the "Managed assets" components, "Monetics" and services associated with current account operations and "Other operating income". This analysis showed that these items were already accounted for in line with the provisions of the new standard, meaning that the introduction of IFRS 15 has no impact on equity.

Transition to IFRS 9

Classification

With regard to the classification of financial assets, IFRS 9 contains two main criteria:
(i) the business model adopted to manage the financial assets;
(ii) the characteristics of the contractual cash flows from the financial assets.

Business model

Banca Interprovinciale has defined its own business models after carefully analysing the methods used to manage the financial instruments in order to generate cash flows, broadly confirming the financial instrument portfolio management strategy conducted under IAS 39, added to the adoption of the HTC model characterised by a management strategy built on long-term asset holding. In the course of December 2018, the Finance Regulation governing the management process as well as types of investments and delegations, was updated. In January 2018, information was presented to the Board of Directors concerning the investment strategies for 2019. In February, the operational activities relating to the investment strategies decided upon will be presented to the Board of Directors, in line with the provisions of the Risk Appetite Framework.

Held to Collect (HTC)

The aim of this business model is to hold an asset in order to collect the contractual cash flows over the lifetime of said asset. In view of the aforementioned management strategy underlying the HTC business model, the associated portfolio sales should be assessed appropriately. Pursuant to the standard, the following may be consistent with the HTC business model:

- sales of certain assets following an increase in credit risk;

- infrequent sales (even if high-value) or low-value sales, whether separate or aggregated (even if frequent);
- sales made close to the maturity of the financial asset if the sale proceeds are similar to the residual contractual cash inflows;
- sales made to meet an unexpected liquidity shortfall.

Internal Regulations are currently being brought into line with the standard, and they govern the "materiality" of the sales and the criteria for allowing sales executed for reasons other than those specifically covered by the standard and listed above.

The following have been assigned to the HTC business model:

- certain debt securities which, taking into account the banking book management strategies in the Development Plan and the characteristics of the securities themselves (e.g. their residual life), may be subjected to the management strategies of this business model and, therefore, have been reclassified for first-time adoption;
- the entire portfolio of loans and receivables due from customers and banks, given that the bank's primary business is that of traditional banking and it has a lending portfolio consisting of loans to families, individuals and businesses.

Held to Collect and Sell (HTC&S)

The twin aim of the HTC&S business model is to collect contractual cash flows and sell the financial assets. By definition, therefore, the business model provides for a number of sales, both more material and more frequent than under an HTC business model, without setting any limits on the frequency or materiality of these sales.

The HTC&S business model has been associated with debt securities that may be subjected to the management strategies of this business model, e.g. portfolios of securities held:

- to manage current liquidity requirements;
- to maintain a particular return profile.

The equity securities (classed as available-for-sale financial assets under IAS 39) that should be irrevocably classified at first-time adoption as fair value through other comprehensive income (that will not be reclassified to profit or loss) have been identified.

Others (FVTPL)

The entity adopts this business model when it makes decisions based on the fair value of financial assets and manages them with a view to realising them (typically by selling them) or, in any case, when the aim of the business model is not covered by those described above (HTC&S and HTC). The sales assigned to this business model are, typically, more frequent and more material compared with those under the HTC&S business model.

The following have been assigned to the Others business model:

- held-for-trading financial assets;

- units of open-ended or closed-ended investment funds, in accordance with the fact that the bank manages these assets with a view to selling them for the best possible price based on their fair value.
- equity securities, given the characteristics of these instruments.

With regard to the measurement of equity securities allocated to the Others business model, it was decided to apply the OCI election, namely the chance to measure equity securities at fair value through other comprehensive income, for securities belonging to the portfolio containing "long-term strategic equity investments", in the belief that this valuation method better reflects the purpose of the equity instrument and the reasons why it was purchased in the first place. Only the equity investment in Banca Carim has been assigned to the Other business model. In detail, the equity investment in Banca Carim was acquired in 2012 on the basis of a subscription value certified by independent third parties. Following impairment testing, the equity investment, totalling EUR 654 thousand at 31 December 2016, was written off, bringing the book value per share to zero.

Exercising this option entails measuring the financial instruments at fair value and then recognising any changes in fair value in the statement of comprehensive income (OCI), without transferring anything to the income statement (neither for impairment nor for gains or losses on any sale), other than dividends pertaining to these equity holdings.

Characteristics of contractual cash flows

IFRS 9 states that only financial assets whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (on the principal amount outstanding) may be classified as financial assets at amortised cost or financial assets at fair value through OCI. In order to check whether the assets have these characteristics, they are tested using the solely payments of principal and interest (SPPI) test and, in the presence of clauses including the modified time value of money, the benchmark test.

The qualitative SPPI test, which aims to check whether the asset provides for cash flows that are solely an expression of principal and interest, is carried out prior to classifying receivables and debt securities in the amortised cost and FVOCI categories. In other words, if an asset fails the test, it is classified in the FVTPL category.The quantitative benchmark test is an integral part of the SPPI test when the asset displays modified time value of money characteristics or where there is an imperfect relationship between the interest rate benchmark (e.g. 3-month Euribor) and the time-dependent reset (e.g. monthly payment). In this case, the aim of the test is to compare the materiality of difference cash flows compared with those of a benchmark instrument without modified time value of money characteristics. If an asset fails the test, it is classified in the FVTPL category.

SPPI test

For first-time adoption, it was determined that the portfolio of receivables and debt securities outstanding at 31 December 2017 should be analysed. Receivables were analysed by product type and financial conditions, with analysis taking place at individual relationship level where necessary. Debt securities were tested based on clusters of assets with the same characteristics. By default, the test is carried out during the product design phase; in the case of non-standard credit products, which are usually tailored to the specific requirements of the counterparty, the test is carried out for each individual relationship. For debt securities, the test is carried out for each individual security.

The test is carried out based on the answers to a decision-tree questionnaire, which determines whether the asset should be measured at amortised cost under the HTC system or at FVOCI under the HTC&S system.

Owing to the fairly standard and traditional nature of the banking activity, and based on their objective characteristics, on FTA all the receivables and debt securities passed the SPPI test and so there was no need to reclassify them among the FVTPL assets.

Benchmark test

For all the financial assets with contractual clauses requiring such a check, the benchmark test is performed using purpose-built calculation models that provide a result in any possible case of inconsistency/discrepancy between the contractual rate reset period and the corresponding payment period.

Financial liabilities

With regard to financial liabilities, the provisions of IAS 39 have been almost entirely transposed into IFRS 9. As was the case for IAS 39, in certain circumstances the standard allows entities to choose to measure financial liabilities at fair value through profit or loss (the fair value option, or FVO), although it does require changes in the fair value of the liabilities as a result of changes to the issuer's credit rating to be recognised in the statement of comprehensive income (OCI) rather than the income statement, unless said approach creates or amplifies an imbalance in the income statement, in which case the changes are recognised in the appropriate item of the income statement. The bank has not chosen to apply the FVO.

Derivatives

IFRS 9 has no effect on the classification of derivatives, which, in accordance with the provisions of IAS 39, continue to be recognised at fair value through profit or loss, except for cash flow hedges. The bank has never held any derivatives.

Impairment

The forward-looking impairment model under IFRS 9 requires credit losses to be recognised immediately even if they are only expected, unlike the provisions of IAS 39, pursuant to which credit losses are measured only if they derive from past events and current conditions. Unlike IAS 39, IFRS 9 provides for a single impairment model that should be applied to financial assets at amortised cost and financial assets at fair value through OCI (unlike equity securities where the entity decides to apply the OCI election) as well as to financial guarantees and funding commitments.

The most important aspects pertaining to the impairment of financial instruments (receivables and debt securities) measured at amortised cost or at FVOCI are:

- the stage allocation of the financial instruments according to whether there has been a significant increase in credit risk;
- the inclusion of forward-looking scenarios when defining the stage allocation and calculating expected credit loss (ECL). The standard defines expected credit losses as "the weighted average of credit losses with the respective risks of a default occurring as the weightings". The expected loss must be estimated considering the possible scenarios and therefore taking into account the best available information on past events, current conditions and supportable forecasts of future events (the forward-looking approach).

Stage allocation

Financial assets which are not impaired at the moment of purchase (or at origin) are divided into three stages and expected losses are recognised based on the stage assigned during the period in question.

Stage	**Status**	**ECL**
Stage 1	Performing financial assets that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date.	Measured as the expected credit loss in the next 12 months (the expected credit losses that result from default events that are possible within 12 months after the reporting date).
Stage 2	Performing financial assets that have had a significant increase in credit risk since initial recognition	Measured as the expected credit loss over the lifetime of the asset (the expected credit losses that result from all possible default events over the expected life of the financial instrument).
Stage 3	Non-performing financial assets	Measured as the expected credit loss over the lifetime of the asset (the expected credit losses that result from all possible default events over the expected life of the financial instrument).

The stage allocation model is based on an approach by individual relationship, or by tranche in the case of debt securities, and provides for the use of both qualitative and quantitative criteria to measure whether there has been a significant increase in credit risk between the asset's initial recognition date and the valuation date.

The staging rules adopted for credit exposures are as follows:

Stage 3	Stage 2	Stage 1
Non-performing credit exposures as defined in Circular 262/2005 of the Bank of Italy, the sum of impaired past-due exposures, unlikely-to-pay exposures and bad loans, as defined by the applicable supervisory measures.	Performing financial instruments that display one of the following variables: – exceeds 30 days past-due with materiality threshold; – concession of forbearance measures; – downgrade of issue rating, in terms of "delta notches", based on a comparison of synthetic credit risk indicators. Using this driver, it is possible to compare the degree of risk of each account at the inception date and at the reporting date. Specifically, in identifying the significant increase in credit risk (and thus the resulting transfer of the exposure to Stage 2), the Bank considers a downgrade of at least: – 3 notches for exposures with a rating at the origination date equal to the AAA, AA, A and BBB, BB, B classes; – 2 notches for exposures with a rating at the origination date equal to the CCC, CC and C classes.	Residual

With regard to debt securities, BIP has opted to apply the low credit risk exemption to investment grade securities in full compliance with the accounting standard. In other words, assets with a low credit risk as at the FTA date, in this case those marked as investment grade, are classified in Stage 1. If these securities should subsequently lose their investment grade status, they will be transferred to another stage only if there has been a significant increase in credit risk compared with the initial date of recognition.

The first-in first-out (FIFO) method has also been used to compare the original credit rating of each individual tranche of debt securities purchased with the credit rating assigned to it at the reporting date.

ECL estimation with inclusion of forward-looking scenarios

The following is specified with regard to the inclusion of forward-looking scenarios when calculating expected losses:

Stage	Forward-looking scenarios
Stages 1 and 2	With particular regard to the accounting standard's vision of incorporating forward-looking scenarios (including macroeconomic ones) into the estimate, satellite models have been developed in order to arrive at the estimate of PD curves conditioned by a multitude of macroeconomic scenarios, where the weighted average probability of each individual scenario corresponds to the values that should be used to calculate the expected losses. In particular, this is carried out using the Merton method. Once the through-the-cycle (TTC) transition matrix and point-in-time (PiT) matrix for the previous year have been estimated, the next step is to condition the latter to the macroeconomic cycle in order to obtain the PiT matrices for the next three years. With this in mind, satellite models should be used to relate the default rates to a series of macroeconomic factors. These models provide an estimate of the existing relationship between the default rates and a series of macroeconomic factors via several functional forms, such as: • Combination of ordinary least squares (OLS) regressions; • Partial adjustment models; • Autoregressive distributed lag models. In order to better capture the relationship between the dependent variable and the economic cycle, the models are also separated by geo-sectoral cluster. Since these are non-linear models, the new accounting standards require that expected losses are estimated for a multitude of macroeconomic scenarios in order to guarantee an unbiased estimate of a counterparty's future credit quality. To this end, a methodology has been developed which enables a range of possible future macroeconomic conditions to be taken into account when estimating the cumulative PD curves.
Stage 3	With particular reference to the inclusion of forward-looking elements in the estimation of the expected credit loss, it should be pointed out that the analytical measurement rules for "bad loan" positions, developed on the basis of the "gone concern" principle, include forward-looking elements in the estimation of impairment percentages for real estate pledged as collateral (estimated based on updated expert reports or the report by the court-appointed expert witness (CTU). When IFRS 9 was applied, there were no plans to sell off any receivables in stock, partly because NPLs account for a limited share of total portfolio receivables, and therefore no specific alternative exposure recovery scenarios were introduced. Obviously in the fullness of time, if the impaired-credit management strategy is changed to maximise cash flows, the ECL estimate will reflect, as well as recovery through ordinary credit management, the presence of selling scenarios and any resulting cash flows.

Purchased or originated credit-impaired (POCI)

Pursuant to IFRS 9, "purchased or originated credit-impaired financial assets" (POCI) are defined as exposures that are impaired when they are purchased or at origin, including if they result from a business combination.

In relation to these exposures, IFRS 9 states that:

- the estimate of expected credit loss is always quantified in accordance with the expected loss throughout the life of the financial instrument, with no possibility of switching to the 12-month expected loss if there is a significant improvement in the exposure's credit risk;
- book interest is calculated by applying the credit-adjusted effective interest rate (EIR), i.e. the rate at initial recognition which discounts all estimated future cash flows to the amortised cost of the asset, taking expected credit losses into account for the purpose of the estimate.

Hedge Accounting

IFRS 9 contains provisions relating to the general hedge accounting model, which aim to better reflect risk management policies in financial reporting. Among other things, therefore, the standard broadens the scope of risks for which hedge accounting of non-financial elements can be applied, removes the obligation to perform a quantitative effectiveness test, removes the requirement to retrospectively measure the effectiveness of the hedge, and removes the option to voluntarily revoke hedge accounting once it has been applied. In exchange for this greater flexibility, the new standard requires even more detailed disclosure about the risk management activities performed by the relevant function.

The standard does not address the accounting model for collective hedging of loan portfolios (macro hedging). On this subject, in April 2014 the IASB published a Discussion Paper entitled "Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging" which, in line with the dynamic interest rate risk management methods adopted by banks, outlines a possible approach (known as the portfolio revaluation approach) aiming to better reflect the dynamic nature of risk management in the entities' financial statements. Following observations received during the consultation phase, in July 2015 the IASB Board decided to retain the macro hedging project in the Research Programme, deferring preparation of the Exposure Draft until a further Discussion Paper has been drawn up.

On this basis, pending completion of the accounting standard relating to macro hedging, IFRS 9 allows the person responsible for preparing the financial statements to continue to apply the IAS 39 provisions on hedging policies. Pending the IASB's completion of the new rules on macro hedging, it remains possible to use the opt-out option, i.e. in line with the current procedures, to continue to apply the provisions of IAS 39 (carve out).

Banca Interprovinciale does not hedge risks.

Comparative financial statements

During the first-time adoption phase, IFRS 9 does not require comparative data for prior periods to be uniformly restated, and so therefore such data have not been prepared. In this regard, when it published the 5th revision of Circular 262/05 "Banks' financial statements: layout and preparation", the Bank of Italy specified that banks which do not produce uniform comparative data must include in their first financial statements prepared on the basis of this revision a reconciliation statement displaying the methodology used and reconcile the data from the most recently approved financial statements and the first financial statements prepared based on the new provisions. The competent corporate bodies are free to decide the form and content of this statement. See the "Reconciliation statements" below for more information.

The tables below provide statements of reconciliation between the statement of financial position at 31 December 2017 (pursuant to IAS 39), which incorporate the reclassifications determined by the new classification rules set forth by IFRS 9, described above, and the statement of financial position at 1 January 2018 (IFRS 9). In these statements, the accounting balances at 31 December 2017 (determined pursuant to IAS 39) are modified due to the application of the new measurement and impairment approaches, so as to determine the IFRS 9 compliant opening balances.

ASSETS	Reconciliation with financial statement item IAS 39	31/12/2017 IAS 39 restatement	FTA IFRS 9			01/01/2018 IFRS 9	IFRS 9 impacts
			Classification Impact	Measurement Impact	ECL Impact		
10. Cash and cash equivalents	A010)	26,926	–	–	–	26,926	–
20. Financial assets at fair value through profit or loss		115	99	–	–	214	99
a) financial assets held for trading	A020)	115	–	–	–	115	–
c) other financial assets mandatorily at fair value		–	99	–	–	99	99
30. Financial assets at fair value through other comprehensive income	A040)	607,906	(54,395)	2,193	–	555,704	(52,202)
40. Financial assets at amortised cost		425,093	54,296	–	1,067	480,456	55,363
a) due from banks	A060)	99,044	–	–	(123)	98,921	(123)
b) due from customers	A070)	326,049	54,296	–	1,190	381,535	55,486
80. Property and equipment	A120)	1,652	–	–	–	1,652	–
90. Intangible assets	A130)	7	–	–	–	7	–
100. Tax assets	A140)	6,285	–	(725)	103	5,663	(622)
a) current	A140) a)	2,995	–	–	–	2,995	–
b) deferred	A140) b)	3,290	–	(725)	103	2,668	(622)
120. Other assets	A160)	6,429	–	–	–	6,429	–
Total		**1,074,413**	**–**	**1,468**	**1,170**	**1,077,051**	**2,638**

LIABILITIES	Reconciliation with financial statement item IAS 39	31/12/2017 IAS 39 restatement	FTA IFRS 9			01/01/2018 IFRS 9	IFRS 9 impacts
			Classification Impact	Measurement Impact	ECL Impact		
10. Financial liabilities at amortised cost		999,601	–	–	–	999,601	–
a) due to banks	P010)	470,623	–	–	–	470,623	–
b) due to customers	P020)	434,543	–	–	–	434,543	–
c) securities issued	P030)	94,435	–	–	–	94,435	–
60. Tax liabilities		3,717	–	–	494	4,211	494
a) current	P080) a)	1,607	–	–	353	1,960	353
b) deferred	P080) b)	2,110	–	–	141	2,251	141
80. Other liabilities	P100)	10,125	(202)	–	–	9,923	(202)
90. Severance pay	P110)	586	–	–	–	586	–
100. Provisions:		315	202	–	(139)	378	63
a) commitments and guarantees issued		–	202	–	(139)	63	63
c) other provisions	P120) b)	315	–	–	–	315	–
110. Valuation reserves	P130)	2,631	–	1,468	285	4,384	1,753
140. Reserves	P160)	10,662	–	–	530	11,192	530
160. Share capital	P180)	43,377	–	–	–	43,377	–
180. Profit (loss) for the year (+/-)	P200)	3,399	–	–	–	3,399	–
Total		**1,074,413**	**–**	**1,468**	**1,170**	**1,077,051**	**2,638**

The table below summarises the impacts ascribable to Equity due to the first-time application of IFRS 9, quantified at a total of EUR -2.3 million, net of the tax effect. At 1 January 2018, Equity (pursuant to IFRS 9) amounted to EUR 62.4 million, up compared to equity at 31 December 2017 (pursuant to IAS 39) of EUR 60.1 million.

Equity	31/12/17 IAS 39	Measurement	ECL				01/01/2018 IFRS 9	IFRS 9 impacts
		Measurement at amortised cost of securities at fair value through equity	Financial assets at amortised cost Stage 1 / 2	Financial guarantees and commitments Stage 1 / 2	Financial assets at fair value through equity Stage 1 / 2	Tax impact		
110. Valuation reserves	2,631	1,468	-	-	426	(141)	4,384	1,753
140. Reserves	10,662	-	1,067	139	(426)	(250)	11,192	530
160. Share capital	43,377	-	-	-	-	-	43,377	-
180. Profit (loss) for the year	3,399	-	-	-	-	-	3,399	-
Total	**60,069**	**1,468**	**1,067**	**139**	**–**	**(391)**	**62,352**	**2,283**

The tables below provide a restatement of financial position balances at 31 December 2017 (IAS 39) in the new financial statement items (IFRS 9) pursuant to the 5th update of Bank of Italy circular 262.

RESTATEMENT OF FINANCIAL POSITION BALANCES AT 31 DECEMBER 2017 (PURSUANT TO IAS 39) IN THE NEW FINANCIAL STATEMENT ITEMS (PURSUANT TO IFRS 9) PURSUANT TO THE 5TH UPDATE OF BANK OF ITALY CIRCULAR 262

(Thousands of euros)	Circular 262/2005 5th update ASSETS (IFRS 9)											
	ASSETS (IFRS9)											
Circular 262/2005 4th update ASSETS (IAS 39)	**31/12/2017**	**10. Cash and cash equivalents**	**20. Financial assets at fair value through profit or loss**		**30. Financial assets at fair value through other comprehensive income**	**40. Financial assets at amortised cost**		**80. Property and equipment**	**90. Intangible assets**	**100. Tax assets**		**120. Other assets**
			a) financial assets held for trading	**c) other financial assets mandatorily at fair value**		**a) due from banks**	**b) due from customers**			**a) current**	**b) deferred**	
10. Cash and cash equivalents	26,926	26,926										
20. Financial assets held for trading	115		115									
40. Financial assets available for sale	607,906			99	553,511		54,296					
60. Due from banks	99,044					99,044						
70. Due from customers	326,049						326,049					
110. Property and equipment	1,652							1,652				
120. Intangible assets	7								7			
130. Tax assets	6,285											
a) current	2,995									2,995		
b) deferred	3,290										3,290	
b1) as per Law no. 214/2011	2,054											
150. Other assets	6,429											6,429
Total assets	**1,074,413**	**26,926**	**115**	**99**	**553,511**	**99,044**	**380,345**	**1,652**	**7**	**2,995**	**3,290**	**6,429**

RESTATEMENT OF FINANCIAL POSITION BALANCES AT 31 DECEMBER 2017 (PURSUANT TO IAS 39) IN THE NEW FINANCIAL STATEMENT ITEMS (PURSUANT TO IFRS 9) PURSUANT TO THE 5TH UPDATE OF BANK OF ITALY CIRCULAR 262

(Thousands of euros)		Circular 262/2005 5th update ASSETS (IFRS 9)												
		LIABILITIES (IFRS9)												
Circular 262/2005 4th update LIABILITIES (IAS 39)	31/12/2017	10.Financial liabilities at amortised cost			60. Tax liabilities		80. Other liabilities	90. Employees' leaving entitlement	100. Provisions:		110. Valuation reserves	140. Reserves	160. Share capital	180. Profit (loss) for the year (+/-)
		a) due to banks	b) due to customers	c) securities issued	a) current	b) deferred			a) commitments and guarantees issued	c) other provisions				
10. Due to banks	470,623	470,623												
20. Due to customers	434,543		434,543											
30. Securities issued	94,435			94,435										
80. Tax liabilities	3,717													
a) current	1,607				1,607									
b) deferred	2,110					2,110								
100. Other liabilities	10,125						9,923		202					
110. Severance pay	586							586						
120. Provisions:	315													
b) other provisions	315									315				
130. Valuation reserves	2,631										2,631			
160. Reserves	10,662											10,662		
180. Share capital	43,377												43,377	
200. Profit (loss) for the year	3,399													3,399
Total liabilities	**1,074,413**	**470,623**	**434,543**	**94,435**	**1,607**	**2,110**	**9,923**	**586**	**202**	**315**	**2,631**	**10,662**	**43,377**	**3,399**

The table below provides an analysis of credit quality, before and after the application of IFRS 9.

31/12/2017			
Financial assets at amortised cost	**Gross exposure**	**Value adjustments IAS 39**	**Carrying amount**
Due from banks	99,044	–	99,044
- Loans	99,044	–	99,044
- Stage 1/2	99,044	–	99,044
Due from customers	337,691	(11,642)	326,049
- Securities	–	–	–
- Stage 1/2	–	–	–
- Loans	337,691	(11,642)	326,049
- Stage 1/2	319,314	(3,438)	315,876
- Stage 3	18,377	(8,204)	10,173
Total	**436,735**	**(11,642)**	**425,093**
Due from banks - EL		(123)	
Due from customers - EL		1,190	
Due from customers - Measurement	54,296		

01/01/2018			
Financial assets at amortised cost	**Gross exposure**	**Value adjustments IFRS 9**	**Carrying amount**
Due from banks	99,044	(123)	98,921
- Loans	99,044	(123)	98,921
- Stage 1/2	99,044	(123)	98,921
Due from customers	391,987	(10,452)	381,535
- Securities	54,296	(41)	54,255
- Stage 1/2	54,296	(41)	54,255
- Loans	337,691	(10,411)	327,280
- Stage 1/2	319,314	(2,207)	317,107
- Stage 3	18,377	(8,204)	10,173
Total	**491,031**	**(10,575)**	**480,456**

The table below presents the effects of the first-time application of IFRS 9 on the Bank's regulatory capital.

	IAS 39 31/12/2017	**IAS 39 31/12/2017 (no filters)**	**IFRS 9 - 01/01/2018 data gross of the tax effect (without consideringthe transitional provisions pursuant to Article 473a CRR)**	**IFRS 9 - 01/01/2018 data gross of the tax effect (considering the transitional provisionsthe pursuant to Article 473a CRR)**	**IFRS 9 - 01/01/2018 data net of the tax effect (without consideringthe transitional provisions pursuant to Article 473a CRR)**	**IFRS 9 - 01/01/2018 data net of the tax effect (considering the transitional provisions pursuant to Article 473a CRR)**
CET 1 capital	57,569	60,029	63,364	63,364	62,261	62,261
Total capital	57,596	60,029	63,364	63,364	62,261	62,261
Total risk-weighted assets	**333,038**	**333,038**	**334,219**	**334,219**	**334,061**	**334,061**

As at 1 January 2018, the impact on book equity of introducing the new standard was +2.3 million euros, net of the tax effect, comprising:

- EUR +1.5 million from the application of the new classification and measurement rules
- EUR +0.8 million from the reduction of funds based on the new impairment provisions;

With respect to the new classification and measurement rules, the impact is caused by the reconstitution of the value of the amortised cost for EUR 54 million of debt instruments previously classified under AFS financial assets, reclassified on first time adoption (FTA) under assets at amortised cost, by derecognising the previous AFS reserve.

The new provisions on impairment had a total impact on equity of EUR 815 thousand, including:

- EUR +714 thousand for lower impairment on performing positions conventionally classified in stage 1 and stage 2;
- EUR +101 thousand for guarantees and commitments.

20.6.1.4. Section concerning the main financial statement items

The accounting principles adopted for the purpose of preparing the 2018 BIP 9M Interim Financial Statements are described below. The criteria for recognising, classifying, measuring and derecognising income components are described in detail.

Assets at fair value through profit or loss

Definition and classification

Financial assets other than those classified among Financial assets at fair value through other comprehensive income and Financial assets at amortised cost are classified in item 20 Financial assets at fair value through profit or loss. Specifically:

Financial assets held for trading

A financial asset (debt security, equity security, loan, UCI units) is recorded in item 20 a) Financial assets at fair value through profit or loss: financial assets held for trading if it is:

a. managed with a view to achieving cash flows from its sale, and therefore allocated to the Others business model, insofar as it is:
   - purchased or held mainly for the purpose of selling it or repurchasing it
   - part of a portfolio of identified financial instruments which are managed jointly and for which there is a proven, recent and effective strategy aimed at making a profit in the short term;
b. a derivative (except if it is a financial guarantee contract or a designated and effective hedging instrument).

A financial instrument or another contract with the following characteristics is considered a "derivative":

- its value changes in relation to changes in an interest rate, the price of a financial instrument, the price of a commodity, a foreign exchange rate, a price or rate index, creditworthiness or credit indexes or another pre-established variable;
- it does not require an initial net investment or it requires an initial net investment lower than that which would be required for other types of contracts from which a similar response would be expected to changes in market factors;
- it is settled at a future date.

With respect to derivative financial instruments, positive and negative current values with the same counterparty are offset in the financial statements if there is currently the legal right to offset such values and they are settled on a net basis. Derivatives also include those embedded in complex financial contracts, in which the primary contract is not a financial asset falling within the scope of application of IFRS 9, which were subject to separate recognition as:

- their economic characteristics and risks are not strictly correlated with the characteristics of the underlying contract;
- the embedded instruments, even if separated, satisfy the definition of a derivative;

- the hybrid instruments to which they belong are not measured at fair value through profit or loss.

Financial assets designated at fair value

A financial asset (debt instrument and loan) may be designated on initial recognition based on the right fair value option under IFRS 9, among Financial assets designated at fair value and therefore recorded in item 20 b) Financial assets at fair value through profit or loss: financial assets designated at fair value. A financial asset may be initially recognised at fair value through profit or loss only if such a designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") which would otherwise arise from the measurement of the asset or liability or the recognition of the relative gains and losses on a different basis.

Other financial assets mandatorily at fair value

A financial asset (debt security, equity security, loan, UCI units) is recorded in item 20 c) Financial assets at fair value through profit or loss: financial assets mandatorily at fair value if it:

- is a financial instrument whose return is measured based on fair value, and is therefore allocated to the Others business model;
- has objective characteristics, or contractual terms and conditions, which do not provide, at given dates, for cash flows consisting solely of payment of principal and interest, i.e. the SPPI test (SPPI test).

Recognition criteria

Financial assets at fair value through profit or loss are initially recognised when, and only when, the business becomes a party to the contractual provisions of said assets, i.e.:

- at the moment of settlement in the case of debt/equity securities or receivables; or
- at the subscription date in the case of derivatives.

The assets are initially recognised at fair value (which tends to correspond to their purchase cost) ignoring any directly attributable transaction income or expense.

Measurement criteria

Following initial recognition, these financial assets are measured at fair value through profit or loss in the following items:

- item 80 Net profit (loss) from trading activities for financial assets recorded under item 20 a) Financial assets held for trading;
- item 110 a) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: financial assets and liabilities designated at fair value for financial assets recorded under item 20 b) Financial assets designated at fair value;

- item 110 b) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: other financial assets mandatorily at fair value for financial assets recorded under item 20 c) Other financial assets mandatorily at fair value;

The interest recognised in item 10 Interest and similar income includes the interest accrued on debt securities and receivables classified in item 20 Financial assets held for trading on the assets side of the statement of financial position. Dividends from equity securities are recognised in item 70 Dividends and similar income at the effective date on which the dividend right matures, usually the date on which the shareholders' meeting approves the payment.

Derecognition criteria

Financial assets at fair value through profit or loss are derecognised in the event of one of the following situations:
- the contractual rights to the cash flows from said assets have expired; or
- the financial asset is sold with the substantial transfer of all risks and benefits deriving from its ownership; or
- the entity maintains the contractual right to receive the cash flows deriving from them, but also assumes the contractual obligation to pay the same flows to a third party; or
- contractual amendments are deemed "substantial".

The result of the derecognition of such financial assets is recognised in the Income statement in the following items:
- item 80 Net profit (loss) from trading activities for financial assets recorded under item 20 a) Financial assets held for trading;
- item 110 a) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: financial assets and liabilities designated at fair value for financial assets recorded under item 20 b) Financial assets designated at fair value;
- item 110 b) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: other financial assets mandatorily at fair value for financial assets recorded under item 20 c) Other financial assets mandatorily at fair value.

Financial assets at fair value through other comprehensive income (FVOCI)

Definition and classification

The following financial assets (debt and equity securities and loans) are classified under item 30 Financial assets at fair value through other comprehensive income:
- financial instruments (debt securities and loans) allocated to the HTC&S business model whose contractual terms provide, at given dates, for cash flows consisting solely of payment of principal and interest, i.e. the SPPI test has been passed;
- equity securities (shareholdings not qualifiable as representing control, association or joint control) for which "OCI election" has been made to present changes in the statement of comprehensive income.

Financial instruments held as part of a business model whose aim is achieved by collecting financial flows from and selling said instruments are allocated to the HTC&S business model.

Recognition criteria

Financial assets at fair value through other comprehensive income are initially recognised when, and only when, the business becomes a party to the contractual provisions of the instrument, i.e. at the time of settlement, at an amount equal to the fair value, typically coinciding with the cost. This value includes directly attributable income and expense.

Measurement criteria

Following their initial recognition, these assets continue to be measured at fair value (based on prices observed in active markets or on generally accepted internal valuation models) with any changes recorded in item 120 Valuation reserves.

Income statement item 10 Interest and similar income includes the interest accrued on debt securities and receivables classified in item 30 Financial assets at fair value through other comprehensive income.

Impairment losses on these assets (provided they are allocated to the HTC&S business model), determined in compliance with IFRS 9 impairment rules, are estimated at every year-end or interim reporting date.

Impairment losses are recognised immediately in income statement item 130 Net value adjustments for credit risk, with a counter-entry in item 110 Valuation reserves, with the same applying to partial or total write-backs. Recoveries are recognised when the quality of the asset has improved to such an extent so as to entail a decrease in the total write-down recognised previously.

Additionally, income statement item 70 Dividends and similar income includes dividends pertaining to equity securities for which "OCI election" has "OCI election". Dividends deriving from equity instruments are recognised on the date on which there is the actual right to receive payment, generally the date on which the shareholders' meeting approves of their payment.

Derecognition criteria

Financial assets at fair value through other comprehensive income are derecognised in the event of one of the following situations:

- the contractual rights to the cash flows deriving from them expire;
- the financial asset is sold with the substantial transfer of all risks and benefits deriving from its ownership; or
- the financial asset is written off, i.e. there is no longer a reasonable expectation of recovering it, including cases of giving up the asset; or

- the entity maintains the contractual right to receive the cash flows deriving from them, but also assumes the contractual obligation to pay the same flows to a third party; or
- contractual amendments are deemed "substantial".

The result of the derecognition of such assets is recognised:
- for financial instruments allocated to the HTC&S business model, in item 100 b) Profits (losses) on sale or repurchase of: financial assets at fair value through other comprehensive income in the event of a sale. In all other cases, it is recorded in item 130 Net value adjustments for credit risk;
- for equity instruments subject to the has been applied, in item 110 Valuation reserves. Following the derecognition of these assets, the balance recorded in item 110 Valuation reserves is reclassified to item 140 Reserves.

Financial assets at amortised cost

Definition and classification

Item 40 Financial assets at amortised cost comprises financial instruments (debt securities and loans) allocated to the HTC business model whose contractual terms provide, at given dates, for cash flows consisting solely of payment of principal and interest, i.e. the SPPI test has been passed.

Financial instruments held as part of a business model whose aim is to hold said assets for the purpose of collecting financial flows are allocated to the HTC business model.

In more detail, this item includes:
- receivables from banks (e.g. current accounts, security deposits, debt securities);
- receivables from customers (e.g. loans, financial leases, factoring transactions, debt securities).

Recognition criteria

Financial instruments measured at amortised cost are recognised initially when, and only when, the entity becomes a party to the contractual provisions of the instrument, i.e. at the time of settlement, at an amount equal to the fair value, understood as the cost of the instrument, inclusive of any costs and income directly attributable to it.

Contangos or repurchase agreements with the obligation to repurchase or resell at term are recognised in the financial statements as funding or lending transactions. Specifically, for transactions with a spot sale and forward repurchase, the spot cash received is recognised in the financial statements as borrowings, while the spot purchase transactions with forward resale are recognised as lending for the spot amount paid.

Measurement criteria

These financial instruments are measured at amortised cost, applying the effective interest rate method.The result deriving from the application of this methodology is recognised in the Income statement in item 10 Interest and similar income.

The amortised cost of a financial asset is the value at which it was measured at the moment of initial recognition net of repayments of principal, plus or minus total amortisation, using the effective interest criterion on any difference between the initial value and the value on maturity, and deducting any reduction (caused by impairment or the inability to recover it).

The effective interest approach is the method for calculating the amortised cost of a financial asset or liability (or a group of financial assets and liabilities) and allocating the interest income or expense throughout the relative duration.The effective interest rate is the rate which exactly discounts future payments or collections estimated throughout the expected life of the financial instrument.To determine the effective interest rate, it is necessary to measure cash flows taking into consideration all contractual terms of the financial instrument (for example, prepayment, extension, call, and similar options), but expected credit losses are not considered.The calculation includes all fees, points paid or received between the parties to a contract which are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Impairment losses on these assets, determined in compliance with IFRS 9 impairment rules (see 16 Other information, Part A of these Notes), are estimated at every year-end or interim reporting date. Impairment losses identified are immediately recognised in the Income Statement in item 130 Net value adjustments for credit risk, like recoveries of all or part of the amounts subject to previous write-downs. Recoveries are recognised when the quality of the exposure has improved to such an extent so as to entail a decrease in the total write-down recognised previously.

Item 10 Interest and similar income in the Income Statement shows the amount represented by the progressive release of the discounting calculated at the moment of recognition of the value adjustment.

Derecognition criteria

Financial assets at amortised cost are derecognised in the event of one of the following situations:

- the contractual rights to the cash flows from said assets have expired; or
- the asset is transferred and all the risks and rewards of its ownership have been substantially transferred; or
- the financial asset is written off, i.e. there is no longer a reasonable expectation of recovering it, including cases of giving up the asset; or
- the entity maintains the contractual right to receive the cash flows deriving from them, but also assumes the contractual obligation to pay the same flows to a third party; or
- contractual amendments are deemed "substantial".

The result of derecognising financial assets at amortised cost is recorded in income statement item 100 a) Profits (losses) on sale or repurchase of: financial assets measured at amortised cost in the event of a sale. In all other cases, it is recorded in item 130 Net value adjustments for credit risk.

Hedging Transactions

Banca Interprovinciale has never engaged in hedging transactions and therefore, in terms of hedge accounting, at first-time adoption of IFRS 9, it did not take any decisions on the option to use the provisions of IAS 39.

Definition and classification

Hedging transactions are designed to neutralise losses on determined assets or liabilities (or groups of assets and/or liabilities) attributable to a determined risk by means of the gains realised on another instrument (or group of instruments) if that particular risk should actually materialise.

Recognition criteria

As with all derivatives, derivative financial instruments used for hedging are initially recognised and subsequently measured at fair value and are classified on the asset side of the statement of financial position under item 50 Hedging derivatives (if the value is positive) or the liability side of the statement of financial position under item 40 Hedging derivatives (if the value is negative).

A relationship qualifies as a hedge and is appropriately represented in the financial statements if all the following conditions are satisfied:

- at the start of the hedging transaction the relationship is formally designated and documented, including the company's risk management objective and strategy for undertaking the hedge. This documentation includes identification of the hedging instrument, the item or transaction hedged, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposures to changes in the fair value of the item hedged or in the cash flows attributable to the risk hedged;
- the hedge is expected to be highly effective;
- the planned transaction being hedged, for hedging cash flows, is highly probable and presents an exposure to changes in cash flows that could have effects on the income statement;
- the effectiveness of the hedging can be reliably measured;
- the hedging is measured on an ongoing basis and is considered highly effective for all the financial years in which it was designated.

Methods for testing effectiveness

A hedge relationship is judged effective, and as such is appropriately presented in the financial statements, if at its inception and during its life the changes in the fair value or cash flows of the hedged item attributable to the hedged risk are expected and have almost entirely been offset by the changes in the fair value or cash flows of the hedging instrument. This conclusion is reached when the aforementioned changes in fair value or in cash flows fall within a range of between 80% and 125%.

The effectiveness of a hedge is tested at inception and at each reporting date by means of a prospective test designed to demonstrate the expected effectiveness of the hedge during its life.

Further retrospective tests are conducted monthly on a cumulative basis where the objective is to measure the degree of effectiveness of the hedge in the reporting period and therefore to verify whether the hedge has actually been effective in the period. Derivative financial instruments that are considered hedges from a profit and loss viewpoint, but which do not satisfy the requirements to be considered effective instruments for hedging are recognised within item 20

Financial assets at fair value through profit or loss: financial assets held for trading or item 20 Financial liabilities held for trading and the profits and losses within the corresponding item 80 Net profit (loss) from trading activities.

If the above tests do not confirm the effectiveness of the hedge, then if it is not derecognised, the derivative contract is reclassified within derivatives held for trading and the instrument hedged is again measured according to the criterion applied for its classification on the statement of financial position.

Measurement criteria

Fair value hedging

Fair value hedging is treated as follows:

- the profit or loss resulting from measuring a hedging instrument at fair value is recognised in the income statement within item 90 Net profit (loss) from hedging activities;
- the profit or loss on the item hedged attributable to the hedged risk adjusts the book value of the hedged item and is recognised immediately, regardless of the type of asset or liability hedged, in the income statement within the aforementioned item.

Hedge accounting is discontinued prospectively in the following cases:

- the hedging instrument expires or is sold, terminated or exercised;
- the hedge no longer meets the hedge accounting criteria described above;
- the entity revokes the designation.

Hedging portfolios of assets and liabilities

Hedging of portfolios of assets and liabilities (macro hedging) and appropriate accounting treatment is possible subject to previously:

- identifying the portfolio to be hedged and dividing it by maturity dates;
- designating the item to be hedged;
- identifying the interest rate risk to be hedged;
- designating the hedging instruments;
- determining the effectiveness.

The portfolio for which the interest rate risk is hedged may contain both assets and liabilities. This portfolio is divided on the basis of expected maturity or repricing dates of interest rates after first analysing the structure of the cash flows.

Changes in the fair value of the hedged instrument are recorded in income statement item 90 Net profit (loss) from hedging activities and in statement of financial position item 60 Value adjustment of generically hedged financial assets or item 70 Value adjustment of generically hedged financial liabilities.

Changes in the fair value of the hedging instrument are recorded in income statement item 90 Net profit (loss) from hedging activities and on the asset side of the statement of financial position under item 50 Hedging derivatives or on the liability side of the statement of financial position under item 40 Hedging derivatives.

Equity investments

Definition and classification

Subsidiaries

A "subsidiary" is defined as a company over which the Parent exercises control. Such a condition occurs when the latter is exposed to variable returns or holds rights on those returns resulting from its relationship with the subsidiary and at the same time it has the ability to influence those returns by exercising its power over that entity. The existence of control is also determined by considering the presence of potential voting rights and contractual rights which empower the owner to significantly influence the returns of the subsidiary.

Companies subject to joint control

A "company subject to joint control" is defined as a company governed by a contractual arrangement whereby the parties to it that hold joint control enjoy rights over the net assets of the arrangement. Joint control assumes that control over the arrangement is shared contractually and that it only exists when the unanimous consent of all the parties that share the control is required for decisions that regard important activities.

Associates

An "associate" is defined as a company in which the investor exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee company but not to control or have joint control of it.

Recognition criteria

As such, the current portfolio includes equity investments in companies in which the Bank holds at least 20% of the voting rights in total or which are subject to significant influence. Investments in associates or jointly controlled companies are recognised in the financial statements at acquisition cost plus any accessory expenses.

Measurement criteria

In the consolidated financial statements equity investments in subsidiaries are fully consolidated line by line. Investments in associates and companies subject to joint control are measured by adopting the equity method.

Any objective evidence that an equity investment has been subject to impairment is assessed as at each annual or interim reporting date.The recoverable amount is then calculated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value. If the recoverable amount calculated in this way is less than carrying amount, the difference is recognised in the income statement for the same period under item 220 Profit (loss) on equity investments (measured at equity). Any future reversals of impairment are also included in the item where the reasons for the original impairment no longer apply.

Derecognition criteria

Equity investments are derecognised in the statement of financial position when the contractual rights to the cash flows from the financial assets expire or when the financial assets are sold with the substantial transfer of all the risks and rewards deriving from ownership of them.The profit or loss on the disposal of investments valued using the equity method is recognised in income statement item 220 Profit (loss) on equity investments (measured at equity); the profit or loss on the disposal of equity investments other than those valued using the equity method is recognised in income statement item 250 Profit (loss) on disposal of investments

Property and equipment

Definition and classification

Definition of assets for functional use

These are defined as tangible assets possessed to be used for the purpose of carrying on a company's business and where the use is planned to last longer than one year.They also include properties rented to employees, ex employees and their heirs, as well as works of art.

Definition of investment property

This is defined as properties held in order to earn rentals or for capital appreciation. As a consequence, investment property is to be distinguished from assets held for the use of the owner because they generate cash flows that are very different from the other assets held. Finance lease contracts are also included within property and equipment (for functional use and held for investment) even if the legal title to the assets remains with the leasing company.

Recognition criteria

Core and non-core property and equipment is initially recognised at cost in item 80 Property and equipment, inclusive of all costs directly connected with bringing it to working condition and purchase taxes and duties that are not recoverable.This amount is subsequently increased to include expenses incurred from which it is expected future benefits will be obtained.The costs of ordinary maintenance are recognised in the income statement at the time at which they are incurred, while extraordinary maintenance costs (improvements) from which future benefits are expected are capitalised by increasing the value of the assets in question.

Improvements and expenses incurred to increase the value of leased assets from which future benefits are expected are recognised:

- within the most appropriate category of item 80 Property and equipment if they are independent and can be separately identified, whether they are third-party assets held on the basis of an ordinary leasing contract or whether they are held under a financial leasing contract;
- within item 80 Property and equipment if they are not independent and cannot be separately identified, as an increase to the type of assets concerned if held by means of a financial leasing contract or within item 120 Other assets if they are held under an ordinary leasing contract.

The cost of property and equipment is recognised as an asset if, and only if:

- it is probable that the future economic benefits associated with the asset will flow to the enterprise;
- the cost of the asset can be reliably determined.

Measurement criteria

Subsequent to initial recognition, core items of property and equipment are recognised at cost, as defined above, net of accumulated depreciation and any cumulative impairment. The depreciable amount, equal to cost less the residual value (i.e. the amount that would be normally obtained from disposal, less disposal costs, if the asset were already in the conditions, including age, expected at the end of its useful life), should be allocated on a systematic basis over the asset's useful life by adopting the straight line method of depreciation. The useful life of an asset, which is reviewed periodically to detect any significant change in estimates compared to previous figures, is defined as:

- the period of time over which it is expected that the asset can be used by a company; or
- the quantity of products or similar units that an entity expects to obtain from the use of the asset.

Since property and equipment may consist of items with different useful lives, land, whether by itself or as part of the value of a building, is not depreciated since it constitutes a fixed asset with an indefinite life.The value attributable to the land is deducted from the total value of a property for all buildings in proportion to the percentage of ownership or by using external experts to determine the fair value. Buildings, on the other hand, are depreciated according to the criteria described above.Works of art are not depreciated because they generally increase in value over time.

Depreciation of an asset starts when it is available for use and ceases when the asset is derecognised, which is the most recent of the date when it is classified as for sale and the date of elimination from the accounts. As a consequence, depreciation does not stop when an asset is left idle or is no longer in use, unless the asset has already been fully depreciated.

Improvements and expenses which increase the value are depreciated as follows:

- if they are independent and can be separately identified, according to the presumed useful life as described above;
- if they are not independent and cannot be separately identified, then if they are held under an ordinary leasing contract, over the shorter of the period in which the improvements and expenses can be used and that of the remaining life of the contract taking account of any individual renewals, or if the assets are held under a finance lease contract, over the expected useful life of the assets concerned.

The depreciation of improvements and expenses to increase the value of third-party assets recognised within item 120 Other assets is recognised within item 200 Other operating income (expense).

At the end of each annual or interim reporting period, the existence of indications that demonstrate the impairment of the value of an asset are assessed. The loss is determined by comparing the carrying amount of the item of property and equipment with the lower recoverable amount. The latter is the greater of the fair value, net of any sales costs, and the relative use value intended as the present value of future cash flows generated by the asset. The loss is immediately recognised in income statement item 180 Net impairment losses on tangible assets; the item also includes any future recovery in value if the causes of the original write-down no longer exist. This reversal cannot exceed the value that the asset would have had, net of depreciation, had the prior write-downs not taken place.

Property and equipment acquired through finance leases

A finance lease is a contract that substantially transfers all the risks and rewards of ownership of an asset. Legal title may or may not be transferred at the end of the lease term. The beginning of the lease term is the date on which the lessee is authorised to exercise his right to use the asset leased and therefore corresponds to the date on which the lease is initially recognised. When the contract commences, the lessee recognises the financial lease transactions as assets and liabilities in its statement of financial position at the fair value of the asset leased or, if lower, at the present value of the minimum payments due. To determine the present value of the minimum payments due, the discount rate used is the contractual interest rate implicit in the lease, if practicable, or else the lessee's incremental borrowing rate is used. Any initial direct costs incurred by the lessee are added to the amount recognised for the asset. The minimum payments due are apportioned between the finance charges and the reduction of the residual liability. The former are allocated over the lease term so as to produce a constant rate of interest on the residual liability. The finance lease contract involves recognition of the depreciation charge for the asset leased and of the finance charges for each financial year. The depreciation policy used for assets acquired under finance leases is consistent with that adopted for owned assets. See the relative paragraph for a more detailed description.

Derecognition criteria

Property and equipment are derecognised from the financial statements when they are disposed of or when they are permanently retired from use and no future economic benefits are expected from their disposal. Any gains or losses resulting from the retirement or disposal of the tangible asset, calculated as the difference between the net consideration on the sale and the carrying value of the asset, are recognised in income statement item 250 Profits (losses) on the sale of investments.

Intangible assets

Definition

An intangible asset is defined as an identifiable non-monetary asset without physical substance that is used in executing a company's business. The asset is identifiable when:
- it is separable, which is to say capable of being separated and sold, transferred, licensed, rented or exchanged;
- it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from other rights and obligations.

An asset possesses the characteristic of being controlled by the enterprise as a result of past events and the assumption that its use will cause economic benefits to flow to the enterprise. An entity has control over an asset if it has the power to obtain future economic benefits arising from the resource in question and may also limit access by others to those benefits. Future economic benefits arising from an intangible asset might include receipts from the sale of products or services, savings on costs or other benefits resulting from the use of the asset by an enterprise.

An intangible asset is recognised if, and only if:
- it is probable that the expected future economic benefits attributable to the asset will flow to the entity;
- the cost of the asset can be measured reliably.

The probability of future economic benefits occurring is assessed on the basis of reasonable and supportable assumptions that represent the best estimate of the economic conditions that will exist over the useful life of the asset. The degree of probability attaching to the flow of economic benefits attributable to the use of the asset is assessed on the basis of the sources of information available at the time of initial recognition, giving greater weight to external sources of information.

Goodwill and software used over several years are also considered to be intangible assets.

Intangible assets with a finite useful life

An asset has a finite useful life if it is possible to estimate a limit to the period over which the related economic benefits are expected to be produced. Software is deemed to be an intangible asset with a finite useful life.

Intangible assets with an indefinite useful life

An asset has an indefinite useful life if it is not possible to estimate a predictable limit to the period over which the asset is expected to generate economic benefits for a company. The attribution of an indefinite useful life to an asset does not arise from having already programmed future expenses which restore the standard level of performance of the asset over time and prolong its useful life. Goodwill is deemed to be an intangible asset with an indefinite useful life.

Recognition criteria

Assets recognised under statement of financial position item 90 Intangible assets are stated at cost and any expenses subsequent to the initial recognition are capitalised only if they are able to generate future economic benefits and only if those expenses can be reliably determined and attributed to the assets.

The cost of an intangible asset includes:

- the purchase price including any non recoverable taxes and duties on purchases after commercial discounts and bonuses have been deducted;
- any direct costs incurred in bringing the asset into use.

Goodwill is equal to the positive difference between the costs incurred to acquire the underlying business operations and the corresponding share of equity deriving from the application of the fair value to the assets, liabilities and contingent liabilities at the transaction date, which coincides, pursuant to IFRS 3, with the date on which the fee is paid and control over the acquired company is obtained.

Recognition of goodwill is subject to checks that the acquired business entity has sufficient capacity to generate income in the future. If this difference is negative or if the goodwill is not supported by the investee company's future profitability, the difference is recognised in the income statement.

Classification criteria

This portfolio includes software and goodwill, which are multi-year, intangible production factors. Classification is subject to the principle of identifiability provided that the assets derive from legal or contractual rights. Intangible assets deriving from research (or from the research phase of an internal project) are not recognised. Expenditure on research (or on the research phase of an internal project) is recognised as a cost when it is incurred.

Measurement criteria

Subsequent to initial recognition, intangible assets with a finite useful life are recognised at cost net of total amortisation and any losses in value that may have occurred. Amortisation is calculated on a systematic basis over the best estimate of the useful life of the asset using the straight line method for all intangible assets except for intangible assets relating to customer accounts recognised following the purchase price allocation (PPA) resulting from business combination operations. In this case, the amortisation is calculated on the basis of the estimated average life of the customer relationships.

Amortisation begins when the asset is available for use and ceases on the date on which the asset is eliminated from the accounts. Intangible assets with an indefinite useful life (i.e. goodwill) are recognised at cost net of any impairment loss resulting from periodic reviews when tests are performed to verify the appropriateness of the carrying amount of the assets. As a consequence, amortisation of these assets is not calculated.

Goodwill is periodically subject to impairment testing. The negative difference between the recoverable value of each cash generating unit that includes a certain goodwill and the value of the respective book equity represents an impairment loss. The recoverable value of one unit is taken as the higher of its value in use (present value of expected future cash flows) and its exchange value (assumed sale value or fair value less costs to sell).

Where there are indicators of impairment, and in any event at least once a year, intangible assets are subject to impairment testing, i.e. a test is performed to check the adequacy of the value of the goodwill by identifying the cash generating units to which the goodwill is attributed and, if the value of the goodwill is less than the recoverable value, any impairment losses not likely to regain value in the future are recorded in the income statement.

Derecognition criteria

Intangible assets are derecognised from the financial statements when they have completely exhausted their economic functionality or upon disposal.

Income component recognition criteria

At the end of each annual or interim reporting period, checks are performed to see whether the intangible assets have impaired. These impairment losses result from the difference between the asset's book value and recoverable value, and are recorded, just like any write-backs, in item 190 Net impairment losses on intangible assets, except for goodwill impairment losses, which are recorded in item 240 Goodwill impairment.

Goodwill

Goodwill is defined as the difference between the purchase cost and the fair value of assets and liabilities acquired as part of a business combination which consists of the union of separate enterprises or businesses in a single entity required to prepare financial statements. The result of almost all business combinations consists in the fact that a sole entity, an acquirer, obtains control over one or more separate businesses of the acquiree. When an entity acquires a group of activities or net assets that do not constitute a business it allocates the cost of the group to individual assets and liabilities identified on the basis of their relative fair value at the date of acquisition.

A business combination may give rise to a holding relationship between a parent company and a subsidiary in which the acquirer is the parent company and the acquiree is the subsidiary. All business combinations are accounted for using the purchase method. The purchase method involves the following steps:

- identification of the acquirer (the acquirer is the combining enterprise that obtains control of the other combining enterprises or businesses);
- determination of the acquisition date;
- determination of the cost of the business combination, intended as the consideration transferred by the purchaser to the shareholders of the acquiree;
- the allocation, as at the acquisition date, of the cost of the business combination by means of the recognition, classification and measurement of the identifiable assets acquired and the identifiable liabilities assumed;
- recognition of any existing goodwill.

Business combinations performed with subsidiary undertakings or with companies belonging to the same group are recognised on the basis of the significant economic substance of the transactions. In application of that principle, the goodwill arising from those transactions in the separate financial statements is recognised:

- in statement of financial position item 100 if significant economic substance is found;
- as a deduction from equity if it is not found.

These transactions are eliminated from the consolidated financial statements and are therefore recognised solely as the relative costs incurred in relation to parties external to the group. The goodwill recognised in the consolidated financial statements "consolidation differences" resulting from the elimination of the equity investments in subsidiaries) is the result of all the goodwill and positive consolidation differences relating to some of the companies controlled by the parent. Any changes in the share of ownership which do not result in the loss or acquisition of control are to be considered, in compliance with IFRS 10, as transactions between shareholders and as a consequence the relative effects must be recognised as either an increase or a decrease in equity.

Allocation of the cost of a business combination to assets and liabilities and contingent liabilities

The acquirer:

- recognises the goodwill acquired in a business combination as assets;
- measures that goodwill at its cost to the extent that it is the excess of the cost of the business combination over the acquirer's share of interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill acquired in a business combination represents a payment made by the acquirer in the expectation of receiving economic future benefits from the asset which cannot be identified individually and recognised separately. After initial recognition, the acquirer values the goodwill acquired in a business combination at the relative cost net of cumulative impairment. The goodwill acquired in a business combination must not be amortised. The acquirer tests the asset for impairment annually or more frequently if specific events or changed circumstances indicate that it may have suffered a reduction in value, according to the relevant accounting standard.

The standard states that an asset (including goodwill) has suffered an impairment loss when the carrying amount exceeds the recoverable amount understood as the greater of the fair value, less costs to sell, and its value in use, defined by paragraph 6 of IAS 36. In order to test for impairment, goodwill must be allocated to cash generating units or to groups of cash generating units, in compliance with the maximum aggregation limit which cannot be exceeded by the operating segment identified in accordance with IFRS 8.

Negative goodwill

If the acquirer's share of the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer:

- reviews the identification and measurement of the identifiable assets, liabilities and contingent liabilities of the acquiree and the determination of the cost of the business combination;
- immediately recognises any excess existing after the new measurement in the income statement.

Non-current assets held for sale and discontinued operations

The aggregate of non-current assets and liabilities and non-current groups of assets and liabilities is composed of:

- assets held for sale that do not satisfy the requirements of IFRS 5 to qualify as "discontinued operations"; and
- "discontinued operations" as defined in IFRS 5.

The carrying amount of that aggregate will presumably be recovered through sale rather than by continued use, and so the relative assets and liabilities are classified respectively in items 110 Non-current assets held for sale and discontinued operations and 70 Liabilities associated with non-current assets held for sale. In order to be classified within these items, the assets or liabilities (or disposal groups) must be immediately available for sale and there must be active, concrete programmes to sell the assets or liabilities in the short term.

These assets or liabilities are measured at the lower of the carrying amount and their fair value net of disposal costs. Profits and losses attributable to groups of assets or liabilities held for sale are recognised in income statement item 290 Profit (loss) from discontinued operations after taxes. Profits and losses attributable to individual assets held for disposal are recognised in the income statement under the most appropriate item.

Current and deferred taxes

Recognition and classification criteria

In accordance with the balance sheet liability method, the accounting items of current and deferred taxation comprise:

- current tax assets, i.e. overpayments on obligations to be fulfilled in accordance with applicable corporation tax laws and regulations;
- current tax liabilities, i.e. payables to be made in accordance with applicable corporation tax laws and regulations;
- deferred tax assets, i.e. tax savings on future income as a result of deductible temporary differences (charges deductible in future in accordance with applicable corporation tax laws and regulations);
- deferred tax liabilities, i.e. future income tax payables as a result of taxable temporary differences (differences in the taxation of revenue or advanced deductions of charges in accordance with applicable corporation tax laws and regulations).

Deferred tax assets are recognised only if it is probable that they will be recovered based on their ability to generate taxable income.

Deferred tax liabilities are recognised with the sole exception of increases in assets subject to tax deferral relating to equity investments and reserves subject to tax deferral.

Deferred tax assets and liabilities are recognised in the statement of financial position at pre-closing balances and with no offsetting, while current tax assets and liabilities are offset where there is a legally enforceable right to do so and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income component recognition criteria

The counter-entry for tax assets and liabilities (both current and deferred) is usually found in the income statement (item 270 Income tax on profit (loss) from continuing operations). If, on the other hand, the current or deferred taxation to be recognised pertains to business combinations or transactions whose results must be directly allocated to equity, the resulting tax assets and liabilities are included in the calculation of goodwill or charged to equity.

Provisions

Recognition and measurement criteria

Provisions also include:

- provisions relating to financial commitments and guarantees issued subject to IFRS 9 impairment rules;
- expenses relating to defined-benefit pension funds pursuant to the provisions of IAS 19.

Provisions are therefore liabilities of an unknown amount and maturity which are recognised in the financial statements when the following conditions occur simultaneously:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that the use of resources suitable for producing economic benefits will be required to fulfil the obligation;
- the amount deriving from the fulfilment of the obligation can be reliably estimated.

The amount recognised as a provision represents the best estimate of the expenditure required to fulfil the existing obligation at the reporting date and reflects the risks and uncertainties that inevitably characterise multiple facts and circumstances.The amount of a provision is measured by the present value of the expenditure that it is assumed will be necessary to settle the obligation where the effect of the present value is a substantial aspect. Future events that might affect the amount required to settle the obligation are taken into consideration only if there is sufficient objective evidence that they will occur.

Therefore, if the incurment of the charge is significantly deferred, meaning the discounting effect is also significant, accruals are determined by discounting the expenses that it is assumed will be needed to settle the obligation at a discount rate before taxes that reflects current market assessments of the present value of money and the specific risks associated with the liability. Accruals to provisions are recognised in the income statement, which also includes the interest expense accrued on the provisions being discounted. Each provision is used solely to cope with the outflows for which it was set up.The provisions are adjusted at every reporting date to reflect the best current estimate.

A contingent liability, however, is defined as:

- a possible obligation, the result of past events, the existence of which will be confirmed only by the occurrence or (non-occurrence) of future events that are not totally under the control of the enterprise;
- a present obligation that is the result of past events, but which is not recognised in the financial statements because:
  - it is improbable that financial resources will be needed to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent and improbable liabilities are not recognised in the financial statements but they are reported, unless the probability of using resources is remote or the phenomenon in question is not significant.

Post-employment benefits are separated according to whether they arise from "defined-contribution plans" or "defined-benefit plans", based on the legal and financial substance of the obligation. Under defined-contribution plans, the company pays fixed contributions on a contractual basis to an external fund, and therefore it has no legal or implicit obligation to pay, on top of the contribution, additional amounts if the fund does not have sufficient assets to pay all the benefits to the employees. Under defined-benefit plans, the bank guarantees the payment of benefits to entitled parties and assumes the actuarial risk, but not the investment risk, insofar as the sums destined to pay the future entitlements are not invested in particular assets separated from the bank's general assets.These plans are funded through the dedicated reserve recognised in the item Provisions: a) post-employment benefits and similar obligations.

Accruals pertaining to long-term benefits refer to seniority bonuses to be paid to employees under the terms of the collective agreement and are measured in the item Provisions: other provisions. These benefits are recognised based on an actuarial method set out in IAS 19 which is similar to the one described for post-employment benefits, the difference being that actuarial gains or losses are recognised in the income statement fully in the year in which they occur, as are changes in the liabilities resulting from revisions to the plan. These accruals are determined based on an expert report by an independent actuary.

Item 100 Provisions: other provisions also includes accruals for deferred cash bonuses for key personnel, forecast losses on lawsuits, including clawback actions, estimated expenses on customer disputes pertaining to securities brokerage, other estimated expenses for legal obligations outstanding at the reporting date, including any accruals for voluntary redundancy payments and related social security and welfare charges.

Derecognition criteria

The provision is reversed when it becomes improbable that resources will be used to fulfil the obligation and therefore the reasons for the accruals are no longer valid.

Income component derecognition criteria

Accruals to provisions are recognised in income statement item 170 Net accruals to provisions.

Financial liabilities at amortised cost

Definition and classification

The various forms of interbank funding and funding from customers are represented in the financial statement items:

- 10 a) Financial liabilities at amortised cost: Payables to banks;
- 10 b) Financial liabilities at amortised cost: Payables to customers; and
- 10 c) Financial liabilities at amortised cost: Securities issued.

These items also include payables recognised by the lessee as part of finance leases.

Recognition criteria

The liabilities in question are recognised in the financial statements at the moment of receipt of the sums collected or at the issue of the debt instruments. The amount initially recognised is the fair value, which is normally the same as either the consideration received or the issue price, inclusive of any additional expenses or income that are directly attributable to the transaction and determinable from the outset, regardless of when they are paid. The initial recognition value does not include all expenses subject to reimbursement by the creditor or which are associated with internal administrative costs.

Measurement criteria

After initial recognition, medium/long-term financial liabilities are measured at amortised cost using the effective interest rate method as defined above. Short-term liabilities, for which the time factor is not material, are valued at cost.

Derecognition criteria

Financial liabilities are derecognised when they are extinguished or expire. The repurchase of own securities entails their derecognition with a resulting redefinition of the payable for securities issued. Any difference between the repurchase value of own securities and the corresponding book value of the liability is recognised in the Income statement in item 100 c) Profits (losses) on disposal or repurchase of: financial liabilities. Any subsequent re-placement of own securities previously derecognised constitutes a new issue for accounting purposes, so they are recognised at the new placement price with no impact on the Income statement.

Financial liabilities held for trading

Definition and classification

A financial liability is defined as held for trading and is therefore recognised within item 20 Financial liabilities held for trading if it is:

- purchased or held mainly for the purpose of selling it or repurchasing it in the short term;
- part of a portfolio of identified financial instruments which are managed jointly and for which there is a proven, recent and effective strategy aimed at making a profit in the short term;
- a derivative (with the exception of a derivative which is a financial guarantee contract or is a designated, effective hedging instrument).

Recognition criteria

Financial liabilities held for trading are recognised on the subscription date or the issue date.

The liabilities are initially recognised at cost, which is considered to be the fair value of the instrument, without considering any directly attributable transaction income or expense.

The negative value of derivative contracts held for trading, the negative value of any implicit derivatives embedded in complex contracts, but not strictly related to them and therefore subject to separation, and liabilities that originate from uncovered short positions generated by securities trading activity are included in this category of liabilities.

Measurement criteria

Subsequent to initial recognition, the financial instruments in question are measured at fair value with changes recognised in item 80 Net profit (loss) from trading activities.

Derecognition criteria

Financial liabilities held for trading are derecognised from the statement of financial position when the contractual rights to the cash flows resulting from them expire or when they are transferred with the substantial transfer of all the risks and rewards of their ownership.The profit or loss from the transfer of financial liabilities held for trading is recorded in income statement item 80 Net profit (loss) from trading activities.

Financial liabilities designated at fair value

Definition and classification

A financial liability may be initially recognised among Financial liabilities designated at fair value using the fair value option under IFRS 9, or only when:

- it is a hybrid contract containing one or more embedded derivatives and the embedded derivative significantly alters the cash flows that would otherwise be generated by the contract;
- the designation at fair value through profit or loss allows better information to be provided because:
  - it eliminates or significantly reduces a measurement or recognition inconsistency which would otherwise arise from the measurement of the asset or liability or the recognition of the relative gains and losses on a different basis; or
  - a group of financial liabilities, or financial assets and financial liabilities, is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Recognition criteria

Financial liabilities designated as at fair value, classified on the basis of the fair value option, are recognised as at the issue date.The liabilities are initially recognised at cost, which is considered to be the fair value of the instrument, without considering any directly attributable transaction income or expense.

Measurement criteria

Subsequent to initial recognition, the financial instruments in question are measured at fair value with changes recognised in income statement item 110 a) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: financial assets and liabilities designated at fair value. Changes in value associated with own credit rating are recognised in item 110 Valuation reserves in equity, unless this treatment of the effects of changes in the credit risk of the liability creates or amplifies an accounting mismatch in the Income statement; in this last case, the changes in question are recognised in the above-mentioned Income statement item.

Derecognition criteria

Financial liabilities designated at fair value are derecognised from the statement of financial position when the contractual rights to the cash flows resulting from them expire or when they are transferred with the substantial transfer of all the risks and rewards of their ownership. The profit or loss from the transfer of financial liabilities held for trading is recognised in income statement item 110 a) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: financial assets and liabilities designated at fair value.

Transactions in foreign currency

Definition and classification

Foreign currency is a currency that is not the functional currency of the entity, which is in turn the currency of the primary economic environment in which said entity operates.

Recognition criteria

A foreign currency transaction is recorded at the time of initial recognition in the functional currency applying the spot exchange rate between the functional currency and the foreign currency on the date of the transaction.

Measurement criteria

At each reporting date:

- foreign currency monetary amounts are translated using the closing rate;
- non-monetary items measured at historical cost in foreign currency are translated using the exchange rate on at the date of the transaction;
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rates that existed on the dates when the fair values were determined.

Exchange rate differences arising from the settlement of monetary items, or from the translation of monetary items at rates different from those at which they were translated when initially recognised during the year or in previous financial statements, are recognised in the income statement for the period except for exchange rate differences arising on monetary items that form part of a net investment in a foreign operation.

Exchange rate differences arising from a monetary item that forms part of a net investment in a foreign operation of an entity that prepares financial statements are recognised in the income statement of the individual financial statements of the entity that prepares the financial statements or the individual financial statements of the foreign operation. These exchange rate differences in the financial statements that include the foreign operation (e.g. in the consolidated accounts when the foreign operation is a subsidiary) are initially recognised as a separate component in equity and are recognised in the income statement at the time of the disposal of the net investment.

When a profit or loss on a non-monetary item is recognised directly in equity, each change in that profit or loss is also recognised directly in equity. However, when a profit or loss on a non-monetary item is recognised in the income statement, each change in that profit or loss is also recognised in the income statement.

Other information

Impairment of financial instruments

Pursuant to IFRS 9, the following are subject to its provisions concerning impairment:
- Financial assets at amortised cost;
- Financial assets at fair value through other comprehensive income, other than equity instruments;
- that are not equity securities;
- loan commitments and guarantees granted that are not measured at fair value through profit or loss;
- contract assets resulting from transactions that fall within the scope of IFRS 15.

The quantification of (ECL), i.e. expected losses to be recognised through profit or loss as impairment losses, was carried out on the basis of whether there has been a significant increase in the credit risk of a financial instrument compared with that calculated on the date of its initial recognition.

To that end, the instruments subject to impairment rules are conventionally associated with different stages characterised by different loss allowance quantification approaches.
- in the absence of a significant increase in credit risk since its initial recognition, the financial instrument is maintained in stage 1 and an impairment loss is recognised in the financial statements equal to the 12-month expected credit losses (i.e. the expected credit losses that result from default events on a financial asset that are possible within 12 months of the reporting date);
- in the presence of a significant increase in credit risk since initial recognition, the financial instrument is assigned to stage 2 or stage 3 if it is impaired and an impairment loss is recognised in the financial statements equal to the lifetime expected credit losses (i.e. the expected credit losses that result from all possible default events over the expected life of a financial asset).

One exception to the above is "Purchased or originated credit impaired financial assets" (POCI), which are dealt with later on in this section.

A significant increase in credit risk is identified by individual instrument, making use of both qualitative and quantitative criteria. In particular, a financial instrument is transferred from stage 1 to stage 2 in one of the following circumstances:
- more than 30 days past due with materiality threshold;
- granting of a forbearance measure;
- the counterparty's rating is downgraded compared with the date of origin of each transaction, determined on the basis of the significant risk characteristics. This downgrade

is closely associated with the lifetime probability of default (PD).The Bank adopts the "delta notches" approach as its quantitative approach to measuring the significant increase in credit risk, based on a comparison of synthetic credit risk indicators. Using this driver, it is possible to compare the degree of risk of each account at the inception date and at the reporting date. Specifically, in identifying the significant increase in credit risk (and thus the resulting transfer of the exposure to Stage 2), the Bank considers a downgrade of at least:

- 3 notches for exposures with a rating at the origination date equal to the AAA, AA, A and BBB, BB, B classes;
- 2 notches for exposures with a rating at the origination date equal to the CCC, CC and C classes.

With regard to the significant increase in credit risk, BIP applies the following, limited to debt securities only:

- the low credit risk exemption option, with regard to first-time adoption of the standard and subsequently.This is an option to assume that credit risk has not increased significantly since initial recognition if the financial instrument has a low credit risk at the measurement date, by identifying the risk with an investment grade rating. If these securities should subsequently lose their investment grade status, they will be transferred to another stage only if there has been a significant increase in credit risk compared with the initial date of recognition.
- the first-in first-out (FIFO) method, to compare the original credit risk of each individual tranche of debt securities purchased with the risk assigned to it at the reporting date.

An improvement in credit risk sufficient to eliminate the conditions that had led to a significant increase in it, or the loss of non-performing status, leads to the return of the financial instrument to its previous stage. In this case, the entity recalculates the impairment loss previously recognised, and recognises it through profit or loss as a reversal. In cases of exposure subject to forbearance, any return to the calculation of 12-month expected credit losses takes place in accordance with the timing set by EBA guidelines contained in implementing technical standards (ITS), which is to say in compliance with the probation period.

Estimate of expected credit losses on performing positions (stages 1 and 2)

Expected losses are an estimate of the losses (or the present value of all possible future non-payments) weighted on the basis of probabilities of default throughout the expected life of the financial instrument. The general approach to estimating expected losses is determined by the application of regulatory risk parameters, adjusted so as to bring them into line with the requirements of IFRS 9, in the manners described below.The estimate is made by applying an estimate of the expected loss given default (LGD) and the marginal probability of default (marginal PD) to the remaining debt on each repayment date.

12-month expected losses are a fraction of lifetime expected losses, and represent the losses that would arise if a default occurred in the 12 months subsequent to the reporting date, weighted on the basis of the probability that the default will actually occur.

Expected losses are discounted at period end using the effective interest rate of the financial instrument determined on initial recognition and appropriately redetermined at each contractual modification (for variable rate items it is updated at the rate renegotiation date); there is no discounting of expected losses for sight loans and deposits.

The risk parameters (PD, LGD and CCF - Credit Conversion Factor) are attributed to the instruments in accordance with models calibrated on the internal rating. In particular, each instrument is associated with a probability of default curve based on the counterparty's segment and rating, according to the SaRA Model rating attribution (Automatic Rating System created by the outsourcer C.S.E. in line with the requirements set forth for the development of "advanced" IRB models, used only for internal management purposes to evaluate customer risk levels). In the absence of ratings, risk parameters are determined using default values for each segment and rating.

The point-in-time and forward-looking components are incorporated into the lifetime PD curves using external satellite models developed by leading specialised companies.The satellite models aim to develop an estimate of the PD curves in light of multiple macroeconomic scenarios, whose weighted average for the probabilities of occurrence of the individual scenarios coincides with the values to be used in calculating expected losses. LGD is calculated by applying specific IFRS 9-compliant corrective factors to regulatory LGDs by incorporating relationships between the macroeconomic variables and forward-looking information with the help of the aforementioned satellite models.

The time period considered for the estimate of expected losses considers the contractual maturity date for financial instruments with a pre-established maturity; for instruments without a contractually pre-established maturity, the period to be used for estimating expected losses is one year from the period end date.

Estimate of expected credit losses on non-performing positions

Non-performing positions are generally assessed on an individual basis.The criteria for estimating the write-downs to be recognised on impaired loans are based on the discounting of expected cash flows taking into account any guarantees securing the positions and any advances received.The fundamental elements for determining the present value of the cash flows are the identification of estimated receipts, the relative due dates and the discount rate to be applied. The extent of the adjustment is equal to the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted at the original effective interest rate appropriately updated for variable rate instruments or, in the case of non-performing positions, at the effective interest rate in force at the date of transfer to non-performing status.

Depending on the size of the impairment loss and of the exposure, estimates of the amount recoverable are based either on a going concern approach, which assumes that the counterparty's business will continue to generate operational cash flows, or on a gone concern basis.The latter is based on the assumed termination of business activities, so that the only cash flows that can be used to recover the exposure will arise from the enforcement of the underlying guarantees.

The case-by-case measurement rules for "bad" positions include forward-looking aspects:

- in estimating the percentages of reduction in the value of the property securing the loan (estimated based on updated appraisals or the report of the court-appointed expert);

- through the introduction of specific recovery scenarios for specific exposures, considering the fact that they are expected to be sold within a reasonable period of time to a third party, in order to maximise cash flows as well as in relation to a specific impaired credit management strategy. Consequently, the estimate of the expected losses on such positions reflects recovery through ordinary credit management as well as the presence, appropriately calibrated, of the sale scenario and thus cash flows arising from that transaction.

Calculation of interest income on impaired financial assets

As already stated in previous sub-sections, interest income is calculated by applying the effective interest rate method, except for purchased or originated credit-impaired (POCI).

Purchased or originated credit-impaired (POCI)

Purchased or originated credit impaired financial assets (POCI) are defined as exposures that are impaired at the acquisition or origination date. POCI also includes credit exposures acquired as part of disposal (individual or portfolio) and business combination transactions.

The assets in question are not identified by a specific financial statement item but are classified, depending on the Business Model with which the asset is managed, in the following items:
- "30. Financial assets at fair value through other comprehensive income";
- "40. Financial assets at amortised cost".

As regards the initial recognition, measurement and derecognition criteria, reference should be made to the respective items, whereas the following applies to the reference interest rate and to impairment losses:

1.The effective interest rate method

Book interest is calculated by applying the credit-adjusted effective interest rate, i.e. the interest rate which at the time of initial recognition exactly discounts all the estimated future cash flows at amortised cost of the asset, also taking into account the expected credit losses in the estimate (unlike the method used to calculate the effective interest rate).This interest rate is always applied to the amortised cost of the instrument, which is the gross carrying amount of the asset minus the cumulative impairment losses.

2. Calculation of impairment losses

The assets in question are always subject to the calculation of the expected credit loss throughout the life of the financial instrument, with no possibility of switching to the 12-month expected loss if there is a significant improvement in the exposure's credit risk. More specifically, it is underlined that the expected credit losses are not recognised on the first measurement date of the financial instrument because they are already included in the calculation of the "credit-adjusted effective interest rate", but only if there have been changes in the expected credit losses compared with those initially estimated. In this circumstance, the impact of that change is recognised in item 130 Net value adjustments for credit risk.

Contractual modifications of financial assets

Contractual modifications made to financial assets can be classified in the following two categories:

(1) contractual modifications which, on the basis of their "significance", lead to the derecognition of the financial asset and are therefore treated according to "derecognition accounting" rules.

(2) contractual modifications which do not lead to the derecognition of the financial asset and are therefore treated according to "modification accounting" rules.

1. Derecognition accounting

If the contractual modifications lead to derecognition of the financial asset, the modified financial instrument is recognised as a new financial asset. The new modified asset must be subject to an SPPI test in order to decide how to classify it and it must be recognised at fair value. The difference between the carrying amount of the derecognised asset and that which is recognised is stated in item 130 Net value adjustments for credit risk. For the purposes of impairment measurement requirements, the initial recognition date is considered to be that on which the modification of the asset took place.

2. Modification accounting

In cases of modification accounting, the gross carrying amount of the financial instrument is recalculated by discounting the new cash flows determined by the modified contract at the original effective interest rate of the financial asset. All the differences between the amount recalculated in this way and the gross carrying amount are recognised in income statement item 140 Profits/losses from contractual amendments without cancellation. For the purposes of impairment measurement requirements, the initial recognition date is considered to be that on which the instrument was originated.

The Bank defines "significance" on the basis of the nature of the modification requested by the counterparty. There are two possible categories:

- modifications made due to financial difficulties (i.e. forbearance measures);
- modifications made for "commercial" reasons.

Derivatives embedded in hybrid contracts

An "embedded derivative" is defined as a component of a hybrid (combined) instrument that also includes a host non-derivative contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Derivatives embedded in financial liabilities are separated from the host contracts and treated in the financial statements as stand-alone derivatives if and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
c) the hybrid (combined) contract is not measured at fair value with changes in fair value recognised through profit or loss.

Treasury shares

The treasury shares present in the portfolio are recognised in a specific item as a deduction from equity. Repurchased treasury shares are recognised at cost and are therefore not evaluated.

The results of buying, selling, issuing or cancelling treasury shares are never recognised in the income statement, but, in compliance with applicable accounting rules, on their disposal, the positive or negative differences between their sale price and corresponding book value are recognised respectively as increases or decreases in item 170 Net premiums.

Accruals and deferrals

Accruals and deferrals that include expenses and income attributable to the period accrued on assets and liabilities are recognised in the financial statements as an adjustment to the assets and liabilities to which they refer.

Revenue and costs

Revenue is recognised when it is collected or, in any event, in the case of the sale of goods or products, when it is probable that future economic benefits will flow to the entity and those benefits can be measured reliably, and in the case of services, when these are provided. Specifically:

- interest is recognised on accrual on the basis of the contractual interest rate or the effective interest rate in the case of application of amortised cost;
- overdue interest, which may be provided for by the relevant contracts, is recorded in the income statement solely at the time of collection;
- dividends are posted in the income statement in the financial year when their distribution is approved;
- commission income from services is recorded, on the basis of the existence of contractual agreements, in the period in which the services have been rendered;
- revenues from the sale of financial instruments, determined by the difference between the transaction amount paid or received and the fair value of the instrument, are recognised in the income statement when the transaction is recognised if the fair value is determinable with reference to parameters or transactions which are recently observable on the same market in which the instrument is traded. When such reference values are not readily observable, or there is reduced liquidity, the financial instrument is recognised at a value equal to the price of the transaction, less the commercial margin; the difference with respect to the fair value is recorded in the income statement during the life of the transaction via a gradual reduction, in the valuation model, of the corrective factor associated with reduced liquidity;

- profits and losses from securities trading are recognised in the income statement at the date of sale, on the basis of the difference between the consideration paid or collected and the carrying value of such instruments;
- revenues deriving from the sale of non-financial assets are recorded at the date of sale, unless most of the risks and rewards related to the asset are maintained.

Costs are recorded in the income statement for the periods to which their relative income relates. If matching can only be attributed generally or indirectly, then the costs are allocated to more than one accounting period according to rational procedures and on a systematic basis. Those costs that cannot be matched with the related revenues are immediately charged to the income statement.

Employee benefits

Employee benefits are all types of remuneration provided by the company in exchange for the work provided by employees. Employee benefits include:

- short-term benefits (other than termination benefits or equity-based compensation) that are expected to be paid in full within twelve months after the end of the period in which the employees render the related service;
- post-employment benefits payable after the conclusion of employment;
- plans for post-employment benefits, i.e. agreements pursuant to which the entity provides benefits after the employment relationship has ended;
- long-term benefits, other than those above, that are expected to be paid in full within twelve months after the end of the period in which the employee rendered their service.

Leaving entitlement and defined-benefit plans

Pursuant to IAS 19 Employee Benefits, the employees' leaving entitlement was deemed to be a "post-employment benefit" classified as a "defined-benefit plan" until 31 December 2006. Accordingly, this had to be recognised based on the actuarial value determined using the projected unit credit method.

The actuarial valuation of the employees' leaving entitlement was carried out based on the "accrued benefits" approach using the projected unit credit method as provided for in paragraphs 64-66 of IAS 19. This approach is founded on assessments that express the average present value of pension obligations accrued based on the service rendered by the employee up to the period in which the assessment is made, while projecting future payments.

Following the changes introduced by Law no. 296 of 27 December 2006 and subsequent decrees and regulations (the "Pension Reform") issued in the first few months of 2007, the employees' leaving entitlement accrued since 1 January 2007 is deemed to be a defined-contribution plan, meaning that contributions accrued during the period have been recognised in full as costs and presented as payables in the item Employees' leaving entitlement after deduction of any contributions already paid.

On 16 June 2011, the IASB issued an amended version of IAS 19 modifying the accounting of defined-benefit plans and termination benefits for financial periods beginning on or after 1

January 2013, and making provision for early application. It also eliminated the option to use the corridor approach to account for actuarial gains and losses, which must be recognised directly in the statement of comprehensive income (OCI) so that the statement of financial position can display the total net surplus/deficit of the plan. Accruals for leaving entitlement provisions, seniority bonuses and supplementary pension payments are recognised in "Administrative expense: personnel costs". Actuarial gains and losses are recognised in OCI.

Fair Value

The fair value is the amount at which an asset (or liability) could be traded in a transaction between independent parties with a reasonable degree of knowledge about market conditions and significant information regarding the object being traded. A fundamental assumption when calculating fair value is that an entity is fully operational and does not need to liquidate or considerably reduce its assets, or to enter into transactions at unfavourable conditions. The fair value reflects the credit quality of the instrument insofar as it incorporates counterparty risk.

Methods for calculating fair value

For listed securities, the fair value is equal to the closing prices on active markets, whereas for unlisted securities, reference is made to prices of similar instruments on an active market or the present value of future cash flows based on risk-reflecting (or perhaps risk-free) interest rates for similar investments. Pricing models are used to determine the various options.

Unlisted equity securities are valued using the average value of the results of applying two or more different income-, asset- or cash flow-based evaluations (normally used to value businesses) or using values observed in recent comparable transactions and for similar companies.

IFRS 9 specifies that all investments in equity instruments and contracts concerning such instruments must be measured at fair value. However, in a few circumstances, cost may represent an adequate estimate of fair value. This may be the case if the most recent information available to measure fair value is insufficient, or if there is a broad range of possible fair values and cost represents the best estimate of fair value within that range of values. The entity needs to use all information about the economic performance and transactions of the investee available after the initial recognition date. Insofar as there are indicators that cost may not be representative of fair value, they may indicate that cost may not be representative of fair value.

For investments in listed equity instruments, cost is never the best estimate of fair value.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability, or for a shorter period when certain conditions occur (for example, a review of market interest rates).

After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process.

Receivables, financial assets held to maturity and available for sale (limited to the interest component recognised in the income statement), payables and securities issued are measured at amortised cost. Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees. Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not charged back to the customer.

Transaction costs do not include costs/income referring to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination and for underwriting, facility or arrangement. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction, are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as service fees received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction.

Information on transfers between financial asset portfolios

There were no transfers between financial asset portfolios during the period under review or in previous periods.

Valuation processes and sensitivity

Unobservable parameters capable of impacting the valuation of level 3 instruments are normally represented by the estimates and assumptions underlying the models used to measure investments in equity instruments and shares of UCITS.

In the portfolios held at the reference date, recourse to financial estimation methodologies is residual, and their valuation cannot be significantly influenced by changes in inputs.

Fair value hierarchy

For transitions between the different fair value levels, the Bank adopts the following principles:

- presence or absence of a price on a regulated market;
- presence or absence of a price on an unregulated market or one or more counterparties willing/committed to price the security;
- whether or not a sufficient quantity of the financial instrument is held to envisage a negative oscillation of its value/price;
- new elements on which to base the application of a new methodology;
- the timeframe (date of event or change, start and end of financial period) will be the same for the changes between the various valuation categories.

For fair value level 2 securities held:

- there have been no transitions between different fair value levels;
- the methodology used is the market price (most recently available Bloomberg BGN bid quote), without making changes or adjustments to it;
- since the financial instruments are only fixed- or variable-rate debt securities (bonds), this methodology reflects market interest rates and the degree of risk associated with counterparty issuers;
- this is the same methodology used in the previous year and for the same securities.

For fair value level 3 securities held:

- there have been no transitions between different fair value levels;
- the methodology is the same one used in the previous year, i.e. historical cost;
- since neither the quantity of equities held nor the accounting methodology used has changed, no profits or losses were recorded;
- in the absence of quotations in active markets and additional elements such as, for example, the annual financial statements, the cost method is the only one that can get close to the fair value of the security.

The different fair value levels can therefore be summarised as follows:

Level 1

The valuation is based on observable inputs, i.e., quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the instrument measurement date. A quoted price in an active market, i.e. a market where the quoted prices reflect "ordinary", unforced transactions and are readily and regularly available, provides the most reliable evidence of fair value. Indeed, these prices should be used on a priority basis to properly value the reference financial instruments (the mark-to-market approach). In order to determine the fair value of the securities listed in an active market, the quoted prices used are those on the final day of the financial period under review.

Level 2

The valuation takes place using methods employed when the instrument is not listed in an active market and is based on inputs not included in Level 1. The financial instrument is valued based on prices inferable from market prices of similar assets or using valuation techniques in which all significant factors are inferred from observable market parameters. The resulting price lacks discretion as the most significant parameters used were drawn from the market and the calculation methodologies used replicate quoted prices in active markets. In the absence of an active market, estimation methods are used based on the valuation of quoted instruments that have analogous characteristics, values recognised in recent comparable transactions or using valuation models calling for the discounting of future cash flows also taking into account all risk factors correlated with the instruments and which are based on observable market data.

Level 3

The valuation is carried out using methods consisting of valuing the unlisted instrument using significant inputs not observable in the market and therefore which require the use of estimates and assumptions on the part of the management ("Mark to Model Approach").

Other information

At the reporting date, there is no information to be reported pursuant to IFRS 13, paragraphs 51, 93 (letter i) and 96 as:
- there are no assets measured at fair value on the basis of highest and best use;
- the Bank does not use the option to measure fair value at total portfolio exposure level in order to take into account the offsetting of the credit and market risk of a given group of financial assets or financial liabilities (the exception mentioned in IFRS 13 paragraph 48).

Quantitative Information

Fair value hierarchy

The table below displays the information required by IFRS 7, adopted by Commission Regulation (EC) No 1165/2009 of 27 November 2009, for portfolios of financial assets and financial liabilities measured at fair value on the basis of the hierarchy described above.

Assets and liabilities at fair value on a recurring basis: breakdown by fair value levels

(Thousands of euros)	**BIP**							
	30 September 2018				**31 December 2017 (restated)**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
1. Financial assets at fair value through profit or loss	-	29,392	-	29,392	-	214	-	214
a) financial assets held for trading	-	29,293	-	29,293	-	115	-	115
b) financial assets designated at fair value	-	-	-	-	-	-	-	-
c) financial assets mandatorily at fair value	-	99	-	99	-	99	-	99
2. Financial assets at fair value through other comprehensive income	267,914	21,434	13	289,361	517,999	35,500	12	553,511
3. Hedging derivatives	-	-	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-	-	-
Total	**267,914**	**50,826**	**13**	**318,753**	**517,999**	**35,714**	**12**	**553,725**
1. Financial liabilities held for trading	-	-	-	-	-	-	-	-
2. Financial liabilities at fair value	-	-	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

Securities measured significantly on the basis of non-observable parameters (level 3) make up a marginal share of total financial assets measured at fair value, consisting solely at the reporting date of investments classified in the portfolio of "Financial assets at fair value through other comprehensive income". The same portfolio includes equity investments measured using the historical cost method.

Just like the previous year, there are no liabilities measured at fair value on a recurring basis.

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

(Thousands of euros)	BIP									
	30 September 2018					31 December 2017 (restated)				
	Carrying amount	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Level 1	Level 2	Level 3	Total fair value
1. Financial assets at amortised cost	532,354	111,117	-	424,633	535,750	479,389	-	-	445,030	445,030
2. Property and equipment held for investment purposes	-	-	-	-	-	-	-	-	-	-
3. Non-current assets and groups of assets held for disposal	-	-	-	-	-	-	-	-	-	-
Total	**532,354**	**111,117**	**-**	**424,633**	**535,750**	**479,389**	**-**	**-**	**445,030**	**445,030**
1. Financial liabilities at amortised cost	845,601	-	26,310	821,388	847,698	999,601	-	26,362	975,678	1,002,040
2. Liabilities associated with non-current assets held for sale	-	-	-	-	-	-	-	-	-	-
Total	**845,601**	**-**	**26,310**	**821,388**	**847,698**	**999,601**	**-**	**26,362**	**975,678**	**1 ,002,040**

For the other financial instruments recognised at amortised cost and broadly classified among receivables from banks or customers, securities issued or held-to-maturity financial assets, a fair value was determined for the purpose of disclosure in the Notes to the Financial Statements, as required by IFRS 7.

Disclosure on "day one profit/loss"

IFRS 7, paragraph 28 requires disclosure of the "day one profit or loss" to be recognised in the income statement at the end of the year, as well as reconciliation with the initial balance. "Day one profit or loss" is taken to mean the difference between the fair value of a financial instrument acquired or issued at initial recognition (transaction price) and the amount determined on that date using a measurement technique. In this regard, it should be noted that there is nothing requiring disclosure in this section.

Listing costs

For its listing project, the Issuer incurs specific costs such as:

(i) the commissions and fees recognised to the Sponsor;

(ii) the fees paid to advisors, specialists and lawyers;

(iii) other costs such as communication costs, prospectus printing expenses and out-of-pocket expenses.

The costs incurred for the listing were accounted for in accordance with the provisions of IAS 32, which calls for their recognition as a reduction from any capital increase or their recognition in the income statement when incurred, for a listing without the issue of new shares.

20.6.2 Notes to the financial statements

The tables below provide a commentary on the main items concerning BIP's financial position, results and cash flows as per the figures from its financial statements for the nine months ended 30 September 2018 and 2017, and for the year ended 31 December 2017.

Commentary on changes in these can be found in Chapters 9 and 10.

20.6.2.1 Assets

Cash and cash equivalents

The table below provides an analysis of cash and cash equivalents at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
a) Cash and cash equivalents	584	632	(48)	(7.59%)
b) Demand deposits at central banks	76,012	26,294	49,718	>100%
Total	**76,596**	**26,926**	**49,670**	**>100%**

At 30 September 2018, "Cash and cash equivalents" totalled EUR 76.6 million, an increase from EUR 26.9 million at 31 December 2017 (>100%).This increase is attributable to more free deposits with central banks (>100%).

Financial assets at fair value through profit or loss

Financial assets held for trading

The table below provides an analysis of financial assets held for trading at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
A. Balance sheet assets				
1. Debt instruments	-	-	-	-
1.1 Structured securities	-	-	-	-
1.2 Other debt instruments	-	-	-	-
2. Equity instruments	-	-	-	-
3. Units of UCITS	29,293	115	29,178	>100%
4. Loans	-	-	-	-
4.1 Repurchase agreements	-	-	-	-
4.2 Other	-	-	-	-
Total A	**29,293**	**115**	**29,178**	**>100%**
B. Derivative instruments				
1. Financial derivatives	-	-	-	-
1.1 for trading	-	-	-	-
1.2 connected with the fair value option	-	-	-	-
1.3 other	-	-	-	-
2. Credit derivatives	-	-	-	-
2.1 for trading	-	-	-	-
2.2 connected with the fair value option	-	-	-	-
2.3 other	-	-	-	-
Total B	-	-	-	-
Total A+B	**29,293**	**115**	**29,178**	**>100%**

At 30 September 2018, financial assets held for trading totalled EUR 29.3 million, an increase from EUR 0.1 million at 31 December 2017 (>100%). The increase is attributable to more units of UCIs (>100%).

An analysis of these financial assets by fair value levels is shown in the table below.

(Thousands of euros)	30 September 2018			31 December 2017 (restated)		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Balance sheet assets						
1. Debt instruments	–	–	–	–	–	–
- Structured securities	–	–	–	–	–	–
- Other debt instruments	–	–	–	–	–	–
2. Equity instruments	–	–	–	–	–	–
3. Units of UCITS	–	29,293	-	–	115	-
4. Loans	–	–	-	–	–	–
- Repurchase agreements	–	–	–	–	–	–
- Other	–	–	–	–	–	–
Total A	**–**	**29,293**	**–**	**–**	**115**	**–**
B. Derivative instruments						
1. Financial derivatives	–	–	–	–	–	–
- for trading	–	–	–	–	–	–
- connected with the fair value option	–	–	–	–	–	–
- other	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–
- for trading	–	–	–	–	–	–
- connected with the fair value option	–	–	–	–	–	–
- other	–	–	–	–	–	–
Total B	**–**	**–**	**–**	**–**	**–**	**–**
Total A+B	**–**	**29,293**	**–**	**–**	**115**	**–**

Other financial assets mandatorily at fair value

The table below provides an analysis of other financial assets mandatorily at fair value at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	31 December 2017 (restated)	Changes 2018 vs 2017	Change % 2018 vs 2017
1. Debt instruments	-	-	-	-
1.1 Structured securities	-	-	-	-
1.2 Other debt instruments	-	-	-	-
2. Equity instruments	-	-	-	-
3. Units of UCITS	99	99	-	0.00%
4. Loans	-	-	-	-
4.1 Repurchase agreements	-	-	-	-
4.2 Other	-	-	-	-
Total	**99**	**99**	**-**	**0.00%**

At 30 September 2018 and 31 December 2017, other financial assets mandatorily at fair value totalled EUR 0.1 million, traceable to the item Units of UCIs.

An analysis of these financial assets by fair value levels is shown in the table below.

(Thousands of euros)	**30 September 2018**			**31 December 2017 (restated)**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Debt instruments	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt instruments	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-
3. Units of UCITS	-	99	-	-	99	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	-	**99**	-	-	**99**	-

Financial assets at fair value through other comprehensive income

The table below provides an analysis of financial assets at fair value through other comprehensive income at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	**BIP**			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
1. Debt instruments	289,348	553,499	(264,151)	(47.72%)
1.1 Structured securities	-	-	-	-
1.2 Other debt instruments	289,348	553,499	(264,151)	(47.72%)
2. Equity instruments	13	12	1	8.33%
3. Loans	-	-	-	-
Total	**289,361**	**553,511**	**(264,150)**	**(47.72%)**

At 30 September 2018, financial assets at fair value through other comprehensive income totalled EUR 289.4 million, a decrease from EUR 553.5 million at 31 December 2017 (-42.72%). The decrease is due mainly to a reduction in debt securities.

An analysis of these financial assets by fair value levels is shown in the table below.

(Thousands of euros)	BIP					
	30 September 2018			31 December 2017 (restated)		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	267,914	21,434	-	517,999	35,500	-
1.1 structured securities	-	-	-	-	-	-
1.2 other debt instruments	267,914	21,434	-	517,999	35,500	-
2. Equity instruments	-	-	13	-	-	12
3. Loans	-	-	-	-	-	-
Total A	**267,914**	**21,434**	**13**	**517,999**	**35,500**	**12**

Other financial assets at amortised cost

Due from banks

The table below provides an analysis of receivables from banks at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	31 December 2017 (restated)	Changes 2018 vs 2017	Change % 2018 vs 2017
A. Due from central banks	**–**	**–**	-	-
1.Term deposits	–	–	-	-
2. Compulsory reserve	–	–	-	-
3. Repurchase agreements	–	–	-	-
4. Other	–	–	-	-
B. Due from banks	**74,429**	**99,044**	**(24,615)**	**(24.85%)**
1. Loans	74,429	99,044	(24,615)	(24.85%)
1.1 Current accounts and sight deposits	37,117	49,928	(12,811)	(25.66%)
1.2 Term deposits	37,312	49,116	(11,804)	(24.03%)
1.3. Other loans	–	–	-	–
- Repurchase agreements	–	–	-	–
- Finance leases	–	–	-	–
- other	–	–	-	–
2. Debt instruments	–	–	-	–
2.1 Structured securities	–	–	-	–
2.2 Other debt instruments	–	–	–	–
Total	**74,429**	**99,044**	**(24,615)**	**(24.85%)**

At 30 September 2018, receivables from banks totalled EUR 74.4 million, a decrease from EUR 99.0 million at 31 December 2017 (-24.85%).The change is due mainly to a reduction in loans to banks (-24.85%).

Due from customers

The table below provides an analysis of receivables from customers at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
1. Loans	**333,186**	**326,049**	**7,137**	**2.19%**
1.1 Current accounts	117,928	108,270	9,658	8.92%
1.2 Repurchase agreements	–	–	-	–
1.3 Mortgages	201,441	206,704	(5,263)	(2.55%)
1.4 Credit cards, personal loans and salary-backed loans	1,485	1,385	100	7.22%
1.5 Finance leases	–	–	-	–
1.6 Factoring	–	–	-	–
1.7 Other loans	12,332	9,690	2,642	27.27%
2. Debt instruments	**124,743**	**54,296**	**70,447**	**>100%**
2.1 Structured securities	–	–	-	–
2.2 Other debt instruments	124,743	54,296	70,447	>100%
Total	**457,929**	**380,345**	**77,584**	**20.40%**

At 30 September 2018, receivables from customers totalled EUR 457.9 million, an increase from EUR 380.3 million at 31 December 2017 (+20.40%). The change was due to an increase in "other debt instruments" (+100%), primarily due to reclassifications (equal to EUR 54.3 million on FTA) which incorporate the classification rules established by the new accounting standard (IFRS 9) in force as of 1 January 2018.

Property and equipment

The table below provides an analysis of property and equipment at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
1. Owned assets	**1,810**	**1,652**	**158**	**9.56%**
a) land	-	-	-	-
b) buildings	1,058	1,096	(38)	(3.47%)
c) furniture	310	218	92	42.20%
d) electronic systems	54	68	(14)	(20.59%)
e) other	388	270	118	43.70%
2. Assets acquired under finance lease	-	-	-	-
a) land	-	-	-	-
b) buildings	-	-	-	-
c) furniture	-	-	-	-
d) electronic systems	-	-	-	-
e) other	-	-	-	-
Total	**1,810**	**1,652**	**158**	**9.56%**

At 30 September 2018, property and equipment totalled EUR 1.8 million, an increase from EUR 1.6 million at 31 December 2017 (+9.6%). The change is attributable to an increase in movable property (+42.20%) and in other property and equipment (+43.70%). Specifically, the "Others" category includes electrical systems, air conditioning systems, alarm systems, lighting fixtures, works of art and other smaller fixed assets.

Intangible Assets

The table below provides an analysis of intangible assets at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
A.1. Goodwill	-	-	–	–
A.2. Other intangible assets	**5**	**7**	**(2)**	**(28.57%)**
A.2.1. Assets at cost:	5	7	(2)	(28.57%)
a) Intangible assets generated internally	-	-	-	-
b) Other assets	5	7	(2)	(28.57%)
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**5**	**7**	**(2)**	**(28.57%)**

At 30 September 2018, intangible assets totalled EUR 5 thousand, a decrease from EUR 7 thousand at 31 December 2017 (-28.6%). The change is attributable to a decrease in other intangible assets (-28.6%).

Tax assets

The table below provides an analysis of tax assets and liabilities at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
Current Tax Assets	1,383	2,995	(1,612)	(53.83%)
Deferred Tax Assets	9,679	3,290	6,389	>100%
- as per Law no. 214/2011	1,877	2,054	(177)	(8.62%)
Total Tax Assets	**11,062**	**6,285**	**4,777**	**76%**

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
Current Tax Liabilities	-	1,607	(1,607)	(100.00%)
Deferred Tax Liabilities	335	2,110	(1,775)	(84.12%)
Total Tax Liabilities	**335**	**3,717**	**(3,382)**	**(90.99%)**

At 30 September 2018, tax assets totalled EUR 11.1 million, an increase from EUR 6.2 million at 31 December 2017 (+76%). The change is attributable to an increase in deferred tax assets (>100%).

At 30 September 2018, tax liabilities totalled EUR 0.3 million, a decrease from EUR 3.7 million at 31 December 2017 (-91%). The change is attributable to a decrease in deferred tax liabilities (-84.1%).

The deferred tax assets for impairment surpluses and losses on receivables from customers in excess of the deductible limit set out in Article 106 of the Italian Consolidated Law on Income Taxes (TUIR) were deemed to be recognisable insofar as it is probable that there will be a future taxable income against which the unused tax credits and tax losses can be used.

On the basis of the Business Plan, the recoverability of DTAs that depend on the availability of future income within the explicit plan period, i.e., by the end of 2023, is assumed.

It should be also be specified that the Table of Correspondence between the Bank of Italy, Consob and Isvap on how DTAs are governed shows that the new set of rules, introduced by the Milleproroghe (the annual decree extending the life of various government measures) and further developed by the so-called Salva Italia decree, by conferring certainty upon the recovery of DTAs generated by tax losses and credit adjustments, impacts the probability test mentioned in IAS 12, making it automatically passed.

Other Assets

The table below provides an analysis of other assets at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
Tax credits from the tax authorities and other tax administrations	1,983	2,868	(885)	(30.86%)
Cheques of third parties in hand	1,000	369	631	>100%
Cheques drawn on the company in hand	–	–	-	–
Bills and documents of third parties in portfolio	1,326	536	790	>100%
Guarantee deposits	19	20	(1)	(5.00%)
Fees to be charged to customers	177	336	(159)	(47.32%)
Items in the course of collection	2	3	(1)	(33.33%)
Items being processed	8,361	1,093	7,268	>100%
Accrued income not associated	65	219	(154)	(70.32%)
Prepaid expenses	268	488	(220)	(45.08%)
Leasehold improvements	250	177	73	41.24%
Other	1,738	320	1,418	>100%
Total other assets	**15,189**	**6,429**	**8,760**	**>100%**

At 30 September 2018, other assets totalled EUR 15.2 million, an increase from EUR 6.4 million at 31 December 2017 (>100%). The increase is due mainly to more cheques drawn on third parties, cleared and in the process of being debited (>100%), more portfolio third-party documents and effects (>100%) and more items in processing (>100%).

Specifically, capitalised leasehold property restructuring costs are allocated to leasehold improvements because for the duration of the lease the user company has control of, and can obtain future economic benefits from, the assets. These costs are amortised over the shorter of the period in which the improvements can be used and the residual period of the lease no greater than the term of the lease agreement.

The items in processing primarily include bank transfers received and not settled at the reporting date and advances to suppliers.

20.6.2.2. Liabilities and Equity

Financial liabilities at amortised cost

Due to banks

The table below provides an analysis of payables to banks at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
1. Due to central banks	142,350	399,257	(256,907)	(64.35%)
2. Due to banks	115,253	71,366	43,887	61.50%
2.1. Current accounts and demand deposits	4,008	4,002	6	0.15%
2.2. Restricted deposits	2,463	2,502	(39)	(1.56%)
2.3. Loans	108,782	64,862	43,920	67.71%
2.3.1 Repurchase agreements	108,782	64,862	43,920	67.71%
2.3.2 Other	-	-	-	-
2.4. Liabilities for commitments to repurchase own equity instruments	-	-	-	-
2.5. Other payables	-	-	-	-
Total	**257,603**	**470,623**	**(213,020)**	**(45.26%)**
Fair value - level 1	-	-	-	-
Fair value - level 2	-	-	-	-
Fair value - level 3	257,603	470,623	(213,020)	(45.26%)
Total fair value	**257,603**	**470,623**	**(213,020)**	**(45.26%)**

At 30 September 2018, payables to central banks totalled EUR 142.5 million, a decrease from EUR 399.3 million at 31 December 2017 (-64.4%).

Payables to banks increased by EUR 43.9 million to EUR 115.2 million, and they mainly comprise bilateral repurchase agreements with leading Italian banks.

Due to customers

The table below provides an analysis of payables to customers at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
1. Current accounts and sight deposits	443,493	400,246	43,247	10.81%
2.Term deposits	36,905	25,932	10,973	42.31%
3. Loans	7,504	6,561	943	14.37%
3.1 Repurchase agreements	-	-	-	-
3.2 Other	7,504	6,561	943	14.37%
4. Liabilities for commitments to repurchase own equity instruments	-	-	-	-
5. Other payables	975	1,804	(829)	(45.95%)
Total	**488,877**	**434,543**	**54,334**	**12.50%**
Fair value - level 1	-	-	-	-
Fair value - level 2	-	-	-	-
Fair value - level 3	489,347	434,987	54,360	12.50%
Total fair value	**489,347**	**434,987**	**54,360**	**12.50%**

This item primarily includes payables to customers for current accounts, deposit accounts and repurchase agreements.

At 30 September 2018, direct deposits totalling EUR 488.9 million accounted for 51.1% of total liabilities and showed an increase from EUR 434.5 million at 31 December 2017 (+12.50%).

Current accounts are the primary source of customer deposits, totalling EUR 443.5 million at 30 September 2018 and EUR 400.2 million at 31 December 2017.

Securities issued

The table below provides an analysis of securities issued at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
A. Securities				
1. Bonds	**26,315**	**26,362**	**(47)**	**(0.18%)**
1.1 structured	-	-	-	-
1.2 other	26,315	26,362	(47)	(0.18%)
2. Other securities	**72,806**	**68,073**	**4,733**	**6.95%**
2.1 structured	-	-	-	-
2.2 other	72,806	68,073	4,733	6.95%
Total	**99,121**	**94,435**	**4,686**	**4.96%**
Fair value - level 1	-	-	-	-
Fair value - level 2	26,310	26,362	(52)	-
Fair value - level 3	74,438	70,068	4,370	6.24%
Total fair value	**100,748**	**96,430**	**4,318**	**4.48%**

At 30 September 2018, securities issued totalled EUR 99.1 million, an increase from EUR 94.4 million at 31 December 2017 (+4.96%). This increase is attributable to an increase in other securities, represented by certificates of deposit (+6.95%).

Other liabilities

The table below provides an analysis of securities issued at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
Balance on illiquid items in portfolio	–	–	–	–
Taxes payable to the tax authorities and other tax administrations	2,312	2,577	(265)	(10.28%)
Due to social security institutions	108	220	(112)	(50.91%)
Amounts available to customers	66	53	13	24.53%
Other payables to personnel	1,981	740	1,241	>100%
Items in the course of payment	1	1	-	0.00%
Items being processed	11,686	5,577	6,109	>100%
Accrued expenses	-	30	(30)	(100.00%)
Deferred income	96	92	4	4.35%
Other	2,270	633	1,637	>100%
Total	**18,520**	**9,923**	**8,597**	**86.64%**

At 30 September 2018, other liabilities totalled EUR 18.5 million, an increase from EUR 9.9 million at 31 December 2017 (+86.6%). The change is attributable to an increase in items in processing (>100%).

Specifically, tax payables to the revenue agency and other tax authorities concern the outstanding substitute tax and stamp duty paid using the virtual system as well as other customer withholdings and payments to be passed on to the revenue agency. The sub-item "Others" consists mainly of payables to suppliers for services rendered. Items in processing refer mainly to the settlement of SEPA bank transfers. Payables to the revenue agency consist mainly of payment orders from customers. Payables to personnel mainly comprise contractual obligations associated with extraordinary transactions.

Provisions

The table below provides an analysis of provisions at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	31 December 2017 (restated)	Changes 2018 vs 2017	Change % 2018 vs 2017
1. Provisions for credit risk relating to commitments and financial guarantees given	**85**	**201**	**(116)**	**(57.71%)**
2. Provisions on other commitments and other guarantees	-	-	-	-
3. Company pension funds	-	-	-	-
4. Other provisions	**358**	**315**	**43**	**13.65%**
4.1 Legal and tax disputes	85	-	85	-
4.2 Expenses for personnel	273	315	(42)	(13.33%)
4.3 Other	-	-	-	-
Total	**358**	**516**	**(158)**	**(30.62%)**

At 30 September 2018, provisions totalled EUR 0.36 million, a decrease from EUR 0.52 million at 31 December 2017 (-30.6%).

Specifically, at 31 December 2017, the contents of "Provisions for other guarantees and commitments issued", calculated in accordance with IAS 39, were classified in item "Other liabilities" as set out by the 4th revision of Circular 262/2005.

The "Legal disputes" provision was established to deal with any losses arising from proceedings against the company under way, the amount of which, based on IAS 37, can be reliably estimated. These are proceedings against the company and claw-backs for which the future expense and the duration of the dispute have been estimated. Commitments not yet due have not been discounted as this would not be significant.

The "Expenses for personnel" provision regards:

- long-term compensation relating to the productivity bonus and the incentives system;
- other long-term benefits relating to the seniority bonus.

An actuarial valuation has been conducted on this item by an independent actuary, as required by IAS 19, using methods analogous to those specified for Employees' leaving entitlement.

Company equity

The table below provides an analysis of equity at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	**BIP**			
	30 September 2018	**31 December 2017 (restated)**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
1. Share capital	43,377	43,377	-	0.00%
2. Share premium reserve	-	-	-	-,
3. Reserves	64,589	10,662	53,927	>100%
5. Valuation reserves	(5,196)	2,632	(7,828)	(>100%)
7. Profit for the year	(12,464)	3,399	(15,863)	(>100%)
Total	**90,306**	**60,070**	**30,236**	**50.33%**

At 30 September 2018, the equity including the result for the period stood at EUR 90.3 million, an increase from EUR 60.1 million at 31 December 2017.

This change is attributable to:

- the EUR 50 million advance payment by the controlling shareholder SPAXS S.p.A. for a capital increase, the loss for the period (EUR 12 million, largely attributable to derisking and the expenses attributable to the extraordinary transaction);
- unrealised losses on financial assets measured at fair value through other comprehensive income (which have been subject to the uncontrolled and sudden fluctuation in value of Italian government bonds).

The net profit from the previous period is fully appropriated to reserves.

On 26 May 2016, the extraordinary shareholders' meeting voted for a nominal capital increase of EUR 15 million, providing for a premium of EUR 365 for each new share to be offered first to shareholders or, subsequently, reserved for third parties (preferably chosen from select investors).

20.6.2.3 Income Statement

Interest

Interest and similar income

The table below provides an analysis of interest and similar income for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017 (restated)		
1. Financial assets at fair value through profit or loss	-	-	-	-
1.1. Financial assets held for trading	-	-	-	-
1.2. Financial assets designated at fair value	-	-	-	-
1.3. Financial assets mandatorily at fair value	-	-	-	-
2. Financial assets at fair value through other	**2,665**	**4,600**	**(1,935)**	**(42.07%)**
comprehensive income	**7,544**	**6,836**	**708**	**10.36%**
3. Financial assets at amortised cost	273	254	19	7.48%
3.1. Due from banks	7,271	6,582	689	10.47%
3.2. Due from customers	-	-	-	-
4. Hedging derivatives	-	-	-	-
5. Other assets	**480**	-	**480**	-
6. Financial liabilities	**10,689**	**11,436**	**(747)**	**(6.53%)**
Total				

Interest and similar income totalled EUR 10.7 million for the nine months to 30 September 2018, a decrease from EUR 11.4 million for the period ended 30 September 2017 (-6.5%). The change is attributable to the reduction in interest on financial assets at fair value through other comprehensive income (-42.1%).

It should be noted that in the past the Bank implemented carry trade strategies on the government bond portfolio and, more generally, on ECB eligible securities. This activity was carried out by "financing" the securities portfolio through refinancing transactions at the ECB and with repurchase agreements with market counterparties. Aside from the European Central Bank, the counterparties of such operations were Italian banks. Following the reduction in exposure to government bonds, noted above, and the use of the proceeds deriving from sales of securities for repayments on ECB transactions and repurchase agreements, this strategy is no longer active.

The table below provides an analysis of interest and similar income by item/form for the nine months to 30 September 2018.

(Thousands of euros)	**BIP**			
	For the 9-month period ended 30 September 2018			
	Debt instruments	**Loans**	**Other Transactions**	**Total**
1. Financial assets at fair value through profit or loss	-	-	-	-
1.1. Financial assets held for trading	-	-	-	-
1.2. Financial assets designated at fair value	-	-	-	-
1.3. Financial assets mandatorily at fair value	-	-	-	-
2. Financial assets at fair value through other	**2,665**	-	-	**2,665**
comprehensive income	**542**	**7,002**	-	**7,544**
3. Financial assets at amortised cost	-	273	-	273
3.1. Due from banks	542	6,729	-	7,271
3.2. Due from customers	-	-	-	-
4. Hedging derivatives	-	-	-	-
5. Other assets	-	-	-	**480**
6. Financial liabilities	**3,207**	**7,002**	-	**10,689**
Total				

Interest and similar expense

The table below provides an analysis of interest and similar expense for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	**BIP**			
	For the 9-month period ended 30 September		**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
	2018	**2017 (restated)**		
1. Financial liabilities at amortised cost	**(2,980)**	**(3,292)**	**312**	**(9.48%)**
1.1 Payables to central banks	(43)	(83)	40	(48.19%)
1.2 Payables to banks	(109)	(48)	(61)	>100%
1.3 Payables to customers	(1,277)	(1,320)	43	(3.26%)
1.4 Securities issued	(1,551)	(1,841)	290	(15.75%)
2. Financial liabilities held for trading	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-
4. Other liabilities and provisions	-	-	-	-
5. Hedging derivatives	-	-	-	-
6. Financial assets	**(121)**	**(101)**	**(20)**	**19.80%**
Total	**(3,101)**	**(3,393)**	**292**	**(8.61%)**

Interest and similar expense totalled EUR 3.1 million for the nine months to 30 September 2018, a decrease from EUR 3.4 million for the period ended 30 September 2017 (-8.6%).The change is attributable to the reduction in interest on payables to central banks (-48.2%) and on securities issued (-15.8%).

The table below provides an analysis of interest and similar expense by item/form for the nine months to 30 September 2018.

(Thousands of euros)	**BIP**			
	For the 9-month period ended 30 September 2018			
	Payables	**Securities**	**Other Transactions**	**Total**
1. Financial liabilities at amortised cost	**(1,429)**	**(1,551)**	**-**	**(2,980)**
1.1 Payables to central banks	(43)	-	-	(43)
1.2 Payables to banks	(109)	-	-	(109)
1.3 Payables to customers	(1,277)	-	-	(1,277)
1.4 Securities issued	-	(1,551)	-	(1,551)
2. Financial liabilities held for trading	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-
4. Other liabilities and provisions	-	-	-	-
5. Hedging derivatives	-	-	-	-
6. Financial assets	-	-	-	**(121)**
Total	**(1,429)**	**(1,551)**	**-**	**(3,101)**

Fees

Fee and commission income

The table below provides an analysis of fee and commission income for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017		
a) guarantees issued	**197**	**233**	**(36)**	**(15.45%)**
b) credit derivatives	-	-	-	-
c) management, brokerage and consultancy services:	**306**	**196**	**110**	**56.12%**
1. securities trading	-	-	-	-
2. currency trading	1	-	1	1.00%
3. portfolio management	-	-	-	-
4. custody and administration of securities	6	7	(1)	(14.29%)
5. custodian bank	-	-	-	-
6. placement of securities	186	82	104	>100%
7. reception and transmission of orders	71	80	(9)	(11.25%)
8. advisory services	-	-	-	-
8.1. related to investments	-	-	-	-
8.2. related to financial structure	-	-	-	-
9. distribution of third-party services	42	27	15	55.56%
9.1. portfolio management:	-	-	-	-
9.1.1. individual	-	-	-	-
9.1.2. collective	-	-	-	-
9.2. insurance products	2	1	1	100%
9.3 other products	40	26	14	53.85%
d) collection and payment services	**669**	**610**	**59**	**9.67%**
e) securitisation servicing	-	-	-	-
f) factoring services	-	-	-	-
g) tax collection services	-	-	-	-
h) management of multilateral trading facilities	-	-	-	-
i) keeping and management of current accounts	**2,331**	**2,085**	**246**	**11.80%**
j) other services	**105**	**116**	**(11)**	**(9.48%)**
Total	**3,608**	**3,240**	**368**	**11.36%**

Fee and commission income totalled EUR 3.6 million for the nine months to 30 September 2018, an increase from EUR 3.2 million for the period ended 30 September 2017 (+11.4%). The change is attributable to higher fees for management, brokerage and consultancy services (+56.1%) and for the keeping and management of current accounts.

Specifically, for the period ended 30 September 2018, management, brokerage and consultancy services and the distribution of other products includes the fees paid by Allfunds and UBI Pramerica for the placement of funds as well as by Fraer Leasing S.p.A. and relating to the brokerage of financial leasing transactions. The sub-item "i) keeping and management of current accounts" also includes the commitment fee.

Fee and commission expense

The table below provides an analysis of fee and commission expense for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017		
a) guarantees received	**(28)**	**(57)**	**29**	**(50.88%)**
b) credit derivatives	**-**	**-**	**-**	**-**
c) management and brokerage services:	**(40)**	**(35)**	**(5)**	**14.29%**
1. securities trading	(15)	(13)	(2)	15.38%
2. currency trading	-	-	-	-
3. portfolio management:	-	-	-	-
3.1. own funds	-	-	-	-
3.2. delegated by third parties	-	-	-	-
4. custody and administration of securities	(25)	(22)	(3)	13.64%
5. securities placement	-	-	-	-
6. off-site offering of financial instruments, products and services	-	-	-	-
d) collection and payment services	**(156)**	**(150)**	**(6)**	**4.00%**
e) other services	**(172)**	**(182)**	**10**	**(5.49%)**
Total	**(396)**	**(424)**	**28**	**(6.60%)**

Fee and commission expense totalled EUR 0.4 million for the nine months to 30 September 2018, a decrease from EUR 0.4 million for the period ended 30 September 2017 (-6.6%).The change is attributable to lower fee and commission expense on guarantees received (-50.9%) and on other services (-5.5%).

Specifically, for the 9-month period ended 30 September 2018, sub-item "e) other services" includes fees paid to non-salaried financial agents.

Net profit (loss) from trading activities

The table below provides an analysis of net profit (loss) from trading activities for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017		
1. Financial assets held for trading	**(822)**	**879**	**(1,701)**	**(>100%)**
1.1 Debt securities	-	-	-	-
1.2 Equity securities	-	-	-	-
1.3 Units of UCIs	(822)	879	(1,701)	(>100%)
1.3 Loans	-	-	-	-
1.4 Others	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-
2.2 Payables	-	-	-	-
2.3 Others	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**30**	**31**	**(1)**	**(3.23%)**
4. Derivatives	**-**	**-**	**-**	**-**
4.1 Financial derivatives	-	-	-	-
- on debt securities and interest rates	-	-	-	-
- on equity securities and share indexes	-	-	-	-
- on currencies and gold	-	-	-	-
- other	-	-	-	-
4.2 Credit derivatives	-	-	-	-
Total	**(792)**	**910**	**(1,702)**	**(>100%)**

Net profit (loss) from trading activities totalled EUR -0.8 million for the nine months to 30 September 2018, a decrease from EUR 0.9 million for the period ended 30 September 2017 (>100%). The change is attributable to the realisation of losses on the disposal of units of UCIs classed as financial assets held for trading.

Profit (loss) on sale/repurchase

The table below provides an analysis of profit (loss) on sale/repurchase for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017 (restated)		
A. Financial assets				
1. Financial assets at amortised cost	-	-	-	-
1.1. Receivables from banks	-	-	-	-
1.2. Receivables from customers	-	-	-	-
2. Financial assets at fair value through other comprehensive income	**(8,684)**	**1,672**	**(10,356)**	**(>100%)**
2.1. Debt instruments	(8,684)	1,672	(10,356)	(>100%)
2.2. Loans	-	-	-	-
Total assets (A)	**(8,684)**	**1,672**	**(10,356)**	**(>100%)**
B. Financial liabilities				
1. Due to banks	-	-	-	-
2. Due to customers	-	-	-	-
3. Securities issued	-	-	-	-
Total liabilities (B)	-	-	-	-

There was a net loss on sale/repurchase of EUR 9 million for the nine months to 30 September 2018, compared with a net profit of EUR 1.7 million for the period ended 30 September 2017 (>100%), due to the activities undertaken to reduce the Bank's exposure to government bonds in the third quarter.

Net profit (loss) from financial assets and liabilities designated at fair value

The table below provides an analysis of net profit (loss) from financial assets and liabilities designated at fair value for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017 (restated)		
1. Financial assets	**127**	**(527)**	**654**	**(>100%)**
1.1 Debt securities	-	-	-	-
1.2 Equity securities	127	(527)	654	(>100%)
1.3 Units of UCIs	-	-	-	-
1.4 Loans	-	-	-	-
2. Foreign currency financial assets: exchange differences	-	-	-	-
Total	**127**	**(527)**	**654**	**(>100%)**

Net profit (loss) from financial assets and liabilities designated at fair value totalled EUR 0.1 million for the nine months to 30 September 2018, an increase from EUR -0.5 million for the period ended 30 September 2017 (>100%).The increase is attributable to an increase in the net value of equity securities (>100%).

Net value adjustments for credit risk

Net value adjustments for credit risk relating to financial assets at amortised cost

The table below provides an analysis of net value adjustments for credit risk relating to financial assets at amortised cost for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017 (restated)		
A. Receivables from banks	**29**	**-**	**29**	**-**
- Loans	29	-	29	-
- Debt securities	-	-	-	-
of which: purchased or originated credit-impaired	-	-	-	-
B. Receivables from customers	**(2,844)**	**(993)**	**(1,851)**	**>100%**
- Loans	(2,677)	(993)	(1,684)	>100%
- Debt securities	(167)	-	(167)	-
of which: purchased or originated credit-impaired	-	-	-	-
Total	**(2,815)**	**(993)**	**(1,822)**	**>100%**

Net value adjustments for credit risk relating to financial assets at amortised cost totalled EUR 2.8 million for the nine months to 30 September 2018, an increase from EUR 1 million for the period ended 30 September 2017 (>100%).The increase is attributable to an increase in net value adjustments on receivables from customers (>100%), following the transfer to impaired status of some positions.

Net value adjustments for credit risk relating to financial assets at fair value through other comprehensive income

The table below provides an analysis of net value adjustments for credit risk relating to financial assets at fair value through other comprehensive income for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017 (restated)		
A. Debt securities	7	-	7	-
B. Loans	-	-	-	-
- To customers	-	-	-	-
- To banks	-	-	-	-
of which: purchased or originated credit-impaired	-	-	-	-
Total	7	-	7	-

Net value adjustments for credit risk relating to financial assets at fair value through other comprehensive income totalled EUR 7 thousand for the nine months to 30 September 2018, an increase from EUR 0 thousand for the period ended 30 September 2017. The increase is attributable to an increase in net value adjustments on debt securities.

Administrative expense

Personnel costs

The table below provides an analysis of personnel costs for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017		
1. Employees	**(4,961)**	**(2,973)**	**(1,988)**	**66.87%**
a) salaries and wages	(3,507)	(2,082)	(1,425)	68.44%
b) social security costs	(1,088)	(640)	(448)	70.00%
c) severance indemnity	(1)	-	(1)	-
d) social security expenses	-	-	-	-
e) accrual to provision for severance pay entitlement	(65)	(43)	(22)	51.16%
f) accrual to provision for pensions and similar obligations	-	-	-	-
defined contribution	-	-	-	-
defined benefit	-	-	-	-
g) payments to external supplementary pension funds:	(157)	(76)	(81)	>100%
defined contribution	(157)	(76)	(81)	>100%
defined benefit	-	-	-	-
h) costs deriving from share-based payment agreements	-	-	-	-
i) other employee benefits	(143)	(132)	(11)	8.33%
2. Other active personnel	**(88)**	**(113)**	**25**	**(22.12%)**
3. Directors and statutory auditors	**(1,191)**	**(496)**	**(695)**	**>100%**
4. Retired personnel	-	-	-	-
5. Reimbursement of expenses for employees seconded to other companies	-	-	-	-
6. Reimbursement of expenses for third-party employees seconded to the company	-	-	-	-
Total	**(6,240)**	**(3,582)**	**(2,658)**	**74.20%**

Personnel costs totalled EUR 6.2 million for the nine months to 30 September 2018, an increase from EUR 3.6 million for the period ended 30 September 2017 (+74.2%).The change is attributable to an increase in wages and salaries (+68.4%), social security contributions (+70%) and directors' and statutory auditors' fees (>100%).

Other administrative expenses

The table below provides an analysis of other administrative expenses for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017		
Rent for properties	(274)	(267)	(7)	2.62%
Maintenance on properties, hardware/software and other assets	(79)	(76)	(3)	3.95%
Property management	(137)	(127)	(10)	7.87%
Postal	(40)	(33)	(7)	21.21%
Telephone and data transmission	(167)	(137)	(30)	21.90%
Leasing of machines and software	(11)	(11)	-	0.00%
Third-party data processing services	(508)	(442)	(66)	14.93%
IT consultancy	(29)	(29)	-	0.00%
Outsourcing services	(227)	(206)	(21)	10.19%
Advertising, promotional and perks	(380)	(290)	(90)	31.03%
Fees for certifications	(52)	(64)	12	(18.75%)
Professional and advisory services	(6,076)	(727)	(5,349)	>100%
Transport	(43)	(34)	(9)	26.47%
Information and company registry	(276)	(241)	(35)	14.52%
Insurance premiums	(66)	(15)	(51)	>100%
Surveillance and security	(15)	(8)	(7)	87.50%
Motor vehicle usage expenses	(94)	(91)	(3)	3.30%
Printing and stationery	(50)	(58)	8	(13.79%)
Sundry contributions	(105)	(94)	(11)	11.70%
Sundry expenses	(21)	(19)	(2)	10.53%
Indirect taxes and duties	(1,057)	(805)	(252)	31.30%
of which Contributions to the National Resolution Fund	*(424)*	*(229)*	*(195)*	*85.15%*
Total	**(9,707)**	**(3,774)**	**(5,933)**	**>100%**

Other administrative expenses totalled EUR 9.7 million for the nine months to 30 September 2018, an increase from EUR 3.8 million for the period ended 30 September 2017. The change is attributable to an increase in expenditure on professional and advisory services (>100%) and indirect taxes and duties (+31.3%).

Specifically, for the 9-month period ended 30 September 2018, the item "Other administrative expenses" includes non-recurring and one-off expenses incurred during the period. The largest portion refers to the roughly EUR 4.5 million in success fees, identified as a transaction cost associated with the completion of the acquisition by SPAXS, based on the engagement assigned to the Bank's advisor to provide support to the Bank in relation to possible extraordinary transactions regarding the Bank itself. This financial advisor is not a related party of the Issuer or parties that were its shareholders on the date on which the business combination was carried out, insofar as the Issuer is aware, also considering the significant fragmentation of its shareholding body.

Net accruals to provisions

The table below provides an analysis of net accruals to provisions for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017		
Accruals to the provision for personnel charges	(129)	(130)	1	(0.77%)
Accruals to the provision for legal disputes	(85)	17	(102)	(>100%)
Accruals to the provision for miscellaneous risks and charges	-	-	-	-
Total	**(214)**	**(113)**	**(101)**	**89.38%**

Net accruals to provisions totalled EUR 0.2 million for the nine months to 30 September 2018, an increase from EUR 0.1 million for the period ended 30 September 2017 (+89.4%). The increase is attributable to higher accruals to the provision for legal disputes (>100%).

Impairment of tangible assets

The table below provides an analysis of net impairment losses on tangible assets for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017		
A. Property and equipment				
A.1 Owned	(173)	(83)	(90)	>100%
- For business use	(173)	(83)	(90)	>100%
- For investment	-	-	-	-
- Inventory	-	-	-	-
A.2 Acquired under finance lease	-	-	-	-
- For business use	-	-	-	-
- For investment	-	-	-	-
Total	**(173)**	**(83)**	**(90)**	**>100%**

Net impairment losses on tangible assets totalled EUR 0.2 million for the nine months to 30 September 2018, an increase from EUR 83 thousand for the period ended 30 September 2017 (>100%). The change is attributable to greater depreciation of property and equipment used in the business (>100%).

Specifically, the change is attributable to the depreciation of the building acquired from the incorporation of Banca Emilveneta S.p.A., which had not impaired at the reporting date.

Net impairment losses on intangible assets

The table below provides an analysis of net impairment losses on intangible assets for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017		
A. Intangible assets				
A.1 Owned	(2)	(2)	-	0.00%
- Generated internally by the company	-	-	-	-
- Other	(2)	(2)	-	0.00%
A.2 Acquired under finance lease	-	-	-	-
Total	**(2)**	**(2)**	**-**	**0.00%**

Net impairment losses on intangible assets totalled EUR 2 thousand for the nine months to 30 September 2018, the same as for the period ended 30 September 2017.

Other operating income and expense

Other operating expense

The table below provides an analysis of other operating expense for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		Changes 2018 vs 2017	Change % 2018 vs 2017
	2018	2017		
Prior year loss	-	-	-	-
Contingent liabilities	-	-	-	-
Theft and hold-ups	(15)	-	(15)	-
Amortisation of expenses for leasehold improvements	(41)	(38)	(3)	7.89%
Other operating expense	(90)	(36)	(54)	>100%
Total	**(146)**	**(74)**	**(72)**	**97%**

Other operating expense totalled EUR 0.1 million for the nine months to 30 September 2018, an increase from EUR 74 thousand for the period ended 30 September 2017 (+97%). The change is attributable to an increase in other operating expense (>100%).

Other operating income

The table below provides an analysis of other operating income for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
	2018	**2017**		
Rental income	–	–	–	–
Recovery of misc. customer expenses for deposit and current account costs	114	78	36	46.15%
Recovery of other customer expenses	–	–	–	0.00%
Recovery for services rendered to Group companies	–	92	- (92)	(100.00%)
Recovery of indirect taxes	603	556	47	8.45%
Other income	112	24	88	>100%
Total	**829**	**750**	**79**	**10.53%**

Other operating income totalled EUR 829 thousand for the nine months to 30 September 2018, an increase from EUR 750 thousand for the period ended 30 September 2017 (+10.5%). The change is attributable to an increase in other operating income (>100%).

Losses on the sale of investments

The table below provides an analysis of losses on the sale of investments for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	For the 9-month period ended 30 September		**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
	2018	**2017**		
A. Real estate	-	-	-	-
- Profits from disposal	-	-	-	-
- Losses on disposal	-	-	-	-
B. Other assets	**(2)**	-	**(2)**	-
- Profits from disposal	-	-	-	-
- Losses on disposal	(2)	-	(2)	-
Net result	**(2)**	-	**(2)**	-

Losses on the sale of investments totalled EUR 2 thousand for the nine months to 30 September 2018, an increase from EUR 0 thousand for the period ended 30 September 2017.

Income tax on profit (loss) from continuing operations

The table below provides an analysis of income tax on profit (loss) from continuing operations for the nine-month periods ended 30 September 2018 and 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	**BIP**			
	For the 9-month period ended 30 September		**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
	2018	**2017**		
1. Current taxes	361	(1,743)	2,104	(>100%)
2. Change in current taxes for previous periods	22	1	21	>100%
3. Reduction in current taxes for the period	-	-	-	-
3.bis Reduction in current taxes for the period for tax credits pursuant to Law No. 214/2011	(85)	(85)	-	0.00%
4. Change in prepaid taxes	4,271	50	4,221	>100%
5. Change in deferred taxes	-	-	-	-
6. Taxes pertaining to the period	**4,569**	**(1,777)**	**6,346**	**(>100%)**

Taxes pertaining to the period totalled EUR 4.6 million for the nine months to 30 September 2018, an increase from EUR -1.8 million for the period ended 30 September 2017. The change is attributable to higher current taxes (>100%) and the change in prepaid taxes (>100%).

20.6.2.4. Information on equity

Quantitative information

The table below provides an analysis of equity at 30 September 2018 and 31 December 2017, as well as the changes in absolute and percentage terms.

(Thousands of euros)	BIP			
	30 September 2018	**31 December 2017**	**Changes 2018 vs 2017**	**Change % 2018 vs 2017**
1. Share capital	43,377	43,377	-	0.00%
2. Share premium reserve	-	-	-	-
3. Reserves	64,589	10,662	53,927	>100%
- Profit	12,007	8,078	3,929	48.64%
a) legal	804	634	170	26.81%
b) required by the bylaws	-	-	-	-
c) treasury shares	-	-	-	-
d) other	11,203	7,444	3,759	50.50%
- Other	52,582	2,584	49,998	>100%
4. Equity instruments	-	-	-	-
5. (Treasury shares)	-	-	-	-
6. Valuation reserves	(5,196)	2,632	(7,828)	(>100%)
- Equity instruments designated at fair value through other comprehensive income	5	3	2	66.67%
- Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	(5,172)	2,674	(7,846)	(>100%)
- Property and equipment	-	-	-	-
- Intangible assets	-	-	-	-
- Hedging of foreign investments	-	-	-	-
- Cash flow hedging	-	-	-	-
- Hedging instruments (elements not designated)	-	-	-	-
- Exchange differences	-	-	-	-
- Non-current assets and groups of assets held for disposal	-	(45)	45	(100.00%)
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-	-	-
- Actuarial (gains) losses relating to defined benefit pension plans	(29)	-	(29)	-
- Shares of valuation reserves relating to investments measured at equity	-	3,399	(3,399)	(100.00%)
- Special revaluation laws	-	60,070	(60,070)	(100.00%)
7. Profit for the year	(12,464)	3,399	(15,863)	(>100%)
Total	**90,306**	**60,070**	**30,236**	**50.33%**

At 30 September 2018, the equity including the result for the period stood at EUR 90.3 million, an increase from EUR 60.1 million at 31 December 2017.

This change is attributable to:

- the EUR 50 million advance payment by the controlling shareholder SPAXS S.p.A. for a capital increase, the loss for the period (EUR 12 million, largely attributable to derisking and the expenses attributable to the extraordinary transaction);

- unrealised losses on financial assets measured at fair value through other comprehensive income (which have been subject to the uncontrolled and sudden fluctuation in value of Italian government bonds).

The net profit from the previous period is fully appropriated to reserves.

20.6.2.5 Other Information

20.6.2.5.1 Information on risks and the related hedging policies

Credit risk

Qualitative Information

General aspects

The Issuer's primary exposures are to government and banking counterparties (available-for-sale securities portfolio), mainly to retail customers and only occasionally to corporate customers. Activities with respect to retail customers consist of granting residential mortgages to private parties or granting ordinary credit lines as well as credit facilities against company receivables.

Under the credit quality monitoring policy, particular caution is exercised in granting loans to households as well as businesses due to the specific economic situation. In particular, so as to more efficiently oversee the granting of credit facilities, dedicated agreements have been entered into with various credit guarantee consortia (Confidi) eligible for the counter-guarantee of the Central Guarantee Fund pursuant to Law 662/96, Article 2, paragraph 100, letter A).

Nevertheless, in continuation of its own corporate mission, the Bank has continued to the guarantee the availability of credit for valid corporate projects and is prepared to assume the greater risks that materialise as a result of a further economic downturn. One positive element with respect to this last aspect, also during the current recession, is the good structure of guarantees securing most loans.

Credit risk management policies

Organisational aspects

The Issuer places great importance in the management of credit risks and control systems, which are needed to foster conditions for:
- ensuring structural and significant value creation amid an environment of controlled risk;
- protecting the Bank's financial stability and image;
- properly and transparently presenting the inherent risk of the Bank's credit portfolio.

The main operational factors contributing to credit risk regard:

- the investigation process prior to awarding credit;
- credit risk management;
- monitoring exposures;
- possible credit recovery activities.

At present, the organisational entities responsible for managing and controlling the risk in question are, for level 1, the network structure (in particular the direct relationship manager), and for subsequent level 2 controls, respectively: the Credit department, the Risk Management (Credit Monitoring) department, reporting directly to General Management, and the Legal department.

Loan portfolio quality improvement is pursued by adopting specific operating methods throughout the credit relationship management phases (contact and screening, approval and disbursement, monitoring and disputes). Credit risk oversight is pursued starting with the very first screening and granting phases by:

- verifying the prerequisites for granting a credit facility, with a particular focus on checking the current and outlook capacity of the customer to generate income and, especially, sufficient cash flows to honour the debt;
- assessing the nature and extent of the loan requested in relation to the actual needs and capital, financial and economic capacities of the applicant, the performance of the relationship already in place and sources of repayment;
- the presence of Economic Groups.

Management, measurement and control systems

Surveillance and monitoring activities are currently based on a system of internal controls aimed at optimal credit risk management. In particular, this activity takes place through recourse to performance measurement and monitoring methodologies.

These methodologies take into consideration all aspects characterising customer relationships, from customer details (information on the customer's residence, business, legal nature, most recent decision made on the position, adverse events, corporate structure, anomalies found in the Central Credit Register, status and relative doubtful positions, relationship managers and, lastly, whether the position is in default), to information relating to the credit facilities (type, credit line granted, operational credit line, use, overdrafts/availability and credit line expiry date), to details on the guarantees securing the facilities, in addition to information relating to significant position management aspects. It interacts with credit management and control processes and procedures, favouring greater efficiency in the credit monitoring process, the capitalisation of information and greater effectiveness in the recovery process.

A new line of credit is opened and granted on the basis of a process of analysing the profit and loss and financial position information of the counterparty, along with qualitative information about the company, the purpose of the loan and the market in which it carries on business, as well as the presence and assessment of the financial value of any collateral guarantees.

For all counterparties, after an initial screening by the network structure, a detailed analysis is conducted by the Credit Office, the result of which is submitted to the competent decision-making body (individual or group depending on internal regulations in force), with respect to granting a line of credit that takes into consideration the degree of risk and the type of operations expected, also in relation to the purpose. During assessment of the request, due consideration may be given to an internal rating, valid solely for management purposes, awarded by the SaRA model managed by the outsourcer C.S.E. Consulting, used in any event for staging purposes.

The screening is conducted by means of an electronic web-based credit line application process, which is used for granting credit as well as for reviews in all screenings and makes it possible to optimise and automate the acquisition of all data that can be extracted from databases and historical archives, both internal and external.

The readily realisable value of guarantees is updated periodically.

Credit risk mitigation techniques

In order to mitigate credit risk, when the facility is awarded, various guarantees are typically acquired, consisting mainly of real guarantees on property assets or transferable securities and personal guarantees, consortium guarantees and various commitments and covenants related to the structure and ratio of the operation.

In general, the decision to acquire a guarantee is based on the assessment of the customer's creditworthiness and on the characteristics of the operation in question. After this analysis, it may be deemed appropriate to request supplementary guarantees to mitigate the risk, taking into account the presumed recoverable value offered by the guarantee.

The value of financial collateral is periodically monitored by comparing the present value of the guarantee with its initial value, so as to enable the manager to promptly intervene if there is a significant reduction in the guarantee.

For financial instruments, aside from constant monitoring of the counterparty's credit standing, risk mitigation techniques are used as set forth in dedicated contracts put into place through collateral management.

Impaired credit exposures

The network structures managing the relationship use objective and subjective criteria to propose the classification of impaired credit exposures. The former are essentially linked to surpassing specific limits as defined in the accounts matrix (Bank of Italy circular 272), while the latter relate to other anomalies that may be identified in relation to the credit relationship itself and/or "external" factors such as adverse events, anomalies identified in the Central Credit Register, databases and other sources of information.

Exposures relating to insolvent customers are classified as non-performing, even if this has not been confirmed in court, as are positions in which the situation of objective difficulty is no longer only temporary.

The determination of the two statuses described above is irrespective of the nature and consistency of any guarantees securing the credit facilities. Value adjustments, measured on each individual position, reflect criteria of prudence in relation to the possibility of recovery, also connected to the presence of any collateral guarantees, and are subject to periodic verification.

All non-performing positions are managed by the Legal Service, which aims to boost debt collection capabilities and optimise the ratio between costs and the percentage collected. Thus, activities are oriented towards economic results, privileging out-of-court solutions when possible and focusing attention on prompt and speedy recovery.

A loan may be returned to performing status if the following two conditions are satisfied:

- payment of all past-due amounts on the position classified as unlikely-to-pay;
- presence of other conditions relating to the economic/financial situation of the customer which make it possible to unequivocally deduce that it will be able to punctually honour upcoming deadlines.

Quantitative Information

Distribution of financial assets by portfolio and credit quality (book values)

The table below provides an analysis of financial assets by portfolio and credit quality (statement of financial position values) at 30 September 2018.

(Thousands of euros)	**BIP**					
	Non-performing	**Unlikely to pay**	**Impaired past-due exposures**	**Non-impaired past-due exposures**	**Non-impaired assets**	**Total**
1. Financial assets at amortised cost	7,521	4,048	393	14,365	506,027	532,354
2. Financial assets at fair value through other comprehensive income	-	-	-	-	289,348	289,348
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total at 30 September 2018	**7,521**	**4,048**	**393**	**14,365**	**795,375**	**821,702**

Distribution of financial assets by portfolio and credit quality (gross and net values)

The table below provides an analysis of financial assets by portfolio and credit quality (gross and net values) at 30 September 2018.

(Thousands of euros)	BIP							
	Impaired				Non-impaired			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets at amortised cost	22,196	(10,235)	11,961	-	523,273	(2,880)	520,393	532,354
2. Financial assets at fair value through other comprehensive income	-	-	-	-	289,348	-	289,348	289,348
3. Financial assets designated at fair value	-	-	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total at 30 September 2018	**22,196**	**(10,235)**	**11,961**	**-**	**812,621**	**(2,880)**	**809,741**	**821,702**

Cash and off-balance-sheet credit exposures to banks (gross and net values)

The table below provides an analysis of cash and off-balance-sheet exposures to banks (gross and net values) at 30 September 2018.

(Thousands of euros)	BIP				
	Gross exposure		Total value adjustments and total accruals	Net exposure	Total partial write-offs
	Impaired	Non-impaired			
A. BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-
b) Unlikely to pay	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-
c) Impaired past-due exposures	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-
d) Non-impaired past-due exposures	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-
e) Other non-impaired exposures	-	101,642	(94)	101,548	-
of which: forborne exposures	-	-	-	-	-
Total (A)	**-**	**101,642**	**(94)**	**101,548**	**-**
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Impaired	-	-	-	-	-
b) Non-impaired	-	156	-	156	-
Total (B)	**-**	**156**	**-**	**156**	**-**
Total (A+B)	**-**	**101,798**	**(94)**	**101,704**	**-**

Cash and off-balance-sheet credit exposures to customers (gross and net values)

The table below provides an analysis of cash and off-balance-sheet exposures to customers (gross and net values) at 30 September 2018.

(Thousands of euros)	BIP				
	Gross exposure		Total value adjustments and total accruals	Net exposure	Total partial write-offs
	Impaired	Non-impaired			
A. BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	15,721	-	(8,201)	7,520	(50)
of which: forborne exposures	*4,486*	-	*(2,482)*	*2,004*	-
b) Unlikely to pay	6,033	-	(1,985)	4,048	(1)
of which: forborne exposures	*2,362*	-	*(639)*	*1,723*	-
c) Impaired past-due exposures	442	-	(49)	393	-
of which: forborne exposures	*13*	-	*(1)*	*12*	-
d) Non-impaired past-due exposures	-	14,937	(572)	14,365	-
of which: forborne exposures	-	*2,096*	*(62)*	*2,034*	-
e) Other non-impaired exposures	-	696,042	(2,214)	693,828	-
of which: forborne exposures	-	*2,260*	*(42)*	*2,218*	-
Total (A)	**22,196**	**710,979**	**(13,021)**	**720,154**	**(51)**
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Impaired	709	-	(5)	704	-
b) Non-impaired		163,961	(80)	163,881	-
Total (B)	**709**	**163,961**	**(85)**	**164,585**	-
Total (A+B)	**22,905**	**874,940**	**(13,106)**	**884,739**	**(51)**

20.7 DIVIDEND POLICY

At the Prospectus Date the Bank has not assumed a dividend policy. In this regard, please note that pursuant to the Post-merger Bylaws, the Special Shares are not entitled to receive earnings. However, they do give holders the right to the distribution of available reserves; therefore, the Ordinary Shares and the Special Shares would participate in any distribution of reserves, to be approved by the Shareholders' Meeting with the legal majorities referred to in the Post-merger Bylaws.

For the year ended 31 December 2015, the Bank distributed dividends of EUR 800,000. No dividends were distributed for the years ended 31 December 2016 or 31 December 2017.

Being a start-up, in its Business Plan, as further detailed in Chapter 13, the Bank expresses its expectation that if the plan's targets are reached dividends increasing over time will be distributed from 2022, on the basis of a pay-out target of 20% in 2022, rising to 25% in 2023.

20.8 JUDICIAL AND ARBITRATION PROCEEDINGS

As of the Prospectus Date, the Issuer is involved in two pending disputes for which the Bank deems an outlay of financial resources is likely, for which the claims total approximately EUR

1,310 thousand and provisions for risks and charges in the amount of EUR 120 thousand have been allocated, i.e.: (1) a claim of approximately EUR 152 thousand in a case initiated by the receiver of Aesse S.r.l. and designed to obtain a declaration of ineffectiveness relating to the offsetting pursuant to Article 56 of the Italian Bankruptcy Law carried out by BIP in respect of lease instalments relating to the property situated in Formigine (province of Modena) at the time leased by the Issuer for an annual fee of EUR 45,000 – as revised from year to year; and (2) a case initiated by the receiver of Termosanitari Corradini S.p.A., at the Court of Modena, for a clawback action pursuant to Article 67, paragraph 2 of the Bankruptcy Law within the limit of the amount of EUR 1,158 thousand, the first hearing of which is scheduled for 5 March 2019.

Risks relating to the legal disputes indicated above are subject to careful analysis by the Bank's Directors, with reference to the principle that, if there are disputes for which an outlay is likely and it is possible to make a reliable estimate of the relative amount, Provisions are always recognised.

The amount recognised as a provision, totalling EUR 120 thousand, thus represents the best estimate of the expenditure required to fulfil the existing obligations at the reporting date, which will likely entail the use of resources embodying economic benefits.

Further, the Bank has another three positions in dispute for which it believes it improbable that it will lose. These positions have a counter-value of EUR 676 thousand.

In addition, the Bank's Board of Directors has adopted a resolution to initiate a liability action (the statute of limitations is 5 years from the end of the term of office) against the former directors of Banca Emilveneta S.p.A. (merged into the Bank) for the alleged damages caused to the Bank by the profuse maladministration of such from 2010 to 2016, for which at the Prospectus Date an agreement has been proposed to the Bank to come to an amicable settlement of the dispute based on the payment to the Bank of EUR 170,000.00. The Bank has rejected this settlement proposal and the legal action being taken against the defendants is in progress. Through the liability action, the Bank demanded that the former directors of Banca Emilveneta S.p.A., jointly and severally, be required to provide compensation, to the extent that will be determined in the course of the proceedings, for all damages suffered and being suffered by Banca Emilveneta S.p.A. as a result of the breaches and unlawful acts attributed to the former directors. In the petition, the value of the case has been specified as indeterminable. As things currently stand, it does not appear to be possible to foresee the outcome of this case.

For completeness of disclosure it is noted that at the Prospectus Date BIP is the claimant in 78 actions it has initiated for the collection of debts, deriving almost exclusively from the granting of mortgage loans and/or credit facilities. The total exposure is EUR 15.1 million. At 31 December 2017, a large portion of the receivables for which a recovery action has been proposed were written down on the basis of the expected cash flows. As things currently stand, it does not appear to be possible to foresee the outcome of this case.

20.9 Significant changes in the Issuer's financial or trade position

Without prejudice to what is specified in the Prospectus with reference to the Merger (reference should be made to Chapter 22 of the Prospectus for a description), the Company is unaware of significant changes in the trade and financial position taking place from 30 September 2018 until the Prospectus Date.

20.10 FINANCIAL INFORMATION OF SPAXS FOR THE PERIOD FROM ITS DATE OF INCORPORATION (20 DECEMBER 2017) TO 30 JUNE 2018

The tables below show the financial position and profit and loss of SPAXS relating to the period from its date of incorporation (20 December 2017) to 30 June 2018.

Statement of financial position

The table below shows the financial position of SPAXS at 30 June 2018.

(Thousands of euros)	**SPAXS 30 June 2018**
Cash and cash equivalents	613,698
Other receivables	9
Property and equipment	6
Total assets	**613,713**
Trade payables	3,134
Other payables	6,692
Reserves	545,731
Share capital	61,800
Profit (loss) for the year	(3,643)
Total liabilities and equity	**613,713**

Income Statement

The table below shows the profit and loss of SPAXS for the period from its date of incorporation (20 December 2017) to 30 June 2018.

(Thousands of euros)	**SPAXS for the period ended at 30 June 2018**
Revenues	-
Materials for consumption	(2)
Service costs	(3,844)
Lease and rental expense	(40)
Other operating expenses	(2)
Depreciation, amortisation and impairment	(1)
Operating profit (loss)	**(3,889)**
Financial income	245
Financial expense	(7)
Profit (loss) before tax	**(3,643)**
Income taxes	-
Profit (loss) for the period	**(3,643)**

Statement of changes in shareholders' equity

The table below shows the Statement of changes in shareholders' equity of SPAXS for the period from its date of incorporation (20 December 2017) to 30 June 2018.

(Thousands of euros)	SPAXS				
	30 June 2018				
	Share capital	**Share premium reserve**	**Retained earnings (losses)**	**Profit/(loss) for the period**	**Total Equity**
Balance as of 20 December 2017	-	-	-	-	-
Capital increase (incorporation)	50	-	-	-	50
Capital increase - special shares	1,750	16,200	-	-	17,950
Capital increase - ordinary shares	60,000	540,000	-	-	600,000
Capital increase costs	-	(10,469)	-	-	(10,469)
Profit/(loss) for the period	-	-	-	(3,643)	(3,643)
Other comprehensive income	-	-	-	-	-
Total comprehensive income (loss), net of taxes	-	-	-	(3,643)	(3,643)
Balance as of 30 June 2018	**61,800**	**545,731**	**-**	**(3,643)**	**603,888**

Statement of Cash Flows

The table below shows the Statement Cash Flows of SPAXS for the period from its date of incorporation (20 December 2017) to 30 June 2018.

(Thousands of euros)	**SPAXS For the period ended at 30 June 2018**
Profit (loss) before tax	(3,643)
Depreciation, amortisation and impairment	(1)
Increase in trade payables and other short-term payables	9,826
Increase in trade receivables and other short-term receivables	(9)
Net cash from operating activities	**6,174**
Property and equipment	(7)
Other intangible assets	-
Net cash from (used in) investing activities	**(7)**
Capital increase on incorporation	50
Issue of special shares	17,950
Issue of ordinary shares	600,000
Other increases/decreases in equity	(10,469)
Net cash from financing activities	**607,531**
(Decrease) increase in cash and cash equivalents and short-term deposits	**613,698**
Cash and cash equivalents and short-term deposits at 20 December 2017	-
Cash and cash equivalents and short-term deposits at 30 June 2018	**613,698**

Net financial position

The table below shows the net financial position of SPAXS at 30 June 2018.

(Thousands of euros)	**SPAXS 30 June 2018**
A. Cash	-
B. Other cash and cash equivalents (current account deposits)	613,697
C. Trading securities	1
D. Liquidity (A) + (B) + (C)	**613,698**
E. Current financial receivables	**-**
F. Current bank loans	-
G. Current portion of non-current debt	-
H. Other current financial payables	-
I. Current financial debt (F) + (G) + (H)	**-**
J. (Net current financial liquidity) / Net current financial debt (I) - (E) - (D)	**613,698**
K. Non-current bank loans	-
L. Bonds issued	-
M. Other non-current payables	-
N. Non-current financial debt (K) + (L) + (M)	**-**
O. (Net Financial Liquidity) / Net Financial Debt (J) + (N)	**613,698**

Net financial liquidity amounts to EUR 613.7 million, and corresponds to the sum of cash and cash equivalents present in bank current accounts and restricted current accounts.

20.10.1 Summary of accounting policies

The main accounting criteria and principles used in drafting SPAXS's 1H 2018 Interim Financial Statements at 30 June 2018 are described below.

20.10.1.1 General principles

Introduction

The SPAXS 1H 2018 Interim Financial Statements were prepared in compliance with the IFRSs issued by the International Accounting Standards Board (IASB) and adopted by the European Union. "IFRSs" refers to the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) supplemented by the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

The SPAXS 1H 2018 Interim Financial Statements were prepared on the basis of the cost criterion, with the exception of the financial statement items which were measured at fair value in accordance with the IFRSs.

The duration of SPAXS was initially established until the first of the following dates:

- 31 July 2020;

- the end of the 18th calendar month subsequent to the "Trading Start Day" (i.e., 1 February 2018), without prejudice to the fact that if at the above-mentioned date an agreement was signed for the completion of the Material Transaction subject to disclosure to the market pursuant to applicable regulations, the duration of the Company was deemed automatically extended until the end of the 6th calendar month subsequent to the same date.

Following the completion of the Material Transaction, the duration of the Company was established by the post-Merger Bylaws until 31 December 2100.

The company's functional currency is the Euro. The SPAXS 1H 2018 Interim Financial Statements were prepared in Euro, without decimal points. The values indicated in the explanatory notes are in Euro when not specified otherwise.

Structure, form and content of the SPAXS 1H 2018 Interim Financial Statements

With respect to the form and content of the financial statements, the Company has made the following decisions:
- the statement of financial position shows current and non-current assets and current and non-current liabilities separately;
- the income statement classifies costs and revenues by nature;
- the indirect method was used to prepare the statement of cash flows.

The statements used, as specified above, are those which best represent the Company's profit and loss, financial position and cash flows.

The SPAXS 1H 2018 Interim Financial Statements at 30 June 2018 were prepared on a going concern basis as there are no significant uncertainties relating to events or conditions that may entail the emergence of serious doubts as to the Company's capacity to continue to operate as a going concern.

SPAXS has also decided to include a statement of comprehensive income separate from the income statement which includes the profit (loss) for the period as well as changes in shareholders' equity relating to economic items which, by express provision of the IFRSs, are recognised under other comprehensive income. For the interim period from the date of incorporation, on 20 December 2017, to 30 June 2018, this statement includes no items.

The SPAXS 1H 2018 Interim Financial Statements were drafted clearly and provide a true and fair view of the financial position, profit and loss and cash flows of the Company.

20.10.1.2. Accounting policies and measurement criteria

The accounting policies adopted to prepare SPAXS's 1H 2018 Interim Financial Statements at 30 June 2018 are described below.

Current/non-current classification

In the Company's financial statements, assets and liabilities are classified according to the current/non-current criterion.

An asset is current when:

- it is expected to be realised, or it is held for sale or consumption, in the normal course of the operating cycle;
- it is held primarily with a view to trading it;
- it is expected to be realised within twelve months of year-end close;
- it consists of cash or cash equivalents, unless it is barred from being traded or used to extinguish a liability for at least twelve months from the period-end close date.

A liability is current when:

- it is expected to be extinguished in its normal operating cycle;
- it is held primarily with a view to trading it;
- it must be extinguished within twelve months of the period-end close date;
- the entity does not have an unconditional right to defer the settlement of the liability for at least twelve months from the period-end close date.

Financial instruments

The final version of the new IFRS 9 standard, broken down into three stages, makes it necessary to define financial instrument management processes and criteria in terms of "Classification and Measurement", "Impairment" and "Hedge Accounting".

Classification and measurement

In terms of Classification & Measurement, the standard sets forth rules for the classification of financial assets in the following categories:

(i) Amortised Cost - "AC";
(ii) Fair value through other comprehensive income ("FVOCI");
(iii) Fair value through profit or loss ("FVTPL").

This classification is made based on two discriminating factors:

(i) The Business Model that SPAXS has associated with each of the portfolios identified;
(ii) The characteristics of the contractual cash flows of the financial instrument (SPPI Test – Solely Payments of Principal and Interest).

The terms of Impairment, the main updates regard:

(i) the change in the perimeter of application of financial assets subject to the impairment process;
(ii) the introduction of an impairment model based on expected losses ("expected credit loss") with the adoption of a forward-looking approach;

(iii) the classification of financial instruments in three stages of credit quality and the resulting need to make use of a dedicated Stage Assignment Framework;
(iv) the calculation of value adjustments depending on the credit quality stage assigned.

SPAXS initially recognises financial assets at fair value in addition, in the case of financial assets not measured at fair value through profit or loss, transaction costs.

Stage assignment criteria - general approach

The "general" approach basically consists of the classification of financial assets in three stages of risk, corresponding to different methods for measuring value adjustments accounting to the unambiguous concept of "Expected Loss", or "Expected credit losses" ("ECL"). For staging purposes, SPAXS has adopted the following model:
(i) for trade receivables (receivables for fees and commissions), the simplified approach and therefore registering expected losses on all trade receivables based on their remaining contractual duration;
(ii) cash and cash equivalents, such as owned current accounts which are classified as assets measured at amortised cost, are also subject to the general rule of impairment. However, considering the fact that they are sight accounts, expected losses over 12 months and the expected lifetime losses of the assets coincide;
(iii) for other receivables, parameters were defined for the determination of the significant increase in credit risk (SICR) for the purpose of the proper assignment of exposures to stage 1 or stage 2 ("tracking"). On the other hand, credit exposures classified in stage 3 include impaired credit exposures consisting of past-due exposures impaired for at least 90 days, unlikely to pay positions and non-performing loans.

With reference to credit quality "tracking", we proceeded with a precise analysis of the credit quality of each individual account in order to identify any "significant impairment" from the date of initial recognition and the resulting need to classify it in stage 2, as well as, similarly, the assumptions for reclassification to stage 1 from stage 2. Specifically, to distinguish receivables that have no signs of SICR (stage 1) from those which to the contrary show such signs (Stage 2), the company decided, in line with the requirements introduced by IFRS 9, to analyse the following relevant aspects:
(i) changes in the counterparty's creditworthiness (evaluated on the basis of the outcome of recovery and reminder actions);
(ii) the expected life of the receivable;
(iii) the forward-looking information that may influence the probability of default.

Therefore, SPAXS's Stage Assignment Framework requires "not impaired" financial instruments to be classified in 2 different stages, each representative of increasing levels of risk:
(i) Stage 1 includes all receivables that have not suffered an "SICR" or, even if they have registered a change in credit risk over time, are characterised by a low level of credit risk at the reporting date;
(ii) Stage 2 includes receivables which at the reporting date have registered an "SICR" since initial recognition and this level of risk can no longer be considered low.

The classification of receivables in Stage 3 is instead required for all accounts in default at the reporting date.

IFRS 9 requires the company to recognise a provision for expected credit losses (ECL) with respect to all loans and other receivables that represent a financial asset not measured at FVPL.

Expected credit losses (ECL) are based on the difference between contractual cash flows due in accordance with the contract and all cash flows that SPAXS expects to receive. For contractual assets, trade receivables and other receivables, SPAXS has applied the standard simplified approach and calculated the ECL based on expected credit losses throughout the life of the receivables. SPAXS has defined a provision based on its historical experience in relation to credit losses, adjusted to take into account specific forecast factors relating to creditors as well as the economic environment.

The Standard requires the classification and measurement of financial liabilities at amortised cost with the exception (IFRS 9 par. 4.2.1) of:

(i) Financial liabilities measured at FVPL (including derivative financial instruments);
(ii) Financial liabilities originating when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
(iii) Financial guarantee contracts and commitments to provide a loan;
(iv) Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

The Standard maintains the possibility to irrevocably opt, on initial recognition, for measurement at fair value through profit or loss (the fair value option) when (IFRS 9 par. 4.2.2 and 4.3.5):

(v) The liability includes an embedded derivative;
(vi) This designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch");
(vii) The liability is included in a group of liabilities managed at fair value on the basis of a documented policy.

For financial liabilities designated at fair value, the Standard calls for gains or losses to be recognised as follows:

(i) changes in the fair value of financial liabilities attributable to changes in own credit risk are recognised in equity (without reclassification to the income statement). In the case of repurchase, the reserve could be reclassified to an available equity reserve;
(ii) the remaining change in the fair value of liabilities is recognised in the income statement.

Considering the nature of the instruments held by SPAXS, classification by technical type was identified as the relevant level at which to conduct the business model analysis for the company. When the business model of an asset or a portfolio of assets is of the hold to collect type or both hold to collect and sell, the next step in the assessment consists of analysing the contractual cash flows to verify whether they represent solely payments of principal and interest ("SPPI").

An entity must always check contractual cash flows when it becomes party to the contractual provisions of the instrument and, thus, retrospective application pursuant to IFRS 9 requires the asset to be analysed on the basis of the situation at the moment of recognition in the financial statements. It should be noted that, in any event, that an instrument that has been restructured or renegotiated in such a way that does not lead to the derecognition of the original asset and the recognition of the new asset should not be subject to a new SPPI Test.

Fair value measurement

The Company measures financial instruments such as derivatives and equity instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the sale of the asset or the transfer of the liability takes place:
- in the main market of the asset or liability; or
- in the absence of a main market, in the most advantageous market for the asset or liability.

The main or most advantageous market must be accessible to SPAXS.

The fair value of an asset or liability is measured based on the assumptions that market participants would use in determining the price of the asset or liability, presuming that they are acting to best satisfy their own economic interest.

A fair value measurement of a non-financial asset considers the capacity of a market participant to generate economic benefits by using the asset in its highest and best use or selling it to another market participant that would use it in its highest and best use.

SPAXS uses measurement techniques that are suited to the circumstances and for which there is sufficient data available to measure the fair value, maximising the use of relevant observable inputs and minimising the use of non-observable inputs.

All assets and liabilities for which fair value is measured or shown in the financial statements are categorised on the basis of the fair value hierarchy described below:
(i) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
(ii) Level 2 - inputs other than the quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
(iii) Level 3 - measurement techniques that use unobservable inputs for the asset or liability.

The fair value measurement is classified entirely in the same level of the fair value hierarchy in which the input in the lowest level of the hierarchy used for the measurement is classified.

For assets and liabilities recognised in the financial statements at fair value on a recurring basis, SPAXS determines whether transfers have taken place between hierarchy levels by reviewing the categorisation (based on the input in the lowest level, which is significant for the entire fair value measurement) at each reporting date.

The administration and finance department determines the criteria and procedures for recurring fair value measurements, such as for equity instruments, and for non-recurring measurements.

At each reporting date, the administration and finance department analyses changes in the value of assets and liabilities for which re-measurement or re-calculation is required on the basis of SPAXS's accounting standards.

For this analysis, the main inputs applied in the most recent measurement are checked, by comparing the information used in the measurement with the contracts and other relevant documents.

For the fair value disclosure, SPAXS determines the classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the fair value hierarchy level as described above.

Cash and cash equivalents

The item cash and cash equivalents includes cash, bank and postal current accounts, deposits reimbursable upon mere request and other highly liquid short-term financial investments, in any event with a maturity equal to or less than three months at the acquisition date, which are readily convertible into cash and are measured at nominal value as they are not subject to a significant risk of changes in value.

The definition of cash and cash equivalents for the purpose of the statement of cash flows corresponds to that used in the statement of financial position. The amount of balances of cash and cash equivalents held by SPAXS but which are not freely usable by it is reported in the notes to the financial statements.

Other receivables

Other receivables are initially recognised at fair value and, after initial recognition, they are measured at amortised cost using the effective interest method.

Property and equipment

Property and equipment acquired separately are recognised at cost, including directly attributable accessory costs necessary to make the asset ready for the use for which it was acquired. This cost includes expenses for the acquisition of assets at the time they are incurred, if compliant with the recognition criteria.

Property and equipment acquired through business combinations are recognised at the fair value determined at the acquisition date.

Maintenance and repair costs that do not increase the value and/or extend the remaining useful life of the assets are recognised in full in the year in which they are incurred. Otherwise they are capitalised.

Property and equipment are recognised net of the relative accumulated depreciation and any impairment is determined in accordance with the methods described below. Depreciation is calculated on a straight-line basis in line with the estimated useful life of the asset for the company, which is reviewed each year and any changes, if necessary, are applied on a prospective basis.

The depreciation rate used for the category of ordinary office machines is 20%.

If components of property and equipment have different useful lives, those components are accounted for separately. Land, both free of constructions and adjacent to buildings, is recognised separately and not depreciated as it has an unlimited useful life.

The book value of Property and equipment is checked to identify any impairment if events or changes in the situation indicate that the carrying amount cannot be recovered, following the rules described below.

At the moment of the sale or when there are no future economic benefits expected from the use of an asset, it is eliminated from the financial statements and any loss or gain (calculated as the difference between the disposal value and the carrying amount) is recognised in the income statement in the year of the above-mentioned elimination.

Trade payables and other payables

Trade payables and other payables are initially recognised at fair value, normally equal to nominal value, net of discounts, returns or invoicing adjustments, and are subsequently measured at amortised cost if the financial effect of the payment extension is significant.

Equity

Share capital

The share capital consists of ordinary shares and special shares classified in equity.

Costs for share capital transactions

Costs directly attributable to transactions on the share capital are recognised as a reduction from equity.

Recognition of costs

Costs are recognised at the moment of acquisition of the asset or service.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis in accordance with the interest accrued on the net value of the relative financial assets and liabilities, using the effective interest rate required by the amortised cost approach.

Interest on arrears on past-due loans is recognised when their payment is deemed likely, also on the basis of expected collection timing.

Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the company's profit (loss) by the weighted average of shares issued during the year. In order to calculate the diluted earnings/(loss) per share, the weighted average of shares issued is changed to assume the conversion of all potential shares with a dilutive effect. The net profit (loss) is also adjusted to take into account the effects of the conversion, net of taxes.

Diluted profit/(loss) per share is calculated by dividing the profit (loss) of the company by the weighted average number of ordinary shares issued during the year and those potentially deriving from the conversion of all potential ordinary shares with dilutive effect.

Segment reporting

The operating segment in which SPAXS carries on business is identified on the basis of the provisions of IFRS 8 Operating Segments. This standard requires a disclosure to be provided with respect to the assessments carried out by the company's management in aggregating operating segments, describing the segments that were aggregated and the economic indicators evaluated to determine that the aggregated segments have similar economic characteristics.

For the purpose of IFRS 8 Operating Segments, it should be noted that operating segments have not been identified as, in the period from its incorporation on 20 December 2017 until the date of the Interim Financial Statements (30 June 2018) SPAXS did not carry out any operating activities and concentrated primarily on defining its organisational structure, on the process of having its shares admitted to trading on the AIM Italia market, as well as on research activities and the selection of target companies with which to carry out the business combination, identified as the Issuer, which was acquired on 20 September 2018.

Listing costs

For its listing and capital increase project, SPAXS incurs specific costs such as:
(i) the commissions and fees recognised to the banks coordinating the offer;
(ii) the fees paid to advisors, specialists and lawyers;
(iii) other costs such as communication costs, prospectus printing expenses and out-of-pocket expenses.

The costs incurred for the listing and capital increase were accounted for in accordance with the provisions of IAS 32, which calls for their recognition as a reduction from any capital increase or their recognition in the income statement when the listing is successful.

New accounting standards not yet entered into force at 30 June 2018

The new IFRS 16, adopted in 2017 with EU Regulation no. 1986 and applicable as of 1 January 2019, introduces significant amendments to how leasing operations are accounted for in the financial statements of the lessee/user.

Specifically, the main amendment consists of eliminating the distinction, set forth in IAS 17 currently in force (which will be replaced by IFRS 16), between an operating lease and a finance lease: all leasing contracts will need to be accounted for as finance leases. This will basically entail for lessee companies/users - with profitability and final cash flows remaining the same - an increase in assets recorded in the financial statements (the leased assets), an increase in liabilities (the payable for the leased assets), a reduction of operating costs (the lease instalments) and an increase in financial costs (for the repayment and remuneration of the payable recognised).

At disclosure level, the minimum disclosure required of lessee companies includes, inter alia:

- an analysis between the various "classes" of leased assets;
- an analysis by deadlines of the liabilities correlated with the lease agreements;
- all information that is potentially useful to better understand the company's activities with reference to lease agreements (for example early redemption or extension options).

On the other hand, there are no particular changes, apart from the requests for additional disclosures, for lessor companies, for which the current distinction between operating and finance leases remains unchanged.

20.10.2 Notes to the financial statements

The tables below represent the comments on the main financial position, cash flow and profit and loss items set forth in the SPAXS 1H 2018 Interim Financial Statements for the period from its date of incorporation (20 December 2017) to 30 June 2018.

20.10.2.1 Assets

Cash and cash equivalents

The table below shows the breakdown of cash and cash equivalents at 30 June 2018.

(Thousands of euros)	**SPAXS 30 June 2018**
Bank deposits	613,697
Cash and other valuables in hand	1
Total Cash and cash equivalents	**613,698**

Bank deposits consist of:

- EUR 13.7 million (inclusive of interest accrued at 30 June 2018 on the sums deposited in restricted current accounts for EUR 0.2 million) deposited in ordinary bank current accounts that may be used to cover incorporation costs and the remaining costs relating to the listing;

- EUR 600.0 million deposited in restricted current accounts, represents the proceeds of the Offer, and may be used, with the authorisation of the Shareholders' Meeting, essentially in order to carry out the Material Transaction. Following the resolutions relating to the business combination passed by the Shareholders' Meeting on 8 August 2018 as well as at the end of the period for the exercise of the withdrawal right, which was exercised with a percentage 8.48%, their release was requested on 12 September 2018.

Other receivables

The table below shows the breakdown of other receivables at 30 June 2018.

(Thousands of euros)	**SPAXS 30 June 2018**
Guarantee deposits	9
Withholdings	-
Total Other current receivables	**9**

At 30 June 2018 the item other receivables includes guarantee deposits of EUR 9 thousand, paid as a guarantee on the rental agreement relating to the offices located in Milan at via Camperio, while the remainder relates to the receivable for withholdings on bank interest receivable.

Property and equipment

The table below shows the breakdown of property and equipment at 30 June 2018.

(euros)	**SPAXS 30 June 2018**
Plant and machinery	6
Total property and equipment	**6**

At 30 June 2018, the item property and equipment includes costs of EUR 7 thousand relating to the purchase of electronic office machines, with depreciation amounting to EUR 726.

20.10.2.2 Liabilities and Equity

Trade payables

The table below shows the breakdown of trade payables at 30 June 2018.

(Thousands of euros)	**SPAXS 30 June 2018**
Payables to suppliers	167
Payables for invoices to be received	2,967
Total Trade payables	**3,134**

At 30 June 2018, payables to suppliers essentially refer to part of the expenses incurred for admission to trading on the AIM Italia market. The item includes provisions totalling EUR 3.0 million for invoices to be received relating to services received during the period.

Other payables

The table below shows the breakdown of other payables at 30 June 2018.

(Thousands of euros)	**SPAXS 30 June 2018**
Social security payables	5
Tax authorities for withholdings	6
Accrued expenses	14
Other payables	6,667
Total Other payables	**6,692**

At 30 June 2018, the item Other payables consists for the most part of payables relating to deferred fees and commissions for the listing process of EUR 6.7 million, payable at the effective date of the Material Transaction.

Equity

The table below shows the breakdown of equity at 30 June 2018.

(Thousands of euros)	**SPAXS 30 June 2018**
Share Capital – Ordinary Shares	60,000
Share Capital – Special Shares	1,800
Share Capital – Total	**61,800**
Share premium reserve	545,731
Profit (loss) for the period	(3,643)
Total Equity	**603,888**

At the date of incorporation (20 December 2017), the subscribed share capital amounted to EUR 50 thousand. On that date, the shareholders paid in EUR 12.5 thousand, i.e., 25% of the subscribed capital.The remainder was paid on 10 January 2018 (EUR 37.1 thousand) and 11 January 2018 (EUR 375).

On 17 January 2018, by deed of notary Andrea De Costa, the company approved a capital increase from EUR 50 thousand to EUR 15.0 million in favour of the shareholders and a capital increase for an additional EUR 500.0 million for third parties, with a deadline for executing the increase set for 31 March 2018.

On 25 January 2018, by deed of notary Andrea De Costa, the company approved an amendment to the previous resolution by increasing the increase already approved up to EUR 18.0 million for the promoter shareholders and EUR 600.0 million for third parties, again with a deadline for executing the increase set for 31 March 2018.

On 30 June 2018, the company issued 6,000,000 Conditional Share Rights, which were admitted to trading on the AIM Italia at the same time as the admission of the company's ordinary shares.

At 30 June 2018, the share capital is fully subscribed and paid in and consists of 60,000,000 Ordinary Shares and 1,800,000 Special Shares, the latter convertible into Ordinary Shares when the conditions set forth in Article 6 of the Bylaws are fulfilled and in accordance with the methods set forth therein.

The Ordinary Shares and the Conditional Share Rights were admitted to trading on the AIM Italia as of 30 January 2018, and trading on the AIM Italia began on 1 February 2018. The company's Special Shares are not traded on the AIM Italia.

In compliance with the SPAXS Conditional Share Rights Regulation, as amended on 8 August 2018 by the Shareholders' Meeting, holders of Ordinary Shares will be allocated 4 Conditional Share Rights free of charge for every 10 Ordinary Shares of the company at the latest of the following dates: (a) the effective date of the Material Transaction; (b) the date of liquidation of the shares subject to withdrawal in relation to the approval of the amendment of the company's corporate purpose necessary to implement the Material Transaction, or the date on which the reimbursement of the shares of withdrawing shareholders has been completed pursuant to Article 2437-quater, paragraph 5 of the Italian civil code.

The item share premium reserve includes the amount of the capital increase allocated to the share premium, totalling EUR 556.2 million, net of costs incurred for admission to trading on the AIM Italia and the capital increase amounting to EUR 10.5 million.

The table below shows the breakdown of costs incurred for admission to trading on the AIM Italia.

(Thousands of euros)	**Reduction of Equity**
Commissions for the issue of securities	10,000
Legal, tax, notary and advisory expenses	342
Expenses related to the admission to listing	127
Total listing costs incurred	**10,469**

On 23 August 2018, the withdrawal period for the Company's ordinary shareholders who had not voted in favour of the shareholders' resolution approving the business combination and which regarded 5,090,851 shares, equal to 8.48% of the ordinary shares of SPAXS, concluded.

The shares subject to withdrawal where then offered under option to the SPAXS shareholders, pursuant to Article 2437-quater of the Italian civil code. Through this offer, which concluded on 4 October 2018, 722,948 ordinary shares were re-placed.

The Conditional Share Rights will give the right to the allotment of 1 SPAXS Ordinary Share for every 5 Conditional Share Rights held at the first anniversary of the effective date of the Material Transaction and therefore are accounted for as equity instruments.

The table below shows the possibilities of use of the main items of Equity:

(Thousands of euros)	**30 June 2018**	**Possibility of use**
Share capital	61,800	
Profit reserve	-	
Legal reserve	–	
Share premium reserve	545,731	A; B

Key:
A: for capital increase
B: to cover losses
C: for distribution to shareholders

20.10.2.3 Income Statement

Sales revenues

During the period between the date of incorporation on 20 December 2017 and 30 June 2018, SPAXS did not carry out any operating activities and earned no revenue.

Indeed, SPAXS was concentrated primarily on defining its organisational structure and on the process of having its Ordinary Shares and Conditional Share Rights admitted to trading on the AIM Italia, a process which was successfully completed on 30 January 2018, with a trading date of 1 February 2018, in addition to the launch and definition of search and selection activities relating to target companies with which to carry out the business combination, so as to create a bank focusing on specific very broad, dynamic segments underserved by the Italian market.

Materials for consumption

For the period ended at 30 June 2018, this item amounted to EUR 2.4 thousand, referring to costs for the acquisition of sundry office materials.

Cost of services

The table below shows the breakdown of the cost of services for the period from the date of incorporation (20 December 2017) to 30 June 2018.

(Thousands of euros)	**SPAXS 30 June 2018**
Advisory services	3,621
Project work	77
Other services	48
Administrative services	44
Travel expenses	19
INPS, Cocopro and INAIL	18
Expense reimbursements	4
Directors	6
Board of Statutory Auditors	8
Total cost of services	**3,844**

For the period ended at 30 June 2018 this item amounted to EUR 3.8 million.

The item Other operating costs includes primarily costs incurred for accounting, tax, legal and administrative advisory services, the costs relating to auditing activities and communications and investor relations costs incurred as part of the Material Transaction.

Financial income

The table below shows the breakdown of financial income for the period from the date of incorporation (20 December 2017) to 30 June 2018.

(Thousands of euros)	**SPAXS 30 June 2018**
Interest income on restricted account	245
Other interest income	-
Total financial income	**245**

For the period ended at 30 June 2018 this item amounted to EUR 0.2 million.

It refers primarily to interest accrued during the period ended at 30 June 2018 on the restricted current account opened at Banca Monte Paschi di Siena S.p.A.

Income taxes

To prepare the SPAXS 1H 2018 Interim Financial Statements, SPAXS did not recognise any deferred tax assets relating to tax losses and aid for economic growth (ACE), as it postponed the assessment concerning their recoverability to after the end of the first financial year and the completion of the extraordinary business combination transaction.

Basic and diluted loss per share

The basic loss per share, calculated by dividing the profit (loss) for the year by the weighted average number of ordinary shares issued, was EUR 0.08.

The table below shows the calculation of the basic and diluted loss per share:

(Thousands of euros)	**SPAXS 30 June 2018**
Net loss	(3,643)
Number of ordinary shares at the end of the period	60,000
Weighted average number of ordinary shares for the purpose of the basic loss per share	46,563
Basic loss per share	(0.08)
Diluted loss per share	(0.08)

At 30 June 2018 the effect of the exercise of the Conditional Share Rights and the conversion of the Special Shares would have been anti-dilutive; therefore, the diluted loss per share corresponds to the basic loss, as such anti-dilutive effects were not considered.

20.10.2.4 Other Information

20.10.2.4.1 Risk management

SPAXS is exposed to various extents to financial risks connected to its business activities. In particular, SPAXS is exposed to market risk, liquidity risk and credit risk.

The goal is to manage the financial resources raised and needed to carry out the Material Transaction in compliance with the criteria set forth in the approved investment policy.

The total proceeds of the offer were deposited in restricted accounts and represent the Restricted Sums that SPAXS may use exclusively with authorisation from the shareholders' meeting, with the exception of paying the liquidation value for the exercise of the withdrawal right.

At 30 June 2018 and in the period ended at that date, there were no positions or transactions exposing SPAXS to significant credit, market or liquidity risk.

20.10.2.4.2 Guarantees given, commitments and contingent liabilities

At 30 June 2018 there were no guarantees given, commitments or contingent liabilities.

20.11 SPAXS Consolidated Financial Information for the period from the date of incorporation (20 December 2017) until 30 September 2018.

The tables below show the interim consolidated financial position and profit and loss of SPAXS relating to the period from its date of incorporation (20 December 2017) to 30 September 2018 (the "**SPAXS 9M 2018 Consolidated Interim Financial Statements**").

Statement of Financial Position

The table below shows the consolidated financial position at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
Cash and cash equivalents	76,596
Financial assets at fair value through profit or loss	29,392
a) financial assets held for trading	29,293
c) financial assets mandatorily at fair value	99
Financial assets at fair value through other comprehensive income	291,596
Financial assets at amortised cost	1,039,138
a) due from banks	592,609
b) due from customers	446,529
Property and equipment	1,842
Intangible assets	21,648
of which:	
Goodwill	21,643
Tax assets	14,092
a) current	1,383
b) deferred	12,709
Other assets	15,214
Total assets	**1,489,518**
Financial liabilities at amortised cost	845,601
a) due to banks	257,603
b) due to customers	488,877
c) securities issued	99,121
Tax liabilities	335
a) current	-
b) deferred	335
Other liabilities	82,758
Severance pay	564
Provisions	443
a) commitments and guarantees issued	85
c) other provisions	358
Share premium	504,596
Share capital	62,781
Profit (loss) for the year	(7,846)
Group equity	559,532
Non-controlling interests	285
Total liabilities and equity	**1,489,518**

Income Statement

The table below shows the consolidated profit and loss for the period ended at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
Interest and similar income	402
of which interest income calculated using the effective interest method	-
Net interest income	**402**
Brokerage margin	**402**
Administrative expenses:	(8,245)
a) personnel expenses	(233)
b) other administrative expenses	(8,011)
Impairment of tangible assets	(3)
Operating expense	**(8,247)**
Profit (loss) from continuing operations before taxes	**(7,846)**
Profit (loss) from continuing operations after taxes	**(7,846)**
Profit (loss) for the year	**(7,846)**
Basic earnings per share (in Euro)	(0.16)
Diluted earnings per share (in Euro)	(0.16)

Statement of comprehensive income

The table below shows the consolidated statement of comprehensive income for the period ended at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
Profit (loss) for the year	**(7,846)**
Other comprehensive income after taxes that will not be reclassified to profit or loss:	
Equity instruments designated at fair value through other comprehensive income	-
Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-
Hedging of equity instruments designated at fair value through other comprehensive income	-
Property and equipment	-
Intangible assets	-
Defined-benefit plans	-
Non-current assets and groups of assets held for disposal	-
Share of valuation reserves of investments measured at equity	-
Other comprehensive income after taxes that may be reclassified to profit or loss	
Hedging of foreign investments	-
Exchange differences	-
Cash flow hedging	-
Hedging instruments (elements not designated)	
Financial assets (other than equity instruments) at fair value through other comprehensive income	-
Non-current assets and groups of assets held for disposal	-
Share of valuation reserves of investments measured at equity	-
Total other comprehensive income after taxes	**(7,846)**
Comprehensive income	**(7,846)**

Statement of changes in Equity

The table below shows the interim consolidated statement of changes in equity of SPAXS relating to the period from its date of incorporation (20 December 2017) to 30 September 2018 (the "**SPAXS 9M 2018 Consolidated Interim Financial Statements**").

(Thousands of euros)	Balances at 31/12/2017	Change in opening balances	Balances at 01/01/2018	Allocation of the previous year's result		Changes during the year							Change in shareholdings	Comprehensive income for the period	Group equity at 30/09/2018	Non-controlling interests at 30/09/2018
				Reserves	Dividends and other allocations	Changes in reserves	Transactions on equity									
							Issue of new shares	Acquisition of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options				
Share capital:	-	-	-	-	-	-	**62,781**	-	-	-	-	-	-	-	**62,781**	**285**
a) ord. shares	-	-	-	-	-	-	60,981	-	-	-	-	-	-	-	60,981	285
b) other shares	-	-	-	-	-	-	1,800	-	-	-	-	-	-	-	1,800	-
Share premium	-	-	-	-	-	-	504,596	-	-	-	-	-	-	-	504,596	-
Reserves:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
a) profit	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,846)	(7,846)	-
GROUP EQUITY	-	-	-	-	-	-	**567,378**	-	-	-	-	-	**(285)**	**(7,846)**	**559,532**	-
NON-CONTROLLING INTERESTS	-	-	-	-	-	-	-	-	-	-	-	-	**285**	-	-	**285**

Consolidated Statement of Cash Flows prepared according to the indirect method

The table below shows the interim consolidated statement of cash flows of SPAXS relating to the period from its date of incorporation (20 December 2017) to 30 September 2018 (the "**SPAXS 9M 2018 Consolidated Interim Financial Statements**").

(Thousands of euros)	**SPAXS 30 September2018**
A. OPERATING ACTIVITIES	
1. Operations	**13,692**
- result for the period (+/-)	(7,846)
- gains/losses on financial assets held for trading and on assets/liabilities at fair through profit or loss (-/+)	822
- gains/losses on hedging activities (-/+)	-
- net value adjustments for credit risk (+/-)	2,324
- net impairment of tangible and intangible assets (+/-)	178
- net accruals to provisions and other income/expense (+/-)	343
- taxation and unsettled tax credits (+)	4,568
- impairment of groups of operating assets net of the tax effect (-/+)	
- other adjustments (+/-)	13,303
2. Cash flows from financial assets	**(357,766)**
- financial assets held for trading	(30,000)
- financial assets designated at fair value	-
- financial assets mandatorily at fair value	(99)
- financial assets at fair value through other comprehensive income	318,552
- financial assets at amortised cost	(627,772)
- other assets	(18,447)
3. Cash flows from financial liabilities	**(106,844)**
- financial liabilities at amortised cost	(154,001)
- financial liabilities held for trading	-
- financial liabilities designated at fair value	-
- other liabilities	47,157
Cash from (used in) operating activities	**(450,917)**
B. INVESTING ACTIVITIES	
1. Cash from	-
- sales of equity investments	-
- dividends received from investees	-
- sales of property and equipment	-
- sales of intangible assets	-
- sales of businesses	-
2. Cash used by	**(28,309)**
- purchases of equity investments	(28,606)
- purchases of property and equipment	298
- purchases of intangible assets	-
- purchases of businesses	-
Net cash from (used in) investing activities	**(28,309)**
C. FINANCING ACTIVITIES	
- issue/purchase of treasury shares	568,286
- issue/purchase of equity instruments	-
- dividend distribution and other purposes	(12,464)
Cash from (used in) financing activities	**555,822**
NET CASH GENERATED (USED) IN THE PERIOD	**76,596**

Reconciliation *(Thousands of euros)*	**30 September 2018**
Cash and cash equivalents at the beginning of the period	-
Net increase in cash and cash equivalents in the period	76,596
Cash and cash equivalents at the end of the period	76,596

20.11.1 Summary of accounting policies

SPAXS S.p.A. ("SPAXS" or the "Company") is a joint-stock company with legal personality organised in accordance with the legal system of the Italian Republic with registered office in Milan, at via Mercato 3, VAT no. and Milan Chamber of Commerce no. 10147580962.

On 20 December 2017, SPAXS S.p.A. was incorporated as a special purpose acquisition company (SPAC) whose shares and conditional share rights have been admitted to trading on the AIM Italia (Alternative Investment Market multilateral trading system organised and managed by Borsa Italia S.p.A.) for the search for and selection of a target company with which to carry out the business combination (the "Material Transaction"). This business combination has the objective of creating an operator active in providing financial services to high potential small and medium-sized enterprises with a sub-optimal financial structure and/or with a low rating or which are unrated, in the market of non-performing loans and in offering direct, highly digitalised banking services to households and businesses.

The closing of the business combination took place on 20 September 2018 by resolution approved by the Shareholders' Meeting, with the resulting acquisition of the shares of Banca Interprovinciale S.p.A. for EUR 44.7 million in cash and for EUR 10.8 million (including the share premium) by means of the contribution to SPAXS of the shares of Banca Interprovinciale S.p.A.

Thereafter, the capital increase was carried out through the issue of 981,144 new SPAXS ordinary shares at a price of EUR 11 per share, subscribed by the previous shareholders of Banca Interprovinciale S.p.A. and freed up through the contribution of 8,360 shares of the bank.

The acquisition of Banca Interprovinciale S.p.A. was subjected to the usual required authorisation procedures at the competent supervisory authorities (ECB and Bank of Italy), as well as approval by the SPAXS Shareholders› Meeting in compliance with the Bylaws.

In detail, approval from the competent supervisory authorities was received on 3 August 2018, and subsequently on 8 August 2018 the SPAXS Shareholders' Meeting was held, which approved the resolutions relating to the business combination transaction between SPAXS S.p.A. and Banca Interprovinciale S.p.A.

20.11.1.1. Statement of compliance with international accounting standards

The interim consolidated financial statements at 30 September 2018 of the SPAXS Group were drafted in abbreviated form in compliance with the provisions of IAS 34 on interim financial reporting.

For the valuation and measurement of the profit and loss figures contained in the financial statements, the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) adopted by the European Commission were applied, in addition to the instructions set forth in Bank of Italy Circular no. 262 of 22/12/2005 (5th update of 22/12/2017).

The interim consolidated financial statements were prepared using euro as the Group's functional currency, and are composed of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the statement of cash flows and the notes.

The amounts shown in the financial statements and the notes are expressed in thousands of euros if not specified otherwise.

These Financial Statements for the period ended at 30 September 2018 are the first interim consolidated financial statements prepared by the group. As SPAXS was incorporated on 20 December 2017, the year 2018 represents the first financial year and, therefore, no comparative data are presented.

The Interim Financial Statements were prepared on a going concern basis as there are no significant uncertainties relating to events or conditions that may entail the emergence of serious doubts as to the Group's capacity to continue to operate as a going concern.

These Financial Statements were drafted clearly and provide a true and fair view of the financial position as well as the profit and loss of SPAXS and its subsidiaries at 30 September 2018, as described in the section "Scope and methods of consolidation".

The Interim Consolidated Financial Statements of SPAXS at 30 September 2018, subject to approval by the SPAXS Board of Directors on 30 November 2018, were subject to a limited audit by the auditing firm KPMG.

It should be noted that on initial consolidation, to prepare the Interim Consolidated Financial Statements for the period ended at 30 September 2018, the criterion of presentation based on the liquidity of the financial statement items was adopted, in line with the approach used by the acquired company, Banca Interprovinciale S.p.A.

20.11.1.2. General preparation criteria

Content of the financial statements

- Consolidated statement of financial position and income statement

  The consolidated statement of financial position and the consolidated income statement consist of items, sub-items and additional informational details. With respect to the statements defined by the Bank of Italy, the items that have no amounts for the period to which the interim consolidated financial statements refer are not included.

  In the consolidated income statement, revenue is indicated with no sign, while costs appear between parentheses.

As the business combination was completed near 30 September 2018, the consolidated income statement relates only to the data of SPAXS without the inclusion of those of Banca Interprovinciale S.p.A., the subsidiary bank with registered office in Modena.

- Consolidated statement of comprehensive income

  The consolidated statement of comprehensive income shows the profit (loss) for the period as well as the income components recognised as a counter-entry to valuation reserves, net of the relative tax effect, in compliance with international accounting standards.

  The consolidated comprehensive income is shown by presenting the income components that will not be reversed to the income statement in the future separately from those which may be subsequently reclassified to profit (loss) for the year in specific conditions. The statement also distinguishes the share of profitability attrubutable to the parent company from that attrubutable to non-controlling interests.As for the statement of financial position and the income statement, with respect to the statements defined by the Bank of Italy, the items that have no amounts for the period to which the financial statements refer are also included. Negative amounts are preceded by a minus sign.

- Statement of changes in equity

  The statement of changes in equity is presented by inverting the rows and columns compared to the same statement set forth in the update of Bank of Italy Circular no. 262/2005. The statement presents the composition and movement of equity accounts during the reference period of the financial statements, broken down between the share capital (ordinary shares and savings shares), reserves of capital, profits and from the valuation of financial statement assets or liabilities and the profit (loss). Treasury shares in the portfolio are recognised as a deduction from equity.

- Statement of cash flows

  The statement of cash flows during the reference year of the financial statements was prepared in accordance with the indirect method, based on which flows deriving from operating activities are represented by the profit for the period adjusted by the effects of non-monetary transactions.

  Cash flows are broken down between those deriving from operating activities, those from investing activities and those from financing activities.

  In the statement, flows generated during the year have no sign, while those used are preceded by a minus sign.

  It should be noted that the cash flows generated by investing activities include the effects of the business combination, as provided by IAS 7 paragraph 16 c), which illustrates as an example the inclusion in investing activities of payments for the acquisition of the equity or debt instruments of other entities and investments in joint ventures.

Content of the Notes

The Notes include the information set forth in the international accounting standards and Bank of Italy Circular no. 262 issued on 22 December 2005 5th update of 22/12/2017 applicable for the preparation of these financial statements.

20.11.1.3. Scope and methods of consolidation

The criteria and principles of consolidation adopted in preparing the Interim Consolidated Financial Statements for the period ended at 30 September 2018 are described below.

Financial Statements subject to consolidation

The interim consolidated financial statements include the interim financial statements of SPAXS for the period ended at 30 September 2018 and the interim financial statements for the period ended at 30 September 2018 of its direct or indirect subsidiaries, also including in the scope of consolidation, as specifically set forth in IFRS 10, the interim financial statements of the companies operating in business segments that are not similar to that of the Parent Company.

As the business combination was completed near 30 September 2018, the consolidated income statement relates only to the data of SPAXS without the inclusion of those of Banca Interprovinciale S.p.A.

Details about the scope of the subsidiary entities at 30 September 2018 are provided below:

Name	Operating Office	Registered Office	Type of relationship (*)	Shareholding relationship	
				Investor company	% Share
A Companies					
A.0 SPAXS S.p.A.	Milan	Milan			
A.1 Consolidated line by line					
A.1 Banca Interprovinciale S.p.A.	Modena	Modena	1	A,0	99.2%
A.2 Aporti S.r.l. (**)	Milan	Milan	4	A,1	100.0%

(*) Type of relationship:
1 = majority of the voting rights in the ordinary shareholders' meeting (pursuant to Article 2359, paragraph 1, no. 1)
2 = dominant influence in the ordinary shareholders' meeting
3 = agreements with other shareholders
4 = other forms of control

(**) Special purpose securitisation vehicle controlled on the basis of the requirements of IFRS 10.

The vehicle company Aporti S.r.l., established to carry out securitisation transactions, 99.2% of which is indirectly controlled through Banca Interprovinciale S.p.A., was also considered a subsidiary and thus included in the scope of consolidation.

The vehicle company Aporti S.r.l. is registered in the list of special purpose securitisation vehicles (SPV) pursuant to Bank of Italy Measure of 7 June 2017, at no. 35495.1.

Aporti S.r.l. was recently incorporated and as a result carried out no activities during the period and earned no revenue. Therefore, its contribution to the consolidated financial statements at 30 September 2018 is irrelevant.

Subsidiaries

Subsidiaries are those companies, including structured entities, over which the parent company SPAXS exercises control and those in which it has the power, as defined in IFRS 10, to directly or indirectly determine the financial and operating policies so as to obtain benefits from their activities.

On the basis of IFRS 10, an investor controls an investee if and only if the investor has all of the following:

- power over the significant activities of the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries are consolidated starting from the date on which control is effectively obtained by the Group and they stop being consolidated line-by-line as of the date on which control is transferred to entities outside the Group.

Subsidiaries may also include any "structured entities" in which voting rights are not significant for the assessment of control, including special purpose entities (SPV) and investment funds.

Structured entities are considered subsidiaries when:

- the Group has power through contractual rights which allow for the governance of relevant activities;
- the Group is exposed to variable returns deriving from such activities.

Associates

An associate is a company over which the parent company exercises significant influence and which is not a subsidiary or a joint venture.

It is presumed that the parent company has significant influence when:

- it directly or indirectly holds at least 20% of the share capital of another company, or
- it is capable, including through shareholders' agreements, to exercise significant influence through:
  - a) representation on the company's governance body;
  - b) participation in the policy-making process, including participation in decisions relating to dividends or other distributions;
  - c) the existence of significant transactions;
  - d) the exchange of management personnel;
  - e) the provision of essential technical information.

Investments in associates are measured according to the equity method.

At 30 September 2018, the Group had no investments in associates.

Joint arrangements

A joint arrangement is a contractual agreement in which two or more counterparties have joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of all parties sharing control.

According to IFRS 11, joint arrangements should be classified as joint operations or joint ventures depending on the rights and contractual obligations held by the Group:
- a joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- a joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.

Investments in jointly controlled companies that can be qualified as joint ventures are measured according to the equity method.

At 30 September 2018, the Group had no interests in joint arrangements.

Investments in subsidiaries controlled on an exclusive basis with significant non-controlling interests

It should be noted that for the period ended at 30 September 2018, there were no significant non-controlling interests, as mentioned in paragraph 12 of IFRS 12.

Significant restrictions

The Group carries on business in a regulated sector and is subject to the restrictions set forth in IFRS 12, paragraph 13, on significant legal, contractual or legislative restrictions capable of hindering the rapid transfer of financial resources within the Group.

Methods of consolidation

As concerns the methods of consolidation, subsidiaries are consolidated line-by-line, while companies subject to joint control and those over which the Group exercises significant influence are consolidated with the synthetic equity method.

Line-by-line consolidation

The consolidated financial statements drafted with the line-by-line consolidation method present the statement of financial position, income statement and cash flows of the Group, understood as a single economic entity.

Under this consolidation method, the aggregates from the statement of financial position and income statement of the subsidiaries are acquired “line by line”. After the attribution to non-controlling interests of the shares of equity and profit (loss) attrubutable to them, in their own separate items, the value of the equity investment is cancelled out as a balancing entry against the residual value of the subsidiary’s equity.

Assets, liabilities, income and expenses of significant amounts recognised between the consolidated companies are eliminated.

Subsidiaries are consolidated as of the date on which the Group obtains control, according to the purchase method, as set forth in IFRS 3, based on which the identifiable assets acquired and the identifiable liabilities assumed (including contingent liabilities) must be recognised at their respective fair values at the acquisition date.

If the price paid is higher than the above-mentioned fair values, the difference is recognised under goodwill or other intangible assets; if the price is lower, the difference is recognised in the income statement.

At 30 September 2018, the Group used the partial goodwill method to determine goodwill.

Where there is an event resulting in loss of control, the effect is recognised in the income statement as equal to the difference between (i) the sum of the fair value of the consideration received and the fair value of the residual interest retained and (ii) the previous book value of the assets (including goodwill) and liabilities of the subsidiary and any equity attributable to non-controlling interests. The amounts previously recognised in the statement of comprehensive income (such as valuation reserves of financial assets at fair value through other comprehensive income) must be accounted for in the same manner as would be required if the parent company had directly disposed of the assets or the relative liabilities. Any interest retained in the formerly controlled companies must be measured at fair value, as required for a financial asset on the basis of IFRS 9 and, when appropriate, it represents its new value at the moment of initial recognition in an associate or an entity under joint control.

Business combinations carried out for reorganisational purposes between two or more companies or businesses belonging to the same Group are not accounted for pursuant to IFRS 3. Indeed, international accounting standards do not govern transactions under common control, which are accounted for using the values of the acquired entity in the financial statements of the purchaser, if they have no significant influence on future cash flows. This complies with IAS 8, paragraph 10, which requires, in the absence of a specific standard, the use of one’s own judgement in applying an accounting standard so as to provide a relevant, reliable, prudent disclosure which reflects the economic substance of the transaction.

20.11.1.4. Other aspects

IFRS 9 - Financial Instruments

Regulation no. 2067 of 22 November 2016 - IFRS 9 Financial Instruments

Regulation no. 2067 of 22 November 2016 adopted the new IFRS 9 Financial Instruments, which governs the phases of classification and measurement, impairment and hedge accounting in relation to financial instruments, to replace IAS 39.

The standard must be applied for reporting periods starting on or after 1 January 2018.

The main updates regard the following four aspects:

- the classification and measurement of financial assets ("C&M"). This is based on the business model and on the characteristics of the cash flows generated by the financial instruments and calls for three accounting categories: financial assets at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income;
- for financial liabilities, the current classification and measurement rules continue to apply, except for the change made in the method for recognising own credit risk for financial liabilities designated at fair value;
- the recognition and accounting of hedges ("hedge accounting"), with the objective of guaranteeing greater alignment between the accounting representation of hedges and the underlying risk management approach;
- the introduction of a single impairment model to be applied to all financial assets not measured at fair value through profit or loss, based on a concept of expected loss ("forward-looking expected loss"). In detail, according to the model financial assets measured at amortised cost should be classified in three distinct stages.

Classification and Measurement

According to IFRS 9, the classification of financial assets depends on the combination of the following two drivers:

- The entity's business model: which reflects the objectives that the company management intends to pursue by holding the financial assets. In detail:
  - Hold To Collect (HTC), if the objective is to realise contractual cash flows by retaining the financial instrument until maturity;
  - Hold to Collect and Sell (HTC&S), if the financial assets are held with a view to realising contractual cash flows in the course of the asset's duration and also collecting the proceeds deriving from the sale of the asset;
  - Other: when the objectives are different from those described above, ascribable, for example, to the intention to realise cash flows through a trade ("Sell").
- Contractual characteristics of the cash flows: depending on whether the cash flows are based exclusively on principal and interest (Solely Payments of Principal and Interest or "SPPI") or also depend on other variables (such as profit-sharing, such as dividends, or the repayment of invested capital based on the issuer's financial performance, etc.). The analyses conducted to check the contractual characteristics of the cash flows are referred to as the "SPPI test".

The following accounting categories can be identified on the basis of the combination between the business models and the characteristics of the financial assets:

- Financial assets at amortised cost: these include those debt instruments (receivables and securities) with a hold to collect business model, the contractual terms of which are represented solely by payments of principal and interest (SPPI test passed);
- Financial assets at fair value through other comprehensive income that may be reclassified to profit or loss these include those debt instruments (receivables and securities) with a hold to collect and sell business model, the contractual terms of which are represented solely by payments of principal and interest (SPPI test passed);
- Financial assets at fair value through profit or loss: these include all trading assets and, irrespective of the business model, those assets that are necessarily measured at fair value as they do not pass the SPPI test. They include all equity instruments, unless the entity irrevocably opts to classify them as financial assets designated at fair value through other comprehensive income, with no recycling to the income statement of valuation and realisation components (with the exception of dividends, which continue to be recognised in the income statement).

In addition to the categories described above, the standard provides the right to use the accounting category of financial assets designated at fair value through profit or loss; this option is irrevocable and is permitted only to eliminate or significantly reduce a measurement or recognition inconsistency ("accounting mismatch") which would otherwise arise from the measurement of the assets or liabilities or the recognition of the relative gains and losses on a different basis.

Impairment

IFRS 9 introduces new impairment rules such as:

- the allocation of performing financial assets to different stages of credit risk ("staging"), corresponding to loss allowances based on expected losses within the subsequent 12 months ("Stage 1") or "lifetime" for the entire remaining lifetime of the instrument ("Stage 2") if there is a significant increase in credit risk (SICR) as identified by comparing the Probability of Default at the date of initial recognition and at the reporting date;
- the allocation of impaired financial assets to "Stage 3", again with a loss allowance based on lifetime expected losses;
- the inclusion in the calculation of expected credit losses ("ECL") of forward-looking information linked, inter alia, to the future evolution of the macroeconomic scenario.

Hedge Accounting

Lastly, with regard to hedge accounting, the new model - which however does not regard "macro hedges" - tends to align the accounting representation with risk management activities and reinforce the disclosure on the risk management activities undertaken by the entity drafting the financial statements.

The Group took advantage of the opt-out option, or the possibility to continue to apply the provisions of IAS 39 (carve out), as it currently does.

IAS/IFRS accounting standards and SIC/IFRIC interpretations adopted and to be applied subsequent to 30 September 2018

A description is provided below of the accounting standards (including the SIC and IFRIC interpretations) or amendments to accounting standards adopted by the European Commission which must be applied subsequent to the 2018 financial year.

IFRS 16 - Leases

IFRS 16 was issued by the IASB on 13 January 2016 and adopted in 2017 with Regulation (EU) 2017/1986 published on 09 November 2017 in the Official Journal of the European Union. This standard must be applied for reporting periods starting on or after 1 January 2019.

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

This international accounting standard applies to all transactions that regard a right to use an asset, irrespective of the contractual form, i.e., finance or operating lease, rent or hire. The standard does not apply to contracts with a duration of less than 12 months or which have an underlying asset with a low value.

IFRS 16 lays out new rules for the recognition, measurement and presentation in the financial statements of and additional information on leases, for both lessors and lessees, replacing the previous standards and interpretations (IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease).

The main amendment introduced by IFRS 16 consists of eliminating the distinction, set forth in IAS 17 currently in force, between operating and finance leases. All leasing contracts will need to be accounted for as finance leases. Specifically, for lessees/users this will entail the initial recognition of an asset, which represents the right of use of the leased asset and, against this, a liability represented by the present value of the future payments set forth in the lease agreement.

After initial recognition:

- the right of use will be amortised for the duration of the contract or the useful life of the asset (on the basis of IAS 16) or measured using an alternative approach, fair value (IAS 16 and IAS 40);
- the liability will be progressively reduced as lease payments are made, and interest will be recognised on it to be allocated to the income statement.

The accounting criteria for the lessor on the other hand remain basically unchanged compared to IAS 17; the only difference is an enhanced disclosure to be provided in the Notes. For finance leases, the lessor will continue to recognise a receivable for future lease payments in the statement of financial position.

Use of estimates and assumptions in preparing the consolidated financial statements

The preparation of the interim consolidated financial statements requires recourse to estimates and assumptions that can influence the values recognised in the statement of financial position and the income statement, as well as the disclosure relating to contingent assets and liabilities provided in the interim consolidated financial statements.

The estimates and the relative assumptions are based on the use of available operating information as well as subjective assessments, partially based on past experience.

Therefore, the use of reasonable estimates is an essential part of preparing the financial statements. The financial statement items in which the use of estimates and assumptions can be significant are listed below:
- the measurement of loans and receivables;
- the measurement of financial assets not listed in active markets;
- the quantification of accruals to the provisions;
- the quantification of deferred taxation;
- the definition of the depreciation of property and equipment and the amortisation of intangible assets with a limited useful life.

In this regard please also note that an estimate may be adjusted following changes in the circumstances on which it was based or in light of new information or even more experience. By their very nature, the estimates and assumptions used may change from period to period; therefore, it cannot be ruled out that the values recognised in the financial statements may differ, even significantly, from those currently estimated. Any change in estimates is applied on a prospective basis and therefore impacts the income statement for the year in which the change is made and, possibly, that of future years.

20.11.1.5. Section concerning the main financial statement items

This chapter describes the accounting standards adopted to prepare the interim consolidated financial statements at 30 September 2018, with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, as well as revenue and cost recognition methods.

Financial assets items 20, 30 and 40

Initial recognition criteria

The entity must recognise a financial asset in the statement of financial position when it becomes party to or undertakes to become party to the contractual provisions of the instrument.

The acquisition or sale of financial assets is recognised and derecognised, depending on the case, at the trade date or the settlement date, respectively (IFRS 9 - 3.1.2).

For the Group, the initial recognition of a financial asset takes place:

- on the settlement date, for debt instruments and equity instruments;
- on the disbursement date for loans with any technical form of risk assumption with the exception of the acquisition of debt instruments;
- on the subscription date for derivatives;
- on the date on which the risks and benefits linked to the transaction are transferred, for impaired loans acquired.

Derecognition criteria

Financial assets are derecognised in any of the following situations:

(a) the contractual rights to the cash flows deriving from them expire;

(b) the financial asset is sold with the substantial transfer of all risks and benefits deriving from its ownership; or

(c) the entity maintains the contractual right to receive the cash flows deriving from them, but also assumes the contractual obligation to pay the same flows to a third party; or

(d) contractual amendments are deemed "substantial". IFRS 9 specifies that a contractual amendment takes place when the contractual cash flows of the financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of the financial asset (IFRS 9 - 5.4.3). Indeed, in certain circumstances, it is possible for the renegotiation or modification of the contractual cash flows of the financial asset to lead to the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset that will be considered a "new financial asset". This takes place when there is a substantial modification in the cash flows.

Write-off/Derecognition of impaired loans

With respect to impaired exposures, the "write-off/derecognition" of the loan is particularly significant. A write-off is an event that gives rise to full or partial derecognition when it is no longer reasonable to expect that the financial asset will be recovered, all or in part (IFRS 9 - 5.4.4, B5.4.9). Indeed, according to IFRS 9, writing down the gross book value of a financial asset due to the reasonable expectation that it will not be recovered is considered a derecognition event. The write-off may regard the entire amount of a financial asset or a portion of it and corresponds:

- To the reversal of total value adjustments, against the gross value of the financial asset, and
- For the part exceeding the amount of total value adjustments, the impairment of the financial asset recognised directly in the income statement.

If the Group has reasonable expectations that the receivable will be recovered, it may be kept in the financial statements (performing loan) without any write-off and, in all cases in which there is an expected loss, a suitable provision should be recognised to cover the possibility that the loan will not be recovered in full.

Otherwise, if the Group does not have reasonable expectations that it will be recovered all or in part, the write-off should be recognised, resulting in moving the receivable or part of it from the financial statement assets to dedicated clearing accounts.

The amount of the write-offs carried out during the reference year exceeding the amount of total adjustments made in previous years (and which therefore is recognised as a loss directly in the income statement) is included in value adjustments.

Any recoveries from collections subsequent to the write-off are instead recognised in the income statement under recoveries resulting from the improvement in the borrower's creditworthiness and recoveries in cash (other than profit from disposal) of the previously impaired assets.

Financial assets at fair value through profit or loss

Definition and classification

Item 20 Financial assets at fair value through profit or loss includes financial assets other than those classified under Financial assets at fair value through other comprehensive income and Financial assets at amortised cost. Specifically:

(a) Financial assets held for trading

A financial asset (debt instrument, equity instrument, loan, UCITS share) is recognised in item 20 a) Financial assets at fair value through profit or loss: financial assets held for trading if it is:

- managed with a view to realising cash flows through its sale, and therefore associated with the Others Business Model as it was: acquired or maintained primarily with a view to selling or repurchasing it; part of a portfolio of identified financial instruments which are managed on a unitary basis and for which there is the proven existence of a recent and effective strategy aimed at obtaining profit in the short term;
- a derivative (with the exception of a derivative which is a financial guarantee contract or is a designated, effective hedging instrument).

  A financial instrument or another contract with the following characteristics is considered a "derivative":
  - its value changes in relation to changes in an interest rate, the price of a financial instrument, the price of a commodity, a foreign exchange rate, a price or rate index, creditworthiness or credit indexes or another pre-established variable;
  - it does not require an initial net investment or it requires an initial net investment lower than that which would be required for other types of contracts from which a similar response would be expected to changes in market factors;
  - it is settled at a future date.

With respect to derivative financial instruments, positive and negative current values with the same counterparty are offset in the financial statements if there is currently the legal right to offset such values and they are settled on a net basis. Derivatives also include those embedded in complex financial contracts, in which the primary contract is not a financial asset falling within the scope of application of IFRS 9, which were subject to separate recognition as:

- their economic characteristics and risks are not strictly correlated with the characteristics of the underlying contract;
- the embedded instruments, even if separated, satisfy the definition of a derivative;

- the hybrid instruments to which they belong are not measured at fair value through profit or loss.

In compliance with the provisions of IFRS 9, derivatives embedded in financial assets are not separated. However, derivatives embedded in non-financial assets are separated if the conditions laid out above are met.

(b) Financial assets designated at fair value

A financial asset (debt instrument and loan) may be designated on initial recognition based on the right (fair value option) provided by IFRS 9 under "Financial assets designated at fair value" and therefore recognised in item 20 b) Financial assets at fair value through profit or loss: financial assets designated at fair value. A financial asset may be designated at fair value through profit or loss on initial recognition only when that designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") which would otherwise arise from the measurement of the asset or liability or the recognition of the relative gains and losses on a different basis.

(c) Other financial assets mandatorily at fair value

A financial asset (debt instrument, equity instrument, UCITS share and loan) is recognised in item 20 c) Financial assets at fair value through profit or loss: financial assets mandatorily at fair value if it is:

- a financial instrument the return on which is measured based on fair value and it is therefore associated with the Others Business Model;
- characterised by objective characteristics, or contractual terms, which do not call for cash flows at specific dates represented solely by the payment of principal and interest on the principal to be repaid, or if it does not pass the Solely Payment of Principal and Interest test (SPPI test).

Measurement criteria

Subsequent to initial recognition, these financial assets are measured at fair value through profit or loss, in the following items:

- in item 80. Net profit (loss) from trading activities for financial assets recognised in item 20 a) Financial assets held for trading;
- in item 110 a) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: financial assets and liabilities designated at fair value for the financial assets recognised in item 20 b) Financial assets designated at fair value;
- in item 110 b) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: other financial assets mandatorily at fair value for the financial assets recognised in item 20 c) Other financial assets mandatorily at fair value.

The interest recognised in item 10 Interest and similar income also includes interest accrued on financial instruments consisting of the receivables and debt instruments classified in item 20.

Financial assets held for trading in the statement of financial position assets Dividends deriving from equity instruments are recognised in item 70 Dividends and similar income on the date on which there is the actual right to receive payment, generally the date on which the shareholders' meeting approves of their payment.

Results of derecognition

The result of the derecognition of such financial assets is recognised in the Income statement in the following items:

(a) in item 80 Net profit (loss) from trading activities for financial assets recognised in item 20 a) Financial assets held for trading;
(b) in item 110 a) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: financial assets and liabilities designated at fair value for the financial assets recognised in item 20 b) Financial assets designated at fair value;
(c) in item 110 b) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: other financial assets mandatorily at fair value for the financial assets recognised in item 20 c) Other financial assets mandatorily at fair value.

Financial assets at fair value through other comprehensive income

Definition and classification

Item 30. Financial assets at fair value through other comprehensive income in the statement of financial position assets include the following financial assets (debt instruments, equity instruments and loans):

(a) financial instruments (debt instruments and loans) associated with the Held to Collect & Sell Business Model, the contractual terms of which call for cash flows at specific dates represented solely by payments of principal and interest on the principal to be repaid and that therefore passed the SPPI test;
(b) equity instruments (equity investments not qualifiable as controlling, associated or joint control) for which changes in value are recognised in the statement of comprehensive income, in compliance with the OCI election.

Financial instruments are associated with the Held to Collect & Sell Business Model when they are held within the scope of a business model the objective of which is achieved through the collection of cash flows as well as through the sale of the instruments.

Measurement criteria

After initial recognition, such assets continue to be measured at fair value (based on prices identified in active markets or on internal measurement models generally used in financial practice) with the recognition of changes in value in item 110. Valuation reserves.

In the Income Statement, item 10. Interest and similar income includes interest accrued on financial instruments consisting of receivables and debt instruments, with interest income calculated with the effective interest method specifically highlighted, classified in item 30. Financial assets at fair value through other comprehensive income in the statement of financial position assets.

At each reporting date, only for instruments associated with the Held to Collect & Sell Business Model, an estimate is calculated of impairment losses on those assets, in compliance with the rules of impairment set forth in IFRS 9.

Value adjustments are recognised immediately in the Income statement in item 130. Net value adjustments for credit risk, a balancing entry to item 110. Valuation reserves, like recoveries of all or part of the amounts subject to previous write-downs. Recoveries are recognised when the quality of the asset has improved to such an extent so as to entail a decrease in the total write-down recognised previously.

Furthermore, in the Income Statement, item 70. Dividends and similar income includes dividends relating to equity instruments subject to the "OCI election". Dividends deriving from equity instruments are recognised on the date on which there is the actual right to receive payment, generally the date on which the shareholders' meeting approves of their payment.

Results of derecognition

The result of the derecognition of such assets is recognised:

(a) for financial instruments associated with the Hold to Collect & Sell Business Model, in the Income statement in item 100 b) Profits (losses) on disposal or repurchase of: financial assets at fair value through other comprehensive income in the case of disposal. Otherwise, in all other cases, it is recognised in item 130 Net value adjustments for credit risk;

(b) for equity instruments subject to the "OCI election" in equity, in item 110 Valuation reserves. Following the derecognition of such assets, the balance of what is shown in item 110 Valuation reserves is reclassified to item 140. Reserves.

Financial assets at amortised cost

Definition and classification

Item 40. Financial assets at amortised cost includes the financial assets (debt instruments and loans) associated with the Held to Collect Business Model, the contractual terms of which call for cash flows at specific dates represented solely by payments of principal and interest on the principal to be repaid and that therefore passed the SPPI test.

Financial instruments are associated with the Held to Collect Business Model when they are held within the scope of a business model the objective of which is to hold the instruments in order to collect their cash flows.

In more detail, this item includes:

(a) amounts due from banks (for example: current accounts, guarantee deposits, debt instruments);

(b) amounts due from customers (for example: mortgages, finance lease transactions, factoring transactions, debt instruments).

Measurement criteria

These financial instruments are measured at amortised cost, applying the effective interest rate method. The result deriving from the application of this methodology is recognised in the Income statement in item 10 Interest and similar income.

The amortised cost of a financial asset is the value at which it was measured at the moment of initial recognition net of repayments of principal, plus or minus total amortisation, using the effective interest criterion on any difference between the initial value and the value on maturity, and deducting any reduction (caused by impairment or the inability to recover it).

The effective interest approach is the method for calculating the amortised cost of a financial asset or liability (or a group of financial assets and liabilities) and allocating the interest income or expense throughout the relative duration. The effective interest rate is the rate which exactly discounts future payments or collections estimated throughout the expected life of the financial instrument. To determine the effective interest rate, it is necessary to measure cash flows taking into consideration all contractual terms of the financial instrument (for example, prepayment, extension, call, and similar options), but expected credit losses are not considered. The calculation includes all fees, points paid or received between the parties to a contract which are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

At each reporting date, an estimate is calculated of the impairment losses on those assets, in compliance with the rules of impairment set forth in IFRS 9. Impairment losses identified are immediately recognised in the Income Statement in item 130 Net value adjustments for credit risk, like recoveries of all or part of the amounts subject to previous write-downs. Recoveries are recognised when the quality of the exposure has improved to such an extent so as to entail a decrease in the total write-down recognised previously.

Item 10 Interest and similar income in the Income Statement shows the amount represented by the progressive release of the discounting calculated at the moment of recognition of the value adjustment.

Results of derecognition

The result of the derecognition of financial assets at amortised cost is recognised in the Income statement in item 100 a) Profits (losses) on disposal or repurchase of: financial assets at amortised cost in the case of disposal. Otherwise, in all other cases, it is recognised in item 130 Net value adjustments for credit risk.

POCI - purchased credit impaired assets

Financial assets at amortised cost include purchased or originated credit impaired financial assets.

POCI refers to a purchased or originated financial asset that is impaired at the moment of initial recognition. As already noted previously, in certain cases the financial asset is considered impaired at the moment of initial recognition as its credit risk is very high and, if acquired, it is purchased at a considerable discount.

The standard establishes specific requirements to calculate the amortised cost of purchased or originated credit impaired financial assets. Indeed, it is necessary to calculate a "credit adjusted" effective interest rate that requires an estimate of future cash flows in consideration of all contractual terms and expected credit losses, i.e., the contractual cash flows are adjusted to take into account lifetime expected credit losses. The "credit adjusted" effective interest rate is calculated on initial recognition and is the rate that exactly discounts estimated future receipts, rendering their sum equal to the value of initial recognition of the asset. The calculation will also include transaction costs.

On initial recognition, it is not required to measure the loss allowance on POCIs as expected losses are already included in the "credit adjusted" effective interest rate.

Income recognition

The recognition of receivables in the consolidated financial statements results in income recognition and therefore the recognition of interest in the Income statement.

Hedging Transactions

At 30 September 2018, the Group had no hedging instruments.

Equity investments

Classification criteria

The criteria for initial recognition and subsequent measurement of equity investments are governed by IAS 28 Investments in Associates and Joint Ventures. This category also includes the interests held in joint ventures and associates.

This item includes investments in subsidiaries, jointly controlled companies and companies subject to significant influence other than those included in item 20 "Financial assets at fair value through profit or loss" pursuant to IAS 28 and IFRS 11.

Recognition and measurement criteria

Equity investments are initially recognised at the settlement date.

An entity with joint control of, or significant influence over, an investee must account for its investment in an associate or a joint venture using the equity method (IAS 28 - 16).

Investments in associates or jointly controlled companies are recognised in the financial statements at acquisition cost plus any accessory expenses.

At each reporting date, the Group checks for the existence of any indicators of impairment of equity investments.

Such indicators are identified as factors internal and external to the investor, such as:
- decline in the market value of the equity investment;
- change in the environmental conditions in which the investee is operating;
- increase in market rates;
- deterioration in the equity investment's expected performance.

Should such indicators emerge, an impairment test is carried out.

If the carrying amount (book value) of the equity investments exceeds the recoverable amount, they are written down so as to reflect the latter. The recoverable amount is determined as the higher of the fair value of an asset or a cash-generating unit (CGU) net of selling costs and its value in use, and is determined by individual asset, unless that asset generates cash flows that are not fully independent from those generated by other assets or groups of assets, in which case the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In determining the value in use, the Group discounts future estimated cash flows to present value using a discount rate that reflects market assessments on the time value of money and the specific risks of the asset.

If the impairment losses recognised in previous periods are eliminated or decrease, a recovery is recognised in the income statement up to the value of the cost prior to the write-downs.

Derecognition criteria

Equity investments are derecognised when all contractual rights to the cash flows deriving from the assets expire or when the equity investment is sold, substantially transferring all associated risks and benefits.

At 30 September 2018, the Group had no investments in associates and joint ventures.

Property and equipment

Classification criteria

Property and equipment include land, buildings used in the business, investment property, art, technical systems, furniture and fixtures as well as equipment of any type whatsoever which it is believed will be used for more than one period.

Property and equipment held for use in production or the supply of goods and services are classified as "assets for business use" according to IAS 16. Buildings held for investment purposes are classified as "assets held for investment" based on IAS 40.

Lastly, property and equipment also includes assets used under finance lease agreements, even though they continue to be legally owned by the lessor.

Recognition criteria

Property and equipment are initially recognised at cost which includes the purchase price as well as any accessory costs directly attributable to the purchase of the asset and making it ready for use.

Extraordinary maintenance expenses that entail an increase in future economic benefits are recognised as an increase in the value of the assets, while other ordinary maintenance costs are recognised in the Income Statement.

Measurement criteria

Property and equipment are measured at cost minus any depreciation and impairment.

Property and equipment is systematically depreciated throughout its useful life on a straight-line basis.The depreciable amount is represented by the cost of the assets (or the revalued net value if the revaluation method is adopted for measurement), less their residual value at the end of the depreciation process, if significant. Buildings are depreciated for an amount deemed consistent to represent the deterioration of the assets over time due to use, taking into account extraordinary maintenance expenses which are recognised as an increase in the value of the assets.

On the other hand, there is no depreciation of:

- land, whether it is purchased individually or incorporated in the value of buildings, as it has an unlimited useful life;
- fine art, other historical artistic and decorative assets, as their useful life cannot be estimated and their value is normally expected to increase over time;

If there is any indicator demonstrating that an item of property and equipment valued at cost may have suffered from impairment, the carrying amount of the asset will be compared with its recoverable amount ("impairment test").Any adjustments are recognised in the Income statement.

If the reasons that resulted in the recognition of the loss are no longer applicable, a recovery is recognised in the income statement, which cannot exceed the value that the asset would have had, net of calculated depreciation, in the absence of previous impairment.

Derecognition criteria

An item of property and equipment is derecognised from the statement of financial position at the moment of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Intangible assets

Classification criteria

Intangible assets are identifiable non-monetary assets without physical substance arising from legal or contractual rights, which are held to be used over a period of multiple years, from which future economic benefits are likely to flow.

This category includes goodwill, which represents the positive difference between the acquisition cost and the fair value of assets and liabilities pertaining to an acquired company.

Recognition and measurement criteria

Intangible assets are recognised at cost, adjusted for any accessory costs, only if:

- it is likely that the future economic benefits attributable to the asset will be realised;
- the cost of the asset may be reliably determined.

Otherwise, the cost of the intangible asset is recognised in the income statement in the year it which it is incurred.

The cost of intangible assets with a finite useful life is amortised on a straight-line basis throughout their useful life. If the useful life is indefinite, the asset is not amortised; rather, the adequacy of the book value is simply periodically verified. At each reporting date, the recoverable amount of the asset is estimated if there are any indicators of impairment. The amount of the loss is recognised in the income statement as the difference between the carrying amount of the asset and its recoverable amount.

Intangible assets include software, intangible assets linked to the valuation of client relationships or the valuation of the brand recognised during business combinations.

In particular, impairment testing is carried out any time there is an indicator of impairment, and in any event at least once a year. To that end, the cash-generating unit to which the goodwill should be allocated is identified. This unit represents the lowest level at which goodwill is monitored for internal management purposes and should be no larger than the operating segment determined in compliance with IFRS 8.

The amount of any impairment is determined on the basis of the difference between the carrying amount of the goodwill and its recoverable amount, if lower. This recoverable amount is equal to the greater of the fair value of the cash-generating unit net of any selling costs and the relative value in use. The value in use is the present value of the future cash flows expected from the cash-generating units to which the goodwill was allocated. The resulting value adjustments are recognised in the income statement. No subsequent value recoveries can be recognised.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position at the moment of disposal or when future economic benefits are no longer expected.

Non-current assets and disposal groups held for sale

At 30 September 2018, the Group had no Non-current assets or disposal groups held for sale.

Current and deferred taxes

The items include current and deferred tax assets and current and deferred tax liabilities, respectively, relating to income taxes.

Income taxes, calculated in compliance with tax legislation in force, are accounted for on an accrual basis, in line with the recognition in the financial statements of the costs and revenue that generated them. Thus they represent the tax burden, equal to the balance between current taxes and deferred tax assets and liabilities relating to income for the year. Income taxes are recognised in the income statement with the exception of those relating to items directly charged or credited to equity, for which the relative taxation is accordingly recognised in equity.

In particular, current tax liabilities (assets) for the year under way as well as previous years reflect the amount of income taxes expected to be paid to (recovered from) the tax authorities on the basis of a prudent estimate, applying the tax rates and tax laws in force at the reporting date. Current tax assets and liabilities are recognised on a net basis in the statement of financial position if they will be settled on a net basis, in compliance with tax laws in force.

Deferred tax assets and liabilities are calculated on temporary differences, with no time limits, between the carrying amounts and tax values of the individual assets or liabilities, with the exception of goodwill. Deferred tax assets also include the estimated tax benefits expected in application of the aid for economic growth (ACE) facilitations and the rules on carrying forward tax losses.

Deferred tax assets are recognised in the annual or interim financial statements to the extent to which it is likely that they will be recovered, assessed on the basis of the capacity of the company concerned to continuously generate positive taxable income in future years, also taking into account tax regulations in force over time, such as Law 214/2011, which, under certain conditions, allows some deferred tax assets to be transformed into credits. Deferred tax liabilities are recognised in the annual or interim financial statements with the sole exception of assets, other than goodwill and not arising from business combinations, recognised in the financial statements in an amount exceeding the value recognised for tax purposes and reserves with deferred taxation, for which it is reasonable to believe that the company will not carry out transactions on its own initiative that entail their taxation.

Deferred tax assets and liabilities are systematically measured to take into account both any changes in rules or rates as well as any different subjective situations of the Group companies.

Provisions

Provisions for pensions and similar obligations

Provisions for pensions are established in implementation of company agreements and qualify as defined-benefit plans. The liability relating to such plans and the relative current service cost are determined on the basis of actuarial assumptions by applying the "projected unit credit" method, which calls for the projection of future outlays on the basis of statistical historical analyses and the demographic curve and the financial discounting of such flows on the basis of a market interest rate. The contributions paid in each year are seen as separate units recognised and measured individually in order to determine the final obligation. The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds, taking into account the average residual duration of the liability. The present value of the obligation at the reporting date is also adjusted by the fair value of any plan assets.

Actuarial gains and losses (or changes in the present value of the obligation arising from changes in actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

Other provisions

Other provisions include accruals relating to legal obligations or obligations connected to work relationships or disputes, including tax-related, originating from a past event for which an outflow of economic resources is likely to fulfil such obligations, provided the relative amount can be reliably estimated.

Consequently, a provision is recognised if and only if:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is likely that to fulfil the obligation an outflow of resources embodying economic benefits will be necessary;
- the amount deriving from the fulfilment of the obligation can be reliably estimated.

The amount recognised as a provision represents the best estimate of the expenditure required to fulfil the existing obligation at the reporting date and reflects the risks and uncertainties that inevitably characterise multiple facts and circumstances.

Where the effect of the time value of money is material, the amount of a provision must be discounted at a pre-tax rate that reflects market assessments of the time value of the liabilities and the risks specific to the liability (IAS 37 - 45, 47). The provision and increases due to the passing of time are recognised in the Income Statement.

The provision is reversed when it becomes unlikely that an outflow of resources embodying economic benefits will be required to meet the obligation or when the obligation is extinguished.

The item also includes long-term employee benefits, the expenses of which are determined using simplified actuarial criteria with respect to those described for pensions. Actuarial gains and losses are all recognised immediately in the Income statement.

Financial liabilities at amortised cost

Definition and classification

The various forms of interbank funding and funding from customers are represented in the financial statement items:

- 10 a) Financial liabilities at amortised cost: Due to banks;
- 10 b) Financial liabilities at amortised cost: Due to customers; and
- 10 c) Financial liabilities at amortised cost: Securities issued.

These items also include payables recognised by the lessee as part of finance leases.

Recognition criteria

The liabilities in question are recognised in the financial statements at the moment of receipt of the sums collected or at the issue of the debt instruments. The value at which they are initially recognised is equal to their fair value, typically equal to the consideration received or the issue price, inclusive of any additional costs/proceeds directly attributable to the transaction and determinable from the start, irrespective of when they are settled. The initial recognition value does not include all expenses subject to reimbursement by the creditor or which are associated with internal administrative costs.

Measurement criteria

After initial recognition, medium/long-term financial liabilities are measured at amortised cost using the effective interest rate method as defined above. Short-term liabilities, for which the time factor is not material, are valued at cost.

Derecognition criteria

Financial liabilities are derecognised when they are extinguished or expire. The repurchase of own securities entails their derecognition with a resulting redefinition of the payable for securities issued. Any difference between the repurchase value of own securities and the corresponding book value of the liability is recognised in the Income statement in item 100 c) Profits (losses) on disposal or repurchase of: financial liabilities. Any subsequent re-placement of own securities previously derecognised constitutes a new issue for accounting purposes, so they are recognised at the new placement price with no impact on the Income statement.

Financial liabilities held for trading

At 30 September, the Group had no financial liabilities held for trading.

Financial liabilities designated at fair value

Definition and classification

On initial recognition, a financial liability may be recognised under Financial liabilities designated at fair value on the basis of the right (fair value option) provided by IFRS 9, or only when:

(a) it is a hybrid contract containing one or more embedded derivatives and the embedded derivative significantly modifies the cash flows that would otherwise be expected from the contract;

(b) the designation at fair value recognised in the Income statement makes it possible to provide better disclosure as:
  - it eliminates or significantly reduces a measurement or recognition inconsistency which would otherwise arise from the measurement of the asset or liability or the recognition of the relative gains and losses on a different basis; or
  - a group of financial liabilities, or of assets and liabilities, is managed and its return is measured on the basis of fair value in accordance with a documented risk management or investment strategy, and the disclosure on the group is provided internally on that basis to key management personnel.

Recognition criteria

Financial liabilities designated at fair value recognised in compliance with the fair value option are recognised at the issue date. The value of initial recognition is equal to cost understood as the fair value of the instrument without considering any directly attributable transaction costs or proceeds.

Measurement criteria

Subsequent to initial recognition, the financial instruments in question are measured at fair value with changes in value recognised in item 110 a) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: financial assets and liabilities designated at fair value. Changes in value associated with own credit rating are recognised in item 110 Valuation reserves in equity, unless this treatment of the effects of changes in the credit risk of the liability creates or amplifies an accounting mismatch in the Income statement; in this last case, the changes in question are recognised in the above-mentioned Income statement item.

Derecognition criteria

Financial liabilities designated at fair value are derecognised when the contractual rights to the cash flows arising from them expire or when they are sold, with the substantial transfer of all risks and benefits deriving from their ownership.The result of the transfer of financial liabilities held for trading is recognised in the Income statement in item 110 a) Net profit (loss) from other financial assets and liabilities at fair value through profit or loss: financial assets and liabilities designated at fair value.

Transactions in foreign currency

Initial recognition criteria

Transactions in foreign currency are initially recognised in the accounting currency using the exchange rate in force on the transaction date.

Subsequent recognition criteria

At every year-end or period-end close, financial statement items in foreign currency are valued as follows:

- monetary items, or assets and liabilities at amortised cost and financial liabilities designated at fair value, are converted at the exchange rate at the closing date;
- non-monetary items, including equity investments, valued at historical cost are converted at the exchange rate in force on the transaction date;
- non-monetary items at fair value are converted using the exchange rates in force at the closing date.

Exchange differences deriving from the settlement of monetary elements or the conversion of monetary elements at rates other than the initial conversion rates, or those in force at the end of the previous period, are recognised in the income statement in the period in which they arise.

When a gain or loss relating to a non-monetary element is recognised in equity, the exchange difference associated with that element is also recognised in equity. On the other hand, when a gain or loss is recognised in the income statement, the relative exchange difference is also recognised in the income statement.

Other information

Impairment of financial instruments

Pursuant to IFRS 9, the following are subject to its provisions concerning impairment:

(a) Financial assets at amortised cost;
(b) Financial assets at fair value through other comprehensive income, other than equity instruments;
(c) commitments to give loans and guarantees given that are not measured at fair value through profit or loss;
(d) assets arising from a contract resulting from transactions subject to IFRS 15.

The quantification of Expected Credit Losses (ECL), or the expected losses to be recognised in the Income statement as value adjustments (or loss allowance), is determined based on the presence or otherwise of a significant increase in the credit risk of the financial instrument with respect to that determined on the date of its initial recognition.

To that end, the instruments subject to impairment rules are conventionally associated with different stages characterised by different loss allowance quantification approaches.

(a) if there is no significant increase in credit risk with respect to initial recognition, the financial instrument is kept in stage 1 and a loss allowance is recognised for such instrument in an amount equal to the 12-month expected credit losses (or the expected loss resulting from default events on the financial asset which are deemed possible within 12 months of the reporting date);
(b) if there is a significant increase in credit risk with respect to initial recognition, the financial instrument is classified in stage 2, or in stage 3 if the financial instrument is impaired, and a loss allowance is recognised for such instrument in an amount equal to the lifetime expected credit losses (or the expected loss resulting from default events on the financial asset which are deemed possible throughout the entire life of the financial asset).

One exception to the above is "Purchased or originated credit impaired financial assets" (POCI), which are dealt with later on in this section.

A significant increase in credit risk is identified by individual instrument, making use of both qualitative and quantitative criteria.

In particular, a financial instrument is transferred from stage 1 to stage 2 in one of the following circumstances:

- more than 30 days past due with materiality threshold;
- granting of a forbearance measure;
- downgrade in the counterparty's rating compared to the origination date of each instrument,
- determined based on the relevant risk characteristics. The counterparty rating downgrade is strictly correlated with the change in the lifetime Probability of Default (PD).

<u>Estimated expected losses on performing positions (stages 1 and 2)</u>

Expected losses are an estimate of the losses (or the present value of all possible future non-payments) weighted on the basis of probabilities of default throughout the expected life of the financial instrument.

The general approach to estimating expected losses is determined by the application of regulatory risk parameters, adjusted so as to bring them into line with the requirements of IFRS 9, in the manners described below. The estimate of expected losses arises from the application to the residual debt at each payment date of the estimated expected loss in the case of default (loss given default - LGD) and the marginal probability of default (marginal PD).

12-month expected losses are a fraction of lifetime expected losses, and represent the losses that would arise if a default occurred in the 12 months subsequent to the reporting date, weighted on the basis of the probability that the default will actually occur.

Expected losses are discounted at period end using the effective interest rate of the financial instrument determined on initial recognition and appropriately redetermined at each contractual modification (for variable rate items it is updated at the rate renegotiation date); there is no discounting of expected losses for sight loans and deposits.

The risk parameters (PD, LGD and CCF - Credit Conversion Factor) are attributed to the instruments in accordance with models calibrated on the internal rating. In particular, each instrument is associated with a probability of default curve based on the counterparty's segment and rating, according to the SaRA Model rating attribution (Automatic Rating System created by the outsourcer C.S.E. in line with the requirements set forth for the development of "advanced" IRB models, used only for internal management purposes to evaluate customer risk levels). If there is no rating, the risk parameters are determined by referring to default segment and rating values.

The point-in-time and forward-looking components are incorporated into the lifetime PD curves using external satellite models developed by leading specialised companies. The satellite models aim to develop an estimate of the PD curves in light of multiple macroeconomic scenarios, whose weighted average for the probabilities of occurrence of the individual scenarios coincides with the values to be used in calculating expected losses. Expected loss given default is determined by applying specific (IFRS 9 compliant) corrective measures to regulatory LGDs, incorporating reports on macroeconomic variables and forward-looking information with the support of the above-mentioned satellite models.

The time period considered for the estimate of expected losses considers the contractual maturity date for financial instruments with a pre-established maturity; for instruments without a contractually pre-established maturity, the period to be used for estimating expected losses is one year from the period end date.

Estimated expected losses on impaired positions (stage 3)

Non-performing positions are generally assessed on an individual basis. The criteria for estimating the write-downs to be recognised on impaired loans are based on the discounting of expected cash flows taking into account any guarantees securing the positions and any advances received. The fundamental elements for determining the present value of the cash flows are the identification of estimated receipts, the relative due dates and the discount rate to be applied. The extent of the adjustment is equal to the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted at the original effective interest rate appropriately updated for variable rate instruments or, in the case of non-performing positions, at the effective interest rate in force at the date of transfer to non-performing status.

Depending on the seriousness of the state of impairment and the significance of the exposure, estimates of the recoverable amount consider a going concern approach, which assumes that the counterparty's business is a going concern and the continuous generation of operating cash flows, or a gone concern approach. The latter is based on the assumed termination of business activities, so that the only cash flows that can be used to recover the exposure will arise from the enforcement of the underlying guarantees.

Particularly with regard to "non-performing" positions, individual assessment rules include forward-looking elements:

- in estimating the percentages of reduction in the value of the property securing the loan (estimated based on updated appraisals or the report of the court-appointed expert);
- through the introduction of specific recovery scenarios for specific exposures, considering the fact that they are expected to be sold within a reasonable period of time to a third party, in order to maximise cash flows as well as in relation to a specific impaired credit management strategy. Consequently, the estimate of the expected losses on such positions reflects recovery through ordinary credit management as well as the presence, appropriately calibrated, of the sale scenario and thus cash flows arising from that transaction.

Calculation of interest income on impaired financial assets

Interest income is calculated by applying the "effective interest rate approach", with the exception of purchased or originated credit impaired financial assets (POCI).

Purchased or originated credit impaired financial assets (POCI)

Purchased or originated credit impaired financial assets (POCI) are defined as exposures that are impaired at the acquisition or origination date. POCI also includes credit exposures acquired as part of disposal (individual or portfolio) and business combination transactions.

The assets in question are not identified by a specific financial statement item but are classified, depending on the Business Model with which the asset is managed, in the following items:

- "30. Financial assets at fair value through other comprehensive income";
- "40. Financial assets at amortised cost".

With reference to the initial recognition, measurement and derecognition criteria, please refer to the criteria described for the respective items.

Treasury shares

Treasury shares are recognised as a direct reduction of equity. At 30 September 2018, the Group had no treasury shares.

Accruals and deferrals

Accruals and deferrals that include expenses and income attributable to the period accrued on assets and liabilities are recognised in the financial statements as an adjustment to the assets and liabilities to which they refer.

Leasehold improvements

Costs for renovating properties that are not owned are capitalised considering the fact that for the duration of the rental agreement the user has control over the assets and can obtain future economic benefits from them. The above-mentioned costs, classified under Other assets as set forth in the Bank of Italy Instructions, are amortised for a period not to exceed the duration of the rental agreement.

Employee benefits

Employee benefits are all types of remuneration provided by the company in exchange for the work provided by employees. Employee benefits include:

- short-term benefits (other than benefits due to employees as a result of the termination of the employment relationship and compensation benefits in the form of shareholdings) which are expected to be settled in full within twelve months of the end of the year in which the employees provided their service and recognised in full in the income statement at the time of accrual (this category includes, for example, salaries, wages and overtime hours);
- post-employment benefits due after the conclusion of the employment relationship which require the company to provide a future disbursement to employees. These include employees' leaving entitlement and the pension funds which in turn are broken down into defined contribution plans and defined benefit plans or company pension funds;
- benefits for the termination of the employment relationship, or the compensation recognised to employees by the company due to the termination of the employment relationship after it decides to conclude that relationship before the normal retirement date;
- long-term benefits other than those mentioned above which are not expected to be extinguished in full within twelve months of the end of the year in which the employees provided their service.

Severance pay

Employees' leaving entitlement is a "post-employment benefit" according to IAS 19 Employee Benefits.

Following the entry into force of the 2007 Finance Law, which brought the supplementary pension reform pursuant to Legislative Decree no. 252 of 5 December 2005 forward to 1 January 2007, the amounts accrued starting from 1 January 2007 must be, as decided by the employee, allocated to supplementary pensions or maintained within the company and, in the case of companies with at least 50 employees, transferred by the latter to a specific fund managed by INPS.

The obligation to employees is deemed:

- a "defined contribution plan" for the severance pay accruing as of 1 January 2007 (date of entry into force of the supplementary pension reform pursuant to Legislative Decree no. 252 of 5 December 2005) if the employee opted for a supplementary plan as well as if the amounts are allocated to the INPS Treasury fund. For such sums, the amount accounted for

under personnel costs is determined on the basis of the contributions due without applying actuarial calculation methodologies;
- “defined benefit plans” recognised on the basis of their actuarial value determined using the “projected unit credit” method for the share of severance pay accrued until 31 December 2006.

On the basis of this method, the amount already accrued must be added to the unit share accrued each year (“current service cost”), projected into the future until the expected end of the employment relationship and therefore be discounted at the reference date. The unit share accrued is also determined on the basis of the entire expected working life of the employee.

However, in this specific case, the previous liability is valued without applying any additional shares as the employees’ leaving entitlement service cost has already accrued in full. Therefore, the annual accrual includes only the “interest cost” relating to the revaluation of the expected benefit due to the passing of time.

For discounting purposes, the rate is determined by reference to market yields on high quality corporate bonds, taking into account the average residual duration of the liability, weighted on the basis of the percentage of the amount paid and provided in advance, for each due date, with respect to the total to be paid and paid in advance until the entire obligation is finally extinguished.

Costs for servicing the plan are accounted for under personnel costs, while actuarial gains and losses are recognised in the statement of comprehensive income.

Revenue recognition for fee and commission income

The basic principle of IFRS 15 is that revenue is recognised when control over the goods or services subject to the contract is transferred, in an amount that reflects the consideration that the company receives or expects to receive from the sale (IFRS 15 - 31).

This standard lays out a five-step process for the recognition of revenue in the financial statements:
- Identifying the contract: contract for the sale of goods or services (or a combination of contracts);
- Identifying the performance obligations: identifying the performance obligations set forth in the contract;
- Determining the transaction price: definition of the transaction price for the contract, considering its various components;
- Allocating the transaction price to performance obligations;
- Recognition of revenue when (or to the extent to which) the performance obligation is satisfied.

Business combinations

The reference accounting standard on business combinations is IFRS 3.

A business combination transaction takes place due to the transfer of control over a company (or an integrated set of activities and assets conducted and managed on a unitary basis).

To that end, control is deemed transferred when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Identifying the acquirer

IFRS 3 requires an acquirer to be identified for all business combinations, defined as the party that obtains control over another entity, understood as the power to determine the financial and management policies of that entity in order to obtain benefits from its activities. For business combinations carried out by exchanging equity interests, the identification of the acquirer must consider factors such as:

(i) the number of new ordinary voting shares that will constitute the share capital of the combined entity;
(ii) the fair value of the entities participating in the combination;
(iii) the composition of the new governing bodies;
(iv) the entity that issues new shares.

Determining the cost of the business combination

The consideration transferred in a business combination is the sum of the fair value, at the exchange date, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control.

The consideration that the acquirer transfers in exchange for the acquired entity includes any assets and liabilities set forth in an agreement on "contingent consideration", to be recognised at the acquisition date at fair value. Modifications to the consideration transferred are possible if they arise from additional information on facts and circumstances existing at the acquisition date and which are recognisable within the period for the measurement of the business combination (i.e., within twelve months of the acquisition date, as will be explained below). Any other modification deriving from events or circumstances subsequent to the acquisition, such as that recognised to the seller linked to the achievement of specific income performance, should be recognised in the income statement.

Costs correlated with the acquisition, including brokerage fees, advisory, legal, accounting and professional expenses and general administrative costs are recorded in the income statement when incurred.

Segment reporting

The operating segment in which the Group carries on business is identified on the basis of the provisions of IFRS 8 Operating Segments. This standard requires a disclosure to be provided with respect to the assessments carried out by the company's management in aggregating operating segments, describing the segments that were aggregated and the economic indicators evaluated to determine that the aggregated segments have similar economic characteristics.

For the purposes of IFRS 8 Operating Segments, it should be noted that a single reporting segment has been identified as the operating segments have similar economic characteristics and the disclosure provided to the management representing the chief operating decision maker to evaluate business performance and make the relative decisions is drafted in aggregate form.

20.11.1.6. Disclosure on portfolios of financial assets

During the year under way, no transfers occurred between portfolios of financial assets.

Valuation processes and sensitivity

Unobservable parameters capable of impacting the valuation of level 3 instruments are normally represented by the estimates and assumptions underlying the models used to measure investments in equity instruments and shares of UCITS.

In the portfolios held at the reference date, recourse to financial estimation methodologies is residual, and their valuation cannot be significantly influenced by changes in inputs.

Fair value hierarchy

For transfers between different levels of fair value, the bank adopts the following principles:

- presence or absence of a price in a regulated market;
- presence or absence of a price in an unregulated market or of one or more counterparties willing/committing to price the security;
- quantity held of the financial instrument such so as to be able to predict, or not, a negative fluctuation in its valuation/price;
- new elements that have arisen on which to base the application of a new methodology;
- the timing (date of the event or the change, beginning and end of financial year) will be common for changes between the various valuation classes.

For securities held in level 2 of the fair value hierarchy:

- there have been no transfers between different fair value levels;
- the methodology used is the market price (most recently available Bloomberg BGN bid) without any modifications or adjustments;
- as the financial instruments are exclusively fixed or variable rate debt instruments (bonds), this methodology reflects trends in interest rates present in the markets and the risk associated with the counterparties/issuers of the financial instruments;
- this methodology is the same that was used last year for the same securities.

For securities held in level 3 of the fair value hierarchy:

- there have been no transfers between different fair value levels;

- as the quantity of shares held and the accounting methodology used did not change, there were no gains or losses;
- in the absence of prices in active markets and lacking further elements such as financial statements, the cost method represents the only methodology approximating the security's fair value.

Therefore, summarising the characteristics of the various levels of fair value ("fair value hierarchy"):

Level 1:

The valuation is based on observable inputs, i.e., quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the instrument measurement date. The presence of official quoted prices in an active market - i.e., a market in which the quoted prices reflect "ordinary" transactions that were not forced and are readily and regularly available - constitutes the best evidence of fair value. Indeed, these prices should be used on a priority basis to properly value the reference financial instruments ("Mark to Market Approach"). Market prices for the last day of the year are used to determine the fair value of financial instruments listed in an active market.

Level 2

The valuation takes place using methods employed when the instrument is not listed in an active market and is based on inputs not included in Level 1. The financial instrument is valued based on prices inferable from market prices of similar assets or using valuation techniques in which all significant factors are inferred from observable market parameters. The resulting price lacks discretion as the most significant parameters used were drawn from the market and the calculation methodologies used replicate quoted prices in active markets. In the absence of an active market, estimation methods are used based on the valuation of quoted instruments that have analogous characteristics, values recognised in recent comparable transactions or using valuation models calling for the discounting of future cash flows also taking into account all risk factors correlated with the instruments and which are based on observable market data.

Level 3

The valuation is carried out using methods consisting of valuing the unlisted instrument using significant inputs not observable in the market and therefore which require the use of estimates and assumptions on the part of the management ("Mark to Model Approach").

Other information

At the reporting date, there is no information to be reported pursuant to IFRS 13, paragraphs 51, 93 (letter i) and 96 as:

- there are no assets at fair value based on the "highest and best use";

- fair value was not measured at overall portfolio exposure level to take into account the offsetting of credit risk and market risk within a specific set of financial assets or liabilities (exception pursuant to IFRS 13, par. 48).

Quantitative disclosure

Fair value hierarchy

The disclosure required by IFRS 7 for portfolios of financial assets and liabilities subject to fair value measurement on the basis of the hierarchy described above is provided below.

Assets and liabilities at fair value on a recurring basis: breakdown by fair value levels

(Thousands of euros)	SPAXS			
	30 September 2018			
	Level 1	Level 2	Level 3	Total
1. Financial assets at fair value through profit or loss	-	29,392	-	29,392
a) financial assets held for trading	-	29,293	-	29,293
b) financial assets designated at fair value	-	-	-	-
c) financial assets mandatorily at fair value	-	99	-	99
2. Financial assets at fair value through other comprehensive income	270,149	21,434	13	291,596
3. Hedging derivatives	-	-	-	-
4. Property and equipment	-	-	-	-
5. Intangible assets	-	-	-	-
Total	**270,149**	**50,826**	**13**	**320,988**
1. Financial liabilities held for trading	-	-	-	-
2. Financial liabilities at fair value	50,909	-	-	50,909
3. Hedging derivatives	-	-	-	-
Total	**50,909**	**-**	**-**	**50,909**

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

(Thousands of euros)	SPAXS				
	30 September 2018				
	Book Value	Level 1	Level 2	Level 3	Total Fair Value
1. Financial assets at amortised cost	1,039,137	617,900	-	424,633	1,042,533
2. Property and equipment held for investment purposes	-	-	-	-	-
3. Non-current assets and groups of assets held for disposal	-	-	-	-	-
Total	**1,039,137**	**617,900**	**-**	**424,633**	**1,042,533**
1. Financial liabilities at amortised cost	845,601	-	26,310	821,388	847,698
2. Liabilities associated with non-current assets held for sale	-	-	-	-	-
Total	**845,601**	**-**	**26,310**	**821,388**	**847,698**

For the other financial instruments at amortised cost, basically classified under amounts due from banks or customers, securities issued or financial assets held to maturity, a fair value was determined for the purpose of the disclosure in the Notes, as required by IFRS 7.

Disclosure on "day one profit/loss"

On the basis of IFRS 7, paragraph 28, it is necessary to specify the amount of "day one profit or loss" to be recognised in the income statement at year end, as well as provide a reconciliation with respect to the opening balance. "Day one profit or loss" refers to the difference between the fair value of a financial instrument acquired or issued at the moment of initial recognition (transaction price) and the amount determined at that date using a valuation technique. In this regard, it should be noted that there is nothing requiring disclosure in this section.

20.11.2. Notes to the financial statements

The tables below represent the comments on the main financial position, cash flow and profit and loss items in the SPAXS 9M 2018 Interim Financial Statements.

For comments on trends in these items, please refer to chapters 9 and 10.

20.11.2.1. Assets

Cash and cash equivalents

The table below shows the breakdown of cash and cash equivalents at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
a) Cash and cash equivalents	584
b) Demand deposits at central banks	76,012
Total	**76,596**

At 30 September 2018, the item "Cash and cash equivalents" amounts to EUR 76.6 million, broken down into EUR 0.6 million in cash and EUR 76 million in demand deposits at central banks.

Assets at fair value through profit or loss

Financial assets held for trading

The table below shows the breakdown of financial assets held for trading at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
A. Balance sheet assets	
1. Debt instruments	-
1.1 Structured securities	-
1.2 Other debt instruments	-
2. Equity instruments	-
3. Units of UCITS	29,293
4. Loans	-
4.1 Repurchase agreements	-
4.2 Other	-
Total A	**29,293**
B. Derivative instruments	
1. Financial derivatives	-
1.1 for trading	-
1.2 connected with the fair value option	-
1.3 other	-
2. Credit derivatives	-
2.1 for trading	-
2.2 connected with the fair value option	-
2.3 other	-
Total B	**-**
Total A+B	**29,293**

At 30 September 2018, financial assets held for trading totalled EUR 29.3 million.

An analysis of these financial assets by fair value levels is shown in the table below.

(Thousands of euros)	**SPAXS**		
	30 September 2018		
	Level 1	**Level 2**	**Level 3**
A. Balance sheet assets			
1. Debt instruments	–	–	–
- Structured securities	–	–	–
- Other debt instruments	–	–	–
2. Equity instruments	–	–	–
3. Units of UCITS	–	29,293	-
4. Loans	–	–	-
- Repurchase agreements	–	–	–
- Other	–	–	–
Total A	**–**	**29,293**	**–**
B. Derivative instruments			
1. Financial derivatives	–	–	–
- for trading	–	–	–
- connected with the fair value option	–	–	–
- other	–	–	–
2. Credit derivatives	–	–	–
- for trading	–	–	–
- connected with the fair value option	–	–	–
- other	–	–	–
Total B	**–**	**–**	**–**
Total A+B	**–**	**29,293**	**–**

Other financial assets mandatorily at fair value

The table below shows the breakdown of financial assets mandatorily at fair value at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
1. Debt instruments	-
1.1 Structured securities	-
1.2 Other debt instruments	-
2. Equity instruments	-
3. Units of UCITS	99
4. Loans	-
4.1 Repurchase agreements	-
4.2 Other	-
Total	**99**

At 30 September 2018, other financial assets mandatorily at fair value totalled EUR 0.1 million, associated with the Units of UCITS category item.

An analysis of these financial assets by fair value levels is shown in the table below.

(Thousands of euros)	SPAXS		
	30 September 2018		
	Level 1	Level 2	Level 3
1. Debt instruments	-	-	-
1.1 Structured securities	-	-	-
1.2 Other debt instruments	-	-	-
2. Equity instruments	-	-	-
3. Units of UCITS	-	99	-
4. Loans	-	-	-
4.1 Repurchase agreements	-	-	-
4.2 Other	-	-	-
Total	**-**	**99**	**-**

Financial assets at fair value through other comprehensive income

The table below shows the breakdown of Financial assets at fair value through other comprehensive income at 30 September 2018.

(Thousands of euros)	SPAXS 30 September 2018
1. Debt instruments	291,583
1.1 Structured securities	-
1.2 Other debt instruments	291,583
2. Equity instruments	13
3. Loans	-
Total	**291,596**

At 30 September 2018, other financial assets mandatorily at fair value totalled EUR 291.6 million.

An analysis of these financial assets by fair value levels is shown in the table below.

(Thousands of euros)	SPAXS		
	30 September 2018		
	Level 1	Level 2	Level 3
1. Debt instruments	270,149	21,434	-
1.1 structured securities	-	-	-
1.2 other debt instruments	270,149	21,434	-
2. Equity instruments	-	-	13
3. Loans	-	–	-
Total A	**270,149**	**21,434**	**13**

Other financial assets at amortised cost

Due from banks

The table below shows the breakdown of amounts due from banks at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
A. Due from central banks	**-**
1. Term deposits	-
2. Compulsory reserve	-
3. Repurchase agreements	-
4. Other	-
B. Due from banks	**592,609**
1. Loans	592,609
1.1 Current accounts and sight deposits	555,297
1.2 Term deposits	37,312
1.3. Other loans	-
- Repurchase agreements	-
- Finance leases	-
- other	-
2. Debt instruments	-
2.1 Structured securities	-
2.2 Other debt instruments	-
Total	**592,609**
Fair value – level 1	-
Fair value – level 2	-
Fair value – level 3	592,609
Total fair value	**592,609**

At 30 September 2018, amounts due from banks totalled EUR 592.6 million.

Due from customers

The table below shows the breakdown of amounts due from customers at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
1. Loans	**333,183**
1.1 Current accounts	117,925
1.2 Repurchase agreements	-
1.3 Mortgages	201,441
1.4 Credit cards, personal loans and salary-backed loans	1,485
1.5 Finance leases	-
1.6 Factoring	-
1.7 Other loans	12,332
2. Debt instruments	**113,346**
2.1 Structured securities	-
2.2 Other debt instruments	113,346
Total	**446,529**
Fair value – level 1	111,117
Fair value – level 2	-
Fair value – level 3	350,205
Total fair value	**461,322**

At 30 September 2018, amounts due from customers totalled EUR 446.5 million.

Property and equipment

The table below shows the breakdown of property and equipment at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
1. Owned assets	**1,842**
a) land	-
b) buildings	1,058
c) furniture	310
d) electronic systems	86
e) other	388
2. Assets acquired under finance lease	-
a) land	-
b) buildings	-
c) furniture	-
d) electronic systems	-
e) other	-
Total	**1,842**

At 30 September 2018, property and equipment totalled EUR 1.8 million, ascribable for the most part (EUR 1 million) to owned buildings. In more detail, other property and equipment include electric systems, air conditioning systems, alarm systems, luminaires and other minor assets.

Intangible Assets

The table below shows the breakdown of intangible assets at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
A.1. Goodwill	**21,643**
A.2. Other intangible assets	**5**
A.2.1. Assets at cost:	5
a) Intangible assets generated internally	-
b) Other assets	5
A.2.2 Assets measured at fair value:	-
a) Intangible assets generated internally	-
b) Other assets	-
Total	**21,648**

At 30 September 2018, intangible assets totalled EUR 21.6 million, ascribable to goodwill.

Tax assets and liabilities

The tables below show the breakdown of tax assets and liabilities at 30 September 2018.

Tax assets

(Thousands of euros)	**SPAXS 30 September 2018**
Current Tax Assets	1,383
Deferred Tax Assets	12,709
Total Tax Assets	**14,092**

Tax liabilities

(Thousands of euros)	**SPAXS 30 September 2018**
Current Tax Liabilities	-
Deferred Tax Liabilities	335
Total Tax Liabilities	**335**

At 30 September 2018, tax assets totalled EUR 14.1 million, broken down in turn into current assets of EUR 1.4 million and deferred assets of EUR 12.7 million. The latter consist primarily of tax losses (EUR 4.5 million) and write-downs on securities (EUR 4.9 million).

At 30 September 2018, tax liabilities totalled EUR 0.3 million.

Deferred tax assets (DTA) were deemed recognisable as it is likely that future taxable income will be generated. To support the reasonable certainty of the future recovery of deferred tax assets, which justifies their recognition in the financial statements pursuant to IAS 12, the Group's long-term operating plan forecasts positive future profits. Lastly, the certainty of recovery of DTAs relating to tax credits and losses, as well as goodwill and other intangible assets if recognised until the 2014 financial statements, is ensured by the possibility of transforming them into tax credits pursuant to Article 2, paragraphs 55 et seq. of Legislative Decree no. 225/2010.

In these interim consolidated financial statements, in compliance with the principle of prudence, deferred tax assets relating to accruing tax losses and the effect of aid for economic growth (ACE) were not recognised, as the assessment concerning their recoverability has been postponed to after the end of the first financial year.

Other Assets

The table below shows the breakdown of other assets at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
Tax credits from the tax authorities and other tax administrations	1,983
Cheques of third parties in hand	1,000
Cheques drawn on the company in hand	-
Bills and documents of third parties in portfolio	1,326
Guarantee deposits	29
Fees to be charged to customers	177
Items in the course of collection	2
Items being processed	8,361
Accrued income	65
Prepaid expenses	268
Leasehold improvements	250
Other	1,753
Total other assets	**15,214**

At 30 September 2018, other assets totalled EUR 15.2 million.

In more detail, this item refers to items being processed (EUR 8.4 million) and tax credits from the tax authorities and other tax administrations (EUR 1.9 million).

20.11.2.2. Liabilities and Equity

Financial liabilities at amortised cost

Due to banks

The table below shows the breakdown of amounts payable to banks at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
1. Due to central banks	142,350
2. Due to banks	115,253
2.1. Current accounts and demand deposits	4,008
2.2. Restricted deposits	2,463
2.3. Loans	108,782
2.3.1 Repurchase agreements	108,782
2.3.2 Other	-
2.4. Liabilities for commitments to repurchase own equity instruments	-
2.5. Other payables	-
Total	**257,603**
Fair value – level 1	-
Fair value – level 2	-
Fair value – level 3	257,603
Total fair value	**257,603**

At 30 September 2018, amounts due to central banks totalled EUR 142.5 million, while payables to banks amounted to EUR 115.2 million.

Due to customers

The table below shows the breakdown of amounts due to customers at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
1. Current accounts and sight deposits	443,493
2.Term deposits	36,905
3. Loans	7,504
3.1 Repurchase agreements	-
3.2 Other	7,504
4. Liabilities for commitments to repurchase own equity instruments	-
5. Other payables	975
Total	**488,877**
Fair value – level 1	-
Fair value – level 2	-
Fair value – level 3	489,347
Total fair value	**489,347**

This item primarily includes payables to customers for current accounts, deposit accounts and repurchase agreements. At 30 September 2018, direct deposits, totalling EUR 488.9 million, represent 32.8% of total liabilities. Current accounts are the main source of funding from customers, amounting to EUR 443.5 million at 30 September 2018.

Securities issued

The table below shows the breakdown of securities issued at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
A. Securities	
1. Bonds	**26,315**
1.1 structured	-
1.2 other	26,315
2. Other securities	72,806
2.1 structured	-
2.2 other	72,806
Total	**99,121**
Fair value - level 1	-
Fair value - level 2	26,310
Fair value - level 3	74,438
Total fair value	**100,748**

At 30 September 2018, securities issued totalled EUR 99.1 million.

Other liabilities

The table below shows the breakdown of other liabilities at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
Balance on illiquid items in portfolio	-
Taxes payable to the tax authorities and other tax administrations	2,319
Due to social security institutions	113
Amounts available to customers	66
Other payables to personnel	2,031
Items in the course of payment	1
Items being processed	11,686
Accrued expenses	21
Deferred income	96
Other	66,426
Total	**82,758**

At 30 September 2018, other liabilities totalled EUR 82.8 million.

In more detail, other liabilities refer mainly to items being processed (EUR 11.7 million), taxes payable to the tax authorities and other tax administrations (EUR 2.3 million) and other liabilities (EUR 66.4 million).

Severance pay

At 30 September 2018, the item "Severance pay" totalled EUR 0.6 million.

Provisions

The table below shows the breakdown of provisions at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
1. Provisions for credit risk relating to commitments and financial guarantees given	**85**
2. Provisions on other commitments and other guarantees	-
3. Company pension funds	-
4. Other provisions	**358**
4.1 Legal and tax disputes	85
4.2 Expenses for personnel	273
4.3 Other	-
Total	**443**

At 30 September 2018, provisions totalled EUR 0.4 million.

The "Legal disputes" provision was established to deal with any losses arising from proceedings against the company under way, the amount of which, based on IAS 37, can be reliably estimated. These are proceedings against the company and claw-backs for which the future expense and the duration of the dispute have been estimated. Commitments not yet due have not been discounted as this would not be significant.

The "Expenses for personnel" provision regards:
- Long-term compensation relating to the productivity bonus and the incentive system;
- Other long-term benefits relating to the seniority bonus.

An actuarial valuation has been conducted on this item by an independent actuary, as required by IAS 19, using methods analogous to those specified for Employees' leaving entitlement.

Company equity

The table below shows the breakdown of company equity at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
1. Share capital	62,781
2. Share premium reserve	504,596
3. Reserves	-
5. Valuation reserves	-
7. Profit for the year	(7,846)
Total	**559,532**

At 30 September 2018, equity inclusive of the profit for the period totalled EUR 559.5 million.

This item includes:
- Share Capital of EUR 62.8 million;
- Share premium of EUR 504.6 million.

The loss for the year amounted to EUR 7.8 million.

20.11.2.3. Income Statement

Interest

Interest and similar income

The table below shows the breakdown of interest and similar income for the period ended at 30 September 2018.

	SPAXS			
(Thousands of euros)	**30 September 2018**			
	Debt instruments	**Loans**	**Other Transactions**	**Total**
1. Financial assets at fair value through profit or loss	-	-	-	-
1.1. Financial assets held for trading	-	-	-	-
1.2. Financial assets designated at fair value	-	-	-	-
1.3. Financial assets mandatorily at fair value	-	-	-	-
2. Financial assets at fair value through other comprehensive income	-	-	-	-
3. Financial assets at amortised cost	-	**402**	-	**402**
3.1. Due from banks	-	402	-	402
3.2. Due from customers	-	-	-	-
4. Hedging derivatives	-	-	-	-
5. Other assets	-	-	-	-
6. Financial liabilities	-	-	-	-
Total	-	**402**	-	**402**
Of which interest income calculated using the effective interest method	-	-	-	-

Interest and similar income amounted to EUR 402 thousand for the period ended at 30 September 2018.

Administrative expenses

Personnel costs

The table below shows the breakdown of personnel costs for the period ended at 30 September 2018.

SPAXS	
(Thousands of euros)	**30 September 2018**
1. Employees	**90**
a) salaries and wages	61
b) social security costs	-
c) severance indemnity	-
d) social security expenses	28
e) accrual to provision for severance pay entitlement	-
f) accrual to provision for pensions and similar obligations	-
defined contribution	-
defined benefit	-
g) payments to external supplementary pension funds:	-
defined contribution	-
defined benefit	-
h) costs deriving from share-based payment agreements	-
i) other employee benefits	-
2. Other active personnel	**123**
3. Directors and statutory auditors	**21**
4. Retired personnel	-
5. Reimbursement of expenses for employees seconded to other companies	-
6. Reimbursement of expenses for third-party employees seconded to the company	-
Total	**233**

Expenses for personnel totalled EUR 233 thousand for the period ended at 30 September 2018. This item includes EUR 90 thousand for expenses relating to employees and EUR 123 thousand for expenses relating to other active personnel. The remaining EUR 21 thousand refers to expenses for directors and statutory auditors.

Other administrative expenses

The table below shows the breakdown of other administrative expenses for the period ended at 30 September 2018.

SPAXS *(Thousands of euros)*	**30 September 2018**
Rent for properties	75
Maintenance on properties, hardware/software and other assets	5
Property management	-
Postal	1
Telephone and data transmission	1
Leasing of machines and software	12
Third-party data processing services	-
Outsourcing services	-
Advertising, promotional and perks	-
Fees for certifications	-
Professional and advisory services	7,591
Travel expenses	63
Transport	-
Information and company registry	-
Insurance premiums	1
Surveillance and security	-
Motor vehicle usage expenses	-
Printing and stationery	-
Sundry contributions	-
Sundry expenses	259
Indirect taxes and duties	3
of which Contributions to the National Resolution Fund	-
Total	**8,011**

Other administrative expenses totalled EUR 8 million for the period ended at 30 September 2018.

In more detail, for the period ended at 30 September 2018 the item “Other administrative expenses” included expenses for professional and advisory services totalling EUR 7.6 million.

Impairment of tangible assets

The table below shows the breakdown of impairment of tangible assets for the period ended at 30 September 2018.

SPAXS				
(Thousands of euros)	30 September 2018			
	Depreciation	**Value adjustments for impairment**	**Recoveries**	**Net profit (loss)**
A. Property and equipment				
A.1 Owned				
- For business use	(3)	-	-	(3)
- For investment	-	-	-	-
- Inventory	-	-	-	-
A.2 Acquired under finance lease				
- For business use	-	-	-	-
- For investment	-	-	-	-
Total	**(3)**	**-**	**-**	**(3)**

Impairment of tangible assets totalled EUR 3 thousand for the period ended at 30 September 2018.

20.11.2.4. Information on equity

Qualitative Information

Equity is defined by international accounting standards on a residual basis, "what remains from the corporate assets after deducting all liabilities". Financially speaking, equity represents the monetary extent of the resources contributed by the owners or generated by the business.

Quantitative Information

The table below shows the breakdown of company equity at 30 September 2018.

(Thousands of euros)	**SPAXS 30 September 2018**
1. Share capital	62,781
2. Share premium reserve	504,596
3. Reserves	-
- Profit	-
a) legal	-
b) required by the bylaws	-
c) treasury shares	-
d) other	-
- Other	-
4. Equity instruments	-
5. (Treasury shares)	-
6. Valuation reserves	-
- Equity instruments designated at fair value through other comprehensive income	-
- Hedging of equity instruments designated at fair value through other comprehensive income	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	-
- Property and equipment	-
- Intangible assets	-
- Hedging of foreign investments	-
- Cash flow hedging	-
- Hedging instruments (elements not designated)	-
- Exchange differences	-
- Non-current assets and groups of assets held for disposal	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-
- Actuarial (gains) losses relating to defined benefit pension plans	-
- Shares of valuation reserves relating to investments measured at equity	-
- Special revaluation laws	-
7. Profit for the year	(7,846)
Total	**559,532**

20.11.2.5. Other information

20.11.2.5.1. Information on risks and hedging policies

Credit risk

<u>Qualitative Information</u>

General aspects

The Group's main exposures relate to government and banking counterparties, primarily retail customers and only occasionally corporate customers. Activities with respect to retail customers consist of granting residential mortgages to private parties or granting ordinary credit lines as well as credit facilities against company receivables.

The Group is also active in the NPL and Investment & Servicing market dedicated to the acquisition of secured and unsecured corporate NPLs.

Under the credit quality monitoring policy, particular caution is exercised in granting loans to households as well as businesses due to the specific economic situation. In particular, so as to more efficiently oversee the granting of credit facilities, dedicated agreements have been entered into with various credit guarantee consortia (Confidi) eligible for the counter-guarantee of the Central Guarantee Fund pursuant to Law 662/96, Article 2, paragraph 100, letter A).

In any event, in pursuit of its mission, the Group has continued to ensure the availability of credit to valid business projects and is prepared to deal with the greater risks that may arise as a result of a further deterioration in the economic situation. One positive element with respect to this last aspect, also during the current recession, is the good structure of guarantees securing most loans.

Credit risk management policies

Organisational aspects

The Group places great importance on overseeing credit risk and the control systems required to favour conditions to:
- ensure a structural and significant creation of value within a context of controlled risk;
- protect financial soundness and image;
- favour a correct and transparent representation of the risk inherent in the loan portfolio.

The main operational factors contributing to credit risk regard:
- The credit facility screening process;
- Credit risk management;
- Exposure monitoring;
- (Any) debt collection activities.

The organisational units currently responsible for the risk management and control in question are located, with respect to the 1st level, within the network structure and in particular with the direct account manager, and with respect to the subsequent 2nd level controls at: the Credit office, the Risk Management office (Credit Monitoring), which is responsible for overseeing the credit risk, including through NPL portfolio monitoring, of single names and senior financing exposures, and the Legal office.

Loan portfolio quality improvement is pursued by adopting specific operating methods throughout the credit relationship management phases (contact and screening, approval and disbursement, monitoring and disputes). Credit risk oversight is pursued starting with the very first screening and granting phases by:
- verifying the prerequisites for granting a credit facility, with a particular focus on checking the current and outlook capacity of the customer to generate income and, especially, sufficient cash flows to honour the debt;

- assessing the nature and extent of the loan requested in relation to the actual needs and capital, financial and economic capacities of the applicant, the performance of the relationship already in place and sources of repayment;
- the presence of Economic Groups.

Management, measurement and control systems

Surveillance and monitoring activities are currently based on a system of internal controls aimed at optimal credit risk management. In particular, this activity takes place through recourse to performance measurement and monitoring methodologies.

These methodologies take into consideration all aspects characterising customer relationships, from customer details (information on the customer's residence, business, legal nature, most recent decision made on the position, adverse events, corporate structure, anomalies found in the Central Credit Register, status and relative doubtful positions, relationship managers and, lastly, whether the position is in default), to information relating to the credit facilities (type, credit line granted, operational credit line, use, overdrafts/availability and credit line expiry date), to details on the guarantees securing the facilities, in addition to information relating to significant position management aspects. It interacts with credit management and control processes and procedures, favouring greater efficiency in the credit monitoring process, the capitalisation of information and greater effectiveness in the recovery process.

A new line of credit is opened and granted on the basis of a process of analysing the profit and loss and financial position information of the counterparty, along with qualitative information about the company, the purpose of the loan and the market in which it carries on business, as well as the presence and assessment of the financial value of any collateral guarantees.

For all counterparties, after an initial screening by the network structure, a detailed analysis is conducted by the Credit Office, the result of which is submitted to the competent decision-making body (individual or group depending on internal regulations in force), with respect to granting a line of credit that takes into consideration the degree of risk and the type of operations expected, also in relation to the purpose. In evaluating the application, the presence of an internal rating, valid only for management purposes, attributed by the S.A.r.a. procedure managed by the outsourcer Cse Consulting, is also taken into due consideration.

The screening is conducted by means of an electronic web-based credit line application process, which is used for granting credit as well as for reviews in all screenings and makes it possible to optimise and automate the acquisition of all data that can be extracted from databases and historical archives, both internal and external.

The readily realisable value of guarantees is updated periodically.

Credit risk mitigation techniques

In order to mitigate credit risk, when the credit facility is granted, the acquisition of various guarantees is customarily required, consisting primarily of collateral on property or securities and personal guarantees, consortium guarantees and various types of commitments and covenants correlated with the structure of and reason for the transaction.

In general, the decision as to whether a guarantee should be obtained is based on an assessment of the customer's creditworthiness as well as the characteristics of the transaction. After this analysis, it may be deemed appropriate to request supplementary guarantees to mitigate the risk, taking into account the presumed recoverable value offered by the guarantee.

The value of financial collateral is periodically monitored by comparing the present value of the guarantee with its initial value, so as to enable the manager to promptly intervene if there is a significant reduction in the guarantee.

For financial instruments, aside from constant monitoring of the counterparty's credit standing, risk mitigation techniques are used as set forth in dedicated contracts put into place through collateral management.

Impaired credit exposures

The network structures managing the relationship use objective and subjective criteria to propose the classification of impaired credit exposures. The former are essentially linked to surpassing specific limits as defined in the accounts matrix (Bank of Italy circular 272), while the latter relate to other anomalies that may be identified in relation to the credit relationship itself and/or "external" factors such as adverse events, anomalies identified in the Central Credit Register, databases and other sources of information.

Exposures relating to insolvent customers are classified as non-performing, even if this has not been confirmed in court, as are positions in which the situation of objective difficulty is no longer only temporary.

The determination of the two statuses described above is irrespective of the nature and consistency of any guarantees securing the credit facilities. Value adjustments, measured on each individual position, reflect criteria of prudence in relation to the possibility of recovery, also connected to the presence of any collateral guarantees, and are subject to periodic verification.

All non-performing positions are managed by the Legal Service, which aims to boost debt collection capabilities and optimise the ratio between costs and the percentage collected. Thus, activities are oriented towards economic results, privileging out-of-court solutions when possible and focusing attention on prompt and speedy recovery.

A loan may be returned to performing status if the following two conditions are satisfied:
- payment of all past-due amounts on the position classified as unlikely-to-pay;
- presence of other conditions relating to the economic/financial situation of the customer which make it possible to unequivocally deduce that it will be able to punctually honour upcoming deadlines.

Quantitative Information

Distribution of financial assets by portfolio and credit quality (book values)

The table below shows the distribution of financial assets by portfolio and credit quality (book values) at 30 September 2018.

	SPAXS					
(Thousands of euros)	**Non-performing**	**Unlikely to pay**	**Impaired past-due exposures**	**Non-impaired past-due exposures**	**Non-impaired assets**	**Total**
1. Financial assets at amortised cost	7,521	4,048	393	14,365	1,012,810	1,039,137
2. Financial assets at fair value through other comprehensive income	-	-	-	-	291,583	291,583
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total at 30 September 2018	**7,521**	**4,048**	**393**	**14,365**	**1,304,393**	**1,330,720**

Distribution of financial assets by portfolio and credit quality (gross and net values)

The table below shows the distribution of financial assets by portfolio and credit quality (gross and net values) at 30 September 2018.

	SPAXS							
(Thousands of euros)	**Impaired**				**Non-impaired**			**Total**
	Gross exposure	**Total value adjustments**	**Net exposure**	**Total partial write-offs**	**Gross exposure**	**Total value adjustments**	**Net exposure**	**(net exposure)**
1. Financial assets at amortised cost	22,196	(10,235)	11,961	-	1,030,056	(2,880)	1,027,176	1,039,137
2. Financial assets at fair value through other comprehensive income	-	-	-	-	291,583	-	291,583	291,583
3. Financial assets designated at fair value	-	-	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total at 30 September 2018	**22,196**	**(10,235)**	**11,961**	**-**	**1,321,639**	**(2,880)**	**1,318,759**	**1,330,720**

Balance sheet and off-balance sheet credit exposures to banks: gross and net values

The table below shows the balance sheet and off-balance sheet credit exposures to banks: gross and net values at 30 September 2018.

	SPAXS				
(Thousands of euros)	**Gross exposure**		**Total value adjustments and total provisions**	**Net exposure**	**Total partial write-offs**
	Impaired	**Non-impaired**			
A. BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-
b) Unlikely to pay	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-
c) Impaired past-due exposures	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-
d) Non-impaired past-due exposures	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-
e) Other non-impaired exposures	-	619,822	(94)	619,728	-
of which: forborne exposures	-	-	-	-	-
Total (A)	**-**	**619,822**	**(94)**	**619,728**	**-**
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Impaired	-	-	-	-	-
b) Non-impaired	-	156	-	156	-
Total (B)	**-**	**156**	**-**	**156**	**-**
Total (A+B)	**-**	**619,978**	**(94)**	**619,884**	**-**

Balance sheet and off-balance sheet credit exposures to customers: gross and net values

The table below shows the balance sheet and off-balance sheet credit exposures to customers: gross and net values at 30 September 2018.

SPAXS					
(Thousands of euros)	**Gross exposure**		**Total value adjustments and total provisions**	**Net exposure**	**Total partial write-offs**
	Impaired	**Non-impaired**			
A. BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	15,721	-	(8,201)	7,520	(50)
of which: forborne exposures	*4,486*	-	*(2,482)*	*2,004*	-
b) Unlikely to pay	6,033	-	(1,985)	4,048	(1)
of which: forborne exposures	*2,362*	-	*(639)*	*1,723*	-
c) Impaired past-due exposures	442	-	(49)	393	-
of which: forborne exposures	*13*	-	*(1)*	*12*	-
d) Non-impaired past-due exposures	-	14,937	(572)	14,365	-
of which: forborne exposures	-	*2,096*	*(62)*	*2,034*	-
e) Other non-impaired exposures	-	686,880	(2,214)	684,666	-
of which: forborne exposures	-	*2,260*	*(42)*	*2,218*	-
Total (A)	**22,196**	**701,817**	**(13,021)**	**710,992**	**(51)**
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Impaired	709	-	(5)	704	-
b) Non-impaired	-	163,961	(80)	163,881	-
Total (B)	**709**	**163,961**	**(85)**	**164,585**	-
Total (A+B)	**22,905**	**865,778**	**(13,106)**	**875,577**	**(51)**

21. ADDITIONAL INFORMATION

21.1 Share capital

21.1.1 Subscribed and paid-up share capital

As at the Prospectus Date, the Issuer's share capital, subscribed and paid up, is EUR 43,377,000, consisting of 43,377 ordinary shares each with nominal value of EUR 1,000.

As at the Effective Date of the Merger, the Issuer's share capital, subscribed and paid up, will amount to EUR 43,377,000, divided into an overall amount of 59,422,861 Ordinary Shares and 1,440,000 Special Shares with no nominal value.

It should be noted that on 28 September 2018, on 6 December 2018 and on 14 February 2019, SPAXS as Issuer shareholder made three payments in lieu of capital increase for exchange ratio of 50 million euros, 150 million euros and 110 million euros respectively within the context of the corporate merger between SPAXS and the same Bank.These payments were made in order to set in motion the activities foreseen by the Industrial Plan by providing the Bank with an appropriate capital base.

21.1.2 Shares not representing the capital, amount and main features

As at the Prospectus Date, the Company has not issued participating financial instruments not representing share capital.

21.1.3 Own shares

As at the Prospectus Date, the Company does not hold own shares.

21.1.4 Amount of convertible, exchangeable or cum-warrant bonds

As at the Prospectus Date, the Company has not issued convertible, exchangeable or cum-warrant bonds.

21.1.5 Purchase rights and/or obligations over authorised but unissued capital or obligations to perform a capital increase

As at the Prospectus Date, there are no purchase rights and/or obligations over authorised but unissued capital, and there is obligation to perform a capital increase.

21.1.6 Option offers concerning the share capital of Group companies

As at the Prospectus Date, the Issuer does not belong to any groups.

21.1.7 Development of share capital since the date of incorporation

This paragraph outlines the development of the share capital of the Issuer during 2017, 2016 and 2015, and as at the Prospectus Date.

As at the Prospectus Date, the Issuer's share capital subscribed and paid up is EUR 43,377,000, divided into 43,377 ordinary shares.

On 17 June 2016, the Shareholders' Meeting of the Bank resolved to increase the share capital from EUR 40,000,000.00 to EUR 55,000,000.00. As at the Prospectus Date, this capital increase has not been, even partially, carried out and as at [18 January 2019] the Issuer's Shareholders' Meeting resolved to cancel this capital increase.

As at 25 May 2017, BIP approved the merger by incorporation of Banca Emilveneta S.p.A. with effect from 1 October 2017 for legal purposes. To complete this merger, BIP increased share capital by EUR 3,377,000, through the issue of 3,377 shares each with nominal value EUR 1,000 allocated to the shareholders of the merged company as a proportion of the share-exchange rate. For further information on the merger of Banca Emilveneta S.p.A. reference should be made to Chapter 22.

As at [18 January 2019], the Issuers' Extraordinary Shareholders' Meeting resolved on the following increases in share capital for the purposes of the Bank's remuneration and incentive plans, subject to the effectiveness of the Merger and starting therefrom:

- on a cash basis and in tranches, no later than 31 December 2027, for a maximum nominal value of EUR 1,496,671.34 excluding option right pursuant to Article 2441, paragraph 8, of the Italian civil code, through the issue of an overall maximum amount of 2,100,000 new ordinary shares of illimity S.p.A. having the same features as the ordinary shares of illimity S.p.A. already outstanding as at the date of issue of these new ordinary shares, with regular dividend rights, to be determined at the price equal to the arithmetic mean of the official prices of SPAXS ordinary shares on AIM Italia and/or of ordinary shares of illimity on MTA on the market days in the period between the day before the assignment of Options, referred to below, and the day of the calendar month before having the same date as the day of assignment of Options (or, if none, the day immediately preceding this latter). The increase is intended for the realisation of the "Stock Option Plan";
- by proxy, for a maximum period of five years from the effective date of the relevant resolution of the Shareholders' Meeting, to be exercised in one or more tranches, and in separate issues, for nominal maximum amounts of EUR 498,890.45, through the issue of an overall maximum amount of 700,000 new illimity ordinary shares with no nominal value, having the same features of illimity ordinary shares already outstanding as at the date of issue of these new ordinary shares, with regular dividend rights, at an issuance value equal to the implicit nominal value of illimity shares as at the date of execution of this proxy, by assigning a corresponding amount of profits and/or reserves of profits pursuant to Article 2349 of the Italian civil code, to be allocated free of charge to the recipients of the Employee Stock Ownership Plan;

- by proxy, for a maximum period of five years from the effective date of the relevant resolution of the Shareholders' Meeting, to be exercised in one or more tranches, and in separate issues, free increase in share capital for nominal maximum amounts of EUR 85,524.08 through the issue of an overall maximum amount of 120,000 new illimity ordinary shares with no nominal value, having the same features of illimity ordinary shares already outstanding as at the date of issue of these new ordinary shares, with regular dividend rights, at a issuance value equal to the implicit nominal value of illimity shares as at the date of execution of this proxy to be totally credited to capital, by allotting a corresponding amount of profits and/or reserves of profits pursuant to Article 2349 of the Italian civil code, to be allocated free to the employees of illimity and companies in which it has a direct and/or indirect controlling interest, that are recipients (i) of the "MBO 2019 Plan", (ii) of any compensation paid in the event of early termination of the employment contract in line with provisions under the remuneration policies sub (i) and (iii) of the remuneration policies on a case-by-case basis approved by illimity in the maximum duration term of this proxy taking into account the relevant regulatory pro tempore existing provisions.

For further information on the remuneration and incentive plans approved by the Issuer, reference should be made to Chapter 17, Paragraph 17.3 of the First Section.

It should be noted that on 28 September 2018, on 6 December 2018 and on 14 February 2019, SPAXS as Issuer shareholder made three payments in lieu of capital increase for exchange ratio of 50 million euros, 150 million euros and 110 million euros respectively within the context of the corporate merger between SPAXS and the same Bank. These payments were made in order to set in motion the activities foreseen by the Industrial Plan by providing the Bank with an appropriate capital base.

Without prejudice to the above, the Issuer has not recently performed other transactions on its capital.

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Recall that on 20 September 2019, the Material Transaction was completed with the acquisition (in part in cash and for the remainder with a contribution and relative share capital increase of the Bank) by SPAXS of 43,015 shares of the Bank, corresponding to 99.17% of the share capital, also held at the Prospectus Date. The economic value recognised to the Bank for the purpose of the Material Transaction was defined in the contract between the parties on the basis of a simple financial assessment, deemed adequate in order to represent the economic value, and was equal to EUR 55,999,707 for the entire share capital and thus EUR 1,291.00 per ordinary share, for the purpose of the acquisition in cash as well as for the portion carried out by means of the contribution of shares of the Bank to SPAXS.

21.2 Memorandum and Bylaws

The Issuer was incorporated on 5 March 2008, by a notarial deed of the Notary public Aldo Barbati, ref. no. 35525, protocol no. 9404.

On [18 January 2019], the Issuer's Extraordinary Shareholders' Meeting approved the Post-merger Bylaws in order, *inter alia*, to adapt the rules to existing regulation for the companies having financial instruments admitted to trading on a regulated market, as well as to implement merger-related resolutions.

Below are the main provisions of the Post-merger Bylaws which will become effective on the First Day of Trading of the Company's Shares on the MTA.

21.2.1 Issuer's purpose

The Company's object is set out by Article 4 of the Post-merger Bylaws, which provides as follows.

"The Company's purpose is the collection of savings and provision of credit in its various forms, in Italy and abroad. It may, in compliance with relevant applicable regulations, carry out all permitted banking and financial transactions and services, including the provision of investment service and related ancillary services, as well as all other activities or operations that are useful or anyway related to the achievement of the company purpose.

In accordance and within the limits of applicable pro tempore regulations, the Company may take stakes and financial instruments in other companies and enterprises, both Italian and foreign ones, both directly and through subsidiaries, even in the context of securitisation operations."

21.2.2 Summary of Company's Bylaws concerning the Board of Directors and the Board of Statutory Auditors

The Company adopted a so-called traditional administration and control system as per Articles 2380-*bis* et seq. of the Italian civil code. Below are the key Post-merger Bylaws concerning the composition and functioning of the Board of Directors and the Board of Statutory Auditors of the Company. For further information reference should be made to the Post-merger Bylaws available at www.bancainterprovinciale.it and the applicable regulation (and, following the Merger, at www.illimity.com).

Board of Directors

Pursuant to Article 16 of the Post-merger Bylaws, the Company is managed by a Board of Directors, consisting of no fewer than 7 (seven) and no more than 11 (eleven) Directors, appointed by the Shareholders' Meeting. The Shareholders' Meeting shall determine the number of the Board members within the above-mentioned limits.

Directors must meet fit and proper requirements and, in particular, the integrity and professionalism requirements provided for by the applicable pro-tempore regulation, and at least 4 (four) Directors must meet the independence requirements thereof ("**Independent Directors**"), it being understood that until the entry-into-force of the Regulation of the Ministry of Economics and Finance under Article 26 TUB, these Directors must meet the independence requirements established for Statutory Auditors pursuant to Article 148 TUF. Directors must also fulfil the criteria of competence, fairness and time commitment and the specific limits on the total number of directorships allowed by applicable *pro tempore* rules and supervisory regulations, as well as any limits previously indicated by the Company.

Pursuant to Article 14 of the Post-merger Bylaws, the election of the Board of Directors takes place, in compliance with current *pro tempore* legislation on gender balance, based on the lists submitted pursuant to the same Article 14 thereof, where candidates shall be no more than 11 (eleven) and listed with a consecutive number. Each candidate may be included just in one list, under penalty of ineligibility.

For the purposes of complying with the minimum number of Independent Directors, each list must identify among its members, by expressly indicating a minimum number of candidates meeting the independence requirements under above-mentioned Article 16, paragraph 2, of the Post-merger Bylaws equal at least to the number of Independent Directors as per Article 16 thereof. In order to guarantee the gender balance in compliance with applicable *pro tempore* regulation, each list containing a number of candidates equal or higher than 3 (three) must have candidates of both genders included, so that at least 1/3 (one third) – rounded up in case of fractional number – of candidates indicated in the same list belongs to the less represented gender.

The following persons are entitled to submit lists: (i) shareholders who, alone or together with other shareholders, hold shares representing at least the minimum interest in the share capital entitled to vote at the Company's Shareholders' Meeting set by CONSOB, that shall be indicated in the notice of call; (ii) holders of Special Shares; and (iii) the Board of Directors of the Company, with the favourable non-binding opinion of the board committee in charge of matters relating to appointments. The ownership of the minimum shareholding for being able to submit lists is determined with respect to the shares that are recorded in the name of the individual shareholder, or in the names of more shareholders jointly, on the day on which the lists are lodged at the company's registered office. The ownership of the number of shares required for lodging lists must be certified pursuant to applicable *pro tempore* regulation; such certification may also be received by the Company after the filing of lists, provided that this is within the time limit set by applicable *pro tempore* rules and regulations.

Pursuant to Article 14, point 2.3, of the Post-merger Bylaws, no persons entitled thereto, not even through third parties or trust companies, may submit or participate in submitting, or vote for more than one list. Shareholders belonging to the same group of companies – it being construed as the parent company, subsidiaries and companies under joint control – and parties to a shareholders' agreement as per Article 122 TUF regarding the Company's shares may not submit, not even those entitled to vote may vote for, more than one list, not even through third parties or trust company; in case of non-compliance their signature shall not count for any lists.

Lists must be filed by persons entitled thereto at the Company's registered office – also by remote means of communication defined by the Board of Directors in accordance with the methods stated in the notice of call, so as to enable the persons making the filing of lists to be identified – at least 25 (twenty-five) days before the date of the Shareholders' Meeting and shall be made available to public in accordance with the terms and conditions provided for by applicable *pro tempore* rules and regulations. The list possibly submitted by the Board of Directors shall be filed at the Company's registered office and published in accordance with the above methods at least 30 (thirty) days before the date of the Shareholders' Meeting.

According to Article 14, point 2.6, of the Post-merger Bylaws, along with each list, inasmuch as applicable, within the deadline of its submission, following documentation shall be lodged at the Company's registered office:

- information on the identity of shareholders submitting the list, attesting the overall shareholding percentage with voting right in the Shareholders' Ordinary Meeting;
- declarations of shareholders who submit, or participate to submit, a list, other than those that hold, even jointly, a controlling share or relative majority, certifying the absence of related links to the latter qualified as relevant by existing *pro tempore* regulation that is applicable to the Company;
- a full description of personal and professional characteristics of each candidate, including information on directorships and control offices held in other companies, and a statement in which individual candidates accept the position and represent, under their own responsibility, that there are no causes for ineligibility or incompatibility, and that they meet the directorship requirements established by law and Bylaws, and the independence requirements under Article 16, paragraph 2, of the Post-merger Bylaws; as well as
- any further documentation and declaration required by existing *pro tempore* regulatory and/or supervisory rules, or that is useful for the overall assessment of fit and proper requirements for the office held also in accordance with any information that may be previously disclosed to public by the Bank in the notice of call.

Lists for which above terms are not satisfied shall be considered not submitted. Nevertheless, the absence of documentation regarding individual candidates on a list merely results in the exclusion of such candidates and does not affect the valid submission of the lists to which they belong.

If more lists are filed, the Board members will be elected as follows:

(i) all the members of the Board of Directors shall be drawn from the list that obtained the majority of votes cast in the sequential order in which they are listed (the "**Majority List for the Board of Directors**"), except for 2 (two) Directors;

(ii) the remaining 2 (two) Directors are drawn, always following sequential order in which they are listed, from the minority list (the "**Minority List for the Board of Directors**") which obtained the second highest number of votes and is not in any way connected, even indirectly, through links qualified as relevant by existing *pro tempore* regulation, with persons entitled to vote who submitted or voted in favour of the list under point (i).

If the Minority List for the Board of Directors failed to obtain a percentage of votes equal to at least half the one required to submit such lists, in accordance with the above, for the purposes of the submission of the list itself, all Directors to be elected will be taken from the Majority List.

If several lists obtained the same number of votes, the Majority List for the Board of Directors is, for all purposes, the list submitted by shareholders holding the largest stake or, in second instance, the list voted by the highest number of shareholders (one vote per person). This applies also to the case whereby more minority lists obtained the same number of votes. Should the resulting composition of the Board of Directors fail to appoint the minimum number of Independent Directors as per Article 16 of the Post-merger Bylaws, the non-independent candidate elected with the lowest sequential number on the Majority List for the Board of Directors shall be replaced by the independent candidate not elected on the basis of the same list in sequential order or by the first independent candidate in terms of progressive numbering that was not elected by the other lists, depending the number of votes obtained by each list. This replacement procedure shall be used until the Board of Directors includes the minimum number of Independent Directors under Article 16 of the Post-merger Bylaws. Finally, if this procedure fails to produce above result, the replacement will take place via Shareholders' Meeting resolution by relative majority, following presentation of candidates meeting above-mentioned requirements.

Furthermore, should the resulting composition of the Board of Directors fail to comply with the current *pro tempore* regulation on gender balance, the candidate belonging to the most represented gender that is elected with the lowest number of votes in terms of progressive order in the Majority List for the Board of Directors will be the first candidate of the less represented gender that was not elected on the basis of the list depending on the progressive order or by the first independent candidate in terms of progressive numbering that was not elected by the other lists, depending on the number of votes obtained by each list. This replacement procedure shall be used until the composition of the Board of Directors complies with existing *pro tempore* regulation on gender balance. Finally, if this procedure fails to produce above result, the replacement will take place via Shareholders' Meeting resolution by relative majority, following presentation of candidates belonging to the less represented gender.

The Article 14, point 4, of the Post-merger Bylaws provides also that:

(a) if only one list is submitted, or if the minority lists submitted did not get the percentage of votes equal at least to the minimum percentage required for the submission of lists as per point 2 of this Article, the Shareholders' Meeting shall decide by legal majority, without abiding by the procedure above;

(b) if no list is submitted, the Shareholders' Meeting shall resolve by legal majority, without abiding by the procedure above.

it being understood that this shall comply with existing *pro tempore* regulation on the minimum number of Directors and the gender balance.

The dismissal of Board members is resolved by the Shareholders' Meeting as required by law.

If, during the financial year, for whatever reason, one or more directorships fall vacant, the other Directors shall replace them with their first candidate not elected from the list to which the outgoing Directors belonged, or with the subsequent candidates in accordance with the sequential order of the list, if the first one or the subsequent ones no longer accept the directorship or do not meet the independence requirements fulfilled by the Director to be replaced or if the composition of the Board of Directors is not such as to comply with existing *pro tempore* regulation on gender balance.

If, for any reason, it is not possible to proceed with the replacement in accordance with the procedure established under the previous paragraph, the Directors still in office shall co-opt new directors by choosing from candidates not included in any list, considering the independence requirements of the Director to be replaced and the existing pro tempore regulation on gender balance. Directors thus co-opted under previous paragraphs shall remain in office until the first Shareholders' Meeting.

No account shall be taken of the list-based voting system in the Shareholders' Meetings that must confirm or replace co-opted Directors, that will be in office only until the Shareholders' Meeting has to appoint the Board members with the list-based voting system.

In any event, the Board of Directors and the Shareholders' Meeting shall appoint the Board members so as to ensure (i) the presence of Independent Directors in the minimum number required by Article 16 of the Post-merger Bylaws and (ii) the compliance with the existing *pro tempore* regulation on gender balance.

Whenever the number of Directors appointed by the Shareholders' Meeting falls below a majority, due to resignation or other reasons, the whole Board shall be deemed to be resigning and the remaining Directors shall urgently call the Shareholders' Meeting to appoint a new Board of Directors.

In accordance with Article 24 of the Post-merger Bylaws, Board members are entitled to reimbursement of expenses they may incur in the performance of their duties and a compensation determined by the Shareholders' Meeting upon appointment. The remuneration of the Directors vested with special duties is determined by the Board of Directors, on the proposal of the committee in charge of the remuneration and based on the opinion of the Board of Statutory Auditors.

In accordance with Article 17 of the Post-merger Bylaws, the Board of Directors appoints a Chairman from among its members and may elect a Deputy Chairman. In case of absence or impediment of the Chairman, its functions shall be performed by the Deputy Chairman (if appointed) or the most senior non-executive Director in office. The Board of Directors appoints a Secretary, who need not to be a member, who deals with drafting, transcription in the specific book and preservation of minutes of each meeting. In case of absence or impediment of the Secretary, the Board resolves who should replace the Secretary.

In accordance with Article 19 of the Post-merger Bylaws, the Board of Directors is vested with the broadest powers for the ordinary and extraordinary management of the Company, with the exception of what is expressly provided for by law and Post-merger Bylaws to the Shareholders' Meeting. Pursuant to Article 2365, paragraph 2, of the Italian civil code, the Board of Directors may resolve upon the merger in the cases envisaged by Articles 2505 and 2505-*bis* of the Italian civil code, the establishment or elimination of secondary offices, adjustments of Post-merger Bylaws to rules and regulations and the transfer of the registered office within the national territory.

In accordance with Article 19, paragraph 4, of the Post-merger Bylaws, the Board may delegate, in compliance with provisions under the Post-merger Bylaws and under the law, part of its responsibilities to one or more of its members, determining powers and related remuneration, within the limits and in execution of the resolution by the Shareholders' Meeting. The Delegated Bodies are required to report to the Board of Directors within the terms and procedures defined by the Board of Directors, as required by the Post-merger Bylaws and by law.

The Board of Directors must timely report to the Board of Statutory Auditors on the activity performed and the economic, financial and investment highly material transactions carried out by the Company, also through its Delegated Bodies, and by any subsidiaries; in particular, it reports on the operations in which its members have an interest, either directly or through third parties. The communication is made, at least on a quarterly basis, orally on the occasion of the Board meetings or by means of a written notice to the Board of Statutory Auditors. Besides compliance with provisions under Article 136 of TUB, each Director is required to inform the other Directors and the Board of Statutory Auditors of any personal interest or interest on behalf of third parties in a particular transaction of the Company by specifying nature, terms, origin and amount, and to refrain from decisions on issues where he/she may a conflict of interest, either directly or on behalf of third parties, pursuant to current regulation. In the event of a Managing Director, he/she shall refrain from carrying out the transaction and delegate it to the Board of Directors.

The Board may also delegate powers to the General Manager, where appointed, to executives, to other Company's employees, establishing the limits required by Post-merger Bylaws and by law, and the means by which he should exercise them, including the possibility of sub-delegation. In particular, the Board may delegate decision-making powers with regard to allocation of credit to the General Manager, where appointed and to employees vested with specific duties, up to a pre-set amount proportionate to the duties and position held.

In accordance with Article 27 of the Post-merger Bylaws, the Board of Directors appoints and dismisses, subject to the mandatory but non-binding opinion of the Board of Statutory Auditors, the Financial Reporting Manager who, in compliance with the law, performs functions envisaged by Article 154-*bis* TUF and by any other current pro tempore legislation applicable to the Company. The Board of Directors shall ensure that the Financial Reporting Manager is entrusted with what is established above for the performance of the duties.

In accordance to Article 22 of the Post-merger Bylaws, for any resolutions of the Board of Directors to be valid, a majority of the members currently in office must be in attendance. The resolutions are approved by a majority of those voting; abstaining directors shall be excluded from said calculation. In case of a tied vote, the Chairman's vote shall prevail. Votes shall be cast openly.

In accordance with Article 25 of the Post-merger Bylaws, the legal representation, also during court proceedings, of the Company and the signing authority are entrusted to the Chairman of the Board of Directors and/or to the Managing Director (where appointed), as determined by the Shareholders' Meeting resolution. For the performance of single action or categories of actions, the Board of Directors may also assign the legal representation and signing authority to directors, the General Manager, where appointed, upon executives, managers and employees of the Company as well as other attorneys, by determining related powers, limits and ways to exercise them.

Board of Statutory Auditors

In accordance with Article 28 of the Post-merger Bylaws, the Board of Statutory Auditors is made up of 3 (three) Standing Auditors and 2 (two) Alternate Auditors. Statutory Auditors remain in office for 3 (three) financial years, and their term of office expires at the date of the Shareholders' Meeting called to approve the financial statements for the last year of that term. Statutory auditors may be re-elected and removed by the Shareholders' Meeting only in the manner and cases provided for by law.

The composition of the Board of the Statutory Auditors ensures the gender balance in accordance with the relevant applicable *pro tempore* regulation. Members of the Board of Statutory Auditors shall comply with the maximum number of directorships and control offices held as established by CONSOB Regulation as well as by any other applicable provision. Auditors may not be elected, or if elected, may be removed, if there are grounds for impediment or ineligibility or they do not meet the requirements of professionalism and independence as provided for by applicable *pro tempore* rules and supervisory regulations.The Chairman and the Standing Auditors shall receive, for their term of office, the annual emolument resolved by the Shareholders' Meeting.

Standing and Alternate Auditors are appointed on the basis of lists submitted by the shareholders as per Article 29 of the Post-merger Bylaws.

The following persons are entitled to submit lists (i) shareholders who, alone or together with other shareholders, hold shares representing at least the minimum interest in the share capital required for the submission of lists for the appointment of Directors as per Article 14 of the Post-merger Bylaws and (ii) holders of Special Shares; lists are filed by said entitled shareholders at the Company's registered office as provided for by Article 14, point 2.5, of the Post-merger Bylaws.

Each list must be divided into two sections, the first is for the candidates for the position of Standing Auditor and the second is for candidates for the position of Alternate Auditor and must include a number of candidates not exceeding the number of Auditors to be appointed, listed by sequential order of preference. Considering both sections, the lists including a number of candidates at least equal to 3 (three), must have candidates belonging to both genders, so that at least 1/3 (one third) – rounded up in case of fractional number – of candidates for the position of Standing Auditors within the list itself and 1/3 (one third), rounded up in case of fractional number, of candidates for the position of Alternate Auditor within the list itself belong to the less represented gender.

No candidate, under penalty of forfeiture of the candidature, may be included on more than one list.

Along with each list, inasmuch as applicable, within the deadline of its submission, following documentation shall be lodged at the Company's registered office:

- information on the identity of shareholders submitting the list, attesting the overall shareholding percentage with voting right in the Shareholders' Ordinary Meeting;
- declarations of shareholders who submit, or participate to submit, a list, other than those that hold, even jointly, a controlling share or relative majority, certifying the absence of related links to the latter qualified as relevant by existing *pro tempore* regulation that is applicable to the Company;
- a full description of personal and professional characteristics of each candidate, including information on directorships and control offices held in other companies, and a statement in which individual candidates accept the position and represent, under their own responsibility, that there are no causes for ineligibility or incompatibility, and that they meet the requirements for the position of Statutory Auditor established by rules, regulations and Bylaws; as well as
- any further documentation and declaration required by existing *pro tempore* regulatory and/or supervisory rules law, or that is useful for the overall assessment of fit and proper requirements for the office held also in accordance with the information that may have been previously disclosed to the public by the Bank.

If, upon expiry of the term under Article 14, point 2.5, of the Post-merger Bylaws, only list is filed, or only lists submitted by shareholders which, in accordance with the declarations made, are connected with each other pursuant to current *pro tempore* regulation, the Company shall without undue delay notify thereof, as envisaged by applicable legislation, and lists may be submitted until the next term provided for by law.

In accordance with Article 29, point 8, of the Post-merger Bylaws, the Board of Statutory Auditors will be elected as follows:

(a) if more lists are filed in compliance with previous paragraphs, 2 (two) Standing Auditors and 1 (one) Alternate Auditor are drawn from the list obtaining the majority of votes (the "**Majority List for the Board of Statutory Auditors**"). The remaining members of the Board of Statutory Auditors, i.e. 1 (one) Standing Auditor and 1 (one) Alternate Auditor, are drawn from the list which obtained the second highest number of votes (the "**Minority List for the Board of Statutory Auditors**") and is not connected in any way, not even indirectly, as required by current *pro tempore* regulation, with the shareholders who submitted or voted in favour of the Majority List for the Board of Statutory Auditors. The Chairman of the Board of Statutory Auditors is the Standing Auditor drawn from the Minority List for the Board of Statutory Auditors;

(b) If several lists obtained the same number of votes, the Majority List for the Board of Statutory Auditors is, for all purposes, the list submitted by shareholders holding the largest stake or, in second instance, the list voted by the highest number of shareholders (one vote per person). This applies also to the case whereby more minority lists obtained the same number of votes;

Should the resulting composition of the Board of Statutory Auditors, in its members (standing and substitute), fail to comply with the current *pro tempore* regulation on gender balance, taking into account the order in which they are listed in the relevant section, the last candidates elected in the Majority List of the most represented gender shall fall from office in a number necessary to ensure compliance with the requirement, and they shall be replaced by the first non-elected candidates of the less represented gender contained in the same list and the same section of the less represented gender, based on the sequential order. If the number of candidates of the less represented gender inside the relevant section of the Majority List for the Board of Statutory Auditors is not sufficient to proceed with the replacement, the Shareholders' Meeting, subject to presentation of candidates belonging to the less represented gender, will appoint the missing Standing or Alternate Auditors by legal majority vote, ensuring the fulfilment of the requirement;

(c) if only one list is submitted, the Standing Auditors and the Alternate Auditors will be elected within this list, in compliance with current *pro tempore* regulation on gender balance. In this latter case, the Chairman of the Board of Statutory Auditors is the first person in the section relating to candidates for the position of Standing Auditor indicated in the only list submitted;

(d) if no list is submitted, the Shareholders' Meeting, subject to presentation of candidates for the position of Standing Auditor and Alternate Auditor, resolve by legal majority, it being understood that this shall comply with existing *pro tempore* regulation on gender balance and requirements of eligibility, independence, professionalism and integrity of the Statutory Auditors.

Without prejudice to the above,

(a) if a Standing Auditor resigns from office, the Alternate Auditor belonging to the same list of the outgoing Auditor shall take over the position. The Alternate Auditor will remain in office until the next Shareholders' Meeting;

(b) if a Standing Auditor is to be replaced, the Alternate Auditor belonging to the same list of the replaced Auditor. It being understood that the Board of Statutory Auditors will continue to be chaired by the Minority Auditor, and the composition of the Board of Statutory Auditors shall comply with the current pro tempore regulation on gender balance;

(c) if the Shareholders' Meeting is required to appoint Standing and/or Alternate Auditors to fill the vacancies on the Board, the procedure will be as follows:

(i) if it is necessary to replace Auditors elected on the basis of the Majority List, the replacements shall be appointed by relative majority vote without list voting, in compliance with regulations on gender balance;

(ii) if, however, it is necessary to replace Auditors elected on the basis of the Minority List, the Shareholders' Meeting shall replace them, in compliance with regulations on gender balance, by a relative majority vote by choosing them from the candidates on the list from which the outgoing auditor was elected or on the list that obtained the second highest number of votes. Should the application of the above procedures not result in the replacement of the Auditors designated by the Minority List for the Board of Statutory Auditors for whatever reason, the shareholders' meeting shall resolve by relative majority. However, votes cast by shareholders who hold the relative majority of voting rights that may be exercised in the meeting as identified in disclosures made in accordance with the applicable regulations, whether directly, indirectly, or jointly with other shareholders who are parties to a shareholders' agreement pursuant to Article 122 TUF, as well as by shareholders who control, are controlled or are subject to joint control by the above-mentioned shareholders, will not be counted.

The replacement procedures referred to in the previous paragraphs shall in any case ensure that at least one Standing Auditor and one Alternate Auditor are elected by the minority shareholders that are not connected in any way, not even indirectly, with the shareholders who submitted or voted in favour of the list that reached the greatest number of votes, as well as the compliance with existing regulation on gender balance.

In accordance with Article 30 of the Post-merger Bylaws, the Board of Statutory Auditors performs tasks and exercises the control functions provided for by applicable *pro tempore* rules and regulations, including supervisory standards.The Board of Statutory Auditors is vested with the powers envisaged by rules and regulations, including supervisory standards, and reports to the Supervisory Authority in accordance with current *pro tempore* legislation. Furthermore, the Board of Statutory Auditors informs the Board of Directors of any shortcomings and irregularities, requests for appropriate corrective measures and verifies their effectiveness over time.

Meetings of the Board of Statutory Auditors, which must be held at least every 90 (ninety) days, shall be called by the Chairman of the Board of Statutory Auditors by notice, to be notified with whatever means of communication including certainty of receipt, and specifying date, hour and place of meeting and issues to be discussed, at least 3 (three) days before the date of the meeting, or at least 24 (twenty-four) hours in case of urgency. Minutes and deeds of the Board of Statutory Auditors must be signed by all participants.The Board of Statutory Auditors is duly constituted and valid to adopt resolutions with the quorums established by law.

For further information reference should be made to the Post-merger Bylaws of the Company, available at www.bancainterprovinciale.it (and, after the Merger, www.illimity.com).

21.2.3 Rights, privileges and limitations attached to each class of existing shares

In accordance with the Post-merger Bylaws, the Ordinary Shares are registered and freely transferable. Each Ordinary Share entitles the holder to one vote. Issuance and circulation of Ordinary Shares are subject to existing regulation.

In accordance with Article 6 of the Post-merger Bylaws, similarly with provisions of SPAXS' existing Bylaws, Special Shares have following characteristics:

(a) non-transferable for the maximum term established by law (i.e. 5 years), except for those transfers to subsidiaries (directly and/or indirectly) from the holder of the Special Shares and/or said holder's shareholders or successors, whereby transfer means any act or event that, for whatever reason, results in a transfer of ownership, bare ownership or enjoyment rights over the securities or subjecting the same to charges and/or encumbrances of any nature, whether in *rem* or otherwise, in favour of third parties;

(b) in accordance with Article 9, paragraph 4, Article 14, paragraphs 2.3, and Article 29, paragraph 2, of the Post-merger Bylaws, said shares entitle to submit proposals for the appointment of in positions in corporate bodies to said corporate bodies of the Company; however, they do not grant voting rights in the ordinary and extraordinary Shareholders' Meetings, without prejudice in any case to the powers provided for by law and/or Post-merger Bylaws applicable to the special meeting of holders of Special Shares;

(c) they are excluded from the right to receive profits; however, they entitle the holders to receive distributable reserves;

(d) if the Bank is dissolved, said shares provide its holders the right to payment of their share of the equity after liquidation pursuant to Article 34 of the Post-merger Bylaws;

(e) they are automatically converted into Ordinary Shares, providing that each Special Share shall be converted into 8 Ordinary Shares if, within 20 September 2022 (the "**Term**"), the average price of the Ordinary Shares traded on the MTA organised or managed by Borsa Italiana S.p.A., for at least 22 consecutive days of stock exchange trading, is equal to or greater than EUR 13.9663866 per Ordinary Share.

If there are adjustments to the value of the Company's Ordinary Shares following notification from Borsa Italiana S.p.A. ("**Borsa Italiana**"), the value of EUR 13.9663866 referred to under previous letter (e) shall be adjusted in accordance with the "K coefficient" notified by Borsa Italiana;

(f) they are automatically converted into Ordinary Shares, providing that each Special Share is converted into 8 Ordinary Shares, equal to 100% of their amount – if all three following conditions apply: (X) one or more directors in office as at the effective date of the Post-merger Bylaws ceased to be such for whatever reason or cause; (Y) the holders of Special Shares submit a proposal of appointment pursuant to Article 6, paragraph 4, letter (b), and Article 9, paragraph 4, of the Post-merger Bylaws or of replacement pursuant to Article 14 point 3, of the Post-merger Bylaws and (Z) the Shareholders' Ordinary Meeting appoints individuals other than those indicated in the proposal under previous point (Y) as Company's directors. In this regard note that, as a result of the waiver by the holders of the SPAXS Special Shares of the right to submit their own list for the election of the corporate bodies, disclosed to the Issuer and subject to resolution by the special shareholders' meeting (all as described herein), the circumstances pursuant to letters (Y) and (Z) above may not take place and, as a result, the assumption for conversion pursuant to this letter (f) cannot be fulfilled;

(g) if conditions for the automatic conversion referred to under previous letter (e) of Article 6, paragraph 4, of the Post-merger Bylaws have not been met within the Term, each residual Special Share will be converted into 1 Ordinary Share, with no change in the amount of capital share;

(h) the automatic conversion of the Special Shares by the Deadline (which is 20 September 2022) will occur without the need for their holders to state their intention and with no change in the amount of capital share.As a result of the automatic conversion of the Special Shares in Ordinary Shares, the Board of Directors shall: **(1)** record the conversion in the shareholders' register by proceeding to annul the Special Shares and to issue the Ordinary Shares; **(2)** file the text of the Post-merger Bylaws with the Companies' Register, pursuant to Article 2436, paragraph 6, of the Italian civil code ***(x)*** by changing the total number of shares and, more specifically, the number of shares by categories – if applicable – in which the share capital is divided and/or ***(y)*** by deleting the clauses of Post-merger Bylaws that are no longer in effect as a result of the conversion of all Special Shares into Ordinary Shares pursuant to Article 6 of the Post-merger Bylaws; as well as **(3)** disclose the conversion by press release published on the Company's website, as well as provide all other communication and statement that may be necessary or appropriate.

The right for holders of Special Shares - which, pursuant to the Post-merger Bylaws do not have voting rights in the ordinary and extraordinary shareholders' meetings of the Issuer - to submit a list of candidates for the election of the corporate bodies, as well as the correlated possibility of conversion of the Special Shares into Ordinary Shares (in points (b) and (f) above), is set forth in the Post-merger Bylaws and set forth in the current Bylaws of SPAXS. This right is not provided by Article 147-ter of the TUF and the relative implementing provisions set forth in the Issuer's Regulation, the lists may be submitted by holders of shares representing at least the minimum proportion of the share capital established, over time, by Consob, with "share capital" being defined pursuant to Article 144-ter, points a) and b) of the Issuer's Regulation, as "the capital consisting of listed shares" that grants the right to vote on shareholders' meeting resolutions concerning the appointment of members of the management and control bodies.

With respect to this right, it should be noted that (i) on 18 January 2019 the holders of SPAXS Special Shares (also as future holders of Special Shares) provided their notification whereby they declared to waive their right to exercise said power; and (ii) the special meeting of the shareholders of SPAXS Special Shares (also as future holders of the Issuer's Special Shares), held on 24 January 2019, formally resolved by unanimity to waive, until the conversion of all Special Shares into illimity Ordinary Shares, their right to exercise the power to submit their list for the appointment of the Issuer's corporate bodies, regardless from any future changes in the Post-merger Bylaws aimed at removing said power, with respect to which the special shareholders declared to be in favour.

Therefore, please note that on the basis of the above-mentioned waivers expressed by the SPAXS Special Shareholders (also in their capacity as future holders of the Special Shares) and the above-mentioned resolution passed by the special shareholders' meeting and registered at the competent Companies Register, at the time of the re-election of the Issuer's corporate bodies, the mechanism for the submission of the list of candidates for the election of the Board of Directors and the Board of Statutory Auditors by the special shareholders (as referred to above in point (b)) will not apply and, as a result, neither will the mechanism of automatic conversion of the Special Shares into Ordinary Shares (at a ratio of 1:8) linked to the submission by Special Shareholders of their own list of candidates for the office of member of the Issuer's Board of Directors, should the candidates presented in the above-mentioned list not be appointed (as referred to above in point (f)).

In light of the foregoing, the Issuer will undertake the necessary activities, as soon as possible after the listing of its financial instruments on the MTA with methods and timing compatible with applicable supervisory, Bylaw and other regulations, to make amendments to the text of the Post-merger Bylaws intended to eliminate the right for Special Shareholders to submit their own lists for the appointment of the corporate bodies and the resulting possibility of conversion of the Special Shares into Ordinary Shares, also for the purpose of the formal incorporation within the Bylaws of the above-mentioned waiver of the future holders of Special Shares, in any case already validly expressed by them and, as noted, disclosed to the Issuer during the shareholders' meetings of SPAXS and the Bank on 18 January 2019 and approved by the SPAXS special shareholders' meeting.

As for the Special Shares, it should be noted that they are not traded on the MTA, as SPAXS Special Shares are not traded on AIM Italia.

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<u>Conditional Share Rights</u>

The Conditional Share Rights will be regulated by the Regulation of Conditional Share Rights, and will have the same characteristics as SPXAS Conditional Share Rights. In particular, these financial instruments entitle their holders to receive, free of charge, as at the assignment date (i.e. 20 September 2019, first anniversary from the date in which the Material Transaction became effective), in one tranche, illimity newly-issued ordinary shares (Conversion Shares that will have the same regular dividend rights as the Issuer's Ordinary Shares outstanding as at the assignment date) with the assignment ratio of 1 Conversion Share every 5 Conditional Share Rights held.

It should be noted that SPAXS Conditional Share Rights were allocated free of charge to SPAXS Ordinary Shares holders, in accordance with the Regulation of SPAXS Conditional Share Rights, with the ratio of (i) 1 SPAXS Conditional Share Right every 10 SPAXS Ordinary Shares subscribed within the offer aimed at listing SPAXS on the AIM, for a total amount of 6,000,000 SPAXS Conditional Share Rights; and (ii) 4 SPAXS Conditional Share Rights every 10 SPAXS Ordinary Shares held as at the settlement date of SPAXS Ordinary Shares subject to withdrawal with respect to the Material Transaction, for a total amount of 22,492,827 SPAXS Conditional Share Rights. Within the context of the Merger, holders of SPAXS Conditional Share Rights will be allocated illimity Conditional Share Rights with the ratio 1:1.

It should also be noted that for the purposes of the Merger, the Shareholders' Meeting held on 18 January 2019 resolved, inter alia, on the issue of: (i) 28,492,827 Conditional Share Rights, to be allocated with share exchange to the holders of SPAXS Conditional Share Rights, with a ratio of 1 Conditional Share Right of the Issuer every 1 SPAXS Conditional Share Right; and (ii) maximum 5,698,565 Conversion Shares, without any change in the Issuer's share capital, to be allocated free of charge to the holders of Conditional Share Rights.

For further information on the Conditional Share Rights, reference should be made to Section II, Chapter 4, Paragraph 4.2.

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As better outlined in Chapter 18, to which reference should be made for further information, the Issuer's shareholding will be subject to changes over time due to (i) completion of the Merger, (ii) assignment of all maximum 5,698,565 Conversion Shares arising from all 28,492,827 outstanding Conditional Share Rights, and (iii) conversion of 1,440,000 Special Shares of the Issuer (1,440,000) in 11,520,000 Ordinary Shares of the Issuer.

Compared to the Prospectus Date, when above conditions occur, the ordinary shareholders of the Issuer – namely, (a) SPAXS ordinary shareholders as at the Prospectus Date other than the companies promoting the transaction and (b) the ordinary shareholders of the Bank, as at the Prospectus Date, other than SPAXS – would collectively hold a stake in the share capital of the Issuer of 82.2%, corresponding to a dilution, represented by voting rights in the ordinary capital of the Issuer, of 17.8%. This dilution corresponds to 17.9% only for SPAXS ordinary shareholders as at the Prospectus Date other than Companies promoting the transaction.

21.2.4 Bylaws provisions concerning changes in the rights of shareholders

In accordance with Article 8 of the Post-merger Bylaws, the right of withdrawal is only allowed, without exceptions, in the cases envisaged by law. Terms and conditions of this right, criteria for determining the value of shares and the liquidation procedure are governed by law.

21.2.5 Bylaws provisions concerning the Issuer's ordinary and extraordinary Shareholders' Meetings as well as the Meetings of the holders of Special Shares

Below are the main provisions of the Post-merger Bylaws concerning the Issuer's ordinary and extraordinary Shareholders' Meetings. For further information, reference should be made to the Post-merger Bylaws available at www.bancainterprovinciale.it. (and, after the Merger, www.illimity.com).

Convening

In accordance with Article 9, paragraph 1, of the Post-merger Bylaws, the Shareholders' Meeting, both ordinary and extraordinary, may be convened at the Company's registered office or at any other venue that may be stated in the notice of call, in Italy or abroad.

In accordance with Article 10 of the Post-merger Bylaws, the Shareholders' Meeting, is called, in ordinary session or extraordinary session, by the Board of Directors whenever it deems it appropriate, or, as established by Article 2367 of the Italian civil code, upon request of shareholders representing at least 20% (twenty) of the share capital, or other percentage provided for by current *pro tempore* regulation. In any case, the Shareholders' Ordinary Meeting is called at least one a year within 120 (one hundred and twenty) days from the end of the financial year, or within 180 (one hundred and eighty) days from the end of the financial year in the cases permitted by law.

Without prejudice to the powers to call meetings established by other legal provisions, the Shareholders' Meeting may also be called, provided the Chairman of the Board of Directors is notified thereof, by the Board of Statutory Auditors or at least 2 (two) of its members, pursuant to current *pro tempore* regulation.

The Shareholders' Meeting is called by notice with contents established by law; such notice is published within the time limits established by law on the website of the Bank, as well as in any other manner provided for by current *pro tempore* regulation.

Within terms, conditions and time limits established by current pro tempore regulation, shareholders who, alone or together, represent at least 1/40 (one fortieth) of the share capital, or the other percentage provided for by current *pro tempore* regulation, may submit a written request to extend the items to be discussed at the Meeting specified in the notice of call, by indicating the additional items proposed and preparing a report on the topics to be discussed, as well as submit resolution proposals on items already on the agenda. Calling of meetings and integration of agenda upon request by shareholders are not allowed for issues on which the Shareholders' Meeting is called to resolve, as per current regulation, on proposal of the Board of Directors or on the basis of a project or report prepared by them, other than those referred to under Article 125-*ter*, paragraph 1, TUF. Entitlement to exercise the right is proven by filing the copy of the notification or certification issued by the intermediary pursuant to current *pro tempore* regulation.

The Shareholders' Ordinary and Extraordinary Meeting is as a rule held on a single call, pursuant to and for purposes of Article 2369, paragraph 1, of the Italian civil code. However, the Board of Directors may resolve for more than one calls of the ordinary and extraordinary Shareholders' Meeting, indicating a date for a second call. Such resolution is advised in the notice of call.

Voting and participation rights

Pursuant to Article 11 of the Post-merger Bylaws, Shareholders' Meetings may be attended by holders of voting rights, for whom the Company received the communication by the authorised intermediary within the time limit prescribed by current *pro tempore* regulation.

Anyone entitled to vote may be represented in the Shareholders' Meeting pursuant to law. The proxy form may be notified by sending it to the dedicated section of the website of the Company or by certified electronic mail, as stated in the notice of call, or by any other means provided for by rules and regulations in force. The Chairman of the Shareholders' Meeting is responsible for verifying the propriety of single proxies and, in general, the entitlement to attend the Meeting.

For each Shareholders' Meeting, the Board of Directors may designate, with a specific indication in the notice of call, one or more representatives on whom entitled shareholders may bestow a proxy, with voting instructions for some or all of the proposals on the agenda, as envisaged by the current regulations. The proxy to the representative designated by the Board of Directors shall only be effective for proposals for which voting instructions have been given.

Without prejudice to provisions of Article 2372, paragraph 2, of the Italian civil code, a proxy may be granted for a single Shareholders' Meeting only, effective also for subsequent calls, but may not be granted leaving the name of the proxy holder blank. Pursuant to and for purposes of Article 2370, paragraph 4, of the Italian civil code, if required by the notice of call of the Meeting, anyone entitled to vote may exercise said right by post or electronic means, in accordance with the terms and conditions set forth in the notice of call.

The Board of Directors may arrange one or more remote connections to the place where the Meeting is held, to enable the shareholders that do not wish to reach this place to participate in the discussion to take part to the meeting and upon voting to express their vote, provided that shareholders are identified and the possibility to exercise such right is notified in the notice of call of the Shareholders' Meeting. In any case, the Chairman of the Shareholders' Meeting and the Secretary must be present at the place indicated in the notice of call where the meeting is deemed to be held.

The members of the Board of Directors and the Board of Statutory Auditors cannot vote in resolutions concerning their responsibilities.

The Chairman of the Shareholders' Meeting

The Shareholders' Meeting is chaired by the Chairman of the Board of Directors or, in case of absence or impediment, by the Deputy Chairman (where appointed) or, in case of absence or impediment of both of them, by a person designated by the Shareholders' Meeting pursuant to Article 2371 of the Italian civil code.

The Chairman is assisted by a Secretary, who need not be a shareholder, designated by the Shareholders' Meeting on proposal of the Chairman, where the presence of a Notary is not required by law and, as the case may be, by scrutineers, who need not be shareholders, chosen by the Chairman from amongst the persons attending.

Resolutions

In accordance with Article 13 of the Post-merger Bylaws, the ordinary and extraordinary Shareholders' Meeting resolves on issues conferred upon it by the Post-merger Bylaws, by rules and regulations. Without prejudice to what is set out hereunder or by other provisions of the same Post-merger Bylaws, resolutions of the ordinary and extraordinary Shareholders' Meetings are adopted with the majorities required by law.

Without prejudice to provisions of the Post-merger Bylaws, amendments (i) to Article 13 of the Post-merger Bylaws, (ii) to Articles 5.1 (with regard to the lack of a nominal value), 6.3, 6.4 and to Article 34 of the Post-merger Bylaws, as well as (iii) to the characteristics of Conditional Share Rights provided for by the relevant regulation other than those already included in the regulation, are approved by the extraordinary Shareholders' Meeting by favourable vote of shareholders representing, on whatever call, at least 2/3 (two thirds) of the share capital having voting right.

Shareholders' Meeting

In accordance with Article 9, paragraph 2, of the Post-merger Bylaws, the ordinary Shareholders' Meeting:

(a) resolves on matters allocated to it by the current *pro tempore* regulation or by other provisions of the Post-merger Bylaws;

(b) resolves on the approval: **(i)** of the remuneration policies and incentive policies, where these latter are applicable, in favour of the Directors, Statutory Auditors and personnel, including any proposal of the Board of Directors to set a limit to the ratio between the variable and the fixed components of the individual remuneration of key personnel at more than 1:1, but anyway not greater than the list set by existing *pro tempore* regulation; **(ii)** of remuneration and/or incentive plans based on financial instruments; and **(iii)** of criteria for determining the compensation to be agreed in case of early termination of the employment contract or of early forfeiture from office, including the limits set to said compensation in terms of annuities of fixed remuneration and maximum amount resulting from their application. Without prejudice to provisions of the Post-merger Bylaws, Meeting resolutions concerning any proposal to set a limit to the ratio between the variable and the fixed components of the individual remuneration of key personnel at more than 1:1, in accordance with what is provided for by current *pro tempore* regulation, are approved by the ordinary Shareholders' Meeting when: (a) the Shareholders' Meeting is duly constituted with at least half share capital and the resolution is passed with the favourable vote of at least 2/3 (two thirds) of the share capital represented in the Meeting and having voting right; or (b) the resolution is passed with the favourable vote of at least 3/4 (three fourths) of the share capital represented in the Meeting and having voting right, irrespective of the capital with which the Shareholders' Meeting was constituted;

(c) may approve a Regulation for Shareholders' Meeting works and, if approved, it is responsible for resolving on amendments to said Regulation;

(d) authorise the conclusion of related party transactions of major importance within the purview of the Board of Directors, if the Board of Directors has approved these transactions despite the negative opinion of the Board Committee for transactions with related parties and associated persons. Without prejudice to provisions of the Post-merger Bylaws, if the Shareholders' Meeting is called to resolve on this authorisation or related party transactions of major importance of the Shareholders' Meeting itself in cases whereby the related-party committee expresses a negative opinion, resolutions shall also be made applying special provisions on resolution quorums provided for by the current *pro tempore* regulation and by the relevant procedure for related-party transactions.

The extraordinary Shareholders' Meeting resolves on the amendments to the Post-merger Bylaws, appointment, removal, replacement and powers of liquidators and on any issue attributed to it by law and not derogated by the Post-merger Bylaws.

Special Meetings of holders of Special Shares

The special Meeting of holders of Special Shares resolves on matters allocated to it by the Post-merger Bylaws, by rules and regulations, as laid down below.

(a) If the holders of Special Shares are called upon to approve the resolutions of the Shareholders' Meeting amending or adversely affecting their rights as holders of Special Shares, including amendments to Articles 9.4, 6.3, 6.4, 14, point 5, paragraph 3 (with reference to the rights of holders of Special Shares), and 34, of the Post-merger Bylaws, the Article 2376 of Italian civil code will apply. Resolutions referred to in this letter (a): (i) may be adopted also by means of a separate vote by the holders of Special Shares within the Shareholders' Meeting and (ii) shall be validly adopted, in whatever call, with the attendance and favourable vote of a number of holders of Special Shares representing at least 51% (fifty-one percent) of the Special Shares that are from time to time outstanding.

(b) If the holders of Special Shares are called upon to vote on matters other than those referred to in previous letter (a), including decisions on candidates to be presented to relevant bodies of the Company for the appointment of their members, as per Article 6.4 letter (b), of the Post-merger Bylaws, said resolutions are adopted by means of a separate vote by the holders of Special Shares within the Shareholders' Meeting, it being understood that said holders – should they deem it appropriate – may meet in a special Meeting. In this latter case: (i) the special Meeting is called by notice sent to persons having voting right via fax or e-mail at least 8 (eight) days before the date of the meeting, without prejudice to the fact that the meeting can also be held with the entire shareholding representing the entire capital of Special Shares that are from time to time outstanding; (ii) the relevant provisions of law and Post-merger Bylaws regulating the ordinary Shareholders' Meeting will be applied for purposes of declaring the special Meeting duly formed and valid.

21.2.6 Bylaws provisions that may delay, postpone or prevent a change in the Issuer's ownership structure

The Post-merger Bylaws do not include any provisions aimed at delaying, postponing or preventing a change in the Issuer's ownership structure.

21.2.7 Bylaws provisions concerning changes in the ownership structure or substantial shareholding

The Post-merger Bylaws do not contain particular provisions governing the ownership threshold above which there is an obligation to notify the public of the shares held. Thus, the ownership threshold above which shareholder ownership must be disclosed is the one provided for by current rules and regulations *pro tempore* in force.

21.2.8 Special Bylaws provisions concerning changes in the share capital

With regard to changes in the share capital, the Post-merger Bylaws of the Company do not provide for conditions that are more stringent than those required by law.

22. MATERIAL CONTRACTS

Without prejudice to that set forth below, according to the Issuer, there are no material agreements other than those entered into during the ordinary course of business which imply any obligation and/or entitlement that is material to it as at the Prospectus Date.

22.1 Reverse merger of SPAXS in the Bank

As at 30 October 2018, the Boards of Directors of the Issuer and SPAXS approved the Draft Merger Terms relating to the incorporation of SPAXS in the Bank, prepared pursuant to Articles 2501-*ter* of the Italian civil code.

As at the date of Draft Merger Terms, SPAXS holds a percentage of the share capital of the Issuer of approximately 99.17%, the Merger is applied the so-called "simplified procedure" ("reverse merger") provided for by Article 2505-*bis* of the Italian civil code.

On 18 January 2019, the extraordinary Shareholders' Meetings of the Issuer and SPAXS approved the Draft Merger Terms; on the same date, related resolutions were registered with the relevant Modena and Milan Companies Registers. The 15 days period required by law for the creditors to oppose to the merger (pursuant to Article 57, paragraph 3 TUB, and Article 2503 of the Italian Civil Code) and for the Bank minority shareholders (i.e. shareholders other than SPAXS shareholders) to exercise any right of selling the Issuer's shares held by them (pursuant to Article 2505-*bis*, paragraph 1, of the Italian Civil Code) started from these registrations.

On 15 February 2019, the Merger Deed was entered into; from the effective date of the Merger as governed in the Merger Deed ("**Effective Date of the Merger**"), SPAXS will be dissolved. The transactions of SPAXS will be booked to the financial statements of illimity starting from the Effective Date of the Merger, whilst the accounting and tax effects will be considered advanced payments as at 1 January 2019.

On the Effective Date of the Merger SPAXS will be dissolved.

Reasons and characteristics of the Merger

The Merger is included in the broader context of SPAXS investment project that has now resulted in the completion of the acquisition transaction by SPAXS, partially by way of purchase partially by way of exchange of almost all Issuer's ordinary shares, forming the final step, with the objective of achieving the full integration of SPAXS and the Bank (and the subsequent withdrawal of the vehicle established for the purpose of realising this project), as well as all resources made available by the Bank that were gathered by SPAXS upon admission on AIM Italia for the purpose of full completion of above transaction. For further information in this regard, reference should be made to Chapter 5, Paragraph 5.1.5.

Also given the almost full stake held by SPAXS in the share capital of the Bank and that the equity structure of SPAXS are represented by this stake and by financial resources gathered by it within the process of admission to trading of its financial instruments on AIM Italia, the Merger pursues also the goal of making the organisational and management processes of the Bank more effective, by simplifying the structure and reducing expenses and inefficiencies linked to the maintenance of two separate corporate structures.

As at the Prospectus Date, the share capital of SPAXS is made up of 59,373,241 SPAXS Ordinary Shares as a result of the annulment of the ordinary shares for which the right of withdrawal was exercised with respect to the Material Transaction and that remained unsubscribed/ unsold at the end of the offer on option and pre-emption rights to third parties under Article 2437-quater of the Italian civil code and of 1,440,000 SPAXS Special Shares as a result of the conversion as at effective date of the Material Transaction of the first tranche of SPAXS Special Shares, as provided for by existing Bylaws on that date. On the same date, also in view of the above, SPAXS issued 28,492,827 SPAXS Conditional Share Rights (which entitle the holders to receive 5,698,565 SPAXS Conversion Shares) for whose usage, it should be noted, SPAXS extraordinary Shareholders' Meeting, during the IPO procedure on AIM Italia, resolved on the issue of maximum 6,000,000 SPAXS Conversion Shares without changes in the share capital.

Also, in view of the above, within the context of the Merger, it is required that BIP Shareholders' Meeting approves the following, in addition to Draft Merger Terms and related annexes:

- removal of indication of nominal value of the Bank's ordinary shares;
- for the purpose of the share-exchange of SPAXS Special Shares, the issue of maximum 1,440,000 illimity Special Shares with characteristics similar to those of SPAXS Special Shares, as regulated by Article 6 of the Post-merger Bylaws;
- the issue of 28,492,827 Conditional Share Rights, governed by the "*Regulation of illimity S.p.A. Conditional Share Rights*", whose terms and conditions comply with "*Regulation of SPAXS S.p.A. Conditional Share Rights*" governing SPAXS Conditional Share Rights;
- the issue of maximum 5,698,565 Conversion Shares without changes in the share capital, to be allocated free of charge to the holders of Conditional Share Rights on the first anniversary from the effective date of the Material Transaction (i.e. 20 September 2019) in compliance with the "*Regulation of illimity S.p.A. Conditional Share Rights*".

For further information on Special Shares and Conditional Share Rights, reference should be made to Section I, Chapter 21, Paragraph 21.2 and Section II, Chapter 4, Paragraph 4.2, respectively.

Post-merger Bylaws

Along with the Draft Merger Terms, the Extraordinary Shareholders' Meeting of the Issuer approved the adoption, with effect from the Effective Date of the Merger, of the Post-merger Bylaws.

The Post-merger Bylaws set out, inter alia, all changes that are needed and appropriate for the purposes of admission of illimity financial instruments on the MTA, as well as those linked to the characteristics of the Ordinary Shares and Special Shares and Conditional Share Rights issued for the Merger. In particular, the Post-merger Bylaws lay down, inter alia, the following changes compared to BIP bylaws in force as at Prospectus Date:

- the change in the company name into "*illimity Bank S.p.A.*" and in abbreviated form "*illimity S.p.A.*";
- the change in the registered office, located in Milan;
- the extension of the Bank's duration;
- the elimination of the nominal value of the Ordinary Shares, introduction of the provisions governing the Special Shares with characteristics similar to SPAXS Special Shares, as well as the indication of Conditional Share Rights and issue of Conversion Shares to their purpose;
- the adjustment of the list voting for the appointment of the corporate bodies to the provisions applicable to the companies with financial instruments listed on the MTA;
- the introduction of the power for the Board of Directors to submit a list for the appointment of the Board of Directors;
- the introduction of indications necessary to comply with the gender balance rules and the requirements of independence of the directors in accordance with the regulations applicable to companies with financial instruments listed on the MTA;
- the introduction of the financial reporting officer.

For further information on the Post-merger Bylaws, reference should be made to Chapter 21, Paragraph 21.2.

Share-Exchange Ratio, Assignment Ratio and Cash Adjustments

For the purposes of completion of the Merger all SPAXS Ordinary Shares and SPAXS Special Shares, as well as all SPAXS Conditional Share Rights, will be annulled.

The Issuer will implement the Merger by issuing – after annulling its ordinary shares – new Ordinary and Special Shares, as well as Conditional Share Rights, to be allocated to the holders of SPAXS Ordinary Shares, of SPAXS Special Shares and SPAXS Conditional Share Rights, respectively, as well as to the Issuer's shareholders other than SPAXS (the "**Minority Shareholders**"), all as set forth as follows.

As for SPAXS shareholders, in accordance with the resolutions of Board of Directors of BIP and SPAXS:

- every 1 (one) SPAXS Ordinary Share will be exchanged with 1 (one) illimity Ordinary Share, with no nominal value;
- every 1 (one) SPAXS Special Share will be exchanged with 1 (one) illimity Special Share with no nominal value (both for ordinary shares and for special shares, the "**Share-Exchange Ratio**").

Pursuant to Article 2504-*ter*, paragraph 1, of the Italian civil code, no shares of the Issuer will be allocated in replacement of any SPAXS shares held as at the Effective Date of the Merger.

Furthermore, given the characteristics of SPAXS Conditional Share Rights that will be subject to annulment and the characteristics similar to illimity Conditional Share Rights to be issued, the Boards of Directors of BIP and SPAXS also resolved to assign, free of charge, with a share-exchange ratio, 1 (one) illimity newly-issued Conditional Share Right every 1 (one) SPAXS Conditional Share Right to the holders of SPAXS Conditional Share Rights.

As for the Minority Shareholders, BIP ordinary shares held by the Minority Shareholders will be replaced by illimity newly-issued Ordinary Shares, which will be allocated to the Minority Shareholders with an Assignment Ratio of 137.0726 newly-issued Ordinary Shares every 1 (one) BIP ordinary share held (the "**Assignment Ratio**").

If, by applying the Assignment Ratio, the Minority Shareholders were to receive an integral number of illimity Ordinary Shares, the Issuer will provide the Ordinary Shares in the amount resulting from the rounding (i) down, if the fraction is lower than 0.5 and (ii) up, if the fraction is 0.5 or more.

This Assignment Ratio has been determined so as to keep the value of shareholdings held in the Merging Bank by the Minority Shareholders as at the Merger Date unchanged, having regard to the determination of the Share Exchange Ratio, as well as the increase in the value of the Issuer arising from the contribution of SPAXS equity that will occur in the context of the Merger.

No expenses will be borne by the shareholders for share exchanges and assignment transactions.

Valuation of companies for the purposes of the Merger

For the purposes of calculating the Assignment Ratio, the economic values of SPAXS and BIP were recognised as follows.

As for SPAXS, based on its equity value as at 30 September 2018, accounting for EUR 559,531,964 in accordance with IFRS international accounting standards, and the number of SPAXS Ordinary Shares and SPAXS Special Shares outstanding on this date, given the effects resulting from the placement of SPAXS Ordinary Shares with third parties, the annulment of SPAXS Ordinary Shares that are not placed after the completion of the withdrawal period, option and pre-emption offer and placement with third parties. For the purposes of valuating SPAXS, also the conversion of 360,000 SPAXS Ordinary Shares into 2,160,000 SPAXS Ordinary Shares was considered pursuant to SPAXS Bylaws in force on the relevant date.

SPAXS adjusted shareholders' equity as at 30 September 2018, given the effects above-mentioned, and used for the purposes of evaluation, was EUR 572,761,444, while SPAXS Ordinary Shares were 59,373,241 and SPAXS Special Shares 1,440,000, hence the economic value is EUR 9.4184 per SPAXS share.

As for BIP, in view of the completion of the transaction, on 20 September 2018 of the acquisition transaction by SPAXS of 99.17% of BIP share capital, the economic value recognised to BIP is the same value allocated for the purposes of this transaction, i.e. EUR 55,999,707 for the entire share capital and hence EUR 1,291.00 per BIP ordinary share.

Assignment of illimity financial instruments

The Ordinary Shares, Special Shares and Conditional Share Rights of illimity used for the share exchange, as well as the Ordinary Shares of illimity used for the Assignment Ratio, will be made available to the entitled persons, in accordance with the procedures for the centralised management of dematerialised shares by Monte Titolo S.p.A. starting from the first business day following the Effective Date of the Merger.

Starting from the Effective Date of the Merger, SPAXS Ordinary Shares and SPAXS Assignment Rights will be withdrawn from trading on AIM Italia and annulled. Illimity Ordinary Shares allocated to SPAXS Shareholders based on the Share Exchange Ratio, and to the Minority Shareholders based on the Assignment Ratio, respectively, as well as illimity Conditional Share Rights allocated to the holders of SPAXS Conditional Share Rights will be traded on the MTA.

Right of the Minority Shareholders to sell their shares

As the Board of Directors of BIP and SPAXS decided to avail themselves of the so-called "simplified procedure" provided for by Article 2505-*bis*, paragraph 1, of the Italian civil code, and in view of the fact that as at the Prospectus Date, BIP share capital was held by SPAXS for approximately 99.17% and hence the Merger constitutes a so-called "reverse" merger, the Minority Shareholders are allocated, pursuant to article referred to above, the right of selling their shares, totally or partially, for a consideration of EUR 1,291.00 each, determined in accordance with the criteria provided for the withdrawal under Article 2437-*ter*, paragraph 2, of the Italian civil code.

Terms and conditions for the exercise by the Minority Shareholders of the right to sell their BIP ordinary shares are those laid down in the Draft Merger Terms and in the notice published by the Issuer on its website (www.bancainterprovinciale .it), as well as through SPAXS on its website (www.spaxs.it) and with the SDIR-NIS.

The exercise of the right above-mentioned will be effective after the completion of the Merger.

Authorisations and conditions of the Merger

The Merger was subject to the release of the authorisations by Bank of Italy, under Articles 56 and 57 of the TUB, with respect to the adoption of the Post-merger Bylaws and the completion of the Merger.

To this end, it should be noted that the Merger, as regulated by the Draft Merger Terms is authorised, pursuant to Article 57, paragraph 1, of the TUB by Bank of Italy with order no. 1444641/18 of 11 December 2018, notified to the Issuer on 12 December 2018; with said order, the Supervisory Authority also found that, pursuant to Article 56, paragraph 1 of the TUB, the proposal of changing the Bank's Bylaws, with the adoption of the Post-merger Bylaws when the Merger becomes effective, is not contrary to the principles of sound and prudent management and authorised the Issuer to purchase the shares from the Minority Shareholders exercising the right to sell under Article 2505-*bis*, paragraph 1, of the Italian civil code.

Furthermore, in accordance with the Draft Merger Terms, the implementation of the Merger was subject to fulfilment of the following conditions:

(i) Borsa Italiana issued the authorisation for the admission to listing of Ordinary Shares and Conditional Share Rights on the MTA, on 25 February 2019;

(ii) CONSOB issued the authorisation for the publication of this Prospectus, reference should be made to what is indicated on the cover page and in Chapter 1, Paragraph 1.2. of this Section of the Prospectus.

22.2 MERGER OF BANCA EMILVENETA IN THE BANK

On 18 July 2016, BIP completed, for a consideration of EUR 492.60 per share, the purchase of 16,350 shares (corresponding to a shareholding of 54.6% of the share capital) of Banca Emilveneta S.p.A. ("**Banca Emilveneta**") subsequently merged by incorporation into BIP with resolution of 25 May 2017, with effect as from 1 October 2017 for legal purposes.

With a merger deed of 2 August 2017, drawn up by Notary Aldo Barbati, implementing the relevant Shareholders' resolutions of 25 May 2017, Banca Emilveneta and BIP were absorbed by the Issuer. With regard to the merger, all shares of Banca Emilveneta were annulled and the share capital of the merging bank was increased by EUR 3,377,000, by issuing 3,377 shares each with nominal value EUR 1,000 allocated to the shareholders of the merged company as a proportion of the share exchange ratio, i.e. one new share of the merging company was allocated every four shares held by the merged company. Not exchanged shares because in lower amount than the unit as determined by the share exchange ratio were settled in cash at the price of EUR 340. The Merging Company, starting from 1 October 2017, legal effective date, takes over all implied and explicit legal relations and commitments of the merged company.

22.3 ACQUISITION OF NEPRIX

Please note that, as part of the Merger, on 30 October 2018, the Bank approved entering into a purchase and sales agreement with Andrea Clamer and Andrea Battisti (which each hold 50% of Neprix) having as object the entire quota capital of Neprix, a company in which servicing activities on the NPLs acquired by the Bank will be centralised and which received the licence pursuant to art. 115 of the TULPs on 22 January 2019, in exchange for fixed and unmodifiable consideration corresponding to the value of the equity of Neprix S.r.l. at the date on which the agreement will be underwritten. On this point it should be noted that no expert evaluation is foreseen regarding the calculation of the fee and that, as far as the Issuer is aware and based on the last available figure, the estimated net capital of Neprix S.r.l at 31 December 2018 stood at approximately 23,000 euros.

In this regard, please note that the acquisition of said company by the Issuer will constitute a related party transaction in relation to which, given the fee foreseen for the same which will be of such a low amount pursuant to the OPC procedure, the transaction shall not be subject to the procedure foreseen herein and no information document shall be drafted pursuant to the regulations concerning transactions with related parties and the relative procedure adopted by the Bank. Furthermore, said transaction has not yet taken place at the Prospectus Date as the execution of that sale will entail the establishment of a banking group and the correlated amendments to the Bylaws (to be adopted by the Shareholders' Meeting with the majorities required by law, as referred to in the Post-merger Bylaws), and is subject to the positive completion of the procedures required to that end by Bank of Italy regulations and the inclusion of the Issuer in the Register of Banking Groups. Once acquired, the company will become part of the banking group. At the Prospectus Date, it is deemed that this operation may be launched after the Merger and, subject to and compatible with the procedures described above, it may take place by the end of the third quarter of 2019.

23. THIRD PARTY INFORMATION AND STATEMENTS BY EXPERTS AND DECLARATIONS OF ANY INTEREST

23.1 Experts' reports and opinions

Without prejudice to the market sources indicated in the Prospectus, as well as the reports of KPMG and Deloitte, the Prospectus does not include any opinions or reports provided by experts.

23.2 Information provided by third parties

Where indicated, the information included herein are provided by third parties.

In particular:

- Bank of Italy, "Economie Regionali – L'economia dell'Emilia Romagna", June 2018 - http://www.bancaditalia.it/pubblicazioni/economie-regionali/2018/2018-0032/index.html;
- ABI Monthly Outlook - Economia e Mercati Finanziari-Creditizi" December 2018 https://www.abi.it/Pagine/Mercati/Analisi/Scenario-e-previsioni/ABI-Monthly-outlook.aspx;
- Bank of Italy, Banks and financial institutions: credit conditions and risk by sector and geographical area, 28 September 2018 - http://www.bancaditalia.it/pubblicazioni/condizioni-rischiosita/index.html;
- PwC – Italian NPL market, June 2018 - https://www.pwc.com/it/it/publications/npl-market.html;
- Bank of Italy, Banks and financial institutions: financing and funding by sector and geographical area, 28 September 2018 - https://www.bancaditalia.it/pubblicazioni/finanziamenti-raccolta/index.html Loans (excluding non-performing loans and PCT) of non-financial companies and family businesses;
- Assifact, Press release: "Il Factoring non si ferma", data as at 31 December 2017 - http://assifact.it/wp-content/uploads/2018/02/CS-Assifact-Dati-al-31.12.17-16-feb-2018.pdf;
- Assifact CrediFact, "Il factoring in cifre", preliminary data as at 30 September 2018 - http://assifact.it/wp-content/uploads/2018/11/2018-09.pdf;
- CheBanca! Digital Banking Index Italy, March 2018 - http://www.affaritaliani.it/static/upl2018_restyle/rice/ricerca_chebanca--digital-banking-index.pdf;
- ECB Press Conference, 25 October 2018 https://www.ecb.europa.eu/press/pressconf/2018/html/ecb.is181025.en.html;
- Website of the International Monetary Fund https://www.imf.org/en/Countries/ITA;
- Bloomberg, analyses as at September 2018;
- Website of the International Monetary Fund https://www.imf.org/en/Countries/ITA;
- http://assifact.it/wp-content/uploads/2018/02/180216_CS-Assifact-Dati-31.12.17_Def.pdf;

- Assifact CrediFact, "Il factoring in cifre", preliminary data as at 30 September 2018 http://assifact.it/wp-content/uploads/2018/10/CREDIFACT-Il-factoring-in-cifre-settembre-2018-preliminari.pdf;
- CheBanca! Digital Banking Index Italy, March 2018, https://www.chebanca.it/wps/wcm/connect/4f5ec2f9-9812-4b25-8137-443b69342f36/DigitalBankingIndex-9.pdf?MOD=AJPERES;
- http://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2017_3270.

The Issuer confirms that such information has been reproduced faithfully and that, to the best of the Issuer's knowledge, also on the basis of information published by the above-mentioned third parties, no facts have been omitted that could make such information inaccurate or misleading.

24. DOCUMENTS ON DISPLAY

During the Prospectus validity period, the copies of the following documents will be available at the registered office of the Issuer (in Milan, Via Soperga 9 and, before the Merger, Modena, Via Emilia Est 107), on working days and in working hours, as well as on the Issuer's website ([www.bancaprovinciale.it] and, after the Merger, www.illimity.com):

- "*illimity S.p.A. Conditional Share Rights Regulation*";
- BIP interim financial statements as of and for the nine months ended 30 September 2018 together with the related review report;
- BIP financial statements as of and for the year ended 31 December 2017 together with the related auditors' report and the report of the Board of Statutory Auditors;
- Consolidated financial statements of BIP and its subsidiaries as of and for the year ended 31 December 2016 together with the related auditors' report;
- BIP financial statements as of and for the year ended 31 December 2015 together with the related auditors' report and the report of the Board of Statutory Auditors;
- SPAXS interim consolidated financial statements as of and for the nine months ended 30 September 2018 together with the related auditors' report;
- SPAXS interim financial statements from the date of incorporation (20 December 2017) to 30 June 2018 together with the related auditors' report;
- Illimity pro-forma financial and economic situation as of and for the six months ended 30 June 2018 examined by KPMG S.p.A.;
- Illimity pro-forma financial and economic situation as of and for the nine months ended 30 September 2018 examined by KPMG S.p.A.;
- Illimity pro-forma financial and economic situation as of and for the year ended 31 December 2017 examined by KPMG S.p.A.;
- Post-merger Bylaws;
- - Related Parties Procedure approved on 17 December 2018.

25. INFORMATION ON HOLDINGS

As at the Prospectus Date, the Issuer holds the entire share capital of Friuli Leaseco, a company formed by the issuer on 12 December 2018 and operating pursuant to Article 7.1, Law no. 130/1999 on securitisations.

The shareholding in Friuli Leaseco is closely linked to a securitisation transaction of leasing loans being implemented by the Bank as at the Prospectus Date.

Said shareholding in Friuli Leaseco falls within the scope of Bank consolidation, but does not constitute a banking group pursuant to existing regulations applicable to banks.

For the sake of completeness, the Issuer has launched its business in the non-performing loan sector by purchasing, by way of a securitisation vehicle 130/1999 Aporti SPV, five portfolios of non-performing loans for a total nominal value of approximately EUR 1 billion. Specifically, on 21 September 2018, a portfolio was acquired consisting mainly of secured corporate positions having a gross book value of EUR 155 million. The purchase was completed with the issue of related notes, fully subscribed by the Bank on 29 October 2018.

On 8 October 2018, a further portfolio was purchased with a gross book value of EUR 262 million, consisting of 74% unsecured positions. The purchase was completed with the issue of related notes, fully subscribed by the Bank on 16 November 2018; furthermore, on 15 November 2018, the purchase of a third portfolio was completed with a gross book value of EUR 347 million, consisting of over 80% unsecured corporate positions.The acquisition was completed by way of Aporti SPV, whilst subscribing the notes by the Bank.

On 26 November 2018, the Bank purchased a fourth portfolio with a gross book value of EUR 206 million, wholly consisting of unsecured credits towards Italian companies, with an average value per loan agreement of EUR 2.7 million. Also, in this case, the acquisition was completed by way of Aporti SPV, whilst subscribing the notes by the Bank.

On 21 December 2018, a portfolio was purchased on the secondary market for a gross book value of EUR 110 million consisting of unsecured positions. The acquisition was completed by way of Aporti SPV, whilst subscribing the notes by the Bank; finally, again in December 2018, the Bank completed the purchase of new NPLs for a total gross book value of EUR 175 million.

On 28 December, further three portfolios were purchased for a gross book value of EUR 40 million by several small- and mid-sized banks. Specifically, the first portfolio, consisting of 54% unsecured loans, was purchased for a gross book value of EUR 23 million; the second portfolio, consisting of 90% secured loans, was purchased for a gross book value of approximately EUR 7 million; the third portfolio, consisting of 68% secured loans, was purchased for a gross book value of approximately EUR 10 million. Such acquisitions were completed by way of Aporti SPV, whilst subscribing the notes by the Bank. The analysis of portfolios was performed with the support of a consultancy firm specialised in the NPL portfolio analysis and party not related to the Issuer. The mandate was entrusted to the Head of the NPL Division, vested with the required powers.

Again on 28 December 2018, the first single name transaction was carried out for a nominal value of EUR 25 million, consisting of five NPL positions with corporate debtors secured on industrial and business assets in Lombardy. The transaction was concluded through Aporti SPV with a bank operating mainly in northern Italy.

Lastly, on 22 February 2019, the Bank purchased an NPL portfolio, of which 68% consisted of secured corporate loans, having a total nominal value of approximately EUR 31.6 million from a bank in the small and medium-sized category. This acquisition was concluded through Aporti SPV, with simultaneous subscription of the notes by the Bank. The analysis of these positions was conducted with the assistance of a consultancy firm expert in the analysis of NPLs, that is not related to the Issuer. The engagement was granted by the Head of the NPL Division, holding the necessary powers.

The analysis of these positions was conducted with the assistance of a company specialised in the analysis of property assets and a law firm expert in the legal analysis of NPLs. The engagement was granted by the Head of the NPL Division, holding the necessary powers. Neither of the two advisors is related to the Issuer.

As a result of these transactions, the total gross book value of the NPL portfolio held by the Bank reaches approximately EUR 1.18 billion.

The consideration paid for the NPL portfolios acquired amounted to approximately EUR 97 million. For further information, reference should be made to Chapter 13. At the end of above-mentioned transactions and as at the Prospectus Date the Issuer has no interests in the share capital of said vehicles but exclusively the notes fully subscribed, so as to enter the portfolios acquired as receivable due from customers among the financial assets valued at amortised cost in the consolidated financial statements.

For further information on the Issuer's organisational structure, reference should be made to Chapter 7 of the First Section.

SECOND SECTION

1. PERSONS RESPONSIBLE

1.1 Persons responsible

For information on the persons responsible, reference should be made to Chapter 1, Paragraph 1.1 of the First Section of the Prospectus.

1.2 Declaration of responsibility

For information on the declarations made by the persons responsible, reference should be made to Chapter 1, Paragraph 1.2 of the First Section of the Prospectus.

2. RISK FACTORS

For a detailed description of the risk factors concerning the Issuer as well as the sector in which the Issuer operates and the admission to trading of the financial instruments on the MTA, reference should be made to Chapter 4 of the First Section of the Prospectus.

3. KEY INFORMATION

3.1 Statement on working capital

In accordance with Regulation (EC) no. 809/2004/EC and the definition of working capital – as "the Issuer's ability to access cash and other available liquid resources in order to meet its liabilities as they fall due" – contained in the ESMA/2013/319 Recommendations, at the Prospectus Date the Issuer believes that it and its subsidiary have sufficient working capital available, in the post-Merger configuration, to meet their current financial requirements for the twelve months following the Prospectus Date.

3.2 Capitalisation and indebtedness

The following paragraph provides an analysis of equity and financial indebtedness at 31 December 2018 in accordance with Consob Communication of 28 July 2006 and in compliance with the ESMA/2013/319 Recommendations.

The Issuer's equity at 31 December 2018 (non subject to accounting audit) and 31 December 2017 was EUR 227.9 million and EUR 60.1 million respectively. The table below provides an analysis of net equity at 31 December 2018 and 31 December 2017 and changes in absolute terms and percentages.

(Thousands of euros)	**31 December 2018**	**31 December 2017 (riesposto)**	**Changes 2018 vs 2017**	**Changes % 2018 vs 2017**
1. Capital	43,377	43,377	–	0.00%
2. Share premium	–	–	–	–
3. Reserves	214,589	10,662	203,927	>100%
4. Equity instruments	–	–	–	–
5. (Treasury Shares)	–	–	–	–
6. Valuation reserves	(962)	2,632	(3,594)	(>100%)
7. Profit (loss) for the period	(29,124)	3,399	(32,523)	(>100%)
Net equity	**227,880**	**60,070**	**167,810**	**100%**

In consideration of the banking activity it performs, the Issuer's financial resources consist of direct customer deposits, interbank deposit and bonds, in addition to equity. The table below sets out the Issuer's financial resources at 31 December 2018 (non subject to accounting audit) and 31 December 2017 and changes in absolute terms and percentages.

(Thousands of euros)	BIP			
	31 December 2018	**31 December 2017 (riesposto)**	**Changes 2018 vs 2017**	**Changes % 2018 vs 2017**
Due to central banks	52,622	399,257	-346,635	-86.82%
– demand deposits	-	-	-	-
– term deposits	52,622	399,257	-346,635	-86.82%
Due to banks	40,441	71,366	-30,925	-43.33%
– demand deposits	4,011	4,002	9	0.22%
– term deposits	36,430	67,364	-30,934	-45.92%
Total bank deposits	**93,063**	**470,623**	**-377,560**	**-80.23%**
Current accounts	419,231	398,688	20,543	5.15%
Term deposits	41,692	27,490	14,202	51.66%
Repurchase agreements	-	-	-	-
Certificates of deposit	58,915	68,073	-9,158	-14.45%
Bonds	22,498	26,362	-3,864	-14.66%
Loans	9,802	6,561	3,241	49.40%
Other	3,532	1,804	1,728	95.79%
Total customer deposits	**555,670**	**528,978**	**26,692**	**5.05%**
Total direct deposits	**648,733**	**999,601**	**-350,868**	**-35.10%**

For further details reference should be made to Chapter 10 of the First Section of the Prospectus.

3.3 INTEREST OF NATURAL AND LEGAL PERSONS INVOLVED IN THE OFFER

The transaction described herein does not imply any offer and/or issue of financial products and its purpose is exclusively the admission to the trading of Shares and Conditional Share Rights of the Issuer on the MTA.

For the sake of completeness, it should be noted that at the Prospectus Date certain members of the Issuer's Board of Directors and certain Top Managers hold corporate positions and/or directly or indirectly, an interest in the parent SPAXS. For further information reference should be made to Chapter 14 of the First Section.

For the sake of completeness it should also be noted that at the Prospectus Date, the relationships of the Issuer with the Sponsor are as follows:

Banca IMI, as Sponsor, will receive a fee for the services under the Sponsorship agreement entered into on 22 November 2018 with the Issuer.

Furthermore, Banca IMI acted as Nomad, Specialist, Joint Global Coordinator and Joint Bookrunner, placing the ordinary shares and conditional share rights included in the SPAXS offer aimed at the listing on the AIM on 1 February 2018, and received the related fees and commissions for these engagements. With reference to these roles, Banca IMI received a further placement fees and commissions on completion of the Material Transaction.

Fideuram – Intesa Sanpaolo Private Banking S.p.A., a company belonging to the Intesa Sanpaolo Group, acted as Placing Agent for SPAXS and received the related fees and commissions.

In performing their activities, Banca IMI and/or one of the other companies belonging to the Intesa SanPaolo Group may provide trading, lending, investment banking, asset management and corporate finance services in the future, even continuously, in favour of the Issuer, for which they will receive fees and commissions, and act, on their own account or on behalf of their customers, on the financial instruments issued by the Issuer.

Finally, as at the Prospectus Date, Banca IMI holds 1,247,900 SPAXS Ordinary Shares, accounting for 2.10% of SPAXS ordinary share capital and 1,360 SPAXS Conditional Share Rights. As a result of the Merger, Banca IMI will hold the same amount of Ordinary Shares and Conditional Share Rights.

3.4 Reasons for the offer and use of proceeds

Si ricorda che l'operazione descritta nel Prospetto Informativo non prevede alcuna offerta e/o emissione di prodotti finanziari ed ha ad oggetto esclusivamente l'ammissione alle negoziazioni sul MTA delle Azioni e dei Diritti di Assegnazione della Società,

L'Emittente si è determinato a dar corso al progetto quotazione principalmente per le motivazioni correlate al fatto che la Società. per effetto della quotazione dei propri strumenti finanziari sull'MTA. potrà beneficiare di una maggiore visibilità (sia presso partner strategici. sia anche presso investitori istituzionali),

L'operazione di quotazione oggetto del Prospetto Informativo non prevede una contemporanea offerta di strumenti finanziari in sottoscrizione e pertanto.all'esito della quotazione.non sono previste nuove risorse finanziarie per l'Emittente derivanti dall'operazione stessa, Conseguentemente. non è previsto alcun reimpiego in favore della Banca di proventi derivanti dalla quotazione,

4. INFORMATION CONCERNING THE FINANCIAL INSTRUMENTS TO BE OFFERED/ADMITTED TO TRADING

4.1 DESCRIPTION OF THE FINANCIAL INSTRUMENTS TO BE OFFERED/ADMITTED TO TRADING

The transaction described in this Prospectus does not provide for any offer of financial products, hence the information below refers exclusively to the financial instruments of the Issuer to be admitted to trading on the MTA.

4.1.1 Description of the Shares to be admitted to trading

The admission to trading on the MTA involves 59,422,861 Shares originating from the Merger.

On the basis of the share-exchange ratio provided for by the Draft Merger Terms, each SPAXS Ordinary Share (with no nominal value) will be exchanged for 1 illimity Ordinary Share (with no nominal value).

The Ordinary Shares of BIP held by the Bank's minority shareholders will be replaced by newly-issued Ordinary Shares of the Issuer, which will be allocated to minority shareholders in the assignment ratio of 137.0726 newly-issued Ordinary Shares for each 1 Ordinary Share of BIP held (for further information reference should be made to Chapter 22).

The Shares have ISIN code IT0005359192.

It should also be noted that as of the First Day of Trading, the SPAXS ordinary shares that were traded on the AIM at the Prospectus Date will be withdrawn from trading on the AIM and cancelled.

4.1.2 Legislation applicable to the issue of the Shares

The Shares are issued pursuant to Italian legislation.

4.1.3 Features of the Shares

The Shares are registered securities, are freely transferable, have no nominal value, have regular dividend rights, are issued in dematerialised form pursuant to Articles 83-*bis* et seq. of the TUF and the relative implementation regulations and are included in the centralised management facility organised by Monte Titoli.

4.1.4 Currency of the Share issue

The Shares are denominated in euros.

4.1.5 Description of the rights attached to the Ordinary Shares

All the Shares have the same features and assign the same rights. Each Share assigns the right to one vote at the Company's ordinary and extraordinary Shareholders' Meetings, as well as ownership and administrative rights in accordance with the applicable provisions of law and the post-Merger Bylaws.

Pursuant to Article 33 of the Post-merger Bylaws, profits resulting from the financial statements, net of the amount to be allocated to the legal reserve, will be distributed in accordance with resolutions of the Shareholders' Meeting.

Dividends are paid in accordance with the terms and conditions set by the resolution of the Shareholders' Meeting providing for the distribution of profits to the shareholders.Any dividends unclaimed within 5 years from the date on which they become payable are forfeited and revert to the Company, and be allocated to the reserve fund.

On proposal of the Board of Directors, the Shareholders' Meeting may allocate an overall annual amount – not more than 5% (five percent) of the net profit for the year – to social, welfare and cultural initiatives.

4.1.6 Resolutions, authorisations and approvals by virtue of which the Shares have been issued

On 18 January 2019 the Issuer's extraordinary Shareholders' Meeting resolved on the Merger, and for the same purposes resolved, inter alia, on:

"[…], the issue of: (i) 59,422,886 ordinary shares of illimity S.p.A. with no nominal value and with no changes in the share capital, with annulment without share-exchange of any SPAXS ordinary shares, which as at the effective date of the Merger were owned by SPAXS S.p.A or Banca Interprovinciale S.p.A. pursuant to Article 2504-ter of the Italian civil code, proceeding with the related share issue and assignment in accordance with the Exchange Ratio and the Assignment Ratio arising from the Draft Merger Terms, and hence for each 1 SPAXS ordinary share, 1 newly-issued illimity ordinary share and for each 1 Banca Interprovinciale ordinary share, 137,0726 newly-issued illimity ordinary shares; and (ii) 1,440,000 illimity special shares with no nominal value and with no changes in share capital, proceeding with the related share issue in accordance with the Share-Exchange Ratio arising from the Draft Merger Terms and hence 1 illimity newly-issued special share every 1 SPAXS special share".

For further information on these resolutions reference should be made to Chapter 21 of the First Section of the Prospectus.

4.1.7 Issue and availability dates of the Shares

The Ordinary Shares will be made available to the entitled persons in accordance with the procedures for the centralised management of dematerialised shares by Monte Titoli, starting from the first business day after the Effective Date of the Merger.

4.1.8 Restrictions on the free transferability of the Shares

There is no limitation to the free transferability of the Shares pursuant to law and Bylaws.

For information on the lock-up agreements undertaken by the Promoting Companies, reference should be made to Chapter 14.2.

4.1.9 Provisions mandating a public tender offer and/or a residual purchase offer in relation to the shares

As at the effective date of the Merger, corresponding to the First Day of Trading, the Issuer will be subject to the rules on public tender or exchange offers pursuant to Articles 101-bis and seq. TUF and the related implementation regulations, including the provisions on mandatory public tender offers (Articles 105 et seq. TUF), obligations to purchase (Article 108 TUF) and rights to purchase (Article 111 TUF).

4.1.10 Public tender offers made by third parties on the Issuer's Shares during the last financial year and in the current financial year

No public tender offers were made for the acquisition or exchange of financial instruments of the Issuer or SPAXS in the last financial year or have been made in the current year.

4.1.11 Tax profiles of the Shares

Definitions

For the purposes of this Paragraph of the Admission Document, the terms indicated therein shall have the following meaning.

"**Transfer of Qualifying Shareholdings**": transfer of shares, other than savings shares, rights or securities through which it is possible to purchase shares exceeding, over a period of twelve months, the limits for the qualification of a Qualifying Shareholding. The twelve-month term starts from the date when the securities and the rights owned represent a percentage of the voting rights or shareholding which exceeds the above-mentioned limits. With regard to the rights or securities through which shareholdings can be acquired, reference is made to the percentages of voting rights or shareholdings in the capital that may be linked to the shareholdings.

“**Transfer of Non-Qualifying Shareholdings**”: transfer for valuable consideration of shares, rights or securities through which shares may be acquired, other than a Transfer of Qualifying Shareholdings.

“**Non-Qualifying Shareholdings**”: shareholdings in companies other than the Qualifying Shareholdings.

“**Qualifying Shareholdings**”: shares, other than savings shares, as well as rights or securities through which it is possible to purchase the above-mentioned shares representing in the aggregate a percentage of voting rights in the Issuer’s ordinary Shareholders’ Meeting exceeding 2% or a shareholding in the Issuer’s share capital or assets exceeding 5% in case of shares traded on regulated markets.

With regard to the rights or securities through which shares can be purchased, consideration is given to the percentages of voting rights or shareholding in the share capital that may be linked to the shares.

Tax regime applicable to Shares

The information provided in the following paragraphs summarises the tax regime applicable to the purchase, holding and transfer of the Company’s shares pursuant to current Italian tax laws and with regard to specific categories of investors.

These paragraphs do not provide a comprehensive analysis of the tax consequences arising from the purchase, holding and transfer of shares.

The tax regime applicable to the purchase, holding and transfer of shares presented further below is based on current laws as well as existing practice as at the date of the Admission Document, without prejudice to the fact that these laws and practice may change, even retroactively, and are a mere introduction to the matter.

Laws and regulations may be enacted in the future to introduce changes to the rates of withholding taxes on income from capital and other income of a financial nature or the rates of the substitute tax applicable to the same types of income. The enactment of these amendments to the current laws and regulations may, therefore, affect the tax regime of the Company’s shares, as described in the following paragraphs.

Investors should consult their advisors on the tax regime applicable to the purchase, holding and transfer of the Shares and to verify the nature and origin of the amounts received as distributions on the Company’s Shares (dividends or reserves).

A. Tax regime of dividends

The dividends allocated to the Company’s Shares will be liable to the ordinary taxation applicable to dividends paid by joint-stock companies with tax residence in Italy.

The following different methods of taxation apply to the various categories of recipients.

(i) Natural persons residing in Italy for tax purposes not engaged in business activities

Following the amendments introduced by Article 1, paragraphs 999-1006 of Law no. 205 of 27 December 2017 (the "**2018 Budget Law**"), the dividends earned from 1 January 2018 by individuals residing for tax purposes in Italy on shares, held outside of business activities, included in the centralised management facility organised by Monte Titoli (such as the Shares of the Company interested by this Offer), are liable to a substitute tax at 26%, levied by the relevant intermediary, pursuant to Article 27-ter of Presidential Decree no. 600 of 19 September 1973 (hereinafter, "**Presidential Decree no. 600/1973**") and Article 3 of Decree Law no. 66 of 24 April 2014 ("Decree Law **66/2014**"); shareholders are not required to disclose the dividends received in their income tax return.

Such substitute tax is applied by the Italian financial intermediary where the securities are deposited, who joined the centralised management facility organised by Monte Titoli, as well as by the non-resident intermediaries (custodians) that have joined the Monte Titoli System or foreign centralised management facilities that have joined the Monte Titoli System, through a tax representative appointed in Italy (more specifically, a bank or a SIM residing in Italy, a permanent establishment in Italy of non-resident banks or investment firms, or a centralised management company managing financial instruments that is authorised pursuant to Article 80 TUF).

However, dividends paid to individuals residing in Italy for tax purposes on Shares held outside of business activities and amounting to Qualifying Shareholdings that (a) are paid out of profits earned until the fiscal year in course at 31 December 2017; and, (b) distribution of which is resolved from 1 January 2018 to 31 December 2022, are not liable to any withholding or substitute tax, provided the entitled recipients, upon receipt of the dividends, indicate that the profits received are linked to Qualifying Shareholdings. Such dividends contribute only in part to the calculation of the overall taxable income of the shareholder liable to the income tax imposed on individuals ("**IRPEF**"), which applies at progressive rates ranging between 23% and 43% (increased by municipal and regional surcharges).

The Decree of the Minister of Economy and Finance of 2 April 2008 ("**Ministerial Decree 2 April 2008**"), implementing Article 1, paragraph 38, of Law no. 244 of 24 December 2007 (the "**2008 Budget Law**"), adjusted the percentage for the calculation of the amount that is included in the taxable income to 49.72%. Such percentage applies to dividends paid out of the Company's profits earned in the fiscal years following the fiscal year in course at 31 December 2007. This is without prejudice to the 40% taxable percentage of the amount of dividends paid out of profits earned by the Company until the fiscal year in course at 31 December 2007. Further, starting from shareholders' resolutions following the resolution to distribute dividends paid out of profits earned by the Company in the financial year in course at 31 December 2007, dividends shall be deemed to be paid out of profits earned by the Company up to such financial year.

The Decree of the Minister of Economy and Finance of 26 May 2017 ("**Ministerial Decree 26 May 2017**"), implementing Article 1, paragraph 64, of Law no. 208 of 28 December 2015, (the "**2016 Stability Law**"), adjusted the percentage for the calculation of the amount that is included in the taxable income to 58.14%. Such percentage applies to dividends paid out of profits earned by the Company in the fiscal years following the fiscal year in course at 31 December 2016. Further, starting from the shareholders' resolutions following the resolution to distribute dividends paid out of profits earned by the Company in the fiscal year in course at 31 December 2016, dividends shall be deemed to be paid out of profits earned by the Company up to the end of the financial year in course at 31 December 2007, and then until the above-mentioned financial year in course at 31 December 2016.

Article 1, paragraph 100 et seq. of Law 232/2016 provides that natural persons residing in Italy for tax purposes but not engaged in business activities, under certain conditions (including a minimum 5-year holding period) and with some limitations, are not liable to any income tax in case of income (including dividends) from investments under paragraph 102 of said Law (including the Shares), other than Qualifying Shareholdings, included in a Long-Term Saving Scheme established pursuant to paragraph 101 of said Law. Tax relief loss and recovery mechanisms are provided, if the Company's shares are transferred before the minimum 5-year holding period required for exemption or expiry of the other conditions required by Law 232/2016 has lapsed.

(ii) Natural persons residing in Italy for tax purpose not engaged in business activities that hold non-qualifying shareholdings within the asset management regime

Following the amendments introduced by Article 1, paragraphs 999-1006 of the 2018 Budget Law, the dividends received after 1 January 2018 by natural persons residing in Italy for tax purposes in relation to shares, held otherwise than in the context of a business, entrusted into an asset management relationship with an authorised intermediary, in relation to which the asset management regime option was exercised under Article 7 of Legislative Decree no. 461 of 21 November 1997 ("Legislative Decree 461/1997"), are not liable to any withholding or substitute tax and are included in the calculation of the annual accrued management result that is liable to a 26% substitute tax.

However, the dividends paid to individuals residing in Italy for tax purposes in relation to shares, held otherwise than in the context of a business and considered Qualifying Shareholdings that (a) are paid out of profits earned until the fiscal year in course at 31 December 2017; and, (b) distribution of which is resolved from 1 January 2018 to 31 December 2022, cannot be liable to the above-mentioned asset management regime. These dividends are partially included in the taxable income of the shareholder liable to income tax imposed on individuals ("IRPEF"), as described in the paragraph above.

(iii) Natural persons residing in Italy for tax purposes engaged in business activities

Dividends paid to natural persons residing in Italy for tax purposes on Shares related to business activity are not liable to any withholding or substitute tax, provided that the entitled persons, upon receipt, declare that the dividends received are associated with shareholdings linked to business activities. Such dividends are partially included in the calculation of the shareholder's overall taxable income.

Ministerial Decree 2 April 2008, implementing Article 1, paragraph 38, of the 2008 Budget Law, adjusted the percentage for the calculation of the amount that is included in the taxable income to 49.72%. Such percentage applies to dividends paid out of the Company's profits earned in the fiscal years following the fiscal year in course at 31 December 2007. This is without prejudice to the 40% taxable percentage of the amount of dividends paid out of profits earned by the Company until the fiscal year in course at 31 December 2007. Further, starting from shareholders' resolutions following the resolution to distribute dividends paid out of profits earned by the Company in the financial year in course at 31 December 2007, dividends shall be deemed to be paid out of profits earned by the Company up to such financial year.

Ministerial Decree 26 May 2017 adjusted the percentage for the calculation of the amount that is included in the taxable income to 58.14%. Such percentage applies to dividends paid out of profits earned by the Company in the fiscal years following the fiscal year in course at 31 December 2016. Further, starting from the shareholders' resolutions following the resolution concerning the profits of the financial year in course at 31 December 2016, for the purposes of taxation of the payee, dividends shall be deemed to be paid out of profits earned by the Company up to the end of the fiscal year in course at 31 December 2007, and then until the above-mentioned fiscal year in course at 31 December 2016.

Provided certain conditions are met, individuals residing in Italy for tax purposes and engaged in business activities are allowed to opt for the tax on business income regime (hereinafter, "IRI") in relation to income deriving from their own business activity. In this case, the dividends are included in the calculation of the taxable income in accordance with the ordinary rules on business income set out under Chapter 6, Title 1 of the TUIR and are liable to income tax at a 24% rate. Any subsequent withdrawal of resources from the business activity should be fully taxed for IRPEF purposes towards the natural person and deducted from the IRI taxable base. The bill for the 2019 budget and for the multi-annual budget for the period 2019-2021, submitted by the Minister of Economics and Finance to the Italian Parliament on 31 October 2018, provides for the repeal of the above IRI regime.

(iv) Unlimited partnerships and their equivalent, limited partnerships and their equivalent, simple partnerships and their equivalent pursuant to Article 5 TUIR, companies and entities under Article 73, paragraph 1, letters a) and b), TUIR, residing in Italy for tax purposes

Dividends received from unlimited partnerships and their equivalent, limited partnerships and their equivalent, simple partnerships and their equivalent regulated under Article 5 TUIR, companies and entities regulated under Article 73, paragraph 1, letters and b), TUIR, i.e. joint-stock companies and limited partnerships with share capital, limited liability companies and public and private entities whose exclusive or primary purpose is the performance of commercial activities, that are resident in Italy for tax purposes, are not subject to withholding or substitute tax in Italy and are included in the calculation of the overall taxable income of the recipient in accordance with the following methods, irrespective of the size of the shareholding:

(a) Distributions to partnerships whose income is considered as corporate income (e.g. unlimited partnerships, simple partnerships) are partially included in the calculation of the overall taxable base of the recipient. Ministerial Decree 2 April 2018 adjusted the percentage for the calculation of the amount that is included in the taxable income to 49.72%. Such percentage applies to dividends paid out of profits earned by the Company in the fiscal years following the fiscal year in course at 31 December 2007. This is without prejudice to the 40% taxable percentage of the amount of dividends paid out of profits earned by the Company until the fiscal year in course at 31 December 2007. Further, starting from shareholders' resolutions following the resolution to distribute dividends paid out of profits earned by the Company in the financial year in course at 31 December 2007, dividends shall be deemed to be paid out of profits earned by the Company up to such financial year. Ministerial Decree 26 May 2017 adjusted the percentage for the calculation of the amount that is included in the taxable income to 58.14%. Such percentage applies to dividends paid out of profits earned by the Company in the fiscal years following the fiscal year in course at 31 December 2016. Furthermore, starting from the shareholders' resolutions following the resolution to distribute dividends paid out of profits earned by the Company in the fiscal year in course at 31 December 2016, for purposes of taxation of the payee, dividends shall be deemed to be paid out of profits earned by the Company up to the financial year in course at 31 December 2007, and then until said financial year in course at 31 December 2016.

Dividends paid to simple partnerships and their equivalent as per Article 5 TUIR should be included in the calculation of taxable income in accordance with the income inclusion percentages provided for by Ministerial Decree 26 May 2017 and Ministerial Decree of 2 April 2008, as described above. According to a different interpretation, due to a lack of coordination among the various provisions following the amendments introduced by the 2018 Budget Law (which implies the tacit repeal of Article 1 of above Minister Decree 26 May 2017), dividends paid to simple partnerships and their equivalent as per Article 5 TUIR could be fully included in the calculation of the taxable income of the percipient;

(b) Dividends paid to corporations and other business entities liable to IRES (e.g. joint-stock companies, limited liability companies, limited partnerships with share capital) are included in the calculation of the overall taxable profits of the recipient (liable to an IRES ordinary rate of 24% starting from the financial year following the one in course at 31 December 2016, except for the Bank of Italy and the credit and financial institutions under Legislative Decree no. 87 of 27 January 1992 – excluding the management companies of mutual funds and stock brokerage companies under Legislative Decree no. 58 of 24 February 1998 - to which a 3.5% additional IRES surcharge is applied, which results in total IRES taxation of 27.5%) limited to 5% of their amount, or with regard to the entire amount if they arise from securities held for trading (pursuant to Article 2 of Ministerial Decree 10 January 2018) by persons applying IAS/IFRS international accounting standards.

For certain types of companies (such as banks and other financial companies, insurance companies, etc.) and under certain conditions, the dividends received are partially included in the taxable base that is liable to regional tax on productive activities (IRAP).

(v) Entities under Article 73, paragraph 1, letter c) TUIR, residing in Italy for tax purposes

Dividends received by the entities under Article 73, paragraph 1, letter c) TUIR, namely public or private entities residing in Italy for tax purposes, other than companies, whose exclusive or primary purpose is not a commercial activity, are not liable to any withholding or substitute tax in Italy and concur in the calculation of the taxable profits for 100% of their amount (without prejudice to what is provided for below under subparagraph A(vii)) for UCIs under Article 73, paragraph 5-quinquies TUIR). Pursuant to Article 1, paragraph 3, of Ministerial Decree 26 May 2017, the dividends paid out of profits earned by the Company up until the fiscal year in course at 31 December 2016, are not included in the calculation of the taxable profits in the amount of 22.26%.

(vi) Persons excluded from application of corporate income tax residing in Italy

With regard to the shares, such as the Shares issued by the Company, included in the centralised management facility organised by Monte Titoli, dividends received by persons who reside in Italy that are exempt from application of corporate income tax (IRES) are liable to a substitute tax with a 26% rate applied by the intermediary (that is a member of the management facility organised by Monte Titoli) where the shares have been deposited, or, through a tax representative appointed in Italy by the non-resident intermediary (custodian) that is a member of the Monte Titoli system or foreign centralised management facilities associated with the Monte Titoli system.

Conversely, this substitute tax does not apply to those persons that are "excluded" from application of income tax pursuant to Article 74, paragraph 1, TUIR (State bodies and administrations, including those enjoying autonomy, even when granted legal personality, municipalities, consortiums between local entities, associations and entities managing public assets, mountain communities, provinces and regions).

(vii) Italian pension funds and collective investment vehicles (investment funds and SICAVs)

Profits received by (a) Italian pension funds regulated by Legislative Decree no. 252 of 5 December 2005 ("**Decree 252**") and (b) by collective investment vehicles established in Italy, other than collective investment vehicles in real estate assets, and by those with registered office in Luxembourg, already authorised to trade in Italy, regulated by Article 11-bis of Decree Law no. 512 of 30 September 1983, subject to regulation provided by Article 73, paragraph 5-*quinquies*, TUIR (hereinafter, "**UCIs**"), are not liable to withholding tax or a substitute tax.

Profits received by (a) Italian pension funds regulated by Decree 252 are included in the calculation of the overall accrued annual result that is liable to a 20% substitute tax, while those received by (b) UCIs regulated by Article 73, paragraph 5-*quinquies*, TUIR are not liable to income tax, provided the fund or the entity managing the fund is subject to prudential supervision; conversely, participants to the UCI are taxed upon receipt of the profits distributed by the UCI.

Article 1, paragraph 92 et seq. of Law no. 232/2016 has provided, with regard to the pension funds in question, starting from 1 January 2017, following the fulfilment of certain conditions (including a minimum holding period of 5 years) and with certain limitations, for an exemption to the substitute tax on income (including dividends) deriving from qualified investments pursuant to the cited paragraph 92 (including Shares) and, therefore, such amount shall not be included in the calculation of the taxable base under Article 17 of Decree 252. Recovery mechanisms for the substitute tax on the accrued annual result are provided, if the Company's shares are transferred before the minimum required 5-year holding period has lapsed.

(viii) Real estate investment funds

Pursuant to Decree Law no. 351 of 25 September 2001 ("**Decree 351**"), converted (with amendments) into Law no. 410 of 23 November 2001, and following amendments introduced by Article 41-*bis* of Decree Law no. 269 of 30 September 2003, converted (with amendments) into Law no. 326/2003 ("**Decree 269**"), the distributions of profits received by real estate investment funds established pursuant to Article 37 of the Consolidated Finance Law or Article 14-*bis* of Law no. 86 of 25 January 1994 ("**Law 86**"), as well as by real estate investment funds established before 26 September 2001 for which the option – under Article 5, paragraph 4 of Decree 351 – was exercised before 25 November 2001, are not liable to either withholding tax or substitute tax.

Such funds are excluded from the application of income taxes and regional tax on productive activities.The distributions deriving from interest in the above-mentioned funds are liable to a 26% tax rate applied to the recipients, as an advance payment of income taxes or as a final withholding tax (depending on the legal nature of the recipient). Such 26% withholding tax does not apply on distributions paid to specific parties that are beneficial owners of such distributions and are residing for tax purposes in foreign states guaranteeing an adequate exchange of information with the Italian tax authorities (for example, in case the recipient is a foreign retirement fund or a regulated foreign collective investment vehicle, provided they are established in states and territories included in the list provided by the Decree of the Ministry of Finance of 4 September 1996, as subsequently amended, no withholding tax will be applied by the Italian real estate investment fund).

In some cases, the income received from an Italian non-institutional real estate investment fund may be attributed to, on a tax transparency basis (and therefore included in the calculation of the taxable income in Italy of), the relevant non-institutional investors that hold units representing more than 5% of the fund's net asset value.

(ix) Persons not resident in Italy for tax purposes who hold the shares through a permanent establishment in Italy

The distributions of profits received by persons who do not reside in Italy for tax purposes and that hold the shareholding through a permanent establishment in Italy to which the shareholding is actually linked, are not liable to any withholding tax nor to a substitute tax in Italy, and are included in the calculation of the taxable income of the permanent establishment as to 5% of their amount, or for the full amount if they are linked to securities held for trading purposes (pursuant to Article 2 of the Ministerial Decree of 10 January 2018) by persons applying IAS/IFRS international accounting standards.

For certain types of companies that hold the shareholding through a permanent establishment in Italy (such as, banks and other financial entities, insurance companies, etc.) and under certain conditions, the dividends received are also included in the calculation of the corresponding value of the net production that is liable to regional tax on productive activities (IRAP).

If the distributions derive from a shareholding that is not linked to a permanent establishment in Italy of the non-resident recipient, reference should be made to the following paragraph.

(x) Persons not resident in Italy for tax purposes who do not hold the shares through a permanent establishment in Italy

The dividends, deriving from shares or analogous securities included in the centralised management facility organised by Monte Titoli (such as the Shares of the Company interested by this offer), received by persons that are not resident in Italy for tax purposes, without a permanent establishment in Italy to which the shareholding is associated, are liable to a 26% substitute tax pursuant to Article 27-*ter* of Presidential Decree no. 600/1973 and Article 3 of Decree Law 66/2014.

This substitute tax is applied by intermediaries resident in Italy where the securities are deposited, which are members of the centralised management facility organised by Monte Titoli, as well as through a tax representative appointed in Italy (more specifically, a bank or a SIM residing in Italy, a permanent establishment in Italy of non-resident banks or investment firms, or a company for the centralised management of financial instruments that has been authorised pursuant to Article 80 TUF) by non-resident intermediaries which are members of the Monte Titoli system or foreign centralised management facilities which are members of the Monte Titoli system.

Shareholders not resident in Italy for tax purposes, other than shareholders holding saving shares, pension funds described in the second paragraph of paragraph 3 of Article 27 of Presidential Decree no. 600/1973 and companies and entities that are residents in one of the Member States of the European Union or in one of the States that have joined the Agreement on the European Economic Area, indicated in Article 27 paragraph 3-*ter* of Presidential Decree no. 600/1973, which will be addressed further below, are entitled, after filing a refund request pursuant to the conditions and terms established by law, to a refund of the tax they can show they have paid abroad on those same dividends, provided that they submit the relevant certification of the tax office of the foreign state to the Italian tax authorities, in the amount of up to 11/26 of the substitute tax applied in Italy pursuant to Article 27-*ter* of Presidential Decree no. 600/1973.

As an alternative to the above-mentioned refund, the person recipient in states with which Italy has a double tax treaty may request application of a substitute tax on the income tax in the (reduced) amount provided by the double tax treaty from time to time applicable. To this purpose, the intermediaries where the shares have been deposited, which are members of the centralised management facility organised by Monte Titoli, must acquire promptly:

- a statement by the non-resident person who is the beneficial owner of the dividends, indicating its personal details, fulfilment of all the conditions upon which application of the agreement is made conditional and any element that may be necessary to determine the amount of the applicable rate pursuant to the agreement;
- a certification of residency by the relevant tax authority of the State where the beneficial owner of the dividends resides. This certification will be effective until 31 March of the year following that of filing.

Furthermore, in cooperation with the financial administrations of certain foreign states, the Italian tax authorities have developed a specific set of forms aimed at ensuring a more efficient and prompter refund or total or partial exclusion from taxation in Italy. By way of a Regulation of the Director of the Italian Tax Authority of 10 July 2013, the forms were approved for requesting a reduced rate based on the double tax treaties entered into by Italy. If the documents are not presented to the custodian of the Shares before payment of the dividends, a 26% substitute tax is applied. In this case, the beneficial owner of the dividends is allowed to request tax authorities for a refund of the difference between the higher withholding tax actually applied and the lower withholding tax rate that is applicable pursuant to the relevant double tax treaty, by filing a specific application for refund, supported by the above-mentioned documents, to be filed in accordance with the conditions and terms established by law.

If the recipients and beneficial owners of dividends are companies or entities (i) resident for tax purposes in one of the Member States of the European Union or in one of the States that are party to the Agreement on the European Economic Area and are included in the list provided by the Decree of the Ministry of Finance of 4 September 1996, as subsequently amended, and (ii) liable to a corporate income tax there, the dividends are liable to a 1.2% substitute tax on the corresponding amount.

Recipients and beneficial owners of dividends who qualify as pension funds established in one of the Member States of the European Union or in one of the states party to the Agreement on the European Economic Area and are included in the list provided by Decree of the Ministry of Finance of 4 September 1996, as subsequently amended, may benefit from the application of a substitute tax on dividends reduced to 11% of the amount involved.

Article 1, paragraph 95 of Law no. 232/2016 has provided, with regard to the pension funds concerned, starting from 1 January 2017, following the fulfilment of certain conditions (including a minimum holding period of 5 years) and with certain limitations, for the non-application of the above-mentioned substitute tax on proceeds deriving from the investments pursuant to paragraph 95 of said Law (including the Shares).

The dividends attributable to international entities or bodies that benefit from the tax exemption in Italy pursuant to law or international agreements as implemented in Italy are not liable to the substitute tax.

Pursuant to Article 27-bis of Italian Presidential Decree no. 600/1973, implementing Directive no. 435/90/EEC of 23 July 1990, then incorporated into Directive no. 2011/96/EU of 30 November 2011, if the dividends are received by a company (a) whose legal form is one of those listed in the Annex to Directive no. 435/90/EEC, (b) which is resident for tax purposes in one of the Member States of the European Union, without being considered, pursuant to a double income tax treaty with a third country, a resident of a country outside of the European Union, (c) and which is subject, in the state of residence, without possibility to benefit from optional or exemption regimes that are not geographically or temporally limited, to one of the taxes indicated in the Annex to the above-mentioned Directive and (d) which holds a direct shareholding in the Company not lower than 10% of the share capital for a continuous period of at least 1 (one) year, such a company is entitled to claim a refund for the substitute tax applied to the dividends that it received from the Italian tax authorities. To this purpose, the non-resident company must file (x) a certificate, issued by the relevant tax authorities of the foreign state, certifying that the non-resident company meets the above-mentioned prerequisites indicated at letters (a), (b) and (c), as well as (y) a statement by the same company certifying the existence of the conditions required for the application of the above-mentioned Article 27-*bis*, including the requirement indicated under letter (d), all drafted on a standardised form that is consistent with that approved by the Director of the Tax Authority on 10 July 2013 (no. 2013/84404). Furthermore, in accordance with clarifications provided by the Italian tax authorities, upon fulfilment of one of the above-mentioned conditions and as an alternative to the filing of a request for refund after the distribution of the dividends, and provided the 1-year minimum period for the holding of the shareholding in the company has already elapsed when the dividend is distributed, the non-resident company is allowed to directly request to the intermediary custodian of the Shares the non-application of the substitute tax, by filing the above-mentioned documents with such intermediary.

The above-mentioned Directive no. 2011/96/EU has been recently amended by Directive no. 2015/121/EU of 27 January 2015, in order to introduce in the original text an anti-abuse provision, pursuant to which the tax authorities of each Member State of the European Union are allowed to disregard application of the tax exemption provided by the Directive with respect "… to an arrangement or a series of arrangements which, having been put into place for the main purpose or one of the main purposes of obtaining a tax benefit that defeats the object or purpose of this Directive, are not genuine having regard to all relevant facts and circumstances". To this purpose "… an arrangement or a series of arrangements shall be regarded as not genuine to the extent that they are not put into place for valid commercial reasons which reflect the economic reality" (reference should be made to paragraphs 2 and 3 of the new Article 1 of the Directive). Pursuant to paragraph 5 of Article 27-*bis,* Presidential Decree no. 600/1973, the above-mentioned Directive EU no. 2015/121/EU "*is implemented by the domestic legal system by applying Article 10-bis of Law 27 July 2000, no. 212*", providing regulations on the abuse of rights or tax avoidance.

D. Tax regime applicable to the distribution of reserves pursuant to Article 47, paragraph 5 TUIR

Information provided in this paragraph summarise the tax regime applicable to the distribution by the Company – in cases other than a decrease of excess capital, withdrawal, exclusion, redemption or liquidation – of capital reserves under Article 47, paragraph 5, TUIR, that is, *inter alia*, of the reserves or other funds established with share premium contributions, settlement interests paid by the subscribers, non-returnable or capital account payments made by shareholders or non-taxable inflation adjustment payments (hereinafter also "**Capital Reserves**").

Article 47, paragraph 1, last sentence, TUIR establishes an absolute presumption of priority in the distribution of profits by the Company as per Article 73 TUIR: "*Irrespective of the resolution of the Shareholders' Meeting, the profits of the financial year and the reserves, other than those indicated in paragraph 5, for any portion thereof not recognised in a tax-suspended reserve, are presumed to be distributed with priority*". Provided such reserves do exist and up to their amount ("revenue reserves"), therefore, the amounts distributed are considered as dividends and are liable to the tax regime indicated in the previous paragraphs.

(a) Natural persons residing in Italy for tax purposes and simple partnerships

Pursuant to Article 47, paragraph 1, TUIR, regardless of what holders have resolved in the shareholders' meeting, the amounts received as a distribution out of the Capital Reserves of the Company by Italian resident individuals who do not hold the Shares in connection with a business activity are deemed to be, and treated as, profits for the recipients to the extent that the Company has current year profits and retained earnings (except for any portion thereof recognised in a tax-suspended reserve or reserves not freely available). Amounts treated as profits are liable to the same tax regime described above for dividends.Amounts received as distributions out of Capital Reserves, net of any amount already treated as profits as per the above, reduce the holder's tax basis in the Company's Shares correspondingly. It follows that, upon implementation of the subsequent transfer, the taxable capital gain is the result of the difference between the sale price and the shareholding's tax basis reduced by an amount equal to the distributions qualifying as Capital Reserves (net of the amount that may be qualified as earnings). Pursuant to the interpretation adopted by the Italian tax authorities, distributions out of Capital Reserves that are in excess of the holders' tax basis in the Company's Shares are treated as profits, seeing as they are an income resulting from a capital investment; such qualification can also be applied to when the recipient is a simple partnership along with the application of the corresponding tax regime for dividends.

With regard to those shareholdings for which the individual opted for the "asset management" regime set out under Article 7 of Legislative Decree 461/1997, if no clarification from the Italian tax authorities is provided, and following a systematic interpretation of the provisions, the amounts distributed that qualify as distributions of Capital Reserves should be considered in the determination of the accrued annual result for the tax period when the distribution is made.Also, the value of the shareholdings measured at the end of the relevant tax period (or when the asset management regime is terminated, whichever is the earlier) must be included in the calculation of the annual accrued management result which is liable to a 26% substitute tax.

(b) Unlimited partnerships, limited partnerships and their equivalent under Article 5 of the TUIR, partnerships, companies and entities under Article 73, paragraph 1, letter a) and b), TUIR, residing in Italy for tax purposes.

With regard to unlimited partnerships, limited partnerships and their equivalent (excluding simple partnerships) under Article 5 TUIR, and the companies and entities under Article 73, paragraph 1, letters a) and b), TUIR, residing in Italy for tax purposes, the amounts received as distribution out of Capital Reserves of the Company are deemed to be, and are treated as, profits for the recipients to the extent that the Company has current year profits and retained profits (except for any portion thereof recognised in a tax-suspended reserve or reserves not freely available). Amounts received as distribution out of Capital Reserves, net of the amount treated as profits should be liable to the same tax regime described above for dividends (see under A(iv)). Amounts received as distributions of Capital Reserves, net of any amount already treated as profits, reduce the holder's tax basis in the Company's Shares correspondingly. Distributions out of Capital Reserves that are in excess of the holders' tax basis in the Company's Shares are treated as capital gains for tax purposes and should be liable to the regime outlined below under Subsection c.

(c) Entities under Article 73, paragraph 1, letter c), TUIR, residing in Italy for tax purposes

Amounts received as distributions of Capital Reserves, net of any amount treated as profits, by the entities under Article 73, paragraph 1, letter c) TUIR, that is, public or private entities other than companies (not including collective investment vehicles, "UCI") and trusts, that do not have as their exclusive or main purpose the exercise of commercial activities, which have their tax residence in Italy, are not considered as income for the taxpayer and reduce by the same amount the tax basis in the Company's Shares. Distributions out of Capital Reserves that are in excess of the holders' tax basis in the Company's Shares are, as such, treated as dividends for tax purposes and are liable to the regime described under paragraph A(v) above.

(d) Persons exempt and excluded from corporate income tax

Amounts received as distributions of Capital Reserves, net of any amount treated as profits, by Italian residents that are exempt from corporation income tax (IRES), are not considered as income in the hands of the taxpayer and reduce by the same amount the tax basis in the Company's Shares. Distributions out of Capital Reserves that are in excess of the holders' tax basis in the Company's Shares are treated as dividends for tax purposes and are liable to the regime outlined in paragraph A(vi) above.

(e) Italian pension funds and collective investment vehicles (Investment funds and SICAVs)

Based on a systematic interpretation of the provisions, the amounts received by the Italian pension funds as a distribution of Capital Reserves should be considered to determine the accrued result for the tax period when the distribution occurred.The accrued result is liable to a 20% substitute tax.

Article 1, paragraph 92 et seq. of Law no. 232/2016 has provided, with regard to the pension funds in question, commencing from 1 January 2017, following the fulfilment of certain conditions (including a minimum holding period of 5 years) and with certain limitations, for the exemption from income tax on income deriving from investment pursuant to the cited paragraph 92 (including Shares) and, therefore, such amount shall not be included in the calculation of the taxable base under Article 17 of Decree 252. Recovery mechanisms for the substitute tax on the accrued result are provided for, if the Company's shares are transferred before the minimum required 5-year holding period has lapsed.

As mentioned, UCIs established in Italy subject to supervision (other than the Real Estate UCIs) are exempt from income tax under Article 73, paragraph 5-quinquies of the TUIR and the sums received by UCIs as distributions of Capital Reserves should not be liable to any taxation in the hands of UCIs.

(f) Real estate investment funds

In accordance with Decree 351, the sums received by Italian real estate investment funds as distributions of Capital Reserves are not liable to withholding tax or substitute tax and these investment vehicles are not subject to any form of taxation on these instruments.These funds are not liable to income tax or regional business tax (IRAP).

If certain conditions are met, the income received from a non-institutional Italian real estate investment fund may be attributed to, on a tax transparency basis, (and therefore included in the calculation of the taxable income of) the relevant non-institutional investors that hold units representing more than 5% of the real estate fund's net asset value.

(g) Persons that are not resident in Italy for tax purposes without a permanent establishment in Italy

With regard to persons not resident in Italy for tax purposes (whether natural persons or joint-stock companies), without a permanent establishment in Italy to which the Shares are actually linked, the qualification for tax purposes of the amounts received as distributions of Capital Reserves is the same as the one described above for natural persons residing in Italy for tax purposes. As has been indicated for natural persons and joint-stock companies that for tax purposes are considered as Italian residents, the amounts received as distributions of Capital Reserves, net of any amount that may be qualified as earnings, reduce the shareholding's tax basis by an equal amount.

(h) Persons not resident in Italy for tax purposes with a permanent establishment in Italy

With regard to persons that are not resident in Italy who hold the shareholding through a permanent establishment in Italy, these amounts are included in the revenue of the permanent establishment according to the tax regime as applicable to Italian resident companies and other business entities referred to under Article 73, paragraph 1, letters a) and b) TUIR.

If the distribution of Capital Reserves originates from a shareholding that is not connected to a permanent establishment in Italy of the non-resident recipient, reference should be made to the rules indicated under paragraph B(g) above.

E. Tax regime of capital gains deriving from transfers of Shares

(i) Natural persons residing in Italy for tax purposes not engaged in business activities and simple partnerships

Following the amendments introduced by Article 1, paragraphs 999-1006 of the 2018 Budget Law, the tax regime of capital gains and capital losses realised from 1 January 2018 to 31 December 2018 by Italian resident individuals and simple partnerships upon transfer for consideration of the Company's Shares (as well as of securities or rights whereby Company's Shares may be acquired), other than capital gains and capital losses realised in connection with a business activity, depends on whether the transfer is a Transfer of Qualifying Shareholdings or a Transfer of Non-Qualifying Shareholdings.

Transfer of qualifying shareholdings

Capital gains deriving from the Transfer of a Qualifying Shareholding are partially included as to 58.14% of their total amount in the IRPEF taxable income of the receiver, net of the corresponding portion of the relevant capital losses. With regard to such capital gains, taxes are applied in the annual tax return.

If the transfer of Qualifying Shareholdings gives rise to a capital loss, this is deducted, up to the taxable amount of capital gains of the same nature generated in the following tax periods, but only within the following four periods, provided such capital loss is indicated in the tax return related to the tax period in which the loss was generated.

Pursuant to Article 2 of Ministerial Decree of 26 May 2017, only 49.72% of the capital gains and capital losses is included in the IRPEF taxable income if these derive from transfers executed by natural persons not engaged in business activities prior to 1 January 2018, but whose amounts are in whole or in part received after said date and for the capital gains and losses incurred by simple partnerships, also after 1 January 2018 and before 1 January 2019.

Transfer of non-qualifying shareholdings

Capital gains realised upon Transfer of Non-Qualifying Shareholdings, as well as securities or rights through which the above-mentioned shareholdings can be acquired, are liable to a 26% substitute tax. The taxpayer can choose one of the following tax regimes:

(a) Tax return regime (Article 5 of Legislative Decree no. 461/1997). Capital gains and capital losses realised during the year must be declared in the tax return. The 26% substitute tax due on the capital gains, net of the corresponding capital losses, is determined in the tax return and is paid within the term for paying the balance of the annual income tax. The capital losses in excess of capital gains, provided they have been reported in the tax return, may be carried forward and offset (in accordance with Legislative Decree no. 66/2014 (a) against 76.92%, of the capital losses realised from 1 January 2012 to 30 June 2014, and (b) against 48.08% of the capital losses realised up to 31 December 2011), against capital gains of subsequent tax periods, but not beyond the fourth year. This regime is the default regime if the taxpayer does not opt for one of the two alternative regimes described in (b) and (c) below.

(b) Nondiscretionary investment portfolio regime (optional) (Article 6 of Legislative Decree no. 461/1997). Such a regime can be applied provided that (i) the Shares are managed by or in custody with Italian banks or resident stock brokerage companies or other resident intermediaries identified with specific ministerial decrees and (ii) the shareholder expressly elects (by written notice sent to the intermediary) for the nondiscretionary investment portfolio regime. If the holder elects for the application of this regime, a 26% substitute tax is calculated and paid upon each transfer by the intermediary where the shares are deposited in custody or under administration, with respect to each capital gain realised. Capital losses, if applicable, may be carried forward within the same relationship of deposit in the same tax year or in the following tax years up to the fourth and offset against capital gains of the same nature realised after 30 June 2014, but up to the following amount, in accordance with Legislative Decree no. 66/2014, in case of capital losses realised up to 30 June 2014: (a) 76.92% of the capital losses realised from January 1, 2012 to 30 June 2014, and (b) 48.08% of the relevant capital losses realised before January 1, 2012. In case of termination of the custody or administration relationship, any remaining capital loss may be offset, no later than the fourth tax period following the one in which the capital losses were incurred, against the capital gains realised in the context of another nondiscretionary investment portfolio regime entered into by the same parties to the original deposit or relationship, or may be carried forward and offset in the tax return. Under this regime, the holder is not required to report capital gains in the annual income tax return

(c) Discretionary investment portfolio regime (optional) (Article 7 of Legislative Decree no. 46/1997). This regime is allowed for holders who have entrusted the management of their financial assets to an authorised intermediary. Under this regime, a 26% substitute tax is applied by the intermediary at the end of each tax period to the accrued increase in value of the assets under management, even if this increase in value is not realised, net of any income that is liable to withholding tax, any income that is exempt from taxation or in any case not liable to taxation and any income that are included in the taxpayer's overall taxable income. Under the discretionary investment portfolio regime, the capital gains realised through the Transfer of Non-Qualifying Shareholdings are included in the calculation of the increase in the value of the assets under management that has accrued during the tax period, liable to a 26% substitute tax. Decreases in the value of the managed assets that have accrued during the tax period may be carried forward to offset against any subsequent increase in value for the following four tax years (pursuant to Decree Law 66/2014 to 76.92%, for decreases in value occurring from 1 January 2012 and 30 June 2014, and (b) to 48.08%, for decreases in value occurring up to 31 December 2011). In case of termination of the discretionary investment portfolio regime, the decrease in value accrued under the discretionary investment portfolio regime (as resulting from a specific certification issued by the relevant asset manager) may be offset, within the fourth tax period following the one in which the decreases in value have accrued, against the capital gains realised under another nondiscretionary investment portfolio regime, or under another discretionary investment portfolio regime, entered into by the same parties to the original deposit or asset management relationship, or may be carried forward and offset by the same holders in the income tax return, in accordance with the same rules applicable to the exceeding carried forward capital losses indicated under point (a) above (*Tax return regime*). Under this regime, holders are not required to report capital gains or losses in their tax return.

Following the amendments introduced by Article 1, paragraphs 999-1006 of the 2018 Budget Law, capital gains, other than those realised in connection with a business activity, realised from 1 January 2019 by natural persons and simple partnerships residing in Italy for tax purposes, through the transfer of shareholdings for consideration, as well as through transfers or rights through which acquisition of the said shareholdings may occur, are liable to a 26% substitute tax in accordance with one of the regimes above described under points (a), (b) and (c), regardless of whether they derive from the Transfer of a Non-Qualifying Shareholding or the Transfer of a Qualifying Shareholding.

Article 1, paragraph 100 et seq. of Law 232/2016 provides that natural persons residing in Italy for tax purposes but not engaged in business activities, under certain conditions (including a minimum 5-year holding period) and with some limitations, are not liable to income tax in case of income (including dividends) from investments under paragraph 102 of said Law (including the Shares), other than Qualifying Shareholdings, included in a Long-Term Saving Scheme established pursuant to paragraph 101 of said law. Tax relief loss and recovery mechanisms are provided, if the Company's shares are transferred before the minimum 5-year holding period required for exemption or the expiry of the other conditions required by Law 232/2016 has lapsed.

(ii) Natural persons carrying out business activities, unlimited partnerships, limited partnerships and their equivalent under Article 5 TUIR

Capital gains realised by natural persons carrying out business activities, unlimited partnerships and limited partnerships and their equivalent under Article 5 TUIR through the transfer for consideration of shares concur, for their entire amount, in the calculation of the taxable business income that is liable to taxation in Italy under the ordinary regime.

As indicated by the Italian tax authorities, the negative income generated by individuals while carrying out business activities, partnerships, limited partnerships and the comparable companies listed in Article 5 TUIR through transfer for consideration of shares can be fully deducted from the taxable profits of the transferor.

However, if the conditions indicated under points (a), (b), (c) and (d) of the following paragraph have been met, 58.14% of the capital gains realised from 1 January 2018 are included in the taxable business income of natural persons carrying out business activities (49.72% for partnerships under Article 5 of the TUIR, among which limited partnerships and their equivalent are included). The capital losses realised on shareholdings that meet the fulfilment of the requirements indicated under points (a), (b), (c) and (d) of the following paragraph can only be deducted only, similar to the provisions for the taxation of capital gains.

For purposes of determining the capital gains and capital losses that are relevant for tax purposes, the holder's tax basis in the shares is reduced by any write-down that the holder has deducted in previous tax years.

Provided certain requirements are fulfilled, natural persons residing in Italy for tax purposes and engaged in business activity are allowed to opt for the corporate income tax ("**IRI**") in relation to income deriving from their own business activity. In this case, the capital gains and capital losses incurred through the transfer of the Shares for consideration are included in the determination of the taxable income under the ordinary rules on business income set out by Chapter 6, Title 1 of the TUIR and are liable to a 24% income tax rate. Any subsequent withdrawal of resources from the business activity should be fully taxed for IRPEF purposes for the relevant natural persons and deducted from the IRI taxable base. The bill for the 2019 budget and for the multi-annual budget for the period 2019-2021, submitted by the Minister of Economics and Finance to the Italian Parliament on 31 October 2018, provides for the repeal of the above IRI regime.

(iii) Companies and entities under Article 73, paragraph 1, letter a) and b), TUIR residing in Italy for tax purposes.

The capital gains realised by companies and entities listed under Article 73, paragraph 1, letters a) and b), TUIR (i.e. joint-stock companies and limited partnerships with share capital, limited liability companies, public and private entities, other than companies, whose main or exclusive purpose is the exercise of business activities) through the transfer for consideration of shares, are included in the calculation of the taxable business income in their full amount.

However, pursuant to Article 87 of the TUIR, the capital gains realised in relation to shares in companies and entities under Article 73 of the TUIR are 95% exempt if the above-mentioned shares meet the following conditions:

(a) they have been continuously held from the first day of the twelfth month prior to that of the transfer, considering the shares or quotas more recently acquired as having been transferred first;
(b) they have been classified as financial assets in the first financial statements that ended during the holding period;
(c) the investee company is resident for tax purposes in one of the states or territories other than those under a privileged tax regime identified in accordance with the criteria set out at Article 167, paragraph 4 of the TUIR or, alternatively, the participating company demonstrates – also through the ruling procedure set out in paragraph 5, letter b), of Article 167 – that the shareholdings, since the beginning of their holding period, were not designed to localise income in states or territories under a privileged tax regime identified in accordance with the criteria set out at Article 167, paragraph 4 of the TUIR;
(d) the investee carries out a business activity as defined by Article 55 TUIR.

At the date when the capital gains are received, the requirements indicated under subparagraphs (c) and (d) must be fulfilled, uninterruptedly since the beginning of the third tax period prior to the date when the capital gains are realised. Transfers of shares or quotas belonging to the category of long-term financial assets and those belonging to the category of current assets must be considered separately with reference to each category.

For shareholdings in companies that are exclusively or mainly engaged in the business of acquiring shareholdings, the conditions under subparagraphs (c) and (d) refer to the companies indirectly held and are fulfilled when such conditions are met by the investees that represent the major portion of the holding company's equity.

The condition under subparagraph (d) is not relevant for shareholdings in companies whose securities are traded on regulated markets.

If the above-mentioned requirements are fulfilled, the capital losses generated by the transfer of shareholdings cannot be deducted from business income.

For purposes of determining the capital gains and capital losses that are relevant for tax purposes, the tax basis of the transferred shares is reduced by write-downs deducted in previous tax periods.

Capital losses and negative differences between revenues and costs relating to shares that do not meet the participation exemption requirements are not relevant to the extent of the non-taxable amount of dividends or interim dividend received by the holder in the 36 months prior to the transfer. This provision applies (i) with respect to shares acquired in the 36 months prior to the realisation of the capital loss, provided that the conditions under points (c) and (d) are fulfilled, but (ii) does not apply to those holders who prepare their financial statements on the basis of the international accounting standards indicated in Regulation (EC) no. 1606/2002 of the European Parliament and the Council of 19 July 2002.

In relation to the capital losses that can be deducted from business income, it should also be noted that those holders who realised, during the tax period, such negative differences on shareholdings are expected to report to the Italian tax authorities the data corresponding to such negative results, to allow them to assess the potential tax avoidance elements of the corresponding transactions, in light of Article 37-bis of Presidential Decree no. 600/73 (it should be noted that Article 37-*bis*, Presidential Decree no. 600/1973 was repealed as of 2 September 2015 and, pursuant to Article 1 of Legislative Decree 5 August 2015, no. 128, provisions referring to Article 37-*bis*, Presidential Decree no. 600/1973, must be interpreted as referring to Article 10-bis of Law of 27 July 2000, no. 212, to the extent that they are compatible).

More specifically, the reporting obligations at issue have been introduced by:

- Article 1, paragraph 4, Decree Law no. 209 of 24 September 2002, converted with amendments by Law no. 265 of 22 November 2002, on capital losses exceeding EUR 5,000,000.00 deriving from the transfer of shareholdings recognised as long-term financial assets;
- Article 5-*quinquies*, paragraph 3, of Decree Law no. 2013 of 30 September 2005, converted with amendments by Law no. 248 of 2 December 2005, on capital losses and negative differences exceeding EUR 50,000.00, realised on shareholdings traded on Italian or foreign regulated markets.

With reference to the former reporting obligation, introduced by Article 1, paragraph 4, of Decree Law no. 209 of 24 September 2002, if the amount of the aforesaid capital losses exceeds EUR 5,000,000.00, even as a result of multiple transactions, the taxpayer is expected to notify to the Italian tax authorities as to the information and data concerning the operation upon the filing of the tax return for the fiscal year in which the capital loss was generated. The omitted, incomplete or false communication of the capital losses exceeding EUR 5,000,000.00, deriving from the transfer of shareholdings recognised as long-term financial assets, is sanctioned with an administrative fine equal to 10% of the capital losses whose notification was omitted, incomplete or false, with a minimum fine of EUR 500.00 and a maximum fine of EUR 50,000.00.

This reporting obligation does not apply to companies that adopted the international accounting standards referred to in the Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002.

The latter reporting obligation regards capital losses and negative differences exceeding EUR 50,000.00 realised on shareholdings in companies listed on regulated markets. Pursuant to Article 5-*quinquies*, paragraph 3, of Decree Law no. 203 of 30 September 2005, converted by Law no. 248 of 2 December 2005, capital losses and negative differences exceeding EUR 50,000.00, also originating from multiple transactions on shares, quotas and other analogous securities traded on Italian or foreign regulated markets, must be reported to the Italian tax authorities in order to allow them to carry out possible investigations pursuant to Article 37-*bis* of Presidential Decree no. 600/73 (Article 37-*bis* of Presidential Decree no. 600/73 was repealed effective from 2 September 2015, and therefore, in accordance with Article 1 of Legislative Decree no. 128 of 5 August 2015, the provisions that refer to Article 37-*bis* of Presidential Decree no. 600/73 are intended to refer to Article 10-*bis* of Law no. 212 of 27 July 2000 insofar as they are compatible).

Similar to what is provided with regard to capital losses exceeding EUR 5,000,000.00 (Article 1 of Decree Law no. 209 of 24 December 2002), the taxpayer is expected to report all the information and data concerning the operation to the Italian tax authorities upon filing the tax return for the fiscal year in which the capital loss was realised, while the omitted, incomplete and false communication of the capital losses and the negative differences exceeding EUR 50,000 is sanctioned with an administrative fine amounting to 10% of the capital losses whose communication was omitted, incomplete or false, with a minimum fine of EUR 500.00 and a maximum fine of EUR 50,000.

The reporting obligation concerning data on the transfers of shareholdings in listed companies, that gave rise to capital losses and negative differences lies with the persons holding such assets under a business regime. The duty to provide such information does not apply, therefore, to individuals and those other persons who do not hold shareholdings under a business activity.

Unlike the rules applicable to the capital losses exceeding EUR 5,000,000.00, the obligation to report capital losses and the negative differences on shareholdings exceeding EUR 50,000.00, pursuant to Article 5-quinquies, paragraph 3, of Decree Law no. 203 of 30 September 2005, applies also to companies that adopt international accounting standards for the preparation of their financial statements.

Pursuant to Article 5-*quinquies*, paragraph 3 of Decree Law no. 203 of 30 September 2005, the reporting obligation applies to:

- both the negative components of long-term shareholdings (capital losses) and the negative components of shareholdings included in current assets (other negative differences);
- capital losses and negative components realised on shareholdings listed on both Italian and foreign regulated markets.

For certain types of companies and under certain conditions, the capital gains realised by the above-mentioned persons through the transfer of shares is also included in the taxable base liable to regional tax on productive activities (IRAP).

(iv) Entities under Article 73, paragraph 1, letter c), TUIR, residing in Italy for tax purposes

The capital gains realised, not in connection with business activities, by non-commercial entities not resident in Italy, are liable to taxation in accordance with the same rules applied to the capital gains realised by individuals over shareholdings not held in connection with a business activity (without prejudice to what is provided for below under subparagraph C(v) for UCIs pursuant to Article 73, paragraph 5-*quinquies*, of the TUIR).

(v) Italian pension funds and UCIs

The capital gains realised by the Italian pension funds listed in Legislative Decree 252/2005 upon transfer for consideration of shares are considered in the calculation of the annual accrued result, liable to a 20% substitute tax.

Article 1, paragraph 92 and seq. of Law no. 232/2016 has provided, with regard to the pension funds in question, commencing from 1 January 2017, following the fulfilment of certain conditions (including a minimum holding period of 5 years) and with certain limitations, for the exemption from income tax on income deriving from investment pursuant to the cited paragraph 92 (including shares) and, therefore, such amount shall not be included in the calculation of the taxable base under Article 17 of Decree 252. Recovery mechanisms for the substitute tax on the annual accrued result are provided for, if the Company's shares are transferred before the minimum required 5-year holding period has lapsed.

The capital gains generated by UCIs established in Italy, other than real estate collective investment vehicles, referred to under Article 73, paragraph 5-*quinquies*, TUIR are not liable to income tax, provided that the fund or the entity managing the fund is subject to prudential supervision. In general, participants will be taxed upon receipt of the distributions from UCIs.

(vi) Real estate investment funds

Pursuant to Decree 351, and following changes made by Article 41-*bis* of Decree 269, starting from 1 January 2004 the earnings, including capital gains deriving from transfer of shares, realised by real estate investment funds established pursuant to Article 37 of the TUF and Article 14-bis of Law 86/1994, are not liable to income tax. Such funds are not liable to either income tax or regional tax on production activities.

The distributions deriving from interests in the above-mentioned funds are liable to a 26% tax applied to the recipients, as an advance payment of income taxes or as a final withholding tax (depending on the legal nature of the recipient). Such 26% withholding tax does not apply on distributions paid to qualified investors, that are beneficial owners of such distributions and are resident for tax purposes in foreign states guaranteeing an adequate exchange of information with the Italian tax authorities (for example, in case the recipient is a foreign retirement fund or a regulated foreign collective investment vehicle, provided they are established in states and territories included in the list provided by the Decree issued by the Ministry of Finance on 4 September 1996, as subsequently amended, no withholding tax will be applied by the Italian real estate investment fund).

In certain cases, the income received from an Italian non-institutional real estate investment fund may be attributed, on a tax transparency basis (and therefore included in the calculation of the taxable income in Italy) to the relevant non-institutional investors that hold units representing more than 5% of the fund's net asset value.

(vii) Persons not resident in Italy with a permanent establishment in Italy

With regard to non-resident persons who hold the shareholding through a permanent establishment in Italy to which the shareholding is actually connected, the capital gains realised upon the transfer of the shareholding are included in the taxable income of the permanent establishment pursuant to the tax regime provided for the capital gains realised by companies and entities listed under Article 73, paragraph 1, letters a) and b), TUIR, resident in Italy for tax purposes. If the shareholding is not linked to a permanent establishment in Italy of the non-resident person, reference should be made to the next paragraph.

(viii) Persons not resident in Italy for tax purposes without a permanent establishment in Italy

Transfer of non-qualifying shareholdings

Pursuant to Article 23, paragraph 1, letter f), point 1), TUIR, the capital gains realised upon the transfer of shares listed on regulated markets that qualify as transfers of non-qualifying shareholdings are not taxable in Italy.

Transfer of qualifying shareholdings

The capital gains realised, from 1 January 2018 to 31 December 2018, by persons not resident in Italy for tax purposes and without a permanent establishment in Italy (through which the shareholdings are held), upon transfer of qualifying shareholdings are included in the calculation of the taxable base of the recipient in accordance with the same rules applicable to capital gains from the transfer of qualifying shareholdings realised from 1 January 2018 to 31 December 2018 by resident natural persons not engaged in business activities. Such capital gains are liable to taxation only in the annual tax return, since neither the nondiscretionary investment portfolio regime nor the discretionary investment portfolio regime can be applied to those capital gains. The foregoing is without prejudice to, if applicable, the application of more favourable provisions set out by double tax treaties.

The capital gains realised from 1 January 2019 by persons not resident for tax purposes in Italy, without a permanent establishment in Italy (through which shareholdings are held), upon the transfer of Qualifying Shareholdings are liable to a 26% substitute tax in accordance with the same rules governing the taxation of capital gains from the transfer of Qualifying Shareholdings realised from 1 January 2019 by resident individuals not engaged in business activities. This is without prejudice to, where applicable, the application of international treaties against double tax.

F. Tax on financial transactions (the "Tobin Tax")

Article 1, paragraphs from 491 to 500, of Law no. 228 of 24 December 2012 introduced a tax on financial transactions that applies to the transfer of ownership in shares and other financial instruments, to transactions concerning equity derivatives and to other transferrable securities.

The parties liable to tax are those persons in whose favour the transfer of ownership in the shares issued by companies, with a registered office located in Italy, is carried out, irrespective of the place of residence of the counterparties and the place where the transaction was executed. Persons without a permanent establishment in Italy and located in states or territories with which no agreement for the exchange of information or for assistance in the recovery of claims for taxation purposes has been concluded (as identified in a specific Regulation issued by the Director of the Italian Tax Authority on 30 May 2016, as supplemented by the Regulation of the Director of the Italian Tax Authority of 9 June 2016) are considered for all intents and purposes buyers, irrespective of the title under which they participate to the operation, unless they proceed to identify themselves in accordance with the procedures set out by regulation of the Director of the Italian Tax Authority of 18 July 2013, as amended by the Regulation of the Head of the Italian Tax Authority of 9 March 2017.

Banks, trust companies and investment companies authorised to perform the professional services and investment activity indicated under Article 18 of the TUF, as well as other intermediaries that participate in the implementation of the above-mentioned transactions (for example, notaries participating in the drawing up or authentication of deeds relating to the same transactions), including non-resident intermediaries, are responsible for levying and paying the tax.

The tax must be paid no later than the 16th day of the month following the month when the transfer of ownership in the shares occurred.

The tax is charged at a rate of 0.20% on the value of the transaction that is determined on the basis of the net balance of the daily transactions (calculated for each taxpayer with reference to the number of securities being purchased and sold on the same day for each financial instrument) multiplied by the weighted average price of the purchases made on the relevant day.

The rate is reduced by half (0.10%) for transfers that occur as a result of transactions executed on regulated markets or multilateral trading systems.

Transactions specifically identified by Article 15 of the Decree issued by the Ministry of Economy on 21 February 2013, include:

- the transfer of share ownership that occurs by inheritance or gift;
- the issue and cancellation transactions of shares, including repurchase transactions of securities by the Issuer;,
- the purchase of newly-issued shares even if this occurs following the conversion, exchange or redemption of bonds or the exercise of option rights held by the Shareholders;
- the distribution of profits, reserves or returns of share capital through the allocation of shares;
- temporary purchase transactions of securities indicated under Article 2, paragraph 10 of the Regulation (EU) no. 1287/2006 of the European Commission of 10 August 2006;
- transfers of securities carried out by and between companies among which there is a controlling relationship under Article 2359, subparagraphs 1.1 and 1.2, and paragraph 2 of the Italian civil code or that are controlled by the same company and those deriving from company restructuring transactions pursuant to Article 4 of Directive 2008/7/EC.

Transfers of the ownership in shares traded on regulated markets or multilateral trading systems, issued by companies whose average capitalisation in November of the year prior to the one in which the transfer of ownership occurred does not exceed EUR 500 million, are also excluded from taxation. Furthermore, also excluded are the transfers of ownership in securities representing shares issued by the same company. Pursuant to Article 17 of Ministerial Decree of 21 February 2013, no later than 10 December of each year, Consob shall draft and send to the Ministry of Economy and Finance the list of companies with shares traded on Italian regulated markets or multilateral trading systems that respect the above-mentioned capitalisation limit. Based on the information received, the Ministry of Economy and Finance drafts and publishes on its website, no later than 20 December of each year, the list of resident companies in Italy for the purposes of the exemption. The exemption also applies to transfers that do not take place on markets and multilateral trading systems. In case of admission to trading on the regulated market or multilateral trading system, the analysis as to whether the relevant company is included in said list should occur after the financial year in which it is possible to calculate an average capitalisation for the month of November; until such financial year, it shall be presumed that the capitalisation is less than EUR 500 million.

Specific exemptions from the application of the Tobin Tax are also provided for under Article 16 of the Decree issued by the Ministry of Economy and Finance on 21 February 2013.

The Tobin Tax is not deductible for the purposes of income taxes (IRPEF and IRES), their substitute taxes or IRAP.

High-frequency trading

Pursuant to Article 1, paragraph 495 of Law no. 228/2012, the transactions executed on the Italian financial market are liable to a tax on high-frequency trading relating to financial instruments under Article 1, paragraphs 491 and 492 of Law no. 228/2012.

High-frequency trading is deemed to occur if trading is generated by a computer algorithm that automatically determines whether to send, modify or cancel the orders and related parameters, when the sending, modifying and cancellation of financial instrument orders of the same type are executed at minimum intervals that are lower than the amount specified under the Decree of the Minister of Economy and Finance of 21 February 2013.

The tax is charged at 0.02% of the value of the cancelled or modified orders which in one trading day exceed the numerical threshold established under the Decree of the Minister of Economy and Finance of 21 February 2013. This threshold shall not in any case be lower than 60% of the transmitted orders.

The tax is due by the person that, through the algorithms indicated under Article 12 of the Decree of the Minister of Economy and Finance of 21 February 2013, enters purchase and sale orders and the associated modifications and cancellations pursuant to the meaning of Article 13 of the said Ministerial Decree.

G. Inheritance and gift tax

Article 13 of Law no. 383 of 18 October 2001 provided, among other things, for the abolition of inheritance and gift tax. However, the tax at issue was subsequently reintroduced by Decree Law no. 262 of 3 October 2006, converted into law with amendments by Law no. 286 of 24 November 2006, as subsequently amended by Law no. 296 of 27 December 2006, effective from 1 January 2007.

As a result, transfers of shares by reason of death or gift or free of charge are liable to the above-mentioned tax. The tax also applies to the creation of liens for a specific purpose. Within certain limits, some exemptions are provided with regard to family relationships or other conditions.

For persons that are resident in Italy, inheritance and gift tax is generally applied on all assets and rights transferred, wherever existing (except for certain exemptions). For persons that are non-resident, inheritance and gift tax is applied exclusively on assets and rights that are deemed to be held in Italy. Shares in companies with an Italian registered office or Italian headquarters or a main corporate purpose pertaining to Italy, are deemed as held in Italy.

Inheritance tax

Pursuant to Article 2, paragraph 48, of Decree Law no. 262 of 3 October 2006 ("**Decree Law 262/2006**" as converted into law with amendments by Law no. 286 of 24 November 2006) the transfers of assets and rights by reason of death are generally liable to inheritance tax, in accordance with the following rates, to be applied on the overall net value of the assets:

(i) for assets and rights transferred to a spouse and to relatives in direct line, the applicable rate is 4%, with an exemption threshold of EUR 1 million for each beneficiary;
(ii) for assets and rights transferred to other relatives up to the fourth degree and relatives-in-law up to the third degree, the applicable rate is 6% (with an exemption threshold of EUR 100,000.00 for each beneficiary applicable only for brothers and sisters);
(iii) for assets and rights transferred to other persons, the rate is 8% (without any exemption threshold).

If the transfer is made in favour of persons with severe disabilities pursuant to Law no. 104 of 5 February 1992, inheritance tax is only charged on the portion of value of the share or bequest exceeding EUR 1.5 million.

Gift tax

Pursuant to Article 2, paragraph 49, of Decree Law 262/2006, for gifts and transfer deeds without consideration of assets and rights and the creation of liens on assets for a specific purpose, gift tax is generally determined by applying the following rates on the global value of the assets and rights, net of the costs suffered by the beneficiary, or, if the gift is given jointly to multiple persons or if the same deed includes multiple gifts in favour of different persons, on the value of the relevant share of the assets or rights that have been allocated:

(i) in case of gift or transfer without consideration to a spouse and to relatives in direct line, the applicable rate is 4%, with an exemption threshold of EUR 1 million for each beneficiary;
(ii) in case of gift or transfer without consideration to other relatives up to the fourth degree and to relatives-in-law up to the third degree, the applicable rate is 6% (with an exemption threshold of EUR 100,000.00 for each beneficiary applicable only for brothers and sisters);
(iii) in case of gift or transfer without consideration to other persons, the applicable rate is 8% rate (without any exemption threshold).

If the transfer is made in favour of persons with severe disabilities pursuant to Law no. 104 of 5 February 1992, gift tax is only charged on the amount exceeding EUR 1.5 million.

H. Stamp duty

Article 13, paragraphs 2-*bis* and 2-*ter*, of the Tariff, Part 1, annexed to Presidential Decree no. 642 of 26 October 1972, and corresponding notes 3-*bis* and 3-*ter* provide rules on the proportional stamp duty that is generally applicable (except for certain exclusions/exceptions) to periodic communications sent by Italian banks and financial intermediaries to their customers in relation to financial products deposited with these institutions, such as shares, even when such products are not liable to a deposit obligation, including bank and postal deposits, even when represented by certificates.

The proportional stamp duty does not apply, *inter alia*, to the reports and notifications that Italian intermediaries send to investors other than customers, as defined in the Regulation adopted by the Governor of the Bank of Italy on 30 September 2016, as subsequently amended. The proportional stamp duty does not apply, *inter alia*, to communications received by pension funds and health funds.

Paragraph 2-*ter* of Article 13 of the Tariff, Part 1, annexed to Presidential Decree no. 642 of 1972 provides that, if applicable, the proportional stamp duty is applied in the amount of 2‰ per year. No minimum stamp duty is applied. The stamp duty cannot exceed EUR 14,000.00 for investors other than natural persons.

The tax is collected by banks and other financial intermediaries and is related to the reported period. Periodic communications to customers are deemed to be sent, in any case, at least once a year, even if the Italian intermediary is under no obligation to either draft or send such communications. In this case, the stamp duty is applied on the value of the financial products, as identified below, calculated as of the thirty first of December of each year and, in any case, at the termination of the contractual arrangement with the customer.

The stamp duty is applied on the market value of the financial instruments or, absent such value, on the nominal or redemption amount, as resulting from the communication sent to customers. The tax is applicable both to investors residing in Italy and to investors not resident in Italy for tax purposes, with regard to financial instrument kept with Italian intermediaries.

I. Tax on the value of financial assets held abroad

Pursuant to Article 19, paragraph 18 of Decree Law no. 201 of 6 December 2011, converted by Law no. 214 of 22 December 2011, natural persons residing in Italy for tax purposes and holding financial products – such as shares – abroad as property or other rights in rem (irrespective of how they have been acquired and, therefore, also if such products originate from inheritance or gifts), are generally liable to a tax on their value ("**IVAFE**").

The tax is also applied to investments in the capital or assets of entities resident in Italy for tax purposes and held abroad. Certain clarifications have been provided by the Italian tax authorities for the case of financial products held abroad through interposed entities.

The tax, applied on the value of the financial products, due in proportion of the share held and of the holding period, is charged at 2‰.

The IVAFE taxable base is represented by the market value of the financial products held abroad as recorded at the end of each calendar year in the place where they are held, or – if such value is unavailable – at the nominal or redemption amount, also considering the documentation provided by the relevant foreign intermediary. If, on 31 December the financial products are no longer held, reference should be made to the market value of the products as recorded at the end of the holding period. For the financial products listed on regulated markets, this is the value that must be used.

Regardless of the place of residence of the issuer or the counterparty, IVAFE does not apply to financial products – such as shares – held abroad but under management by Italian financial intermediaries (in fact, in this case these are liable to the stamp duty indicated under the previous paragraph) or to foreign assets that are physically held by the taxpayer in Italy.

A tax credit equal to the wealth tax paid in the State where the financial products are held can be deducted from the IVAFE due up to the amount of the IVAFE. The credit cannot, in any case, exceed the tax that is due in Italy. No tax credit is due if a double tax treaty (applicable also to property taxes) exists with the country where the financial product is held, and such double tax treaty attributes the right to tax such financial products exclusively to the holder's country of residence. In these cases, a request for a refund of the property taxes paid abroad can generally be made to the tax authorities of the country where the above-mentioned taxes have been applied despite the double tax treaty. Details of financial products held abroad must be included in the RW section of the annual tax return.

J. Tax reporting requirements

Under the tax reporting regulations, natural persons, non-commercial entities and simple partnerships and their equivalent, residing in Italy for tax purposes, are required to report the amount of investments (including any shares) held abroad during the tax period, that may give rise to a taxable income in Italy, in the RW section of their annual tax return (or in a specific form, if the filing of the income tax return is not due). The same requirements also apply to persons included in the above-mentioned categories who, although not holding directly any financial foreign investments and activities, are the actual economic owners of the investment in accordance with Article 1, paragraph 2, letter pp), and Article 20 of Legislative Decree no. 231 of 21 November 2007.

With regard to shares, such reporting requirements are not applicable if the shares are not held abroad and, in any case, if the shares are under management or administration entrusted to intermediaries resident in Italy, provided that the cash flows and the income deriving from the shares are liable to withholding or substitute tax applied by such intermediaries (further clarification on tax reporting requirements is provided by the following Circulars issued by the Italian tax authorities: no. 38/E of 23 December 2013, no. 19/E of 27 June 2014 and 10/E of 13 March 2015).

Finally, following the intergovernmental agreement executed between Italy and the United States on the implementation of the regulations on Foreign Account Tax Compliance Act (FATCA) and Law no. 95 of 18 June 2015, which ratified and implemented this agreement, as well as the provisions related to the compliance requirements applicable to financial institutions in order to implement the automatic exchange of information arising from the above-mentioned agreement and from agreements between Italy and other foreign States (Common Reporting Standard), implemented with Ministerial Decree of 28 December 2015, the holders of financial instruments (including shares) may be subject, under certain conditions, to specific disclosure requirements.

4.2 DESCRIPTION OF THE CONDITIONAL SHARE RIGHTS

4.2.1 Description of the Conditional Share Rights to be admitted to trading

The Prospectus also regards the admission of the Issuer's Conditional Share Rights to trading on the MTA.

The Conditional Share Rights have ISIN code IT0005359150.

4.2.2 Law applicable to the issue of the Conditional Share Rights

The Conditional Share Rights are issued pursuant to Italian law.

To this end, it should be noted that the Conditional Share Rights are financial instruments that entitle their holders to receive conversion shares in line with the notarial guidelines recognising the right of companies to issue financial instruments without changing share capital.

4.2.3 Characteristics of the Conditional Share Rights

The Conditional Share Rights are bearer conditional share rights and are admitted to the Monte Titoli centralised management system under a dematerialisation regime pursuant to Articles 83-*bis* et seq. of the TUF and related implementation regulations. The Conditional Share Rights circulate separately from the Ordinary Shares to which they were combined upon issuance and are freely transferable.

4.2.4 Conditional Share Rights' currency of issue

The Conditional Share Rights are denominated in euros.

4.2.5 Description of the rights attached to the Conditional Share Rights

Below is the Conditional Share Rights Regulation approved by the Shareholders' Meeting on [18 January 2019], which will be in force from the Effective Date of the Merger:

Regulation

OF "ILLIMITY S.P.A. CONDITIONAL SHARE RIGHTS"

Article 1 – Definitions

In this regulation (the "**Regulation**") the following terms have the meanings assigned below.

Shareholders' Meeting:	The Shareholders' Meeting of the Bank.
Issuance Meeting:	The Bank's extraordinary Shareholders' Meeting held on [18 January 2019].
Shares:	The amount of 59,422,861 Bank ordinary shares with no nominal value, admitted to trading on the MTA (as defined below) on [•] 2019.
Conversion Shares:	The maximum amount of 5,698,565 newly-issued illimity ordinary shares, with no nominal value, to be allocated to the Conditional Share Rights' holders.
Bank or illimity:	illimity S.p.A. with registered office at Via Soperga 9, Milan, Italy, registration number in the Milan Companies Register, tax code and VAT no. [03192350365].
Borsa Italiana:	Borsa Italiana S.p.A., with registered office at Piazza degli Affari 6, Milan, Italy
Board of Directors:	The Bank's Board of Directors.
Assignment Date:	20 September 2019.
Monte Titoli:	The centralised management company Monte Titoli S.p.A. with registered office in Milan, Piazza degli Affari 6.
MTA	The Electronic Stock Market organised and managed by Borsa Italiana S.p.A..
Restricted Period:	The period from (and including) the date on which the Bank's Board of Directors resolved to call a Shareholders' Meeting to approve (i) the annual financial statements and the proposed payment of dividends; or (ii) the proposed payment of extraordinary dividends, up to (and including) the date on which said Shareholders' Meeting was held, and in any event up to (and not including) any ex-dividend date, including extraordinary dividends, approved by the Shareholders' Meeting.
Assignment Ratio:	The number of Conversion Shares that are assigned, free of charge, to Conditional Share Rights holders, equal to 1 (one) Conversion Share for 5 (five) Conditional Share Rights.
Conditional Share Rights:	"illimity S.p.A. Conditional Share Rights" issued after the resolution adopted by the Shareholders' Meeting approving the issue.

Article 2 – illimity S.p.A. Conditional Share Rights

The Shareholders' Meeting resolved, inter alia, to issue:

(a) 28,492,827 Conditional Share Rights, to be allocated with an exchange ratio to the holders of Conditional Share Rights of SPAXS S.p.A., a company incorporated by the Bank with effect from the effective date, vis-à-vis third parties, of the merger by incorporation of SPAXS S.p.A. into the Bank, with the exchange ratio of 1 (one) illimity Conditional Share Right every 1 (one) SPAXS S.p.A. Conditional Share Right, and

(b) a maximum amount of 5,698,565 Conversion Shares, with no changes in the share capital of illimity, to be allocated at no charge to the holders of Conditional Share Rights, in accordance with the terms and conditions under Article 3.

All Conditional Share Rights under this Regulation are completely fungible and have the same characteristics of SPAXS S.p.A. Conditional Share Rights.

Conditional Share Rights are bearer conditional share rights and are admitted to the Monte Titoli centralised management system under a dematerialisation regime pursuant to Articles 83-*bis* et seq. of the TUF and related implementing regulations, as well as traded on the MTA from [•] 2019 and identified by ISIN code IT0005359150.

Article 3 – Assignment of Conversion Shares

1. The Conditional Share Rights incorporate the right to receive, at no charge, a number of Conversion Shares determined pursuant to the Assignment Ratio and under the terms and conditions of this Regulation.
2. More specifically, at the Assignment Date, the Conditional Share Rights holders shall have the right to receive, in a single tranche, the Conversion Shares they are entitled to pursuant to the Assignment Ratio. The Conversion Shares, allocated to the Conditional Share Rights holders under the above terms, shall be made available for trading through Monte Titoli on the settlement day after the Assignment Date.
3. The assignment of the Conversion Shares under the above terms and conditions shall occur without requiring an agreement declaration by Conditional Share Rights holders, and without any change in the share capital.
4. Conversion Shares shall have the same dividend rights as the Company's ordinary shares outstanding on the Assignment Date and, therefore, shall accrue dividends on said date.
5. If the Assignment Date occurs during a Restricted Period, the assignment of the Conversion Shares to the Conditional Share Rights holders shall be suspended until the end of the Restricted Period, and in such case, the Assignment Date will be deemed the first trading day following the last day of the Restricted Period.

Article 4 – Rights of Conditional Share Rights holders in case of transactions concerning the Bank share capital

If the Bank executes:

1. capital increases against payment, by issuing new shares (options and/or with the exclusion of an option right), including to service warrants valid for their subscription, or of convertible bonds or through warrant or transactions that give rise to a negotiable right,

with the exception of capital increases approved by the Issuance Meeting, the Assignment Ratio shall not be modified;

2. free capital increases by assigning new shares, the Assignment Ratio shall be increased in proportion to the bonus assignment, following a resolution by the Bank's Shareholders' Meeting;
3. reverse splits/splitting of shares, the Assignment Ratio shall be decreased/increased in proportion to the reverse split/splitting ratio, following a resolution by the Bank's Shareholders' Meeting;
4. bonus capital increases without issuing new shares or reducing capital due to losses, with no cancellation of the Bank's ordinary shares, the Assignment Ratio shall not be modified;
5. merger/demerger operations in which the Company is not the surviving/beneficiary company, the Assignment Ratio shall be consequently modified based on the relevant share swap/assignment ratios, following a resolution by the Bank's Shareholders' Meeting.

If a transaction other than those described above is performed and may cause similar effects, the Assignment Ratio shall be adjusted based on generally accepted methods, subject to a resolution by the Bank's Shareholders' Meeting, if needed.

Article 5 – Fractions

In all cases where, in application of this Regulation, the Conditional Share Rights holder has the right to subscribe to shares not amounting to one full number, the same shall have the right to subscribe shares up to the whole number and may not assert any right to the fraction.

Article 6 – Tax system

The assignment, acquisition, holding, and transfer of Conditional Share Rights by the respective holders are subject to the tax system in effect for the individual holder.

Article 7 – Miscellaneouse

Unless otherwise provided by law, all Bank communications to Conditional Share Rights holders shall be through a press release published on the Company's website at [www.illimity.com].

Possession of Conditional Share Rights implies full acceptance of all conditions set out in this Regulation. This Regulation shall be governed by Italian law.

The Courts of Milan shall have exclusive jurisdiction over any disputes regarding Conditional Share Rights and the provisions of this Regulation.

4.2.6 Resolutions, authorisations and approvals under which the Conditional Share Rights have been issued

On 18 January 2019 the Issuer's extraordinary Shareholders' Meeting resolved on the Merger, and for the same purposes resolved, *inter alia*, on:

"the issue of 28,492,827 conditional share rights called "illimity S.p.A Conditional Share Rights", to be allocated to the holders of SPAXS S.p.A. Conditional Share Rights for 1 illimity S.p.A. Conditional Share Right every 1 SPAXS S.p.A. Conditional Share Right and the approval of the related "Regulation of illimity S.p.A. Conditional Share Rights" – subject to and with effect from the Merger's effective date vis-à-vis third parties […]".

For further information on these resolutions by the Shareholders' Meeting, reference should be made to Chapter 21 of the First Section of the Prospectus.

4.2.7 Issuing and availability dates of the Conditional Share Rights

The Conditional Share Rights will be made available to the entitled persons in accordance with the procedures for the centralised management of dematerialised shares by Monte Titoli, starting from the first business day after the Effective Date of the Merger.

4.2.8 Limitations to the free transferability of the Conditional Share Rights

As at the Prospectus Date, there is no limitation to the free transferability of the Conditional Share Rights pursuant to Bylaws provisions or the Regulation of the Conditional Share Rights.

4.2.9 Provisions mandating a public tender offer and/or a residual purchase offer

Reference should be made to Paragraph 4.1.9 of this Chapter.

4,2,10 Offerte pubbliche di acquisto effettuate da terzi nel corso dell'ultimo esercizio e nell'esercizio in corso

Reference should be made to Paragraph 4.1.10 of this Chapter.

4.2.11 Tax profiles of Conditional Share Rights

Tax profiles

Definitions

For the purposes of this Paragraph of the Admission Document, the terms indicated therein shall have the following meaning.

"**Transfer of Qualifying Shareholdings**": transfer of shares, other than savings shares, rights or securities through which it is possible to purchase shares exceeding, over a period of twelve months, the limits for the qualification of a Qualifying Shareholding. The twelve-month term starts from the date when the securities and the rights owned represent a percentage of the voting rights or shareholding exceeding the above-mentioned limits. With regard to the rights or securities through which shareholdings can be acquired, reference is made to the percentages of voting rights or shareholdings in the capital that may be linked to the shareholdings.

"**Transfer of Non-Qualifying Shareholdings**": transfer for valuable consideration of shares, rights or securities through which shares may be acquired, other than a Transfer of Qualifying Shareholdings.

"**Non-Qualifying Shareholdings**": shareholdings in companies other than the Qualifying Shareholdings.

"**Qualifying Shareholdings**": shares, other than the savings shares, as well as rights or securities through which it is possible to purchase the above-mentioned shares representing in aggregate a percentage of voting rights exercisable at the Issuer's ordinary Shareholders' Meeting exceeding 2% or a shareholding in the Issuer's share capital or assets exceeding 5% in case of shares traded on regulated markets.

With regard to the rights or securities through which shares can be purchased, consideration is given to the percentages of voting rights or shareholding in the share capital that may be linked to the shares.

1. Tax regime of Conditional Share Rights

The following is a mere overview of the tax regime applicable to the holding and transfer of Conditional Share Rights – pursuant to Italian tax laws – and applicable to certain specific categories of investors; it does not provide a comprehensive analysis of all the possible tax consequences linked to the holding and transfer of such securities. For additional references and details on the tax regulations applicable to the above-mentioned profits, reference should be made to the regulation provided by Legislative Decree no. 461 of 22 November 1997, as subsequently amended and supplemented ("**Legislative Decree 461/1997**"), by Presidential Decree no. 917 of 22 December 1986 ("**TUIR**") and by Legislative Decree no. 138 of 13 August 2011 ("**Legislative Decree 138/2011**"), as well as the additional related normative and administrative provisions. Investors, therefore, are expected to request advice to their advisors on the tax regime applicable to the purchase, holding and transfer of the Conditional Share Rights.

- Pursuant to the regulation in force as at the Prospectus Date, any capital gains deriving from the transfer for consideration of the Conditional Share Rights for the subscription of shareholdings in companies located in Italy, if they are realised by natural persons resident in Italy and not as part of business income, qualify as other profits of financial nature, and are liable to taxation pursuant to the same rules established for capital gains deriving from transfers of shareholdings (Articles 67 et seq. TUIR). In fact, the transfer of "*securities or rights through which shareholdings can be purchased*" (such as the Conditional Share Rights) are likened to the transfer of shareholdings, and made subject to the same tax regime. More specifically:

a) capital gains realised between 1 January 2018 and 31 December 2018 originating from the transfer of the Conditional Share Rights which – carried out also towards multiple counterparties over the 12-month period, and even when they have been performed in different tax periods – allow the acquisition of a Qualifying Shareholding, (considering, for this purpose, also direct transfers of shareholdings and other rights carried out within the same 12-month period), contribute to the calculation of taxable income in the amount of 58.14% of their total. Pursuant to Article 2 of Ministerial Decree of 26 May 2017 (as defined further below), the lower taxable percentage of 49.72% still applies to capital gains and capital losses originating from transfers executed prior to 1 January 2018, but whose considerations are in whole or in part received from the same date;

b) capital gains realised between 1 January 2018 and 31 December 2018 deriving from transfers of the Conditional Share Rights which – carried out still in the 12-month period, also towards different counterparties – do not allow, also in combination with the direct transfer of the shareholdings and other rights, the acquisition of a Qualifying Shareholding, are liable to a substitute tax at a 26% rate.

In order to establish the limits for the qualification of Qualifying Shareholding, securities or rights through which Qualifying Shareholdings may be acquired must also be taken into account (for example: subscription and purchase conditional share rights, purchase options concerning shareholdings, the option rights indicated under Articles 2441 and 2420-bis of the Italian civil code, convertible bonds). As a result, it is also possible to qualify as a transfer of a Qualifying Shareholding the transfer of securities or rights which, considered either individually or together with the other transferred shareholdings, represent a percentage of the voting and shareholding rights which exceeds the limits indicated to define a Qualifying Shareholding. The percentage of voting and shareholding rights is the result of the sum of the transfers performed within the twelve-month period, even if performed with different counterparties. Therefore, on the occasion of each transfer, it is necessary to consider all the transfers performed by the same person in the twelve months from the transfer date, even if these fall in different tax periods. Therefore, if a person, after performing a first, non-qualified transfer, carries out – within twelve months from the first transfer – other transfers exceeding the above-mentioned percentages of voting and shareholding rights a transfer of Qualifying Shareholding will be considered as having been performed due to the above-mentioned rule of accumulation. However, the application of the rule requiring to take into account all the transfers performed over a twelve-month period is subject to the condition of the taxpayer holding, for at least one day, a shareholding exceeding the above-mentioned percentages.

The capital gains realised from 1 January 2019 deriving from the transfers of the Conditional Share Rights are liable to a 26% substitute tax, regardless of whether the Conditional Share Rights allow for the acquisition of Qualifying Shareholdings.

- Capital gains realised by persons under Article 73, paragraph 1, letters a) and b) of the TUIR, i.e. non-resident persons with a permanent establishment in Italy to which such conditional share rights may actually be linked, are fully included in the taxable income in the financial year in which they were realised. However, if conditions for the participation exemption under Article 87 of the TUIR apply, these capital gains may be exempt from taxation for 95% of the related amount (for the conditions for the participation exemption regime under above-mentioned Article 87 of the TUIR, reference should be made to following paragraph C, ***sub (iii)***). Based on the interpretation provided by the tax authorities in Circular no. 36 of 4 August 2004 in reference to the participation exemption, the capital gain realised from the sale of option rights (to which the Conditional Share Rights may be similar) qualify for exemption only if the option right is transferred by the owner of the related holding from which the option right derives. Conversely, the exemption provision does not apply, and ordinary taxation is applied, if the option right is transferred by a third party for whom the option right was obtained separately from the holding to which the option right is connected.

- Capital gains realised by individuals in the conduct of a business, by partnerships, limited partnerships and their equivalent under Article 5 of the TUIR are fully included in taxable business income. If the conditions for the participation exemption under Article 87 of the TUIR apply, these capital gains may be liable to taxation on 49.72% of the related amount. Starting from 1 January 2018, where conditions for the participation exemption under Article 87 of the TUIR apply and these capital gains are realised by individuals engaged in a business activity, capital gains are calculated to determine the taxable income in the amount of 58.14%. By express provision of Ministerial Decree of 26 May 2017, published in the Official Gazette of 11 July 2017, said increase does not apply for persons under Article 5 of the TUIR.
- Capital gains realised by persons under Article 73, paragraph 1, letter c), of the TUIR, i.e. by public and private entities residing in Italy for tax purposes, other than companies (except for the collective investment vehicles under Article 73, paragraph 5-*quinques*, TUIR), and trusts not having the exclusive or main objective of commercial activities, are liable to taxation based on the same provisions applicable to individuals residing in Italy for tax purposes and not engaged in business, to which reference should be made.
- Capital gains realised by Italian pension funds under Legislative Decree no. 252 of 5 December 2005 are included in calculating the total profits from fund management operations for the year liable to a 20% substitute tax.
- Capital gains realised by Italian UCIs (other than the Real Estate UCIs as described below) under Article 73, paragraph 5-*quinques* are exempt from income taxation on UCIs, provided that the fund or fund manager is subject to prudential supervision.
- Capital gains realised by Italian Real Estate UCIs (as defined below) are not liable to any taxation.
- Capital gains realised as a result of the transfer of Conditional Share Rights which allow – also along with direct transfer of Shares – the acquisition of a Non-Qualifying Shareholding realised by persons not resident in Italy and without permanent establishment in Italy to which these Conditional Share Rights may be actually linked are not liable to taxation in Italy if:
  a) The originator is a tax resident in States and Areas included in the list under the Decree issued by the Minister of Finance on 4 September 1996 and subsequent amendments (see Article 5, paragraph 5, of the Legislative Decree 461/1997).
  b) The Conditional Share Rights and Shares are traded on regulated markets.
- Capital gains realised from 1 January 2018 to 31 December 2018 by persons not resident in Italy and without permanent establishment in Italy to which these Conditional Share Rights may actually be linked as a result of the transfer of Conditional Share Rights which allow the acquisition of a Qualifying Shareholding are calculated to determine the taxable income of the recipient for 58.14% of their amount. These capital gains are liable to taxation only in the annual income tax return. This is without prejudice to the possibility for non-residents to request that the non-taxation regime in Italy be applied under the international treaties against double taxation which are in force between Italy and the applicant's country of residence.

The same capital gains, if realised since 1 January 2019, are liable to a substitute tax at a 26% tax rate. Also, in this case, this is without prejudice to the possibility for non-residents to request that the non-taxation regime in Italy be applied under the international treaties against double taxation that are in effect between Italy and the applicant's country of residence. The possibility to benefit from the above-mentioned regimes of exemption from taxation on the capital gains by non-residents may be conditioned upon the filing of suitable documents certifying the existence of the necessary conditions for its application.

2. Tax regime applicable to the Shares

Information provided in the following paragraphs summarises the tax regime applicable to the purchase, holding and transfer of Shares of the Company pursuant to current Italian tax laws and with regard to specific categories of investors.

These paragraphs do not provide a comprehensive analysis of the tax consequences linked to the purchase, holding and transfer of shares.

The tax regime applicable to the purchase, holding and transfer of shares presented further below is based on current laws as well as existing practice as at the date of the Admission Document, without prejudice to the fact that these laws and practices may change even retroactively, and are a mere introduction to the matter.

Laws and regulations may be enacted in the future to introduce changes to the rates of withholding taxes on income from capital and from other income of financial nature or the rates of the substitute tax applicable to the same types of income. The enactment of these amendments to the current laws and regulations may, therefore, affect the tax regime of the Company's shares, as described in the following paragraphs.

Investors should consult their advisors on the tax regime applicable to the purchase, holding and transfer of the Shares and to verify the nature and origin of the amounts received as distributions on the Company's Shares (dividends or reserves).

K. Tax regime of dividends

The dividends allocated to the Company's shares will be liable to the ordinary taxation applicable to dividends paid by joint-stock Companies with tax residence in Italy.

The following different methods of taxation apply to the various categories of recipients.

(i) Natural persons residing in Italy for tax purposes and not engaged in business

Following the amendments introduced by Article 1, paragraphs 999-1006 of Law no. 205 of 27 December 2017 (the "**2018 Budget Law**"), the dividends earned from 1 January 2018 by individuals residing for tax purposes in Italy on shares, held outside of business activities, included in the centralised management facility organised by Monte Titoli (such as the Shares of the Company interested by this Offer), are liable to a substitute tax at a 26% rate, levied by the relevant intermediary, pursuant to Article 27-*ter* of Presidential Decree no. 600 of 19 September 1973 (hereinafter, "**Presidential Decree no. 600/1973**") and Article 3 of Decree Law of 24 April 2014 ("**Decree Law 66/2014**"); shareholders are not required to disclose the dividends received in their income tax return.

Such substitute tax is applied by the Italian financial intermediary where the securities are deposited, that is a member of the centralised management facility organised by Monte Titoli, as well as by the non-resident intermediaries (custodians) that are members of the Monte Titoli System or foreign centralised management facilities that are members of the Monte Titoli System, through a tax representative appointed in Italy (more specifically, a bank or a SIM residing in Italy, a permanent establishment in Italy of non-resident banks or investment firms, or a centralised management company managing financial instruments that is authorised pursuant to Article 80 TUF.

However, the dividends paid to individuals residing in Italy for tax purposes on shares held outside business activities and amounting to Qualifying Shareholdings that (a) are paid out of profits earned until the fiscal year in course at 31 December 2017; and, (b) distribution of which is resolved from 1 January 2018 to 31 December 2022, are not liable to any withholding or substitute tax, provided the entitled recipients, upon receipt of the dividends, indicate that the profits received are linked to Qualifying Shareholdings. Such dividends contribute only in part to the calculation of the overall taxable income of the shareholder liable to the income tax imposed on individuals ("**IRPEF**"), which applies at progressive rates ranging between 23% and 43% (increased by municipal and regional surcharges).

The Decree of the Minister of Economy and Finance of 2 April 2008 ("**Ministerial Decree 2 April 2008**"), implementing Article 1, paragraph 38, of Law no. 244 of 24 December 2007 (the "**2008 Budget Law**"), adjusted the percentage for the calculation of the amount that is included in taxable income to 49.72%. Such percentage applies to dividends paid out of the Company's profits earned in the fiscal years following the fiscal year in course at 31 December 2007. This is without prejudice to the 40% taxable percentage of the amount of dividends paid out of profits earned by the Company until the fiscal year in course at 31 December 2007. Further, starting from shareholders' resolutions following the resolution to distribute dividends paid out of profits earned by the Company in the financial year in course at 31 December 2007, dividends shall be deemed to be paid out of profits earned by the Company up to such financial year.

The Decree of the Minister of Economy and Finance of 26 May 2017 ("**Ministerial Decree 26 May 2017**"), implementing Article 1, paragraph 64, of Law no. 208 of 28 December 2015, (the "**2016 Stability Law**"), adjusted the percentage for the calculation of the amount that is included in taxable income to 58.14%. Such percentage applies to dividends paid out of profits earned by the Company in the fiscal years following the fiscal year in course at 31 December 2016. Further, starting from the shareholders' resolutions following the resolution to distribute dividends paid out of profits earned by the Company in the fiscal year in course at 31 December 2016, dividends shall be deemed to be paid out of profits earned by the Company up to the end of the financial year in course at 31 December 2007, and then until the above-mentioned financial year in course at 31 December 2016.

Article 1, paragraph 100 et seq. of Law 232/2016 provides that natural persons residing in Italy for tax purposes but not engaged in business activities, under certain conditions (including a minimum 5-year holding period) and with certain limitations, are not liable to income tax in case of income (including dividends) from investments under paragraph 102 of said law (including the Shares), other than Qualifying Shareholdings, included in a Long-Term Saving Scheme established pursuant to paragraph 101 of said law. Tax relief loss and recovery mechanisms are provided if the Company's shares are transferred before the minimum 5-year holding period required for exemption or expiry of the other conditions required by Law 232/2016 has lapsed.

(ii) Natural persons residing in Italy for tax purposes not engaged in business activities that hold non-qualifying shareholdings within the asset management regime

Following the amendments introduced by Article 1, paragraphs 999-1006 of the 2018 Budget Law, dividends received after 1 January 2018 by natural persons residing in Italy for tax purposes in relation to shares, held otherwise than in the context of a business, entrusted to an asset management relationship with an authorised intermediary, in relation to which the asset management regime option was exercised under Article 7 of Legislative Decree no. 461 of 21 November 1997 ("Legislative Decree 461/1997"), are not liable to any withholding or substitute tax and are included in the calculation of the annual accrued management result that is liable to a 26% substitute tax.

However, the dividends paid to individuals residing in Italy for tax purposes in relation to shares, held otherwise than in the context of a business and considered Qualifying Shareholdings, that (a) are paid out of profits earned until the fiscal year in course at 31 December 2017; and, (b) distribution of which is resolved from 1 January 2018 to 31 December 2022, cannot be subject to the above-mentioned asset management regime. These dividends are partially included in the taxable income of the shareholder liable to income tax imposed on individuals ("IRPEF"), as described in the paragraph above.

(iii) Natural persons residing in Italy for tax purposes engaged in business activities

Dividends paid to natural persons residing in Italy for tax purposes on Shares related to business activity are not liable to any withholding or substitute tax, provided that the entitled persons, upon receipt, declare that the dividends received are associated with shareholdings linked to business activities. Such dividends are partially included in the calculation of the shareholder's overall taxable income.

The Ministerial Decree of 2 April 2008, implementing Article 1, paragraph 38, of the 2008 Budget Law, adjusted the percentage for the calculation of the amount that is included in the taxable income to 49.72%. Such percentage applies to dividends paid out of the Company's profits earned in the fiscal years following the fiscal year in course at 31 December 2007. This is without prejudice to the 40% taxable percentage of the amount of dividends paid out of profits earned by the Company until the fiscal year in course at 31 December 2007. Further, starting from shareholders' resolutions following the resolution to distribute dividends paid out of profits earned by the Company in the financial year in course at 31 December 2007, dividends shall be deemed to be paid out of profits earned by the Company up to such financial year.

The Ministerial Decree of 26 May 2017 adjusted the percentage for the calculation of the amount that is included in the taxable income to 58.14%. Such percentage applies to dividends paid out of profits earned by the Company in the fiscal years following the fiscal year in course at 31 December 2016. Further, starting from the shareholders' resolutions following the resolution concerning the allocation of profits for the financial year in course at 31 December 2016, for purposes of taxation of the payee, dividends shall be deemed to be paid out of profits earned by the Company up to the end of the fiscal year in course at 31 December 2007, and then until the above-mentioned fiscal year in course at 31 December 2016.

Provided certain conditions are met, individuals residing in Italy for tax purposes and engaged in business activities are allowed to opt for the tax under the corporate income regime (hereinafter, "**IRI**") in relation to income deriving from their own business activity. In this case, the dividends are included in the calculation of the taxable income in accordance with the ordinary rules on business income set out by Chapter 6, Title 1 of the TUIR and are liable to 24% income tax. Any subsequent withdrawal of resources from the business activity should be fully taxed for IRPEF purposes in respect of the relevant natural person and deducted from the IRI taxable base. The bill for the 2019 budget and for the multi-annual budget for the period 2019-2021, submitted by the Minister of Economics and Finance to the Italian Parliament on 31 October 2018, provides for the repeal of the above IRI regime.

(iv) Unlimited partnerships and their equivalent, limited partnerships and their equivalent, simple partnerships and their equivalent pursuant to Article 5 TUIR, companies and entities under Article 73, paragraph 1, letters a) and b), TUIR, residing in Italy for tax purposes

Dividends received from unlimited partnerships and their equivalent, limited partnerships and their equivalent, simple partnerships and their equivalent regulated under Article 5 TUIR, companies and entities regulated under Article 73, paragraph 1, letters and b), TUIR, i.e. joint-stock companies and limited partnerships with share capital, limited liability companies and public and private entities whose exclusive or primary purpose is the performance of commercial activities that are resident in Italy for tax purposes are not liable to any withholding or substitute tax in Italy and are included in the calculation of the overall taxable income of the recipient in accordance with the following methods, irrespective of the size of the shareholding:

(a) Distributions to partnerships whose income is considered as corporate income (e.g. unlimited partnerships, simple partnerships) are partially included in the calculation of the overall taxable base of the recipient. The Ministerial Decree 2 April 2018 adjusted the percentage for the calculation of the amount that is included in the taxable income to 49.72%. Such percentage applies to dividends paid out of profits earned by the Company in the fiscal years following the fiscal year in course at 31 December 2007. This is without prejudice to the 40% taxable percentage of the amount of dividends paid out of profits earned by the Company until the fiscal year in course at 31 December 2007. Further, starting from shareholders' resolutions following the resolution to distribute dividends paid out of profits earned by the Company in the financial year in course at 31 December 2007, dividends shall be deemed to be paid out of profits earned by the Company up to that financial year. The Ministerial Decree 26 May 2017 adjusted the percentage for the calculation of the amount that is included in the taxable income to 58.14%. Such percentage applies to dividends paid out of profits earned by the Company in the fiscal years following the fiscal year in course at 31 December 2016. Furthermore, starting from the shareholders' resolutions following the resolution to distribute dividends paid out of profits earned by the Company in the fiscal year in course at 31 December 2016, for purposes of taxation of the payee, dividends shall be deemed to be paid out of profits earned by the Company up to the financial year in course at 31 December 2007, and then until said financial year in course at 31 December 2016.

Dividends paid to simple partnerships and their equivalent as per Article 5 TUIR should be included in the calculation of the taxable income in accordance with the income inclusion percentages provided for by the Ministerial Decree 26 May 2017 and the Ministerial Decree of 2 April 2008, as described above. According to a different interpretation, due to a lack of coordination among the various provisions following the amendments introduced by the 2018 Budget Law (which implies the tacit repeal of Article 1 of above Minister Decree 26 May 2017), dividends paid to simple partnerships and their equivalent as per Article 5 TUIR could be fully included in the calculation of the taxable income of the percipient;

(b) Dividends paid to corporations and other business entities liable to IRES (e.g. joint-stock companies, limited liability companies, limited partnerships with share capital) are included in the calculation of the overall taxable profits of the recipient (liable to the IRES ordinary rate of 24% starting from the financial year following the one in course at 31 December 2016, except for the Bank of Italy and the credit and financial institutions under Legislative Decree no. 87 of 27 January 1992 – excluding the management companies of mutual funds and stock brokerage companies under Legislative Decree no. 58 of 24 February 1998 - to which a 3.5% additional IRES surcharge is applied, which results in a total IRES taxation of 27.5%) limited to only 5% of their amount, or with regard to the entire amount if they arise from securities held for trading (pursuant to Article 2 of The Ministerial Decree 10 January 2018) by persons applying IAS/IFRS international accounting standards.

For certain types of companies (such as banks and other financial companies, insurance companies, etc.) and under certain conditions, the dividends received are partially included in the taxable base that is liable to the regional tax on productive activities (IRAP).

(v) Entities under Article 73, paragraph 1, letter c) TUIR, residing in Italy for tax purposes

Dividends received by the entities under Article 73, paragraph 1, letter c) TUIR, that is, public or private entities residing in Italy for tax purposes, other than companies, whose exclusive or primary purpose is not a commercial activity, are not liable to any withholding or substitute tax in Italy and concur in the calculation of the taxable profits for 100% of their amount (without prejudice to what is provided for below under subparagraph A(vii)) for UCIs under Article 73, paragraph 5-*quinquies* TUIR). Pursuant to Article 1, paragraph 3, of Ministerial Decree 26 May 2017, the dividends paid out of profits earned by the Company up until the fiscal year ongoing as of 31 December 2016, are not included in the calculation of the taxable profits in the amount of 22.26%.

(vi) Persons excluded from application of the corporate income tax residing in Italy

With regard to the shares, such as the Shares issued by the Company, included in the centralised management facility organised by Monte Titoli, the dividends received by persons who reside in Italy that are exempt from application of the corporate income tax (IRES) are liable to a substitute tax with a 26% rate applied by the intermediary (that is a member of the management facility organised by Monte Titoli) where the shares have been deposited, or, through a tax representative appointed in Italy by the non-resident intermediary (custodian) that is a member of the Monte Titoli system or of foreign centralised management facilities associated with the Monte Titoli system.

Conversely, this substitute tax does not apply to those persons that are "excluded" from application of the income tax pursuant to Article 74, paragraph 1, TUIR (State bodies and administrations, including those enjoying autonomy, even when granted legal personality, municipalities, consortiums between local entities, associations and entities managing public assets, mountain communities, provinces and regions).

(vii) Italian pension funds and collective investment vehicles (Investment funds and SICAVS)

Profits received by (a) Italian pension funds regulated by Legislative Decree no. 252 of 5 December 2005 ("**Decree 252**") and (b) by collective investment vehicles established in Italy, other than collective investment vehicles in real estate assets, and by those with registered office in Luxembourg, already authorised to trade in Italy, regulated by Article 11-bis of L Decree no. 512 of 30 September 1983, subject to regulation provided by Article 73, paragraph 5-*quinquies*, TUIR (hereinafter, the "**UCI**"), are not liable to a withholding tax or a substitute tax.

Profits received by (a) Italian pension funds regulated by Decree 252 are included in the calculation of the overall accrued annual result that is liable to a 20% substitute tax, while those received by (b) the UCI regulated by Article 73, paragraph 5-*quinquies*, TUIR are not liable to income tax, provided the fund or the entity managing the fund is subject to prudential supervision; conversely, participants to the UCI are taxed upon receipt of the profits distributed by the UCI.

Article 1, paragraph 92 et seq. of Law no. 232/2016 has provided, with regard to the pension funds in question, starting from 1 January 2017, following the fulfilment of certain conditions (including a minimum holding period of 5 years) and with certain limitations, for an exemption to the substitute tax on income (including dividends) deriving from qualified investments pursuant to the cited paragraph 92 (including Shares) and, therefore, such amount shall not be included in the calculation of the taxable base under Article 17 of Decree 252. Recovery mechanisms for substitute the tax on the accrued annual result are provided, if the Company's shares are transferred before the minimum required 5-year holding period has lapsed.

(viii) Real estate investment funds

Pursuant to Decree Law no. 351 of 25 September 2001 ("**Decree 351**"), converted (with amendments) into Law no. 410 of 23 November 2001, and following amendments introduced by Article 41-*bis* of Decree Law no. 269 of 30 September 2003, converted (with amendments) into Law 326/2003 ("**Decree 269**"), the distributions of profits received by the Real Estate Investment Funds established pursuant to Article 37 Italian Financial Act or Article 14-*bis* of Law no. 86 of 25 January 1994 ("**Law 86**"), as well as by the real estate investment funds established before 26 September 2001 for which the option – under Article 5, paragraph 4 of Decree 351 – was exercised before 25 November 2001, are not liable to either withholding tax or substitute tax.

Such funds are excluded from application of income taxes and regional tax on productive activities.The distributions deriving from interest in the above-mentioned funds are liable to a 26% tax applied to the recipients, as an advance payment of income taxes or as a final withholding tax (in accordance with the legal nature of the recipient). Such 26% withholding tax does not apply on distributions paid to specific parties, that are beneficial owners of such distributions and are residing for tax purposes in foreign states guaranteeing an adequate exchange of information with the Italian tax authorities (for example, in case the recipient is a foreign retirement fund or a regulated foreign collective investment vehicle, provided they are established in states and territories included in the list provided by the Decree of the Ministry of Finance of 4 September 1996, as subsequently amended, no withholding tax will be applied by the Italian real estate investment fund).

In some cases, the income received from an Italian non-institutional real estate investment fund may be attributed to, on a tax transparency basis (and therefore included in the calculation of the taxable income in Italy of) the relevant non-institutional investors that hold units representing more than 5% of the fund's net asset value.

(ix) Persons not resident in Italy for tax purposes who hold the shares through a permanent establishment in Italy

The distributions of profits received by persons who do not reside in Italy for tax purposes and that hold the shareholding through a permanent establishment in Italy to which the shareholding is actually linked, are not liable to any withholding tax nor to a substitute tax in Italy, and are included in the calculation of the taxable income of the permanent establishment in the amount of 5% of their amount, or for the full amount if they are linked to securities held for trading purposes (pursuant to Article 2 of the Ministerial Decree of 10 January 2018) by persons applying IAS/IFRS international accounting standards.

For certain types of companies that hold the shareholding through a permanent establishment in Italy (such as, banks and other financial entities, insurance companies, etc.) and under certain conditions, the dividends received are also included in the calculation of the corresponding value of the net production that is liable to regional tax on productive activities (IRAP).

If the distributions derive from a shareholding that is not linked to a permanent establishment in Italy by the non-resident recipient, reference should be made to the following paragraph.

(x) Persons not resident in Italy for tax purposes who do not hold the shares through a permanent establishment in Italy

The dividends, deriving from shares or analogous securities included in the centralised management facility organised by Monte Titoli (such as the Shares of the Company interested by this offer), received by persons that are not resident in Italy for tax purposes, without a permanent establishment in Italy to which the shareholding is associated, are liable to a 26% substitute tax pursuant to Article 27-ter of Presidential Decree no. 600/1973 and Article 3 of Decree Law 66/2014.

This substitute tax is applied by intermediaries resident in Italy where the securities are deposited, which are members of the centralised management facility organised by Monte Titoli, as well as by a tax representative appointed in Italy (more specifically, a bank or a SIM residing in Italy, a permanent establishment in Italy of non-resident banks or investment firms, or a company for the centralised management of financial instruments that has been authorised pursuant to Article 80 TUF) of non-resident intermediaries which are members of the Monte Titoli system or foreign centralised management facilities which are members of the Monte Titoli system.

Shareholders not resident in Italy for tax purposes, other than shareholders holding saving shares, pension funds described in the second paragraph of paragraph 3 of Article 27 of Presidential Decree no. 600/1973, companies and entities that are residents in one of the Member States of the European Union or in one of the States that have joined the Agreement on the European Economic Area, indicated in Article 27 paragraph 3-ter of Presidential Decree no. 600/1973, which will be addressed further below, are entitled, after filing a refund request pursuant to the conditions and terms established by law, to a refund of the tax that they demonstrate they have paid abroad on those same dividends, provided that they submit the relevant certification of the tax office of the foreign state to the Italian tax authorities, up to 11/26 of the substitute tax applied in Italy pursuant to Article 27-ter of Presidential Decree no. 600/1973.

As an alternative to the above-mentioned refund, the person recipient in states with which Italy has entered into a double tax treaty may request application of a substitute tax on the income tax in the (reduced) amount provided by the double tax treaty from time to time applicable. To this purpose, the intermediaries where the shares have been deposited, which are members of the centralised management facility organised by Monte Titoli, must promptly acquire:

- a statement by the non-resident person who is the beneficial owner of the dividends, indicating its personal details, fulfilment of all the conditions upon which application of the agreement is made conditional and any element that may be necessary to determine the amount of the applicable rate pursuant to the agreement;
- a certification of residency by the relevant tax authority of the State where the beneficial owner of the dividends resides, which establishes residency in accordance with the agreement. This certification will be effective until 31 March of the year following that of filing.

Furthermore, the Italian tax authorities, in cooperation with the financial administrations of some foreign states, has developed a specific set of forms aimed at ensuring a more efficient and prompter refund or total or partial exclusion from taxation in Italy. With a Regulation by the Director of the Italian Tax Authority of 10 July 2013, the forms were approved for requesting a reduced rate based on the double tax treaties entered into by Italy. If the documents are not presented to the custodian of the Shares before payment of the dividends, a 26% substitute tax is charged. In this case, the beneficial owner of the dividends is allowed to request from the tax authorities a refund of the difference between the higher withholding tax actually applied and the lower withholding tax rate that is applicable pursuant to the relevant double tax treaty, by filing a specific application for refund, supported by the above-mentioned documents, to be filed in accordance with the conditions and terms established by law.

If the recipients and beneficial owners of dividends are companies or entities (i) resident for tax purposes in one of the Member States of the European Union or in one of the States that have joined the Agreement on the European Economic Area and are included in the list provided by Decree of the Ministry of Finance of 4 September 1996, as subsequently amended, and (ii) liable to a corporate income tax there, the dividends are liable to a 1.2% substitute tax on the corresponding amount.

Recipients and beneficial owners of dividends who qualify as pension funds established in one of the Member States of the European Union or in one of the States that have accessed to the Agreement on the European Economic Area and are included in the list provided by Decree of the Ministry of Finance of 4 September 1996, as subsequently amended, may benefit from the application of an 11% substitute tax of the corresponding amount.

Article 1, paragraph 95 of Law no. 232/2016 has provided, with regard to the pension funds concerned, starting from 1 January 2017, following the fulfilment of certain conditions (including a minimum holding period of 5 years) and with certain limitations, for the non-application of the above-mentioned substitute tax on dividends deriving from qualified investments pursuant to paragraph 95 of said law (including the Shares).

The dividends attributable to international entities or bodies that benefit from the tax exemption in Italy pursuant to law or international agreements as implemented in Italy are not liable to the substitute tax.

Pursuant to Article 27-bis of Presidential Decree no. 600/1973, implementing Directive no. 435/90/EEC of 23 July 1990, then incorporated in Directive no. 2011/96/EU of 30 November 2011, if the dividends are received by a company (a) whose legal form is one of those listed in the Annex to Directive no. 435/90/EEC, (b) and is resident for tax purposes in one of the Member States of the European Union, without being considered, pursuant to a double tax treaty with a third country, a resident of a country outside of the European Union, (c) and is subject, in the State of residence, without possibility to benefit from optional or exemption regimes that are not geographically or temporally limited, to one of the taxes indicated in the Annex to the above-mentioned Directive and (d) which holds a direct shareholding in the Company not lower than 10% of the share capital for a continuous period of at least 1 (one) year, such company is entitled to claim to a refund for the substitute tax applied to the dividends that it received from the Italian tax. To this purpose, the non-resident company must file (x) a certificate, issued by the relevant tax authorities of the foreign state, certifying that the non-resident company meets the above-mentioned prerequisites indicated at letters (a), (b) and (c), as well as (y) a statement by the same company certifying the existence of the conditions requested for the application of the above-mentioned Article 27-bis, including the requirement indicated under letter (d), all drafted on a standardised form that is consistent with the one approved by the Director of the Tax Authority on 10 July 2013 (no. 2013/84404). Furthermore, in accordance with the clarifications provided by the Italian tax authorities, upon fulfilment of one of the above-mentioned conditions and as an alternative to the filing of a request for refund after the distribution of the dividends, and provided the 1-year minimum period of holding of the shareholding in the company has already elapsed when the dividend is distributed, the non-resident company is allowed to directly request the non-application of the substitute tax to the intermediary custodian of the Shares, by filing with such intermediary the above-mentioned documents.

The above-mentioned Directive no. 2011/96/EU has been recently amended by Directive no. 2015/121/EU of 27 January 2015, in order to introduce in the original text an anti-abuse provision, pursuant to which the tax authorities of each Member State of the European Union are allowed to disregard application of the tax exemption provided by the Directive with respect "… to an arrangement or a series of arrangements which, having been put into place for the main purpose or one of the main purposes of obtaining a tax advantage that defeats the object or purpose of this Directive, are not genuine having regard to all relevant facts and circumstances". To this purpose "… an arrangement or a series of arrangements shall be regarded as not genuine to the extent that they are not put into place for valid commercial reasons which reflect economic reality" (see paragraphs 2 and 3 of the new Article 1 of the Directive). Pursuant to paragraph 5 of Article 27-*bis*, Presidential Decree no. 600/1973, the above-mentioned Directive EU no. 2015/121/EU "*is implemented by the domestic legal system by way of the application of Article 10-bis of Law 27 July 2000, no. 212*", providing regulations on the abuse of rights or tax avoidance.

L. Tax regime applicable to the distribution of reserves pursuant to article 47, paragraph five, of TUIR

Information provided in this paragraph summarise the tax regime applicable to the distribution by the Company – in cases other than decrease of excess capital, withdrawal, exclusion, redemption or liquidation – of the capital reserves under Article 47, paragraph 5, TUIR, that is, inter alia, of the reserves or other funds established with share premium contributions, with adjustment interests paid by the subscribers, with non-returnable or capital account payments made by shareholders and with non-taxable inflation adjustment payments (hereinafter also "**Capital Reserves**").

Article 47, paragraph 1, last line, TUIR establishes an absolute presumption of priority in the distribution of profits by the Company as per Article 73 TUIR: "*Irrespective of the resolution of the Shareholders' Meeting, the profits of the financial year and the reserves, other than those indicated in paragraph 5, for any portion thereof not recognised in a tax-suspended reserve, are assumed to have been distributed with priority*". Provided such reserves do exist and up to their amount (the "revenue reserves"), the amounts distributed are considered as dividends and are liable to the tax regime indicated in the previous paragraphs.

(a) Natural persons residing in Italy for tax purposes and simple partnerships

Pursuant to Article 47, paragraph 1, TUIR, regardless of what holders have resolved in the shareholders' meeting, the amounts received as distributions of Capital Reserves of the Company by Italian resident individuals who do not hold the Shares in connection with a business activity are deemed to be, and treated as, profits for the recipients to the extent that the Company has current year profits and retained profits (except for any portion thereof recognised in a tax-suspended reserve or reserves not freely available). Amounts treated as profits are subject to the same tax regime described above for dividends. Amounts received as distributions of Capital Reserves, net of any amount already treated as profits as per the above, reduce the holder's tax basis in the Company's Shares correspondingly. It follows that, upon implementation of the subsequent transfer, the taxable capital gain is the result of the difference between the sale price and the shareholding's tax basis reduced by an amount equal to the distributions qualified as Capital Reserves (net of the amount that may be qualified as earnings). Pursuant to the interpretation adopted by the Italian tax Authority, distributions out of Capital Reserves that are in excess of the holders' tax basis in the Company's Shares are treated as dividends for tax purposes; such qualification can also apply when the recipient is a simple partnership along with the application of the corresponding tax regime for dividends.

With regard to those shareholdings for which the individual opted for the asset management regime set out under Article 7 of Legislative Decree 461/1997, absent any clarification from the Italian tax authorities, and following a systematic interpretation of the provisions, the amounts distributed that qualify as distributions of Capital Reserves should be considered in the determination of the accrued annual result for the tax period when the distribution is made.Also, the value of the shareholdings measured at the end of the relevant tax period (or when the asset management regime is terminated, whichever is the earlier) must be included in the calculation of the annual accrued management result which is liable to a 26% substitute tax.

(b) Unlimited partnerships, limited partnerships and their equivalent under Article 5 of the TUIR, partnerships, companies and entities under Article 73, paragraph 1, letter a) and b), TUIR, residing in Italy for tax purposes.

With regard to unlimited partnerships, limited partnerships and their equivalent (excluding simple partnerships) under Article 5 TUIR, and the companies and entities under Article 73, paragraph 1, letters a) and b), TUIR, residing in Italy for tax purposes, the amounts received as distribution out of Capital Reserves of the Company are deemed to be, and are treated as, profits for the recipients to the extent that the Company has current year profits and retained profits (except for any portion thereof recognised in a tax-suspended reserve or reserves not freely available). Amounts treated as profits should be subject to the same tax regime described above for dividends (see under A(iv)). Amounts received as distributions of Capital Reserves, net of any amount already treated as profits as per the above, reduce the holder's tax basis in the Company's Shares correspondingly. Distributions out of Capital Reserves that are in excess of the holders' tax basis in the Company's Shares are treated as capital gains for tax purposes and should be subject to the regime outlined below under Subsection c.

(c) Entities under Article 73, paragraph 1, letter c), TUIR, residing in Italy for tax purposes

Amounts received as distributions of Capital Reserves, net of any amount treated as profits, by the entities under Article 73, paragraph 1, letter c) TUIR, that is, public or private entities other than companies (not including collective investment vehicles, "UCIs") and trusts, that do not have as their exclusive or main purpose the exercise of commercial activities, which have their tax residence in Italy, are not considered as income for the taxpayer and reduce by the same amount the tax basis in the Company's Shares. Distributions out of Capital Reserves that are in excess of the holders' tax basis in the Company's Shares not held in connection with a business activity are treated as dividends for tax purposes and are subject to the regime described under paragraph A(v) above.

(d) Persons exempt and excluded from corporate income tax

Amounts received as distributions of Capital Reserves, net of any amount treated as profits, by Italian residents that are exempt from corporation income tax (IRES), are not considered as income in the hands of the taxpayer and reduce by the same amount the tax basis in the

Company's Shares. Distributions out of Capital Reserves that are in excess of the holders' tax basis in the Company's Shares are treated as dividends for tax purposes and are subject to the regime outlined in paragraph A(vi) above.

(e) Italian pension funds and collective investment vehicles (Investment funds and SICAVs)

Based on a systematic interpretation of the provisions, the amounts received by the Italian pension funds as distributions of Capital Reserves should be considered to determine the accrued result for the tax period when the distribution occurred. The accrued result is liable to a 20% substitute tax.

Article 1, paragraph 92 et seq. of Law no. 232/2016 has provided, with regard to the pension funds in question, commencing from 1 January 2017, following the fulfilment of certain conditions (including a minimum holding period of 5 years) and with certain limitations, for the exemption from income tax on income deriving from investment pursuant to the cited paragraph 92 (including Shares) and, therefore, such amount shall not be included in the calculation of the taxable base under Article 17 of Decree 252. Recovery mechanisms for the substitute tax on the accrued result are provided for, if the Company's shares are transferred before the minimum required 5-year holding period has lapsed.

As mentioned, UCIs established in Italy subject to supervision (other than the Real Estate UCIs) are exempt from income tax under Article 73, paragraph 5-*quinquies* of the TUIR and the sums received by UCIs as distributions of Capital Reserves should not be liable to any taxation in the hands of UCIs.

(f) Real estate investment funds

In accordance with Decree 351, the sums received by Italian Real Estate Investment Funds as distributions of Capital Reserves are not liable to either withholding tax or substitute tax. These funds are also not liable to income tax or regional business tax (IRAP).

If certain conditions are met, the income received from a non-institutional Italian real estate investment fund may be attributed to, on a tax transparency basis, (and therefore included in the calculation of the taxable income of) the relevant non-institutional investors that hold units representing more than 5% of the real estate fund's net asset value.

(g) Persons that are not resident in Italy for tax purposes without a permanent establishment in Italy

With regard to persons not resident in Italy for tax purposes (whether natural persons or joint-stock companies), without a permanent establishment in Italy to which the Shares are actually linked, the qualification for tax purposes of the amounts received as distributions of Capital Reserves is the same as that described above for natural persons residing in Italy for tax purposes. The amounts received as distributions of Capital Reserves, net of any amount that may be qualified as earnings, reduce the shareholding's tax basis by an equal amount.

(h) Persons not resident in Italy for tax purposes with a permanent establishment in Italy

With regard to persons that are not resident in Italy who hold the shareholding through a permanent establishment in Italy, the amounts received as distributions out of Capital Reserves are subject to the same tax regime as applicable to Italian resident companies and other business entities referred to under Article 73, paragraph 1, letters a) and b) TUIR.

If the distribution of Capital Reserves originates from a shareholding that is not connected to a permanent establishment in Italy of the non-resident recipient, reference should be made to the rules indicated under paragraph B(g) above.

M. Tax regime of capital gains deriving from the transfer of Shares

(i) Natural persons residing in Italy for tax purposes not engaged in business activities and simple partnerships

Following the amendments introduced by Article 1, paragraphs 999-1006 of the 2018 Budget Law, the tax regime of capital gains and capital losses realised from 1 January 2018 to 31 December 2018 by Italian resident individuals and simple partnerships upon transfer for consideration of the Company's Shares (as well as of securities or rights whereby Company's Shares may be acquired), other than capital gains and capital losses realised in connection with a business activity, depends on whether the transfer is a Transfer of Qualifying Shareholdings or a Transfer of Non-Qualifying Shareholdings.

Transfer of qualifying shareholdings

Capital gains deriving from the Transfer of a Qualifying Shareholding are partially included for 58.14% of their total amount in the IRPEF taxable income of the receiver, net of the corresponding quota of the relevant capital losses. With regard to such capital gains, taxes are applied in the annual tax return.

If the transfer of Qualifying Shareholdings gives rise to a capital loss, this is deducted, up to the taxable amount of capital gains of the same nature generated in the following tax periods, but only within the following four periods, provided such capital loss is indicated in the tax return related to the tax period in which the loss was generated.

Pursuant to Article 2 of Ministerial Decree of 26 May 2017, only 49.72% of the capital gains and capital losses is included in the IRPEF taxable income if they derive from transfers executed by natural persons not engaged in business activities prior to 1 January 2018, but whose amounts are in whole or in part received since that same date and for the capital gains and losses incurred by simple partnerships, also after 1 January 2018 and before 1 January 2019.

Transfer of non-qualifying shareholdings

Capital gains realised upon Transfer of Non-Qualifying Shareholdings, as well as securities or rights through which the above-mentioned shareholdings can be acquired, are liable to a 26% substitute tax. The taxpayer can choose one of the following three tax regimes:

(a) Tax return regime (Article 5 of Legislative Decree no. 461/1997). Capital gains and capital losses realised during the year must be reported in the tax return. The 26% substitute tax due on the capital gains, net of the corresponding capital losses, is determined in the tax return and is paid within the term for paying the balance of the annual income tax. The capital losses in excess of capital gains, provided they have been declared in the tax return, may be carried forward and offset up to the amount of related capital gains for subsequent tax periods, but not beyond the fourth such period (in accordance with Legislative Decree no. 66/2014 (a) 76.92%, of the capital losses realised from 1 January 2012 to 30 June 2014, and (b) 48.08%, of the relevant capital losses realised up to 31 December 2011). This regime is the default regime if the taxpayer does not elect into any of the two alternative regimes described in (b) and (c) below.

(b) Nondiscretionary investment portfolio regime (optional) (Article 6 of Legislative Decree no. 461/1997). Such regime can be applied apply, provided that (i) the Shares are managed by or in custody with Italian banks or resident stock brokerage companies or other resident intermediaries identified with specific ministerial decrees and (ii) the shareholder expressly elects (by written notice sent to the intermediary) for the nondiscretionary investment portfolio regime. If the holder elects for the application of this regime, a 26% substitute tax is calculated and paid upon each transfer by the intermediary where the shares are deposited in custody or under administration, with respect to each capital gain realised. Capital losses, if applicable, may be carried forward within the same relationship of deposit in the same tax year or in the following tax years up to the fourth and offset against capital gains of the same nature realised after 30 June 2014, but up to the following amount, in accordance with Legislative Decree no. 66/2014, in case of capital losses realised up to 30 June 2014: (a) 76.92% of the capital losses realised from January 1, 2012 to 30 June 2014, and (b) 48.08% of the relevant capital losses realised before January 1, 2012. In case of termination of the custody or administration relationship, any remaining capital loss may be offset, no later than the fourth tax period following that in which the capital losses occurred, against the capital gains realised in the context of another nondiscretionary investment portfolio regime entered into by the same parties to the original deposit or relationship, or may be carried forward and offset in the tax return. Under this regime, the holder is not required to report capital gains in the annual income tax return.

(c) Discretionary investment portfolio regime (optional) (Article 7 of Legislative Decree no. 46/1997). This regime is allowed for holders who have entrusted the management of their financial assets to an authorised intermediary. Under this regime, a 26% substitute tax is applied by the intermediary at the end of each tax period to the accrued increase in value of the assets under management, even if this increase in value is not realised, net of any income that is liable to withholding tax, any income that is exempt from taxation or in any case not liable to taxation, any income that are included in the taxpayer's overall taxable income. Under the discretionary investment portfolio regime, the capital gains realised through the Transfer of Non-Qualifying Shareholdings are included in the calculation of the increase in value of the assets under management that has accrued during the tax period, liable to a 26% substitute tax. Decreases in value of the managed assets that has been accrued during the tax period may be carried forward to offset against any subsequent increase in value for the following four tax years (pursuant to Decree Law 66/2014 to 76.92%, for decreases in value occurring between 1 January 2012 and 30 June 2014, and (b) to 48.08%, for decreases in value occurred as at 31 December 2011). In case of termination of the discretionary investment portfolio regime, the decrease in value accrued under the discretionary investment portfolio regime (as resulting from a specific certification issued by the relevant asset manager) may be offset, within the fourth tax period following the one in which the decreases in value have accrued, against the capital gains realised under another nondiscretionary investment portfolio regime, or under another discretionary investment portfolio regime, entered into by the same parties to the original deposit or asset management relationship, or may be carried forward and offset by the same holders in the income tax return, in accordance with the same rules applicable to the exceeding carried forward capital losses indicated under point (a) above (*Tax return regime*). Under this regime, the holder is not required to report capital gains in the annual income tax return.

Following the amendments introduced by Article 1, paragraphs 999-1006 of the 2018 Budget Law, the capital gains, other than those realised in connection with a business activity, realised from 1 January 2019 by natural persons and simple partnerships residing in Italy for tax purposes, through transfer of shareholdings for consideration, as well as through transfers or rights through which acquisition of the said shareholdings may occur, are liable to a 26% substitute tax in accordance with one of the regimes above described under points (a), (b) and (c), regardless of the fact that they derive from the Transfer of a Non-Qualifying Shareholding and a Transfer of a Qualifying Shareholding.

Article 1, paragraph 100 et seq. of Law 232/2016 provides that natural persons residing in Italy for tax purposes but not engaged in business activities, under certain conditions (including a minimum 5-year holding period) and with some limitations, are not liable to any income tax in case of income (including dividends) from investments under paragraph 102 of said law (including the Shares), other than Qualifying Shareholdings, included in a Long-Term Saving Scheme established pursuant to paragraph 101 of said law. Tax relief loss and recovery mechanisms are provided, if the Company's shares are transferred before the minimum 5-year holding period required for exemption or expiry of the other conditions required by Law 232/2016 has lapsed.

(ii) Natural persons carrying out business activities, unlimited partnerships, limited partnerships and their equivalent under Article 5 TUIR

Capital gains realised by natural persons while carrying out business activities, unlimited partnerships, limited partnerships and their equivalent under Article 5 TUIR through the transfer for consideration of Shares concur, for their entire amount, in the calculation of the taxable business income, that is liable to taxation in Italy in accordance with the ordinary regime.

As indicated by the Italian tax authorities, the negative income generated by individuals while carrying out business activities, partnerships, limited partnerships and the comparable companies listed in Article 5 TUIR through transfer for consideration of shares can be fully deducted from the taxable profits of the transferor.

However, if the conditions indicated under points (a), (b), (c) and (d) of the following paragraph have been met, the capital gains, realised from 1 January 2018, are included in the taxable business income for 58.14% of their amount, for natural persons carrying out business activities (49.72% for partnerships under Article 5 of the TUIR, among which limited partnerships and their equivalent are included). The capital losses realised on shareholdings that meet the fulfilment of the requirements indicated under points (a), (b), (c) and (d) of the following paragraph can be deducted only in part, similar to what is provided for the taxation of capital gains.

For purposes of determining the capital gains and capital losses that are relevant for tax purposes, the holder's tax basis in the shares is reduced by any write-down that the holder has deducted in previous tax years.

Provided certain requirements are fulfilled, natural persons residing in Italy for tax purposes that carry out business activity are allowed to opt for the application of the Tax on Corporate Income regime ("**IRI**") in relation to income originating from their business activity. In this case, the capital gains and capital losses incurred through transfer of the Shares for consideration are included in the determination of the taxable income under the ordinary rules on business income set out by Chapter 6, Title 1 TUIR and are liable to a 24% income tax rate. Any subsequent withdrawal of resources from the business activity should be fully taxed for IRPEF purposes in the hands of the relevant individual and deducted from the IRI taxable base. The bill for the 2019 budget and for the multi-annual budget for the period 2019-2021, submitted by the Minister of Economics and Finance to the Italian Parliament on 31 October 2018, provides for the repeal of above IRI regime.

(iii) Companies and entities under Article 73, paragraph 1, letter a) and b), TUIR residing in Italy for tax purposes.

The capital gains realised by companies and entities listed under Article 73, paragraph 1, letters a) and b), TUIR (i.e. joint-stock companies and limited partnerships with share capital, limited liability companies, public and private entities, other than companies, whose main or exclusive purpose is the exercise of business activities) through the transfer for consideration of the Shares, are included in the calculation of the taxable business income in their full amount.

However, pursuant to Article 87 of the TUIR, the capital gains realised in relation to shares in companies and entities under Article 73 of the TUIR are 95% exempt, if the above-mentioned shares meet the following conditions:

(a) they have been continuously held from the first day of the twelfth month prior to that of the transfer, considering as transferred first the shares or quotas more recently acquired;
(b) they have been classified as financial assets in the first financial statement that ended during the holding period;
(c) the investee is resident for tax purposes in one of the states or territories other than those under a privileged tax regime identified in accordance with the criteria set out at Article 167, paragraph 4 of the TUIR or, alternatively, the participating company demonstrates – also through the ruling procedure set out in paragraph 5, letter b), of Article 167 – that the shareholdings, since the beginning of their holding period, were not aimed at localising income in states or territories under a privileged tax regime identified in accordance with the criteria set out at Article 167, paragraph 4 of the TUIR;
(d) the investee carries out a business activity as defined by Article 55 TUIR

At the date when the capital gains are received, the requirements indicated under subparagraphs (c) and (d) must be fulfilled, uninterruptedly since the beginning of the third tax period prior to the date when the capital gains are realised. Transfers of shares or quotas belonging to the category of long-term financial assets and those belonging to the category of current assets must be considered separately with reference to each category.

For shareholdings in companies that are exclusively or mainly engaged in the business of acquiring shareholdings, the conditions under subparagraphs (c) and (d) are referred to the companies indirectly held and are fulfilled when such conditions are met by the investees that represent the major portion of the holding company's equity.

The condition under subparagraph (d) is not relevant for shareholdings in companies whose securities are traded on regulated markets.

If the above-mentioned requirements are fulfilled, the capital losses generated by the transfer of shareholdings cannot be deducted from business income.

For purposes of determining the capital gains and capital losses that are relevant for tax purposes, the tax basis of the transferred shares is reduced by write-downs deducted in previous tax periods.

Capital losses and negative differences between revenues and costs relating to shares that do not meet the participation exemption requirements are not relevant to the extent of the non-taxable amount of dividends or advance dividend received by the holder in the 36 months prior to the transfer. This provision applies (i) with respect to shares acquired in the 36 months prior to the realisation of the capital loss, provided that the conditions under points (c) and (d) are fulfilled, but (ii) does not apply to those holders who draw their financial statements on the basis of the international accounting standards indicated in Regulation (EC) no. 1606/2002 of the European Parliament and the Council of 19 July 2002.

In relation to the capital losses that can be deducted from business income, it should also be noted that those holders who realised, during the tax period, such negative differences over shareholdings are expected to report to the Italian tax authorities the data corresponding to such negative results, to allow them to assess the potential tax avoidance elements of the corresponding transactions, in light of Article 37-bis of Presidential Decree no. 600/73 (it should be noted that Article 37-bis, Presidential Decree no. 600/1973 has been repealed from 2 September 2015 and, pursuant to Article 1 of Legislative Decree 5 August 2015, no. 128, provisions referring to Article 37-bis, Presidential Decree no. 600/1973, must be interpreted as referring to Article 10-bis of Law of 27 July 2000, no. 212, to the extent that they are compatible).

More specifically, the reporting obligations at issue have been introduced by:

- Article 1, paragraph 4, Decree Law no. 209 of 24 September 2002 no. 209, converted with amendments by Law of 22 November 2002 no. 265, on capital losses exceeding EUR 5,000,000.00 deriving from the transfer of shareholdings recognised as long-term financial assets;
- Article 5-*quinquies*, paragraph 3, of Decree Law no. 203 of 30 September 2005, converted with amendments by Law no. 248 of 2 December 2005, on capital losses and negative differences exceeding EUR 50,000.00, realised on shareholdings traded on Italian or foreign regulated markets.

With reference to the former reporting obligation, introduced by Article 1, paragraph 4, of Decree Law no. 209 of 24 September 2002, if the amount of the aforesaid capital losses exceeds EUR 5,000,000.00, even as a result of multiple transactions, the taxpayer is expected to provide the Italian tax authorities with the information and data concerning the operation on the filing of the tax return for the fiscal year in which the capital loss was generated. The omitted, incomplete or false communication of capital losses exceeding EUR 5,000,000.00, deriving from the transfer of shareholdings recognised as long-term financial assets is sanctioned with an administrative fine equal to 10% of the capital losses whose notification was omitted, incomplete or false, with a minimum fine of EUR 500.00 and a maximum fine of EUR 50,000.00.

This reporting obligation does not apply to companies that adopted the international accounting standards referred to in Regulation (EC) no. 1606/2002 of the European Parliament and the Council of 19 July 2002.

The latter reporting obligation regards capital losses and negative differences exceeding EUR 50,000.00 realised on shareholdings in companies listed on regulated markets. Pursuant to Article 5-*quinquies*, paragraph 3, of Decree Law no. 203 of 30 September 2005, converted by Law no. 248 of 2 December 2005, capital losses and negative differences exceeding EUR 50,000.00, also originating from multiple transactions on shares, quotas and other analogous securities traded on Italian or foreign regulated markets, must be reported to the Italian tax authorities in order to allow them to carry out possible investigations pursuant to Article 37-*bis* of Presidential Decree no. 600/73 (Article 37-*bis* of Presidential Decree no. 600/73 was repealed effective from 2 September 2015, and therefore, in accordance with Article 1 of Legislative Decree no.128 of 5 August 2015, the provisions that refer to Article 37-*bis* of Presidential Decree no. 600/73 are intended to refer to Article 10-*bis* of Law no. 212 of 27 July 2000 insofar as they are compatible).

Similar to what is provided with regard to capital losses exceeding EUR 5,000,000.00 (Article 1 of Decree Law no. 209 of 24 December 2002), the taxpayer is expected to report all the information and data concerning the operation to the Italian tax authorities on filing the tax return for the fiscal year in which the capital loss was realised, while the omitted, incomplete and false communication of the capital losses and the negative differences exceeding EUR 50,000 is sanctioned with an administrative fine amounting to 10% of the capital losses whose communication was omitted, incomplete or false, with a minimum fine of EUR 500.00 and a maximum fine of EUR 50,000.

The reporting obligation concerning data on the transfers of shareholdings in listed companies, that gave rise to capital losses and negative differences, lies with the persons holding such assets under a business regime. The duty to provide such information does not apply, therefore, to individuals and those other persons who do not hold shareholdings under a business activity.

Unlike the rules applicable to capital losses exceeding EUR 5,000,000.00, the obligation to report capital losses and the negative differences on shareholdings exceeding EUR 50,000.00, pursuant to Article 5-*quinquies*, paragraph 3, of Decree Law no. 203 of 30 September 2005, also applies to companies that use international accounting standards to prepare their financial statements.

Pursuant to Article 5-*quinquies*, paragraph 3 of Decree Law no. 203 of 30 September 2005, the reporting obligation applies to:

- both the negative components of long-term shareholdings (capital losses) and the negative components of shareholdings included in the current assets (other negative differences);

- capital losses and negative components realised on shareholdings both listed on Italian and foreign regulated markets.

For certain types of companies and under certain conditions, the capital gains realised by the above-mentioned persons through the transfer of shares is also included in the taxable base liable to a regional tax on productive activities (IRAP).

(iv) Entities under Article 73, paragraph 1, letter c), TUIR, residing in Italy for tax purposes

The capital gains realised, not in connection with business activities, by non-commercial entities not resident in Italy, are liable to taxation in accordance with the same rules applied to the capital gains realised by individuals over shareholdings not held in connection with a business activity (without prejudice to what is provided for below under subparagraph C(v) for UCIs pursuant to Article 73, paragraph 5-*quinquies*, of the TUIR).

(v) Italian pension funds and UCIs

The capital gains realised by the Italian pension funds listed in Legislative Decree no. 252/2005 upon transfer for consideration of shares are considered in the calculation of the annual earned profits, liable to a 20% substitute tax.

Article 1, paragraph 92 and seq. of Law no. 232/2016 provides, with regard to the pension funds in question, commencing from 1 January 2017, following the fulfilment of certain conditions (including a minimum holding period of 5 years) and with certain limitations, for the exemption from income tax on income deriving from investment pursuant to the cited paragraph 92 (including Shares) and, therefore, such amount shall not be included in the calculation of the taxable base under Article 17 of Decree 252. Recovery mechanisms for the substitute tax on the annual earned profits are provided for, if the Company's Shares are transferred before the minimum required 5-year holding period has lapsed.

The capital gains generated by UCIs established in Italy, other than real estate collective investment vehicles, referred to under Article 73, paragraph 5-*quinquies*, TUIR are not liable to income tax, provided that the fund or the entity managing the fund is subject to prudential supervision. In general, participants will be taxed upon receipt of distributions from UCIs.

(vi) Real estate investment funds

Pursuant to Decree 351, and following changes made by Article 4*1-bis* of Decree 269, starting from 1 January 2004 the earnings, including capital gains deriving from transfer of shares, realised by Real Estate Investment Funds established pursuant to Article 37 of the TUF and Article 14-*bis* of Law 86/1994, are not liable to income tax. Such funds are neither liable to income tax nor to regional tax on production activities.

The distributions deriving from interests in the above-mentioned funds are liable to a 26% tax applied to the recipients, as an advance payment of income taxes or as a final withholding tax (depending on the legal nature of the recipient). Such 26% withholding tax does not apply on distributions paid to qualified investors, that are beneficial owners of such distributions and are resident for tax purposes in foreign states guaranteeing an adequate exchange of information with the Italian tax authorities (for example, in case the recipient is a foreign retirement fund or a regulated foreign collective investment vehicle, provided they are established in states and territories included in the list provided by the Decree issued by the Ministry of Finance on 4 September 1996, as subsequently amended, no withholding tax will be applied by the Italian real estate investment fund).

In certain cases, the income received from an Italian non-institutional real estate investment fund may be attributed to, on a tax transparency basis (and therefore included in the calculation of the taxable income in Italy of), the relevant non-institutional investors that hold units representing more than 5% of the fund's net asset value

(vii) Persons not resident in Italy, with a permanent establishment in Italy

With regard to non-resident persons who hold the shareholding through a permanent establishment in Italy to which the shareholding is actually connected, the capital gains realised upon the transfer of the shareholding are included in the taxable income of the permanent establishment pursuant to the tax regime provided for the capital gains realised by companies and entities listed under Article 73, paragraph 1, letters a) and b), TUIR, resident in Italy for tax purposes. If the shareholding is not linked to a permanent establishment in Italy of the non-resident person, reference should be made to the next paragraph.

(viii) Persons not resident in Italy for tax purposes, without a permanent establishment in Italy

<u>Transfer of non-qualifying shareholdings</u>

Pursuant to Article 23, paragraph 1, letter f), point 1), TUIR, the capital gains realised upon the transfer of shares listed on regulated markets that qualify as transfers of non-qualifying shareholdings are not taxable in Italy.

<u>Transfer of qualifying shareholdings</u>

The capital gains realised, from 1 January 2018 to 31 December 2018, by persons not resident in Italy for tax purposes and without a permanent establishment in Italy (through which the shareholdings are held), upon transfer of qualifying shareholdings are included in the calculation of the taxable base of the recipient in accordance with the same rules applicable to capital gains from the transfer of qualifying shareholdings realised from 1 January 2018 to 31 December 2018 by resident natural persons not engaged in business activity. Such capital gains are liable to taxation only in the annual tax return, since neither the nondiscretionary investment portfolio regime nor the discretionary investment portfolio regime can be applied to those capital gains. The foregoing is without prejudice to, if applicable, the application of more favourable provisions set out by double tax treaty.

The capital gains realised from 1 January 2019 by persons not resident for tax purposes in Italy, without a permanent establishment in Italy (through which shareholdings are held), upon Transfer of Qualifying Shareholdings are liable to 26% substitute tax in accordance with the same rules governing the taxation of capital gains from the Transfer of Qualifying Shareholdings realised from 1 January 2019 by resident individuals not engaged in business activities. This is without prejudice to, where applicable, the application of international treaties against double tax.

P. Tax on financial transactions (the "Tobin Tax")

Article 1, paragraphs from 491 to 500, of Law no. 228 of 24 December 2012 introduced a tax on financial transactions that applies to the transfer of ownership in shares and other financial instruments, to transactions concerning equity derivatives and to other transferrable securities.

The parties liable to tax are those persons in whose favour the transfer of ownership in the shares issued by companies, with a registered office located in Italy, is carried out, irrespective of the place of residence of the counterparties and the place where the transaction was executed. Persons without a permanent establishment in Italy and located in states or territories with which no agreement for the exchange of information or for assistance in the recovery of claims for taxation purposes has been concluded (as identified in a specific Regulation issued by the Director of the Italian Tax Authority on 30 May 2016, as integrated by the Regulation of the Director of the Italian Tax Authority of 9 June 2016) are considered for all intents and purposes buyers, irrespective of the title under which they participate to the operation, unless they proceed to identify themselves in accordance with the procedures set out by regulation of the Director of the Italian Tax Authority of 18 July 2013, as amended by the Regulation of the Head of the Italian Tax Authority of 9 March 2017.

Banks, trust companies and investment companies authorised to perform the professional services and investment activities indicated under Article 18 of the TUF, as well as other intermediaries that participate in the implementation of the above-mentioned transactions (for example, notaries participating in the drawing up or authentication of deeds related to the same transactions), including non-resident intermediaries are responsible for levying and paying the tax.

The tax must be paid no later than the 16th day of the month following the month when the transfer of ownership in the shares occurred.

The tax is charged at 0.20% on the value of the transaction that is determined on the basis of the net balance of the daily transactions (calculated for each taxpayer with reference to the number of securities being purchased and sold on the same day for each financial instrument) multiplied by the weighted average price of the purchases made on the relevant day.

The rate is reduced by half (0.10%) for transfers that occur as a result of transactions executed on regulated markets or multilateral trading systems.

Transactions specifically identified by Article 15 of the Decree issued by the Ministry of Economy on 21 February 2013, include:

- the transfer of share ownership that occurs by inheritance or gift;

- transactions for the issue and cancellation of shares, including repurchase transactions of securities carried out by the Issuer;
- the purchase of newly-issued shares even if this occurs following the conversion, exchange or redemption of bonds or the exercise of option rights held by the Shareholders;
- the distribution of profits, reserves or return of share capital through allocation of shares;
- temporary purchase transactions of securities indicated under Article 2, paragraph 10 of the Regulation (EU) no. 1287/2006 of the European Commission of 10 August 2006;
- transfers of securities carried out by and between companies in which there exists a controlling relationship under Article 2359, subparagraphs 1.1 and 1.2, and paragraph 2 of the Italian civil code, or which are controlled by the same company and those deriving from company restructuring transactions pursuant to Article 4 of Directive 2008/7/EC.

The transfers of ownership in shares traded on regulated markets or multilateral trading systems, issued by companies whose average capitalisation in November of the year prior to the one in which the transfer of ownership occurred, did not exceed EUR 500 million, are also excluded from taxation. Furthermore, also excluded are those transfers of ownership in securities representing shares issued by the same company. Pursuant to Article 17 of Ministerial Decree of 21 February 2013, no later than 10 December of each year, Consob drafts and send to the Ministry of Economy and Finance, the list of companies with shares traded on Italian regulated markets or multilateral trading systems that respect the above-mentioned capitalisation limit. Based on the information received, the Ministry of Economy and Finance drafts and publishes on its website, no later than 20 December of each year, the list of resident companies in Italy for the purposes of the exemption. The exemption also applies to transfers that do not take place on markets and multilateral trading systems. In case of admission to the trading on the regulated market or multilateral trading systems, the analysis as to whether the relevant company is included in said list should occur after the financial year in which it is possible to calculate an average capitalisation for the month of November; until such financial year, it shall be presumed that the capitalisation is less than EUR 500 million.

Specific exemptions from the application of the Tobin Tax are also provided under Article 16 of the Decree issued by the Ministry of Economy and Finance on 21 February 2013.

The Tobin Tax is not deductible for the purposes of income taxes (IRPEF and IRES), their substitute taxes or IRAP.

High-frequency trading

Pursuant to Article 1, paragraph 495 of Law no. 228/2012, transactions executed on the Italian financial market are liable to a tax on high-frequency trading related to financial instruments under Article 1, paragraphs 491 and 492 of Law no. 228/2012.

High-frequency trading is deemed to occur if trading is generated by a computer algorithm that automatically determines whether to send, modify or cancel the orders and related parameters, when the sending, modifying and cancellations of financial instrument orders of the same type are executed at minimum intervals that are lower than the amount specified under the Decree of the Minister of Economy and Finance of 21 February 2013.

The tax is applied at 0.02% of the value of the cancelled or modified orders that in one trading day exceed the numerical threshold established under the Decree of the Minister of Economy and Finance of 21 February 2013. This threshold shall not be in any case lower than 60% of the transmitted orders.

The tax is due by the person that, through the algorithms indicated under Article 12 of the Decree of the Minister of Economy and Finance of 21 February 2013, enters purchase and sale orders and the associated modifications and cancellations pursuant to the meaning of Article 13 of said Ministerial Decree.

Q, Inheritance and gift tax

Article 13 of Law no. 383 of 18 October 2001 provided, among other things, for the abolition of inheritance and gift tax. However, the tax at issue was subsequently reintroduced by Decree Law no. 262 of 3 October 2006, converted into law with amendments by Law no. 286 of 24 November 2006, as subsequently amended by Law no. 296 of 27 December 2006, effective from 1 January 2007.

As a result, transfers of shares by reason of death or gift or free of charge are liable to the above-mentioned tax. The tax also applies to the creation of liens for a specific purpose. Within certain limits, some exemptions are provided with regard to family relationships or other conditions.

For persons that are resident in Italy, inheritance and gift tax is generally applied on all assets and rights transferred, wherever existing (except for certain exemptions). For persons that are non-resident, inheritance and gift tax is applied exclusively on assets and rights that are deemed to be held in Italy. Shares in companies with an Italian registered office or Italian headquarters or a main corporate purpose pertaining to Italy, are deemed as held in Italy.

Inheritance tax

Pursuant to Article 2, paragraph 48, of Decree Law no. 262 of 3 October 2006 ("**Decree Law 262/2006**" as converted into law with amendments by Law no. 286 of 24 November 2006) the transfers of assets and rights by reason of death are generally liable to inheritance tax, in accordance with the following rates, to be applied on the overall net value of the assets:

(i) for assets and rights transferred to a spouse and to relatives in direct line, the applicable rate is 4%, with an exemption threshold of EUR 1 million for each beneficiary;

(ii) for assets and rights transferred to other relatives up to the fourth degree and relatives-in-law up to the third degree, the applicable rate is 6% (with an exemption threshold of EUR 100,000.00 for each beneficiary applicable only for brothers and sisters);

(iii) for assets and rights transferred to other persons, the rate is 8% (without any exemption threshold).

If the transfer is made in favour of persons with severe disabilities pursuant to Law no. 104 of 5 February 1992, inheritance tax is only charged on the portion of value of the share or bequest exceeding EUR 1.5 million.

Gift tax

Pursuant to Article 2, paragraph 49, of Decree Law 262/2006, for gifts and transfer deeds without consideration of assets and rights and the creation of liens on assets for a specific purpose, gift tax is generally determined by applying the following rates on the global value of the assets and rights, net of the costs suffered by the beneficiary, or, if the gift is given jointly to multiple persons or if the same deed includes multiple gifts in favour of different persons, on the value of the relevant share of the assets or rights that have been allocated:

(iv) in case of gift or transfer without consideration to a spouse and to relatives in direct line, the applicable rate is 4%, with an exemption threshold of EUR 1 million for each beneficiary;

(v) in case of gift or transfer without consideration to other relatives up to the fourth degree and to relatives-in-law up to the third degree, the applicable rate is 6% (with an exemption threshold of EUR 100,000.00 for each beneficiary applicable only for brothers and sisters);

(vi) in case of gift or transfer without consideration to other persons, the applicable rate is 8% rate (without any exemption threshold).

If the transfer is made in favour of persons with severe disabilities pursuant to Law no. 104 of 5 February 1992, gift tax is only charged on the amount exceeding EUR 1.5 million.

R. Stamp duty

Article 13, paragraphs 2-*bis* and 2-*ter*, of the Tariff, Part 1, annexed to Presidential Decree no. 642 of 26 October 1972, and corresponding notes 3-*bis* and 3-*ter* provide rules on the proportional stamp duty that is generally applicable (except for certain exclusions/exceptions) to periodic communications sent by Italian banks and financial intermediaries to their customers in relation to financial products deposited with these institutions, such as shares, even when such products are not liable to a deposit obligation, including bank and postal deposits, even when represented by certificates.

The proportional stamp duty does not apply, *inter alia*, to the reports and notifications that Italian intermediaries send to investors other than customers, as defined in the Regulation adopted by the Governor of the Bank of Italy on 30 September 2016, as subsequently amended. The proportional stamp duty does not apply, *inter alia*, to communications received by pension funds and health funds.

Paragraph 2-*ter* of Article 13 of the Tariff, Part 1, annexed to Presidential Decree no. 642 of 1972 provides that, if applicable, the proportional stamp duty is applied in the amount of 2‰ per year. No minimum stamp duty is applied. The stamp duty cannot exceed EUR 14,000.00 for investors other than natural persons.

The tax is collected by banks and other financial intermediaries and is related to the reported period. Periodic communications to customers are deemed to be sent, in any case, at least once a year, even if the Italian intermediary is under no obligation to either draft or send such communications. In this case, the stamp duty is applied on the value of the financial products, as identified below, calculated as of the thirty first of December of each year and, in any case, at the termination of the contractual arrangement with the customer.

The stamp duty is applied on the market value of the financial instruments or, absent such value, on the nominal or redemption amount, as resulting from the communication sent to customers. The tax is applicable both to investors residing in Italy and to investors not resident in Italy for tax purposes, with regard to financial instrument kept with Italian intermediaries.

S. Tax on the value of financial assets held abroad

Pursuant to Article 19, paragraph 18 of Decree Law no. 201 of 6 December 2011, converted by Law no. 214 of 22 December 2011, natural persons residing in Italy for tax purposes and holding financial products – such as shares – abroad as property or other rights in rem (irrespective of how they have been acquired and, therefore, also if such products originate from inheritance or gifts), are generally liable to a tax on their value ("**IVAFE**").

The tax is also applied to investments in the capital or assets of entities resident in Italy for tax purposes and held abroad. Certain clarifications have been provided by the Italian tax authorities for the case of financial products held abroad through interposed entities.

The tax, applied on the value of the financial products, due in proportion of the share held and of the holding period, is charged at 2‰.

The IVAFE taxable base is represented by the market value of the financial products held abroad as recorded at the end of each calendar year in the place where they are held, or – if such value is unavailable – at the nominal or redemption amount, also considering the documentation provided by the relevant foreign intermediary. If, on 31 December the financial products are no longer held, reference should be made to the market value of the products as recorded at the end of the holding period. For the financial products listed on regulated markets, this is the value that must be used.

Regardless of the place of residence of the issuer or the counterparty, IVAFE does not apply to financial products – such as shares – held abroad but under management by Italian financial intermediaries (in fact, in this case these are liable to the stamp duty indicated under the previous paragraph) or to foreign assets that are physically held by the taxpayer in Italy.

A tax credit equal to the wealth tax paid in the State where the financial products are held can be deducted from the IVAFE due up to the amount of the IVAFE. The credit cannot, in any case, exceed the tax that is due in Italy. No tax credit is due if a double tax treaty (applicable also to property taxes) exists with the country where the financial product is held, and such double tax treaty attributes the right to tax such financial products exclusively to the holder's country of residence. In these cases, a request for a refund of the property taxes paid abroad can generally be made to the tax authorities of the country where the above-mentioned taxes have been applied despite the double tax treaty. Details of financial products held abroad must be included in the RW section of the annual tax return.

T. Tax reporting requirements

Under the tax reporting regulations, natural persons, non-commercial entities and simple partnerships and their equivalent, residing in Italy for tax purposes, are required to report the amount of investments (including any shares) held abroad during the tax period, that may give rise to a taxable income in Italy, in the RW section of their annual tax return (or in a specific form, if the filing of the income tax return is not due). The same requirements also apply to persons included in the above-mentioned categories who, although not holding directly any financial foreign investments and activities, are the actual economic owners of the investment in accordance with Article 1, paragraph 2, letter pp), and Article 20 of Legislative Decree no. 231 of 21 November 2007.

With regard to shares, such reporting requirements are not applicable if the shares are not held abroad and, in any case, if the shares are under management or administration entrusted to intermediaries resident in Italy, provided that the cash flows and the income deriving from the shares are liable to withholding or substitute tax applied by such intermediaries (further clarification on tax reporting requirements is provided by the following Circulars issued by the Italian tax authorities: no. 38/E of 23 December 2013, no. 19/E of 27 June 2014 and 10/E of 13 March 2015).

Finally, following the intergovernmental agreement executed between Italy and the United States on the implementation of the regulations on Foreign Account Tax Compliance Act (FATCA) and Law no. 95 of 18 June 2015, which ratified and implemented this agreement, as well as the provisions related to the compliance requirements applicable to financial institutions in order to implement the automatic exchange of information arising from the above-mentioned agreement and from agreements between Italy and other foreign States (Common Reporting Standard), implemented with Ministerial Decree of 28 December 2015, the holders of financial instruments (including shares) may be subject, under certain conditions, to specific disclosure requirements.

5. TERMS AND CONDITIONS OF THE OFFER

5.1 Conditions, offer statistics, timetable and action required to apply for the offer

Not applicable.

5.2 Planned allotment and assignment

Not applicable.

5.3 Pricing

The transaction described herein does not imply any offer of financial products and hence the information required by this Paragraph is not applicable.

For information concerning the value of the Bank's shares that are the object of sales rights by the banks minority shareholders reference should be made to Chapter 21 of the Prospectus.

For the sake of completeness, it should be noted that as at the Prospectus Date, the Ordinary Shares and the Conditional Share Rights of SPAXS, the company that will be absorbed by the Issuer as a result of the Merger, are admitted to trading on the multilateral trading facility AIM Italia. Trading in the Ordinary Shares and Conditional Share Rights on this facility began on 1 February 2018; at the time of listing, SPAXS's market capitalisation amounted to 600 million euro.

From the first day of trading on the AIM Italia to 8 February 2019, SPAXS Ordinary Shares had an average price of EUR 9.34, a maximum price of EUR 10.41 (on 15 February 2018) and a minimum price of EUR 6.30 (on 27 December 2018). Over the same period, the daily average trading volume on the AIM Italia was approximately 62,407 Ordinary Shares. From the first day of trading on the AIM Italia to 8 February 2019, the market value of SPAXS Ordinary Shares decreased by approximately 32%; also considering the value of the bonus Conditional Share Rights, with a ratio of 5 (five) Rights every 10 (ten) shares held, incorporated in the price of the ordinary share upon listing on AIM and detached on 12 November 2018, the performance of the share would be negative by approximately 25%. The share's performance is therefore worse that the FTSE AIM Italia index, which over the same period dropped by approximately 11%, and relatively better than that reported by the applicable European banking index, which over the course of the same period recorded a negative performance of 37%.

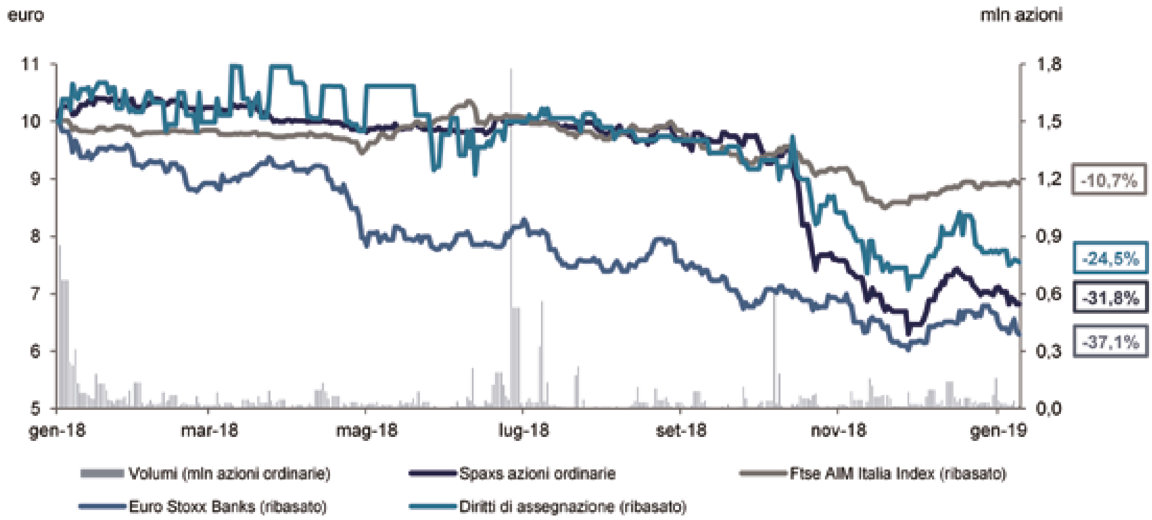
From the first day of trading on the AIM Italia to 8 February 2019, SPAXS Conditional Share Rights had an average price of EUR 1.7, a maximum price of EUR 2.0 (on 9 April 2018) and a minimum price of EUR 1.26 (on 27 December 2018).The daily average trading volume from the first day of trading on the AIM Italia to 8 February 2019 was 18,186 Rights. Since the date when AIM Italia trading began up to 8 February 2019, the market value of SPAXS Conditional Share rights have recorded a drop of approximately 25%.

At 8 February 2019, SPAXS market capitalisation amounts to 405 million euro, and to 443 million euro including the Conditional Share Rights.

The following graph shows the performance of SPAXS Shares and Conditional Share Rights starting from their first day of trading on the AIM Italia

The graph also shows the performance of market prices and volumes traded for SPAXS securities and Conditional Share Rights, the performance of the FTSE AIM Italia index and the performance of the Euro Stoxx Banks index from 1 February 2018 to 8 February 2019.

Performance of SPAXS Ordinary Shares and SPAXS Conditional Share rights compared to Ftse AIM Italia and Euro Stoxx Banks indices



Source: Bloomberg

6. ADMISSION TO TRADING AND DEALING ARRANGEMENTS

6.1 Application for admission to listing

At the Prospectus Date, the Shares and Conditional Share Rights of SPAXS are traded on the AIM.

On 30 November 2018, the Issuer submitted an application for admission to the listing of the Shares and Conditional Share Rights on the MTA.At the same time, SPAXS submitted an application to Borsa Italiana to withdraw its ordinary shares and conditional share rights from trading on the AIM, subject to the effectiveness of the Merger and concurrent start of trading of the Issuer's ordinary shares and conditional share rights on the MTA.

By way of provision no. 8537 of 25 February 2019, Borsa Italiana authorised the admission of the SPAXS Ordinary Shares and the SPAXS Conditional Share Rights to listing on the Electronic Stock Market and at the same time their exclusion from trading on the AIM.

Following receipt of this provision, on 25 February 2019 the Issuer also filed an application to be admitted to trading.

The first day of trading of the Shares and Conditional Share Rights on the MTA will be determined by Borsa Italiana pursuant to Article 2.4.2, paragraph 4, of the Stock Exchange Regulation, subject to verification that this Prospectus is made available to the public.

6,2 Other regulated markets

At the Prospectus Date, Shares and Conditional Share Rights of the Issuer are not listed in any other Italian or foreign regulated markets.

At the Prospectus Date, the Shares and Conditional Share Rights of SPAXS are admitted to trading on the AIM Italia and will be subject to delisting (see Paragraph 6.1).

6,3 Other transactions

No other transactions are envisaged for the sale, subscription or private placement of financial instruments of the same category as those subject to listing, nor of other categories, in the proximity of the listing.

6.4 Intermediaries in transactions on the secondary market

Non applicabile,

6.5 Stabilisation

No stabilisation activities are envisaged by the Issuer or by parties engaged by it.

7. HOLDERS OF FINANCIAL INSTRUMENTS WHO PROCEED TO SELL

Not applicable.

8. EXPENSES RELATED TO THE OFFER

The expenses for the Bank's listing process are estimated to be EUR 2.1 million and will be borne by the Issuer.

9. DILUTION

The listing operation does not imply the issue of new ordinary shares of the Company, and hence does not produce any offer-based diluting effect.

However, as better outlined in Chapter 18, to which reference should be made for further information, the Issuer's shareholding will be subject to changes over time due to (i) completion of the Merger, (ii) assignment of all maximum 5,698,565 Conversion Shares arising from all 28,492,827 outstanding Conditional Share Rights, and (iii) conversion of 1,440,000 Special Shares of the Issuer into 11,520,000 Ordinary Shares of the Issuer, if the conditions arise prescribed by the Articles of Association regarding the conversion with a 1:8 ratio (i.e. the attainment of the trigger related to the price evolution of Ordinary Shares on the MTA), or (iv) the conversion of all the no. 1,440,000 of the Issuer's Special Shares into no. 1,440,000 Ordinary Issuer Shares, in the event that the conversion ratio foreseen by the Articles of Association call for a 1:1 Conversion (i.e. lapsing of the term indicated in said Articles of Association – 20 September 2022 – without the trigger detailed in the preceding point (iii) having been attained).

Compared to the Prospectus Date, on the occurrence of the above conditions, (sub (i) and (ii) and therefore taking into account the completion of the Merger and the allocation of the Conversion Shares), the ordinary shareholders of the Issuer – namely (a) SPAXS ordinary shareholders as at the Prospectus Date other than the Promoters and (b) the ordinary shareholders of the Bank as at the Prospectus Date other than SPAXS – would collectively hold an interest in the share capital of the Issuer of (x) 82.2%, corresponding to a dilution, represented by voting rights of the Issuer, of 17.8%, (if all Special Shares are converted based on the 1:8 conversion ratio) and (y) at 94,6%, equivalent to a dilution, represented by the Issuer's voting rights, of 5,4%, (if all Special Shares are converted based on a 1:1 conversion ratio).

This dilution corresponds to 17.9% and 5.5% respectively, only for SPAXS ordinary shareholders as at the Prospectus Date other than the Promoters; as well as a dilution for the Issuer's shareholders other than SPAXS shareholders and the Promoters from a percentage of the Issuer's voting rights of 0.08% at the Prospectus Date to a percentage of 0.06% and 0.075% respectively.

It should be noted that the figures indicated above and in the table below do not take into account, as it is not telling, of the effect of the % of voting rights resulting from the purchase following the completion of the Merger by the bank of the no. 74 ordinary BIP shares for which the minority shareholders have exercised sale rights pursuant and to the effects of article 2505-bis, first paragraph of the Italian Civil Code. For more information on this point reference should be made to Chapter 5, Paragraph 5.1 of the Prospectus.

Situation at the date of the Prospectus		Post-merger situation	Post-merger situation, allocation of Conversion Shares related to Conditional Share Rights	Fully diluted (post-merger, allocation of Conversion Shares related to Conditional Share Rights and Conversion of Special Shares)	
				Special Share Conversion with 1:1 ratio	Special Share Conversion with 1:8 ratio
Shareholder	**% of share capital with voting rights**	**% of share capital with voting rights**	**% of share capital with voting rights**	**% of share capital with voting rights**	**% of share capital with voting rights**
SPAXS S.p.A.(*)	99.17%	-	-	-	-
Minority shareholders of BIP	0.83%	0.08%	0.08%	0.075%	0.065%
SDP RAIF – Genesis(**)	-	9.88%	9.01%	8.82%	7.66%
AMC Metis S.a.r.l.(**)(***)	-	7.74%	7.06%	6.91%	6.00%(***)
Tensile-Metis Holdings S.a.r.l.(**)	-	6.23%	5.68%	5.56%	4.83%
AZ Fund Management SA(**)	-	5.07%	4.63%	4.53%	3.93%
Tetis S.p.A. (**)(***)	-	3.60%	3.28%	5.35%	17.67%(***)
AC Valuecreations S.r.l. (**)	-	0.04%	0.03%	0.05%	0.18%
Banca IMI (**)	-	2.02%	1.84%	1.80%	1.56%
Floating (**)	-	65.35%	68.39%	66.91%	58.11%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

(*) As a result of the Merger, on the data of effectiveness of the same towards third parties, SPAXS shall be extinguished

(**) SPAXS shareholders on Prospectus Date.

(***) As far as the Issuer is concerned, according to the prescriptions of the term sheet undersigned between Metis S.p.A. (the parent company of Tetis S.p.A.) AMC Metis S.a.r.l. (a subsidiary of Atlas Merchant Capital LP), for which reference should be made to Section One, Chapter 14, Paragraph 14.2.1 of the Prospectus, Atlas' shareholding in the Issuer may increase and that of Tetis reduce correspondingly, by a maximum amount of 1% (on a fully diluted basis) of the Issuer's share capital.

10. SUPPLEMENTARY INFORMATION

10.1 PARTIES PARTICIPATING IN THE TRANSACTION

The Second Section of the Prospectus does not mention consultants participating in the transaction.

10.2 OTHER INFORMATION SUBJECT TO REVIEW

The Second Section contains no additional information subject to review compared to those indicated in the First Section.

10.3 EXPERTS' OPINIONS OR REPORTS

For information on this matter, reference should be made to Chapter 23, Paragraph 23.1 of the First Section of the Prospectus.

10.4 INFORMATION FROM THIRD PARTIES

For information on this matter, reference should be made to Chapter 23, Paragraph 23.2 of the First Section of the Prospectus.

ANNEX

Report of Deloitte on the BIP financial statements at 31 December 2015

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RELAZIONE DELLA SOCIETÀ DI REVISIONE INDIPENDENTE AI SENSI DEGLI ARTT. 14 E 16 DEL D. LGS. 27 GENNAIO 2010, N. 39

Agli Azionisti di BANCA INTERPROVINCIALE S.p.A.

Relazione sul bilancio d'esercizio

Abbiamo svolto la revisione contabile del bilancio d'esercizio di Banca Interprovinciale S.p.A., costituito dallo stato patrimoniale al 31 dicembre 2015, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalla relativa nota integrativa.

Responsabilità degli amministratori per il bilancio d'esercizio

Gli amministratori sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05.

Responsabilità della società di revisione

E' nostra la responsabilità di esprimere un giudizio sul bilancio d'esercizio sulla base della revisione contabile. Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia) elaborati ai sensi dell'art. 11, comma 3, del D.Lgs. 39/10. Tali principi richiedono il rispetto di principi etici, nonché la pianificazione e lo svolgimento della revisione contabile al fine di acquisire una ragionevole sicurezza che il bilancio d'esercizio non contenga errori significativi.

La revisione contabile comporta lo svolgimento di procedure volte ad acquisire elementi probativi a supporto degli importi e delle informazioni contenuti nel bilancio d'esercizio. Le procedure scelte dipendono dal giudizio professionale del revisore, inclusa la valutazione dei rischi di errori significativi nel bilancio d'esercizio dovuti a frodi o a comportamenti o eventi non intenzionali. Nell'effettuare tali valutazioni del rischio, il revisore considera il controllo interno relativo alla redazione del bilancio d'esercizio dell'impresa che fornisca una rappresentazione veritiera e corretta al fine di definire procedure di revisione appropriate alle circostanze, e non per esprimere un giudizio sull'efficacia del controllo interno dell'impresa. La revisione contabile comprende altresì la valutazione dell'appropriatezza dei principi contabili adottati, della ragionevolezza delle stime contabili effettuate dagli amministratori, nonché la valutazione della presentazione del bilancio d'esercizio nel suo complesso.

2

Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Giudizio

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria di Banca Interprovinciale S.p.A. al 31 dicembre 2015, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05.

Relazione su altre disposizioni di legge e regolamentari

Giudizio sulla coerenza della relazione sulla gestione con il bilancio d'esercizio

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n. 720B al fine di esprimere, come richiesto dalle norme di legge, un giudizio sulla coerenza della relazione sulla gestione, la cui responsabilità compete agli Amministratori di Banca Interprovinciale S.p.A., con il bilancio d'esercizio di Banca Interprovinciale S.p.A. al 31 dicembre 2015. A nostro giudizio la relazione sulla gestione è coerente con il bilancio d'esercizio di Banca Interprovinciale S.p.A. al 31 dicembre 2015.

DELOITTE & TOUCHE S.p.A.

Marco Benini
Socio

Bologna, 10 febbraio 2016

Report of Deloitte on the BIP financial statements at 31 December 2016

Deloitte.

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**RELAZIONE DELLA SOCIETÀ DI REVISIONE INDIPENDENTE
AI SENSI DEGLI ARTT. 14 E 16 DEL D. LGS. 27 GENNAIO 2010, N. 39**

**Agli Azionisti di
Banca Interprovinciale S.p.A.**

Relazione sul bilancio consolidato

Abbiamo svolto la revisione contabile del bilancio consolidato del Gruppo Banca Interprovinciale, costituito dallo stato patrimoniale al 31 dicembre 2016, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalla nota integrativa.

Responsabilità degli amministratori per il bilancio consolidato

Gli amministratori sono responsabili per la redazione del bilancio consolidato che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 43 del D.Lgs. n. 136/15.

Responsabilità della società di revisione

E' nostra la responsabilità di esprimere un giudizio sul bilancio consolidato sulla base della revisione contabile. Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia) elaborati ai sensi dell'art. 11 del D.Lgs. 39/10. Tali principi richiedono il rispetto di principi etici, nonché la pianificazione e lo svolgimento della revisione contabile al fine di acquisire una ragionevole sicurezza che il bilancio consolidato non contenga errori significativi.

La revisione contabile comporta lo svolgimento di procedure volte ad acquisire elementi probativi a supporto degli importi e delle informazioni contenuti nel bilancio consolidato. Le procedure scelte dipendono dal giudizio professionale del revisore, inclusa la valutazione dei rischi di errori significativi nel bilancio consolidato dovuti a frodi o a comportamenti o eventi non intenzionali. Nell'effettuare tali valutazioni del rischio, il revisore considera il controllo interno relativo alla redazione del bilancio consolidato dell'impresa che fornisca una rappresentazione veritiera e corretta al fine di definire procedure di revisione appropriate alle circostanze, e non per esprimere un giudizio sull'efficacia del controllo interno dell'impresa. La revisione contabile comprende altresì la valutazione dell'appropriatezza dei principi contabili adottati, della ragionevolezza delle stime contabili effettuate dagli amministratori, nonché la valutazione della presentazione del bilancio consolidato nel suo complesso.

Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

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2

Giudizio

A nostro giudizio, il bilancio consolidato fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria del Gruppo Banca Interprovinciale al 31 dicembre 2016, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 43 del D.Lgs. n. 136/15.

Relazione su altre disposizioni di legge e regolamentari

Giudizio sulla coerenza della relazione sulla gestione con il bilancio consolidato

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n. 720B al fine di esprimere, come richiesto dalle norme di legge, un giudizio sulla coerenza della relazione sulla gestione, la cui responsabilità compete agli Amministratori di Banca Interprovinciale S.p.A., con il bilancio consolidato del Gruppo Banca Interprovinciale al 31 dicembre 2016. A nostro giudizio la relazione sulla gestione è coerente con il bilancio consolidato del Gruppo Banca Interprovinciale al 31 dicembre 2016.

DELOITTE & TOUCHE S.p.A.

Marco Benini
Socio

Bologna, 12 aprile 2017

Report of Deloitte on the BIP financial statements at 31 December 2017

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RELAZIONE DELLA SOCIETÀ DI REVISIONE INDIPENDENTE AI SENSI DELL'ART. 14 DEL D.LGS. 27 GENNAIO 2010, N. 39 E DELL'ART. 10 DEL REGOLAMENTO (UE) N. 537/2014

Agli Azionisti di
Banca Interprovinciale S.p.A.

RELAZIONE SULLA REVISIONE CONTABILE DEL BILANCIO D'ESERCIZIO

Giudizio

Abbiamo svolto la revisione contabile del bilancio d'esercizio di Banca Interprovinciale S.p.A. (la Banca), costituito dallo stato patrimoniale al 31 dicembre 2017, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalla nota integrativa.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Banca al 31 dicembre 2017, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 43 del D.Lgs. n. 136/15.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione. Siamo indipendenti rispetto alla Banca in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Aspetti chiave della revisione contabile

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio d'esercizio nel suo complesso; pertanto su tali aspetti non esprimiamo un giudizio separato.

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2

Classificazione e Valutazione dei crediti verso la clientela deteriorati

Descrizione dell'aspetto chiave della revisione

Nel bilancio al 31 dicembre 2017 risultano iscritti crediti verso la clientela deteriorati netti pari ad Euro 10,2 milioni, a fronte di crediti deteriorati lordi pari ad Euro 18,4 milioni, con un grado di copertura pari al 44,64%.

Per la classificazione delle esposizioni creditizie per classi di rischio omogenee, la Banca fa riferimento alla normativa di settore e alle disposizioni interne che disciplinano le regole di classificazione e trasferimento nell'ambito delle diverse categorie di rischio.

Nella determinazione del valore recuperabile dei crediti verso la clientela deteriorati, la Banca, nell'ambito delle proprie politiche di valutazione, ha fatto ricorso a processi e modalità di valutazione caratterizzati da elementi di soggettività e da processi di stima, soggetti a rischi e incertezze e che hanno incluso talune variabili la cui modifica può comportare una variazione del valore recuperabile finale. Le principali assunzioni adottate hanno riguardato i flussi di cassa previsti, i tempi di recupero attesi e il presumibile valore di realizzo delle garanzie, ove presenti.

Nella Relazione sulla gestione - Paragrafo "Rischiosità dei crediti" e nella Nota Integrativa Parte A – Politiche contabili; Parte B – Informazioni sullo stato patrimoniale, Sezione 7 dell'attivo; Parte E – Informativa sui rischi e sulle relative politiche di copertura – è riportata l'informativa sugli aspetti sopra descritti.

In considerazione della significatività dell'ammontare dei crediti verso la clientela deteriorati iscritti in bilancio, della complessità del processo di stima adottato dalla Banca, che ha comportato un'articolata attività di classificazione in categorie di rischio omogenee, nonché della rilevanza della componente discrezionale insita nella natura estimativa del valore recuperabile, abbiamo ritenuto che la classificazione e la valutazione dei suddetti crediti deteriorati ed il relativo processo di determinazione delle rettifiche di valore rappresentino un'area chiave per l'attività di revisione del bilancio della Banca.

Procedure di revisione svolte

Nell'ambito delle attività di revisione sono state svolte, tra le altre, le seguenti principali procedure:

- comprensione della normativa interna e dei processi posti in essere dalla Banca in relazione alle modalità di classificazione e di determinazione del valore recuperabile dei crediti verso clientela deteriorati al fine di verificarne la conformità al quadro normativo di riferimento ed ai principi contabili applicabili;

- verifica dell'implementazione e dell'efficacia operativa dei controlli rilevanti identificati con riferimento ai suddetti processi;

- verifica, per un campione di posizioni, della classificazione e determinazione del valore recuperabile dei crediti verso clientela deteriorati sulla base del quadro normativo di riferimento e dei principi contabili applicabili, anche mediante ottenimento ed esame di conferme scritte da parte dei legali incaricati del recupero dei crediti;

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- svolgimento di procedure di analisi comparativa relativamente alla movimentazione dei crediti verso la clientela e delle relative rettifiche di valore;
- verifica della correttezza e completezza dell'informativa fornita in bilancio rispetto a quanto previsto dal quadro normativo di riferimento e dai principi contabili applicabili.

Responsabilità degli Amministratori e del Collegio Sindacale per il bilancio d'esercizio

Gli Amministratori sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 43 del D.Lgs. n. 136/15 e, nei termini previsti dalla legge, per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli Amministratori sono responsabili per la valutazione della capacità della Banca di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, nonché per una adeguata informativa in materia. Gli Amministratori utilizzano il presupposto della continuità aziendale nella redazione del bilancio d'esercizio a meno che abbiano valutato che sussistono le condizioni per la liquidazione della Banca o per l'interruzione dell'attività o non abbiano alternative realistiche a tali scelte.

Il Collegio Sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sul processo di predisposizione dell'informativa finanziaria della Banca.

Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche degli utilizzatori prese sulla base del bilancio d'esercizio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

- abbiamo identificato e valutato i rischi di errori significativi nel bilancio d'esercizio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti o eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;

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- abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno della Banca;

- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli Amministratori, inclusa la relativa informativa;

- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli Amministratori del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di una incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità della Banca di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione. Tuttavia, eventi o circostanze successivi possono comportare che la Banca cessi di operare come un'entità in funzionamento;

- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio d'esercizio nel suo complesso, inclusa l'informativa, e se il bilancio d'esercizio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dagli ISA Italia, tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Abbiamo fornito ai responsabili delle attività di governance anche una dichiarazione sul fatto che abbiamo rispettato le norme e i principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano e abbiamo comunicato loro ogni situazione che possa ragionevolmente avere un effetto sulla nostra indipendenza e, ove applicabile, le relative misure di salvaguardia.

Tra gli aspetti comunicati ai responsabili delle attività di governance, abbiamo identificato quelli che sono stati più rilevanti nell'ambito della revisione contabile del bilancio dell'esercizio in esame, che hanno costituito quindi gli aspetti chiave della revisione. Abbiamo descritto tali aspetti nella relazione di revisione.

Altre informazioni comunicate ai sensi dell'art. 10 del Regolamento (UE) 537/2014

L'assemblea degli Azionisti di Banca Interprovinciale S.p.A. ci ha conferito in data 24 maggio 2012 l'incarico di revisione legale del bilancio d'esercizio della Banca per gli esercizi dal 31 dicembre 2012 al 31 dicembre 2020.

Dichiariamo che non sono stati prestati servizi diversi dalla revisione contabile vietati ai sensi dell'art. 5, par. 1, del Regolamento (UE) 537/2014 e che siamo rimasti indipendenti rispetto alla Banca nell'esecuzione della revisione legale.

Confermiamo che il giudizio sul bilancio d'esercizio espresso nella presente relazione è in linea con quanto indicato nella relazione aggiuntiva destinata al Collegio Sindacale, nella sua funzione di Comitato per il Controllo Interno e la Revisione Legale, predisposta ai sensi dell'art. 11 del citato Regolamento.

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RELAZIONE SU ALTRE DISPOSIZIONI DI LEGGE E REGOLAMENTARI

Giudizio ai sensi dell'art. 14, comma 2, lettera e), del D.Lgs. 39/10

Gli Amministratori di Banca Interprovinciale S.p.A. sono responsabili per la predisposizione della relazione sulla gestione di Banca Interprovinciale S.p.A. al 31 dicembre 2017, incluse la sua coerenza con il relativo bilancio d'esercizio e la sua conformità alle norme di legge.

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n. 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione, con il bilancio d'esercizio di Banca Interprovinciale S.p.A. al 31 dicembre 2017 e sulla conformità della stessa alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi.

A nostro giudizio, la relazione sulla gestione è coerente con il bilancio d'esercizio di Banca Interprovinciale S.p.A. al 31 dicembre 2017 ed è redatta in conformità alle norme di legge.

Con riferimento alla dichiarazione di cui all'art. 14, co. 2, lettera e), del D.Lgs. 39/10, rilasciata sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, non abbiamo nulla da riportare.

DELOITTE & TOUCHE S.p.A.

Michele Masini
Socio

Bologna, 3 aprile 2018

Report of Deloitte on the BIP interim financial statements at 30 September 2018

Deloitte.

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RELAZIONE DI REVISIONE CONTABILE LIMITATA SUL BILANCIO INTERMEDIO AL 30 SETTEMBRE 2018

**Al Consiglio di Amministrazione di
Banca Interprovinciale S.p.A.**

Introduzione

Abbiamo svolto la revisione contabile limitata del bilancio intermedio costituito dallo stato patrimoniale, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario e dalle relative note illustrative di Banca Interprovinciale S.p.A. (di seguito anche "Banca") per il periodo di nove mesi chiuso al 30 settembre 2018, redatto ai fini dell'inclusione nel prospetto informativo predisposto nell'ambito dell'operazione di quotazione delle azioni della Banca sul Mercato Telematico Azionario organizzato e gestito da Borsa Italiana S.p.A.

Gli Amministratori sono responsabili per la redazione del bilancio intermedio in conformità al principio contabile internazionale applicabile per l'informativa finanziaria infrannuale (IAS 34) adottato dall'Unione Europea. E' nostra la responsabilità di esprimere una conclusione sul bilancio intermedio sulla base della revisione contabile limitata svolta.

Portata della revisione contabile limitata

Il nostro lavoro è stato svolto in conformità all'International Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". La revisione contabile limitata del bilancio intermedio consiste nell'effettuare colloqui, prevalentemente con il personale della società responsabile degli aspetti finanziari e contabili, analisi di bilancio ed altre procedure di revisione contabile limitata. La portata di una revisione contabile limitata è sostanzialmente inferiore rispetto a quella di una revisione contabile completa svolta in conformità ai principi di revisione internazionali (ISA Italia) e, conseguentemente, non ci consente di avere la sicurezza di essere venuti a conoscenza di tutti i fatti significativi che potrebbero essere identificati con lo svolgimento di una revisione contabile completa. Pertanto, non esprimiamo un giudizio sul bilancio intermedio.

Conclusioni

Sulla base della revisione contabile limitata svolta, non sono pervenuti alla nostra attenzione elementi che ci facciano ritenere che il bilancio intermedio di Banca Interprovinciale S.p.A. al 30 settembre 2018 non sia stato redatto, in tutti gli aspetti significativi, in conformità al principio contabile internazionale applicabile per l'informativa finanziaria infrannuale (IAS 34) adottato dall'Unione Europea.

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Altri aspetti

I dati relativi al corrispondente periodo dell'esercizio precedente esposti ai fini comparativi non sono stati sottoposti a revisione contabile, né completa né limitata.

DELOITTE & TOUCHE S.p.A.

Antonio Sportillo
Socio

Roma, 15 novembre 2018

Report of KPMG on the SPAXS interim financial statements at 30 June 2018

KPMG S.p.A.
Revisione e organizzazione contabile
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PEC kpmgspa@pec.kpmg.it

Relazione della società di revisione indipendente

Al Consiglio di Amministrazione di
SPAXS S.p.A.

Giudizio

Abbiamo svolto la revisione contabile del bilancio intermedio dalla data di costituzione, avvenuta il 20 dicembre 2017, al 30 giugno 2018 (nel seguito anche il "bilancio intermedio") di SPAXS S.p.A. (nel seguito anche la "Società"), costituito dal prospetto della situazione patrimoniale e finanziaria al 30 giugno 2018, dal conto economico, dal conto economico complessivo, dal prospetto delle variazioni di patrimonio netto e dal rendiconto finanziario per il periodo chiuso a tale data e dalle note illustrative che includono anche la sintesi dei più significativi principi contabili applicati.

A nostro giudizio, il bilancio intermedio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria di SPAXS S.p.A. al 30 giugno 2018, del risultato economico e dei flussi di cassa per il periodo chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nel paragrafo "*Responsabilità della società di revisione per la revisione contabile del bilancio intermedio*" della presente relazione. Siamo indipendenti rispetto a SPAXS S.p.A. in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti e appropriati su cui basare il nostro giudizio.

Responsabilità degli Amministratori e del Collegio Sindacale di SPAXS S.p.A. per il bilancio intermedio

Gli Amministratori sono responsabili per la redazione del bilancio intermedio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea che ne disciplinano i criteri di redazione e, nei termini previsti dalla legge, per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli Amministratori sono responsabili per la valutazione della capacità della Società di continuare a operare come un'entità in funzionamento e, nella redazione del bilancio intermedio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, nonché per una adeguata informativa in materia. Gli Amministratori utilizzano il presupposto della continuità aziendale nella redazione del bilancio intermedio a meno che abbiano valutato che sussistono le condizioni per la liquidazione della Società o per l'interruzione dell'attività o non abbiano alternative realistiche a tali scelte.

Il Collegio Sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sul processo di predisposizione dell'informativa finanziaria della Società.

Responsabilità della società di revisione per la revisione contabile del bilancio intermedio

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio intermedio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche degli utilizzatori prese sulla base del bilancio intermedio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

— abbiamo identificato e valutato i rischi di errori significativi nel bilancio intermedio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti e appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti o eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;

— abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno della Società;

— abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli Amministratori, inclusa la relativa informativa;

— siamo giunti a una conclusione sull'appropriatezza dell'utilizzo da parte degli Amministratori del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di un'incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità della

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SPAXS S.p.A.
Relazione della società di revisione
30 giugno 2018

Società di continuare a operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione. Tuttavia, eventi o circostanze successivi possono comportare che la Società cessi di operare come un'entità in funzionamento;

— abbiamo valutato la presentazione, la struttura e il contenuto del bilancio intermedio nel suo complesso, inclusa l'informativa, e se il bilancio intermedio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

Abbiamo comunicato ai responsabili delle attività di *governance*, identificati a un livello appropriato come richiesto dagli ISA Italia, tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Milano, 22 novembre 2018

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Bruno Verona
Socio

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Report of KPMG on the SPAXS interim consolidated financial statements at 30 September 2018

KPMG

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Relazione di revisione contabile limitata del bilancio consolidato intermedio

Al Consiglio di Amministrazione di
SPAXS S.p.A.

Introduzione

Abbiamo svolto la revisione contabile limitata del bilancio consolidato intermedio dalla data di costituzione, avvenuta il 20 dicembre 2017, al 30 settembre 2018 (nel seguito anche il "bilancio intermedio"), di SPAXS S.p.A. (nel seguito anche la "Società") costituito dal prospetto della situazione patrimoniale e finanziaria consolidato al 30 settembre 2018, dal prospetto del conto economico consolidato, dal prospetto del conto economico complessivo consolidato, dal prospetto delle variazioni del patrimonio netto consolidato, dal rendiconto finanziario per il periodo chiuso a tale data e dalle relative note illustrative.

Gli amministratori della SPAXS S.p.A. sono responsabili per la redazione del bilancio consolidato intermedio in conformità al principio contabile internazionale applicabile per l'informativa finanziaria infrannuale (IAS 34) adottato dall'Unione Europea. E' nostra la responsabilità di esprimere una conclusione sul bilancio consolidato intermedio sulla base della revisione contabile limitata svolta.

Portata della revisione contabile limitata

Il nostro lavoro è stato svolto in conformità all'International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". La revisione contabile limitata del bilancio consolidato intermedio consiste nell'effettuare colloqui, prevalentemente con il personale della Società responsabile degli aspetti finanziari e contabili, analisi di bilancio ed altre procedure di revisione contabile limitata. La portata di una revisione contabile limitata è sostanzialmente inferiore rispetto a quella di una revisione contabile completa svolta in conformità ai principi di revisione internazionali (ISA Italia) e, conseguentemente, non ci consente di avere la sicurezza di essere venuti a conoscenza di tutti i fatti significativi che potrebbero essere identificati con lo svolgimento di una revisione contabile completa. Pertanto, non esprimiamo un giudizio sul bilancio consolidato intermedio.

SPAXS S.p.A.
Relazione di revisione contabile limitata del bilancio consolidato intermedio
30 settembre 2018

Conclusioni

Sulla base della revisione contabile limitata svolta, non sono pervenuti alla nostra attenzione elementi che ci facciano ritenere che il bilancio consolidato intermedio di SPAXS S.p.A. per il periodo dalla data di costituzione, avvenuta il 20 dicembre 2017, al 30 settembre 2018, non sia stato redatto, in tutti gli aspetti significativi, in conformità al principio contabile internazionale applicabile per l'informativa finanziaria infrannuale (IAS 34) adottato dall'Unione Europea.

Milano, 30 novembre 2018

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Report of KPMG on the examination of the BIP pro-forma statement of financial position at 31 December 2017

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Relazione sull'esame dello stato patrimoniale pro-forma di Banca Interprovinciale S.p.A. al 31 dicembre 2017

Al Consiglio di Amministrazione di
Banca Interprovinciale S.p.A.

1 Abbiamo esaminato lo stato patrimoniale pro-forma corredato delle note esplicative di Banca Interprovinciale S.p.A. (di seguito la "Banca") al 31 dicembre 2017 inclusi nel capitolo 20.2 del prospetto informativo relativo all'ammissione alla negoziazione sul mercato telematico azionario organizzato e gestito da Borsa Italiana S.p.A. di azioni ordinarie della Banca (nel seguito il "Prospetto Informativo").

Tali prospetti derivano dai seguenti dati storici:

- Bilancio d'esercizio della Banca al 31 dicembre 2017, redatto in conformità agli *International Financial Reporting Standards* adottati dall'Unione Europea (IFRS) nonché ai provvedimenti emanati in attuazione dell'art. 43 del D.Lgs. n. 136/15, e assoggettato a revisione contabile completa da parte di altro revisore a seguito della quale è stata emessa la relazione datata 3 aprile 2018;
- Situazione contabile di SPAXS S.p.A. al 31 dicembre 2017 e per il periodo dal 20 dicembre 2017, data di sua costituzione, al 31 dicembre 2017, predisposta in conformità agli IFRS, da noi esaminata nell'estensione ritenuta necessaria ai fini della formulazione delle conclusioni contenute nella presente relazione;

e dalle scritture di rettifica pro-forma ad essi applicate e da noi esaminate.

Lo stato patrimoniale pro-forma è stato redatto sulla base delle ipotesi descritte nelle note esplicative, per riflettere retroattivamente gli effetti delle operazioni nel seguito descritte e più dettagliatamente illustrate nelle note esplicative (congiuntamente le "Operazioni"):

- collocamento delle azioni ordinarie e dei diritti di assegnazioni di SPAXS S.p.A. e aumento di capitale riservato alle società promotrici;
- esercizio del diritto di recesso da parte degli azionisti di SPAXS S.p.A.;
- acquisizione della Banca da parte di SPAXS S.p.A. e fusione inversa di SPAXS S.p.A. nella Banca.

2 Lo stato patrimoniale pro-forma corredato delle note esplicative al 31 dicembre 2017 è stato predisposto ai fini di quanto richiesto dal Regolamento 809/2004/CE ai fini della sua inclusione nel Prospetto Informativo.

L'obiettivo della redazione dello stato patrimoniale pro-forma è quello di rappresentare, secondo criteri di valutazione coerenti con i dati storici e conformi alla normativa di riferimento, gli effetti sullo stato patrimoniale della Banca delle Operazioni, come se esse fossero virtualmente avvenute il 31 dicembre 2017. Tuttavia, va rilevato che qualora le Operazioni fossero realmente avvenute alla data ipotizzata, non necessariamente si sarebbero ottenuti gli stessi risultati qui rappresentati.

La responsabilità della redazione dello stato patrimoniale pro-forma compete agli amministratori di Banca Interprovinciale S.p.A.. E' nostra la responsabilità della formulazione di un giudizio professionale sulla ragionevolezza delle ipotesi adottate dagli amministratori per la redazione dello stato patrimoniale pro-forma e sulla correttezza della metodologia da essi utilizzata per l'elaborazione del medesimo prospetto. Inoltre è nostra la responsabilità della formulazione di un giudizio professionale sulla correttezza dei criteri di valutazione e dei principi contabili utilizzati.

3 Il nostro esame è stato svolto secondo i criteri raccomandati dalla Consob nella Raccomandazione DEM/1061609 del 9 agosto 2001 per la verifica dei dati pro-forma ed effettuando i controlli che abbiamo ritenuto necessari per le finalità dell'incarico conferitoci.

4 A nostro giudizio, le ipotesi di base adottate dalla Banca per la redazione dello stato patrimoniale pro-forma al 31 dicembre 2017, corredato delle note esplicative per rappresentare gli effetti delle Operazioni sono ragionevoli e la metodologia utilizzata per l'elaborazione dello stato patrimoniale pro-forma è stata applicata correttamente per le finalità informative descritte in precedenza. Inoltre riteniamo che i criteri di valutazione ed i principi contabili utilizzati per la redazione del medesimo prospetto siano corretti.

Milano, 30 novembre 2018

KPMG S.p.A.

Paola Maiorana
Paola Maiorana
Socio

Report of KPMG on the examination of the BIP pro-forma statement of financial position, income statement and statement of cash flows as of and for the six months ended 30 June 2018

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Relazione sull'esame dello stato patrimoniale, del conto economico e del rendiconto finanziario pro-forma di Banca Interprovinciale S.p.A. per il periodo di sei mesi chiuso al 30 giugno 2018

Al Consiglio di Amministrazione di
Banca Interprovinciale S.p.A.

1 Abbiamo esaminato i prospetti relativi allo stato patrimoniale, al conto economico e al rendiconto finanziario pro-forma corredati delle note esplicative di Banca Interprovinciale S.p.A. (di seguito la "Banca") per il periodo di sei mesi chiuso al 30 giugno 2018 inclusi nel capitolo 20.2 del prospetto informativo relativo all'ammissione alla negoziazione sul mercato telematico azionario organizzato e gestito da Borsa Italiana S.p.A. di azioni ordinarie della Banca (nel seguito il "Prospetto Informativo").

Tali prospetti derivano dai seguenti dati storici:

— Bilancio intermedio della Banca al 30 giugno 2018, redatto in conformità allo IAS 34 *Interim Financial Reporting*, e da noi assoggettato a revisione contabile completa a seguito della quale è stata emessa la relazione datata 30 novembre 2018;

— Bilancio intermedio di SPAXS S.p.A. al 30 giugno 2018, redatto in conformità agli *International Financial Reporting Standards* adottati dall'Unione Europea (IFRS), e da noi assoggettato a revisione contabile completa a seguito della quale è stata emessa la relazione datata 22 novembre 2018;

e dalle scritture di rettifica pro-forma ad essi applicate e da noi esaminate.

I prospetti pro-forma sono stati redatti sulla base delle ipotesi descritte nelle note esplicative, per riflettere retroattivamente gli effetti delle operazioni nel seguito descritte e più dettagliatamente illustrate nelle note esplicative (congiuntamente le "Operazioni"):

— esercizio del diritto di recesso da parte degli azionisti di SPAXS S.p.A.;

— acquisizione della Banca da parte di SPAXS S.p.A. e fusione inversa di SPAXS S.p.A. nella Banca.

2 I prospetti relativi allo stato patrimoniale, al conto economico e al rendiconto finanziario pro-forma corredati delle note esplicative per il periodo di sei mesi chiuso al 30 giugno 2018 sono stati predisposti ai fini di quanto richiesto dal Regolamento 809/2004/CE ai fini della loro inclusione nel Prospetto Informativo.

L'obiettivo della redazione dello stato patrimoniale, del conto economico e del rendiconto finanziario pro-forma è quello di rappresentare, secondo criteri di valutazione coerenti con i dati storici e conformi alla normativa di riferimento, gli effetti sullo stato patrimoniale della Banca delle Operazioni, come se esse fossero virtualmente avvenute il 30 giugno 2018 e, per quanto si riferisce ai soli effetti economici e ai flussi finanziari, al 1° gennaio 2018. Tuttavia, va rilevato che qualora le Operazioni fossero realmente avvenute alla data ipotizzata, non necessariamente si sarebbero ottenuti gli stessi risultati qui rappresentati.

La responsabilità della redazione dei prospetti pro-forma compete agli amministratori di Banca Interprovinciale S.p.A.. E' nostra la responsabilità della formulazione di un giudizio professionale sulla ragionevolezza delle ipotesi adottate dagli amministratori per la redazione dei prospetti pro-forma e sulla correttezza della metodologia da essi utilizzata per l'elaborazione dei medesimi prospetti. Inoltre è nostra la responsabilità della formulazione di un giudizio professionale sulla correttezza dei criteri di valutazione e dei principi contabili utilizzati.

3 Il nostro esame è stato svolto secondo i criteri raccomandati dalla Consob nella Raccomandazione DEM/1061609 del 9 agosto 2001 per la verifica dei dati pro-forma ed effettuando i controlli che abbiamo ritenuto necessari per le finalità dell'incarico conferitoci.

4 A nostro giudizio, le ipotesi di base adottate dalla Banca per la redazione dei prospetti relativi allo stato patrimoniale, al conto economico e al rendiconto finanziario pro-forma relativi al periodo di sei mesi chiuso al 30 giugno 2018, corredati delle note esplicative per rappresentare gli effetti delle Operazioni sono ragionevoli e la metodologia utilizzata per l'elaborazione dei predetti prospetti è stata applicata correttamente per le finalità informative descritte in precedenza. Inoltre riteniamo che i criteri di valutazione ed i principi contabili utilizzati per la redazione dei medesimi prospetti siano corretti.

Milano, 30 novembre 2018

KPMG S.p.A.

Paola Maiorana

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Report of KPMG on the examination of the BIP pro-forma statement of financial position, income statement and statement of cash flows as of and for the nine months ended 30 September 2018

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Relazione sull'esame dello stato patrimoniale, del conto economico e del rendiconto finanziario pro-forma di Banca Interprovinciale S.p.A. per il periodo di nove mesi chiuso al 30 settembre 2018

Al Consiglio di Amministrazione di
Banca Interprovinciale S.p.A.

1 Abbiamo esaminato i prospetti relativi allo stato patrimoniale, al conto economico e al rendiconto finanziario pro-forma corredati delle note esplicative di Banca Interprovinciale S.p.A. (di seguito la "Banca") per il periodo di nove mesi chiuso al 30 settembre 2018 inclusi nel capitolo 20.2 del prospetto informativo relativo all'ammissione alla negoziazione sul mercato telematico azionario organizzato e gestito da Borsa Italiana S.p.A. di azioni ordinarie della Banca (nel seguito il "Prospetto Informativo").

Tali prospetti derivano dai dati storici relativi al bilancio consolidato intermedio di SPAXS S.p.A. e delle sue controllate (il "Gruppo SPAXS") al 30 settembre 2018, redatto in conformità allo IAS 34 *Interim Financial Reporting*, e dalle scritture di rettifica pro-forma ad essi applicate e da noi esaminate. Il bilancio consolidato al 30 settembre 2018 è stato da noi assoggettato a revisione contabile limitata a seguito della quale è stata emessa la relazione datata 30 novembre 2018.

La revisione contabile limitata è consistita principalmente nella raccolta di informazioni sulle poste del bilancio, nell'analisi dei criteri di valutazione e dei principi contabili utilizzati tramite colloqui con la direzione della Banca, e nello svolgimento di analisi di bilancio. La revisione contabile limitata ha escluso procedure di revisione quali sondaggi di conformità e verifiche o procedure di validità delle attività e delle passività ed ha comportato un'estensione di lavoro significativamente inferiore a quella di una revisione contabile completa. Di conseguenza, non abbiamo espresso un giudizio professionale di revisione sul bilancio consolidato intermedio sopraindicato.

I prospetti pro-forma sono stati redatti sulla base delle ipotesi descritte nelle note esplicative, per riflettere retroattivamente gli effetti delle operazioni nel seguito descritte e più dettagliatamente illustrate nelle note esplicative (congiuntamente le "Operazioni"):

— esercizio del diritto di recesso da parte degli azionisti di SPAXS S.p.A.;

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Banca Interprovinciale S.p.A.
Relazione sull'esame dello stato patrimoniale, del conto economico e del rendiconto finanziario pro-forma
30 settembre 2018

— fusione inversa di SPAXS S.p.A. nella Banca.

2 I prospetti relativi allo stato patrimoniale, al conto economico e al rendiconto finanziario pro-forma corredati delle note esplicative per il periodo di nove mesi chiuso al 30 settembre 2018 sono stati predisposti ai fini di quanto richiesto dal Regolamento 809/2004/CE ai fini della loro inclusione nel Prospetto Informativo.

L'obiettivo della redazione dello stato patrimoniale, del conto economico e del rendiconto finanziario pro-forma è quello di rappresentare, secondo criteri di valutazione coerenti con i dati storici e conformi alla normativa di riferimento, gli effetti sullo stato patrimoniale della Banca delle Operazioni, come se esse fossero virtualmente avvenute il 30 settembre 2018 e, per quanto si riferisce ai soli effetti economici e ai flussi finanziari, al 1° gennaio 2018. Tuttavia, va rilevato che qualora le Operazioni fossero realmente avvenute alla data ipotizzata, non necessariamente si sarebbero ottenuti gli stessi risultati qui rappresentati.

La responsabilità della redazione dei prospetti pro-forma compete agli amministratori di Banca Interprovinciale S.p.A.. E' nostra la responsabilità della formulazione di un giudizio professionale sulla ragionevolezza delle ipotesi adottate dagli amministratori per la redazione dei prospetti pro-forma e sulla correttezza della metodologia da essi utilizzata per l'elaborazione dei medesimi prospetti. Inoltre è nostra la responsabilità della formulazione di un giudizio professionale sulla correttezza dei criteri di valutazione e dei principi contabili utilizzati.

3 Il nostro esame è stato svolto secondo i criteri raccomandati dalla Consob nella Raccomandazione DEM/1061609 del 9 agosto 2001 per la verifica dei dati pro-forma ed effettuando i controlli che abbiamo ritenuto necessari per le finalità dell'incarico conferitoci.

4 Dal lavoro svolto nulla è emerso che ci induca a ritenere che le ipotesi di base adottate dalla Banca per la redazione dei prospetti relativi allo stato patrimoniale, al conto economico e al rendiconto finanziario pro-forma relativi al periodo di nove mesi chiuso al 30 settembre 2018, corredati delle note esplicative per rappresentare gli effetti delle Operazioni non siano ragionevoli, che la metodologia utilizzata per l'elaborazione dei predetti prospetti non sia stata applicata correttamente per le finalità informative descritte in precedenza e, infine, che nella redazione dei medesimi prospetti siano stati utilizzati criteri di valutazione e principi contabili non corretti.

Milano, 30 novembre 2018

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Report of KPMG on the BIP forecast data

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Relazione della società di revisione sui dati previsionali di Banca Interprovinciale S.p.A.

Al Consiglio di Amministrazione di
Banca Interprovinciale S.p.A.

Abbiamo esaminato le previsioni relative al Margine di intermediazione, Risultato di gestione, Risultato al lordo delle imposte, Risultato netto per gli esercizi 2020 e 2023 (nel seguito i "Dati Previsionali") di "illimity Bank S.p.A.", la società nascente dalla fusione mediante incorporazione di SPAXS S.p.A. (la "Società Incorporanda") in Banca Interprovinciale S.p.A. (l'"Emittente"), e le ipotesi e gli elementi posti a base della loro formulazione.

I Dati Previsionali sono inclusi nel paragrafo 13.6 del prospetto informativo relativo all'ammissione alle negoziazione sul Mercato Telematico Azionario, organizzato e gestito da Borsa Italiana S.p.A. di azioni ordinarie e di diritti di assegnazione dell'Emittente (il "Prospetto Informativo").

Responsabilità degli Amministratori

La responsabilità della redazione dei Dati Previsionali nonché delle ipotesi e degli elementi posti alla base della loro formulazione compete agli amministratori dell'Emittente.

I Dati Previsionali si basano su un insieme di ipotesi di realizzazione di eventi futuri e di azioni che dovranno essere intraprese da parte degli amministratori di illimity Bank S.p.A.. Gli amministratori hanno redatto i Dati Previsionali sulla base di un insieme di ipotesi che includono assunzioni ipotetiche relative ad eventi futuri ed azioni degli amministratori che non necessariamente si verificheranno, riassunte nel seguito e meglio descritte nei paragrafi 13.3, 13.4 e 13.5:

- evoluzione del contesto macroeconomico;
- evoluzione dello scenario di settore;
- evoluzione della normativa di riferimento;
- sviluppo del modello commerciale con riferimento alla Divisione SME, alla Divisione NPL Investment & Servicing e alla Divisione Retail.

Responsabilità della società di revisione

Il nostro esame è stato svolto secondo le procedure previste per tali tipi di incarico dall'International Standard on Assurance Engagements (ISAE) 3400 "The

Banca Interprovinciale S.p.A.
Relazione della società di revisione
30 novembre 2018

Examination of Prospective Financial Information" emesso dall'International Auditing and Assurance Standards Board (IAASB). Va tuttavia tenuto presente che a causa dell'aleatorietà connessa alla realizzazione di qualsiasi evento futuro, sia per quanto concerne il concretizzarsi dell'accadimento sia per quanto riguarda la misura e la tempistica della sua manifestazione, gli scostamenti fra valori consuntivi e valori preventivati dei Dati Previsionali potrebbero essere significativi, anche qualora gli eventi previsti nell'ambito delle assunzioni ipotetiche, richiamate nel precedente paragrafo si manifestassero. La nostra responsabilità non si estende all'aggiornamento della presente relazione per eventi o circostanze che potrebbero presentarsi successivamente alla data della stessa.

Conclusioni

Sulla base dell'esame degli elementi probativi a supporto delle ipotesi e degli elementi utilizzati nella formulazione dei Dati Previsionali, non siamo venuti a conoscenza di fatti tali da farci ritenere, alla data odierna, che le suddette ipotesi ed elementi non forniscano una base ragionevole per la predisposizione dei Dati Previsionali, assumendo il verificarsi delle assunzioni ipotetiche relative ad eventi futuri ed azioni degli amministratori, richiamate nel paragrafo "Responsabilità degli Amministratori".

Inoltre, a nostro giudizio, i Dati Previsionali sono stati predisposti utilizzando coerentemente le ipotesi e gli elementi sopraccitati e sono stati elaborati sulla base di principi contabili omogenei rispetto a quelli applicati dall'Emittente nella redazione del bilancio intermedio al 30 settembre 2018.

Limitazioni all'utilizzo

La presente relazione è stata predisposta ai soli fini di quanto previsto dal Regolamento 809/2004/CE della Commissione del 29 aprile 2004, come successivamente modificato ed integrato, e non può essere utilizzata in tutto o in parte per altri scopi.

Milano, 30 novembre 2018

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KPMG report on BIP preliminary results for the year 2018

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Relazione della società di revisione sui risultati preliminari dell'esercizio 2018 di Banca Interprovinciale S.p.A.

Al Consiglio di Amministrazione di
Banca Interprovinciale S.p.A.

Abbiamo esaminato i risultati preliminari di Banca Interprovinciale S.p.A. (l'"Emittente" o la "Banca") che riportano i prospetti di stato patrimoniale e di conto economico riclassificati al 31 dicembre 2018 e le informazioni illustrative sui risultati dell'Emittente relativi all'esercizio 2018 (i "Risultati Preliminari 2018") contenuti nel paragrafo 13.1.1 del prospetto informativo (di seguito il "Prospetto Informativo") redatto dall'Emittente nell'ambito della richiesta di ammissione delle proprie azioni ordinarie alla quotazione nel Mercato Telematico Azionario organizzato e gestito da Borsa Italiana S.p.A (la "Quotazione") all'esito della fusione per incorporazione con SPAXS S.p.A.. I Risultati Preliminari 2018 sono stati redatti ai fini dell'inclusione nel Prospetto Informativo predisposto ai sensi del Regolamento (CE) n. 809/2004 della Commissione del 29 aprile 2004 e successive modifiche (il "Regolamento Europeo").

Responsabilità degli amministratori

Gli amministratori sono responsabili della redazione dei Risultati Preliminari 2018 sulla base dei criteri di redazione indicati nell'informativa inclusa nel citato paragrafo 13.1.1 del Prospetto Informativo e di quanto previsto dal Regolamento Europeo e dalla raccomandazione ESMA *"ESMA update of the CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses n. 809/2004"*. Sono altresì responsabili per quella parte del controllo interno che essi ritengono necessaria al fine di consentire la redazione dei Risultati Preliminari 2018 che non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali.

I Risultati Preliminari 2018 sono stati redatti sulla base dei criteri descritti nel paragrafo 13.1.1 del Prospetto Informativo e rappresentano una stima del risultato relativo all'esercizio chiuso al 31 dicembre 2018. Il processo di predisposizione del bilancio dell'Emittente per tale esercizio è ancora in corso, pertanto, non si può escludere che, all'esito di tale processo, le informazioni finanziarie riportate nel suddetto bilancio possano essere anche significativamente diverse da quelle incluse nei Risultati Preliminari 2018, anche a causa di variazioni dovute a modifiche nelle stime contabili, ad eventi successivi ad oggi non prevedibili o alla correzione di eventuali errori nelle informazioni finanziarie storiche utilizzate come base per la redazione degli stessi.

Banca Interprovinciale S.p.A.
Relazione dell'11 febbraio 2019

Indipendenza della società di revisione e controllo della qualità

Abbiamo rispettato i principi sull'indipendenza e gli altri principi etici del *Code of Ethics for Professional Accountants emesso dall'International Ethics Standards Board for Accountants,* basato sui principi fondamentali di integrità, obiettività, competenza e diligenza professionale, riservatezza e comportamento professionale.

La nostra società di revisione applica l'*International Standard on Quality Control 1 (ISQC Italia 1)* e, di conseguenza, mantiene un sistema di controllo di qualità che include direttive e procedure documentate sulla conformità ai principi etici, ai principi professionali e alle disposizioni di legge e dei regolamenti applicabili.

Responsabilità della società di revisione

E' nostra la responsabilità di esprimere il giudizio professionale sui Risultati Preliminari 2018 sulla base delle procedure svolte. Il nostro lavoro è stato svolto secondo i criteri indicati nel principio *International Standard on Assurance Engagements 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, emesso dall'*International Auditing and Assurance Standards Board (IAASB).*

Il nostro incarico ha comportato lo svolgimento di procedure volte ad acquisire elementi probativi a supporto degli importi e delle informazioni contenuti nei Risultati Preliminari 2018. Le procedure scelte dipendono dal giudizio professionale del revisore, inclusa la valutazione dei rischi di errori significativi nei Risultati Preliminari 2018 dovuti a frodi o a comportamenti o eventi non intenzionali. Nell'effettuare tali valutazioni del rischio, il revisore considera il controllo interno relativo alla redazione dei Risultati Preliminari 2018 al fine di definire procedure di verifica appropriate alle circostanze, e non per esprimere un giudizio sull'efficacia del controllo interno dell'Emittente.

Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Il lavoro svolto non costituisce una revisione contabile completa dei Risultati Preliminari 2018 nonché delle informazioni finanziarie storiche utilizzate per la redazione della stessa.

La nostra responsabilità non si estende all'aggiornamento della presente relazione per eventi o circostanze che potrebbero presentarsi successivamente alla data della stessa.

Giudizio

A nostro giudizio i Risultati Preliminari 2018 sono stati redatti in modo appropriato sulla base dei criteri di redazione descritti nel paragrafo 13.1.1 del Prospetto Informativo e questi ultimi sono coerenti con i principi contabili applicati dalla Banca nella redazione del bilancio al 31 dicembre 2017, con le variazioni descritte nel bilancio intermedio abbreviato al 30 settembre 2018.

Banca Interprovinciale S.p.A.
Relazione dell'11 febbraio 2019

Limitazioni all'utilizzo

La presente relazione è stata predisposta ai soli fini di quanto previsto dal Regolamento Europeo con riferimento al Prospetto Informativo. La presente relazione non può pertanto essere utilizzata in tutto o in parte per altri scopi.

Milano, 11 febbraio 2019

KPMG S.p.A.

Bruno Verona
Socio

KPMG Report on preliminary results 2018 for SPAXS and its subsidiaries.

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Relazione della società di revisione sui risultati preliminari dell'esercizio 2018 di SPAXS S.p.A. e delle sue controllate

Al Consiglio di Amministrazione di
SPAXS S.p.A.

Abbiamo esaminato i risultati preliminari di SPAXS S.p.A. e delle sue controllate (il "Gruppo") che riportano la "liquidità complessiva" al 31 dicembre 2018 (i "Risultati Preliminari 2018") contenuti nel paragrafo 13.1.2 del prospetto informativo (di seguito il "Prospetto Informativo") redatto da Banca Interprovinciale S.p.A. (l'"Emittente") nell'ambito della richiesta di ammissione delle proprie azioni ordinarie alla quotazione nel Mercato Telematico Azionario organizzato e gestito da Borsa Italiana S.p.A. (la "Quotazione") all'esito della fusione per incorporazione con SPAXS S.p.A.. I Risultati Preliminari 2018 sono stati redatti ai fini dell'inclusione nel Prospetto Informativo predisposto ai sensi del Regolamento (CE) n. 809/2004 della Commissione del 29 aprile 2004 e successive modifiche (il "Regolamento Europeo").

Responsabilità degli amministratori

Gli amministratori di SPAXS S.p.A. sono responsabili della redazione dei Risultati Preliminari 2018 sulla base dei criteri di redazione indicati nell'informativa inclusa nel citato paragrafo 13.1.2 del Prospetto Informativo e di quanto previsto dal Regolamento Europeo e dalla raccomandazione ESMA *"ESMA update of the CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses n. 809/2004"*. Sono altresì responsabili per quella parte del controllo interno che essi ritengono necessaria al fine di consentire la redazione dei Risultati Preliminari 2018 che non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali.

I Risultati Preliminari 2018 sono stati redatti sulla base dei criteri descritti nel paragrafo 13.1.2 del Prospetto Informativo e rappresentano una stima del risultato relativo all'esercizio chiuso al 31 dicembre 2018. Il processo di predisposizione del bilancio consolidato del Gruppo per tale esercizio è ancora in corso, pertanto, non si può escludere che, all'esito di tale processo, le informazioni finanziarie riportate nel suddetto bilancio possano essere anche significativamente diverse da quelle incluse nei Risultati Preliminari 2018, anche a causa di variazioni dovute a modifiche nelle stime contabili, ad eventi successivi ad oggi non prevedibili o alla correzione di eventuali errori nelle informazioni finanziarie storiche utilizzate come base per la redazione degli stessi.

Indipendenza della società di revisione e controllo della qualità

Abbiamo rispettato i principi sull'indipendenza e gli altri principi etici del *Code of Ethics for Professional Accountants emesso dall'International Ethics Standards Board for Accountants*, basato sui principi fondamentali di integrità, obiettività, competenza e diligenza professionale, riservatezza e comportamento professionale.

La nostra società di revisione applica l'*International Standard on Quality Control 1 (ISQC Italia 1)* e, di conseguenza, mantiene un sistema di controllo di qualità che include direttive e procedure documentate sulla conformità ai principi etici, ai principi professionali e alle disposizioni di legge e dei regolamenti applicabili.

Responsabilità della società di revisione

E' nostra la responsabilità di esprimere il giudizio professionale sui Risultati Preliminari 2018 sulla base delle procedure svolte. Il nostro lavoro è stato svolto secondo i criteri indicati nel principio *International Standard on Assurance Engagements 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, emesso dall'*International Auditing and Assurance Standards Board (IAASB)*.

Il nostro incarico ha comportato lo svolgimento di procedure volte ad acquisire elementi probativi a supporto degli importi e delle informazioni contenuti nei Risultati Preliminari 2018. Le procedure scelte dipendono dal giudizio professionale del revisore, inclusa la valutazione dei rischi di errori significativi nei Risultati Preliminari 2018 dovuti a frodi o a comportamenti o eventi non intenzionali. Nell'effettuare tali valutazioni del rischio, il revisore considera il controllo interno relativo alla redazione dei Risultati Preliminari 2018 al fine di definire procedure di verifica appropriate alle circostanze, e non per esprimere un giudizio sull'efficacia del controllo interno della SPAXS S.p.A..

Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Il lavoro svolto non costituisce una revisione contabile completa dei Risultati Preliminari 2018 nonché delle informazioni finanziarie storiche utilizzate per la redazione della stessa.

La nostra responsabilità non si estende all'aggiornamento della presente relazione per eventi o circostanze che potrebbero presentarsi successivamente alla data della stessa.

Giudizio

A nostro giudizio i Risultati Preliminari 2018 sono stati redatti in modo appropriato sulla base dei criteri di redazione descritti nel paragrafo 13.1.2 del Prospetto Informativo e questi ultimi sono coerenti con i principi contabili applicati da SPAXS S.p.A. nella redazione del bilancio consolidato intermedio abbreviato al 30 settembre 2018.

SPAXS S.p.A.
Relazione dell'11 febbraio 2019

Limitazioni all'utilizzo

La presente relazione è stata predisposta ai soli fini di quanto previsto dal Regolamento Europeo con riferimento al Prospetto Informativo. La presente relazione non può pertanto essere utilizzata in tutto o in parte per altri scopi.

Milano, 11 febbraio 2019

KPMG S.p.A.

Bruno Verona
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3