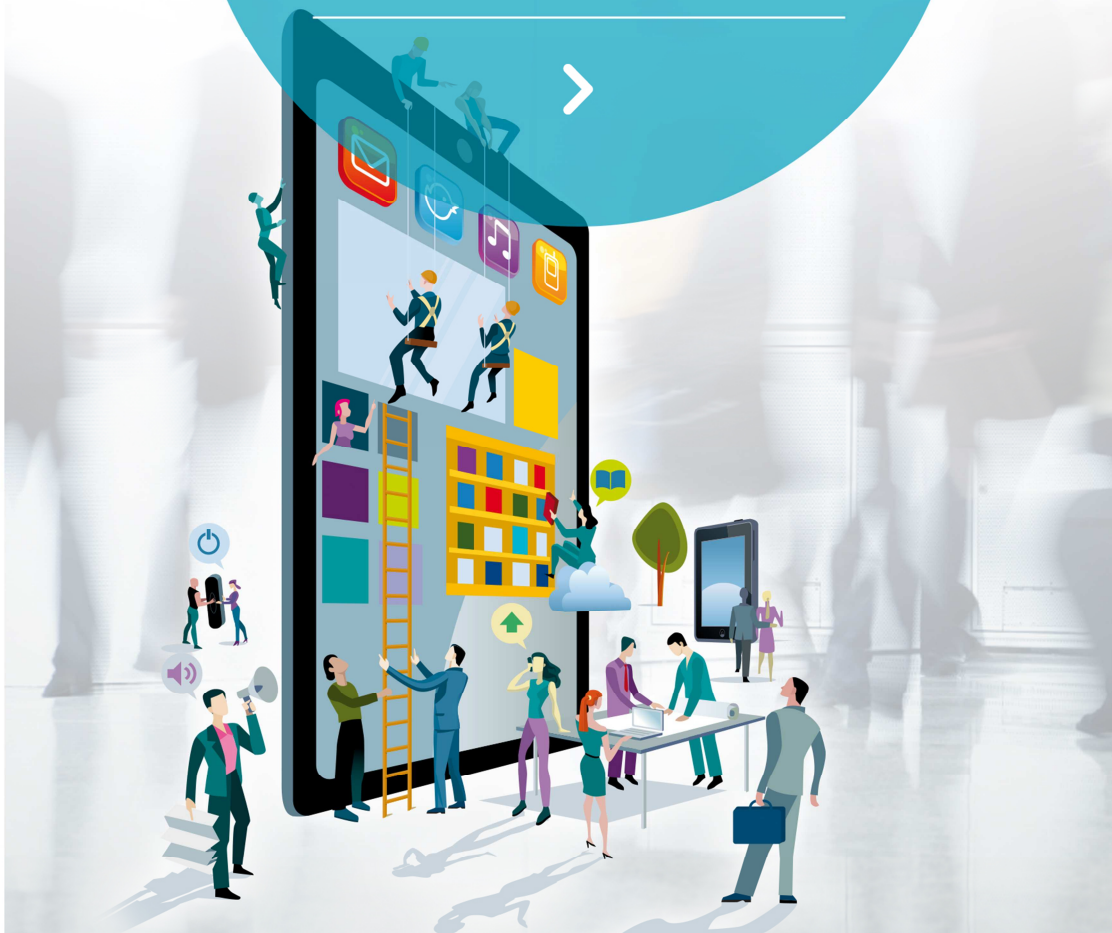


ANNUAL REPORT DRAFT
BANCA IFIS S.P.A.
2014



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Introduction

Chairman's Letter

Dear Shareholders,

2014 saw several important landmarks, confirming once again Banca IFIS's solid foundations. We continue growing and achieving targets, which is especially positive considering the protracted challenging economic scenario of the last twelve months. With a sustainable and profitable business model, the bank put the mutually related values of innovation and superior technical expertise at the core of its growth.

Throughout the year just ended, a major political and economic issue was credit, especially to businesses – and this will continue to be the case also in the future. We need a breakthrough to provide more credit to the real economy, and we need a renewed relationship between companies and banks to allow entities in good standing and those with growth potential to access more funding. The lack of a coordinated effort caused the already limited availability of credit to businesses and households to shrink even further.

Small companies cannot create a virtuous cycle due to the lack of credit, with repercussions on individual entities as well as several supply chains and business clusters, and eventually on the real economy.

As for households, the lack of a recovery did not allow the scenario to improve.

The bank is committed to supporting these two sides of Italy, virtuous businesses and struggling households, putting its relentlessly growing technological expertise to use in driving innovation in the banking industry.

In 2014, the Bank once again posted strong margins and grew exponentially in spite of widespread market concerns – a situation exacerbated by Italy's financial, political and legal instability.

In the DRL segment, Banca IFIS is the only active buyer on the Italian market and is also able to manage the entire non-performing loan supply chain on its own. This segment is growing fast and will evolve and innovate further also in 2015.

Therefore, we enter the new year with our abundant liquidity, excellent capital ratios and strong asset quality. Over the next 12 months, as always, the bank will strive to grasp all the opportunities offered by the market.

Our strong position and the confidence investors have in the company allow us to continue paying high dividends, a policy I believe shareholders appreciate. Here is to a wonderful 2015, hoping to achieve once again excellence and satisfaction while serving the real economy.

Corporate Bodies

Board of Directors

Chairman	Sebastien Egon Fürstenberg
Deputy Chairman	Alessandro Csillaghy
CEO	Giovanni Bossi ⁽¹⁾
Directors	Giuseppe Benini
	Francesca Maderna
	Andrea Martin
	Riccardo Preve
	Marina Salamon
	Daniele Santosuosso

1) The CEO has powers for the ordinary management of the Company.

General Manager

Alberto Staccione

Board of Statutory Auditors

Chairman	Giacomo Bugna
Standing Auditors	Giovanna Ciriotta
	Mauro Roviada
Alternate Auditors	Luca Giacometti
	Sonia Ferrero

Independent Auditors

Reconta Ernst & Young S.p.A.

Corporate Accounting Reporting Officer

Carlo Sirombo



Fully paid-up share capital 53.811.095 Euro
 Bank Licence (ABI) No. 3205.2
 Tax Code and Venice Companies
 Register Number: 02505630109
 VAT No.: 02992620274
 Enrolment in the Register of Banks No.: 5508
 Registered and administrative office
 Via Terraglio 63, – Mestre, 30174 – Venice, Italy
 Website: www.bancaifis.it



Member of Factors
Chain International

Business

Banca IFIS is the only independent bank in Italy that specialises in the segment of trade receivables, distressed retail loans and tax receivables.

The brands and business areas through which the Bank operates, financing the real economy, are:

Credi Impresa Futuro, dedicated to supporting the trade receivables of small- and medium-sized enterprises operating in the Italian market;

Banca IFIS International, for companies growing abroad or based abroad and working with Italian customers;

Banca IFIS Pharma, supporting the trade receivables of local health services' suppliers;

CrediFamiglia and **NPL area**, comprising all operations of the business area active in the distressed retail loans segment;

Fast Finance, focusing on the segment of tax receivables arising mainly from insolvency proceedings.

The Bank carries out its retail funding business through the following brands and products:

rendimax, the high-yield online savings account, completely free, offered to individuals, business customers and for insolvency proceedings;

contomax, born in January 2013, the low-cost online current account with high returns.

Listed on the Star segment of Borsa Italiana, Banca IFIS has always been an innovative and steadily growing company.

Trade receivables segment

Credi Impresa Futuro



di Banca **IFIS**

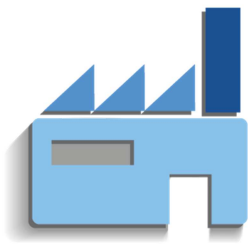
Faced with strong demand and armed with a decade of experience in this segment, Banca IFIS developed a new project and introduced also a new brand to foster the growth of trade finance loans to Italian SMEs: Credi Impresa Futuro. The multichannel service and real-time continuous support, together with the close proximity to our customers through our network, are the strengths of this initiative. Our revamped team of specialists ensures an open and constant dialogue between the bank and its customers. The web – in all its forms – is the preferred method to contact customers, giving more and more opportunities for raising financing to businesses requiring it.

The advanced use of CRM platforms and approaching the market also through social media are the ingredients of a formula which is further proof of the Bank's pioneering spirit.

In the last 6 months of 2014 alone, over 4.200 companies received financing and custom-tailored solutions aimed at resolving specific working capital financing problems through the factoring of trade receivables. In particular, Banca IFIS's Credi Impresa Futuro managed to address the needs of companies that boast supply relationships with customers of good credit standing. Banca IFIS was the first in providing factoring, a service usually required by large businesses, to SMEs: this allowed the Bank to finance companies by transferring the credit risk to their customers, i.e. to the ac-

count debtors. The assessment and authorisation criteria used by Credi Impresa Futuro and related to this financial instrument focus on the credit quality and the productive capacity of the company, rather than exclusively on its capital position, allowing Credi Impresa Futuro to always act out of awareness. Through this approach, Credi Impresa Futuro focuses on the current and future ability of its corporate customers to grow their business.

Requirements for the customer to access Credi Impresa Futuro's services



Your customers are enterprises, not people



Your company is already supplying and invoicing the service or product you offer

Credi Impresa Futuro's intervention is based on a key and constant element, i.e. factoring the customer's trade receivables and financing them in a very short time. For Credi Impresa Futuro, financing a customer means providing the resources to run and expand its business. However, the lending business alone is not representative of the Bank's whole product range. Leveraging trade receivables to provide companies with the necessary support to develop involves new factors, whose mix generates intrinsically better results compared to traditional bank lending. Indeed, non-specialist banks base their credit risk analysis and their assessment of whether or not to intervene almost exclusively on the client company and its creditworthiness. In Credi Impresa Futuro's approach, the focus is on the trade receivables the client company manages to generate and the quality of its customers: this has resulted in a new way of providing credit that is more effective than the traditional approach.

For the client company, the relationship with Credi Impresa Futuro is not just about credit. Of course, this remains crucial, as especially small- and medium-sized enterprises often need resources urgently to finance their working capital; but it is also about outsourcing accounts receivable management. Smaller companies find it cost-effective and efficient to let a specialist player such as Credi Impresa Futuro manage their accounts receivable; at the same time, larger companies consider outsourcing such a delicate process as managing their accounts receivable as a way to generate value. Furthermore, it is also a question of monitoring the risk related to the final debtor. Credi Impresa Futuro assesses the creditworthiness of the account debtors, i.e. those that in the end must repay their trade receivables. For the Bank, this is crucial: it may decide not to act if the account debtor (i.e. the "customer" of the Bank's client) does not meet the necessary credit requirements.

Therefore, Credi Impresa Futuro's intervention is not exclusively about trade finance. Besides credit, we provide a service to manage accounts receivable and to assess customers' creditworthiness, which makes it extremely effective for the client company to work with the Bank.

Credi Impresa Futuro has a widespread presence throughout Italy, with 28 branches employing over 180 professional staff responsible for managing trade relations and customer-related activities, ensuring an on-going relationship between the Bank and companies. For Credi Impresa Futuro, meeting customers promptly and directly at their premises is the norm, as are high in-house standards concerning the speed, effectiveness, transparency and directness of the relationship between the Bank and the customer. Although establishing a direct relationship is the best way for Credi Impresa Futuro to acquire new clients and know existing ones better, in order to engage with its customers, it maintains relations with selected qualified institutional counterparties, such as local banks and industry trade groups. In this way, it aims to provide customers/associates with a service that is as effective as possible.

The knowledge of the local area and customers, together with the business model based on factoring and mitigating the relevant credit risk, allow the Bank to maintain a relatively limited risk profile for its assets. In particular, the assets' quality is generally better than that normally resulting from banking operations involving small- and medium-sized enterprises, especially considering the current economic scenario, affected by a severe recession and six years characterised by financial distress and the credit crunch. This means that the Bank – in a year in which it continued to support Italian SMEs, increasing the number of loans granted – incurred losses on receivables, but those were nonetheless lower than before and did not prevent Banca IFIS from creating value in this specific and challenging sector. The Bank's business model and its different approach to credit risk allowed it to continue operating in favour of companies, even in the face of market conditions causing non-specialist banks to struggle in efficiently taking risks on small- and medium-sized enterprises.

Credi Impresa Futuro's solutions for credit problems

You are looking for enough liquidity to meet your short-term commitments, such as paying invoices



You export goods and services out of Italy and you want to protect yourself against non-payment by your customers



You have receivables due from the Italian Public Administration and you're vulnerable to unsustainable delays in payment



You work with solid companies and you want to widen your customer portfolio



You are already insured against customer insolvency and you would like an advance on the receivables due to you

Banca IFIS International

BANCAIFIS INTERNATIONAL

Banca IFIS is one of the most active players in international factoring and stands out from the competition due to its direct presence in foreign markets, such as Poland, Romania, Hungary and, through an investee company, India, with around 30 professional staff dedicated to international business.

Banca IFIS International's strength lies in its ability to act not only as a reference in providing financing to businesses, but also as a consultant to those customers who intend to enter new markets or are looking for new operating solutions to propose to their counterparties. Thanks to its experience of the markets and the various industrial sectors, the Bank can effectively assist companies in seizing growth opportunities in all markets as well as locally serve Italian businesses with branches and subsidiaries in the countries where Banca IFIS operates directly or through its subsidiaries. This way, our customers can receive comprehensive support in making strategic investment to go global.

Requirements for the customer to access Banca IFIS International's services



Your customers are enterprises
and not individuals



Your company is already supplying and
invoicing the service or product you offer

In 2014, as in the previous year, several countries registered increased demand for indirect factoring integrated with maturity factoring. This allows the buyer to provide its foreign suppliers with the necessary financial support and to benefit from the extension of payments terms granted by the factor, which pays the supplier at maturity.

What specific needs Banca IFIS International meets



You import into Italy and are looking for a partner that can lend you the necessary support liquidity-wise



You export goods and services out of Italy and you want to protect yourself against non-payment by your customers and you are looking for support in managing and financing your receivables

Export Factoring is the product dedicated to Italian exporting companies and includes both recourse and non-recourse factoring. To offer the service most suited to the customer's needs, the Bank, depending on the type of operation proposed and the countries involved, can intervene directly or use the services of its correspondents.

Import Factoring is the service offered to foreign companies exporting to Italy. Also in the case of import, services can be offered directly to foreign companies or to FCI correspondents. In the first case, the three services – management, guarantee against the risk of default, and financing of receivables – are almost always present, while in the case of operations notified by correspondents, the focus is usually on management and guarantee against the risk of default. It is important to stress that the Bank has been structured in such a way as to be able to enter into a direct relationship with any foreign company, except for those operating in markets with impediments to the transfer of credit.

In the business segment of non-domestic operations, two foreign counterparties are involved: Generally, non-recourse factoring is preferred for this kind of service. Offering non-domestic operations requires extensive knowledge of the law of the countries involved, with particular reference to the conditions required to guarantee that the transfer of the receivable is valid, both for directly managed dealings and for those notified by FCI correspondents.

Banca IFIS International's solutions for credit problems**IMPROVEMENT IN YOUR
BALANCE SHEET RATIOS****GUARANTEED RECEIVABLES**

You can reduce the risk of non-payment by your international customers, with the expert advice of professionals

**FINANCING**

Obtain payment of your trade receivables in advance, in a much easier way

**CONTINUOUS MONITORING
OF YOUR CUSTOMERS****EFFICIENCY IN CASH FLOWS**

Banca IFIS Pharma

BANCAIFIS PHARMA

Banca IFIS Pharma is the area dedicated to creating integrated management solutions for companies in the healthcare, pharmaceutical, diagnostic and service sectors wishing to factor receivables due from Italy's National Health Service.

Banca IFIS Pharma proposes "Ias Compliant" non-recourse factoring solutions which solve credit management problems and allow customers to hedge late payment risk. Purchasing these receivables, as they are due from the Health Service, implies less exposure to the downgrade risk and returns in line with the Bank's standards.

Banca IFIS International's solutions for credit problems



**GUARANTEED
CASH FLOWS**



**REDUCTION IN
WORKING CAPITAL**



**IMPROVEMENT IN YOUR
BALANCE SHEET RATIOS**

In 2014, the Pharma business area consolidated the excellent relations established in previous years, continuing to expand its customer base and addressing the trade finance needs of large pharmaceutical companies. In 2014, the payment of the national health service's outstanding debts to companies accelerated; however, in spite of the measures taken by the Italian government, late payments from the Public Administration continue to severely affect industry players.

Distressed Retail Loans (DRL) Segment

Credi Famiglia and NPL Area



This is the Banca IFIS business area dedicated to non-recourse factoring of distressed retail loans. This business unit was born following Banca IFIS's acquisition in May 2011 of Toscana Finanza, which was subsequently merged into the company and turned into a division. Since then, a constantly evolving vision has been driving the area's development and the addition of new professional skills.

It is based in Florence and has people operating throughout Italy. It stands out for its ability to assess, acquire and manage important portfolios and to establish a remarkable database containing detailed information about over seven hundred thousand debtors.

Purchases from consumer lenders and banks focus on unsecured distressed retail loans due from individuals.

The business unit's highlights for the year just ended were:

- the acquisition of sizeable portfolios of unsecured retail loans on both the primary (i.e. directly from sellers) and secondary markets (i.e. from other buyers),
- the acquisition of stock portfolios (stocks of loans with different ages sold in bulk) as well as forward flow portfolios (with receivables sold monthly),
- the sale of performing settlement plans concerning debtors who were originally “non-paying” and then started paying with the help of Banca IFIS's NPL Area.

Today, the NPL area is one of Italy's leading debt buyers, mainly thanks to its superior operational expertise: it integrates different accounts receivable management methods with a unique ability to obtain more information and an unwavering drive to identify the payment solutions most suited to the specific type of debtors.

Its business model is based on the ability to purchase and manage distressed loans, increasing their value by focusing on the link between the bank and the debtor to safeguard the relation as well as the reputation of sellers.

Banca IFIS's NPL Area increasingly creates value for the Bank: over the last three years, net banking income saw steady double-digit growth.

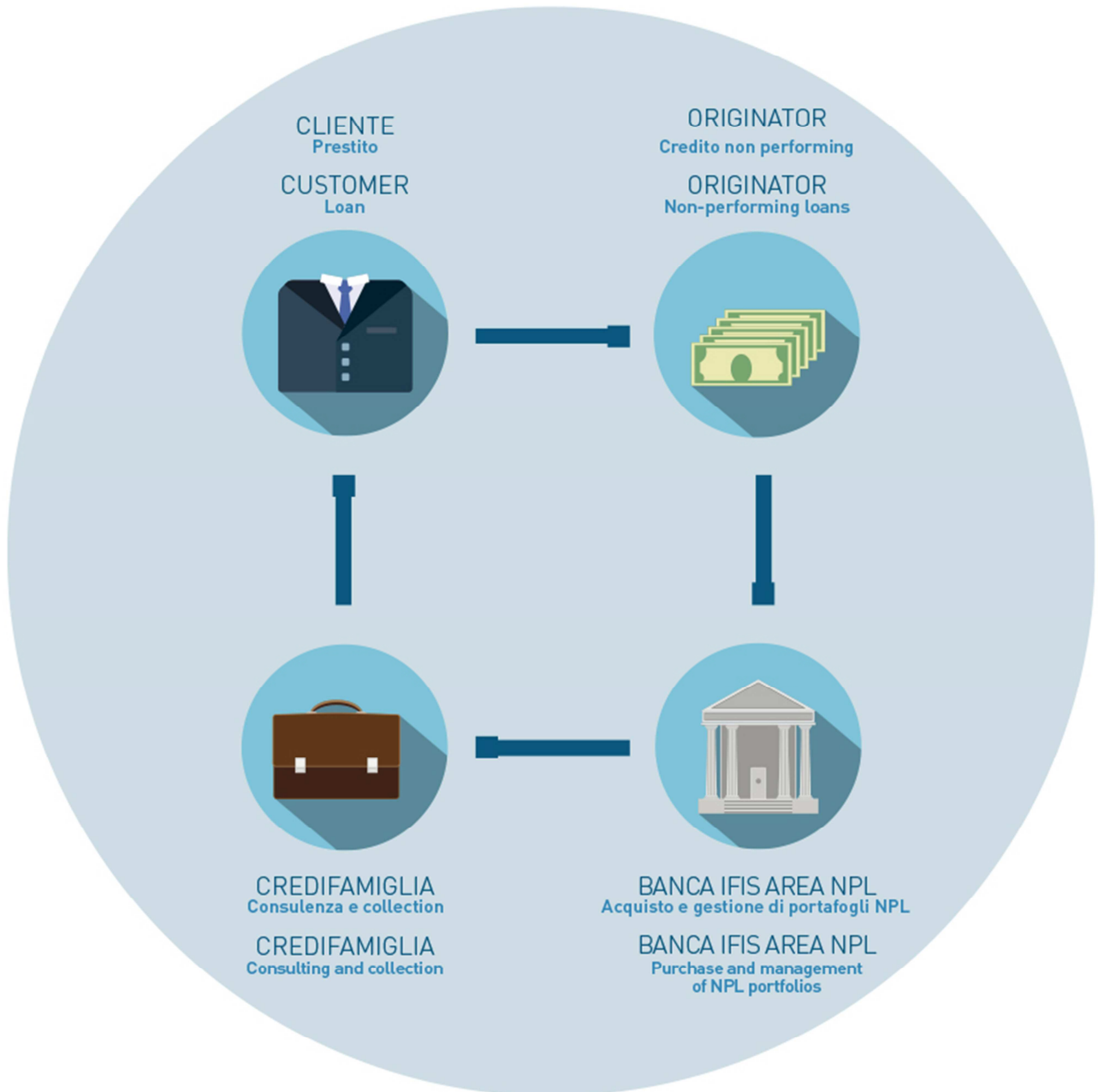
A new brand, CrediFamiglia, was launched at the end of the first half of 2013. It represents an ethical and sustainable entity based on the principles of dialogue,



transparency, and knowledge; a true community, which also operates through the internet; and a network of professional agents who, thanks to their extensive experience in the credit industry, can assist, provide advice, and listen to those who have a debt that they wish to honour and resolve.

Finally, in 2014, the Bank stepped up court-ordered debt collection efforts concerning debtors with the ability to pay their debts but that are not actually willing to do so.

Furthermore, during the year it set up a call centre to manage existing settlement plans and create new ones.



Tax receivables segment

Fast Finance



Fast Finance is the Banca IFIS business area specialised in purchasing tax receivables, trade receivables and claims concerning insolvency proceedings; it offers to buy both accrued and accruing tax receivables on which repayment has already been requested or which shall be requested in the future, and that arose during insolvency proceedings or in prior years.

Based in Bologna, it is a leading provider of services for Insolvency Proceedings, with over 50% market share and a reputation for the quality and professionalism of its work. It was created in 2001 and has been part of the Banca IFIS Group since May 2011. During 2012 it merged into Banca IFIS S.p.A., becoming a specialist business area. Receivables are factored without recourse and without any cost for the seller, with Fast Finance taking responsibility for all costs regarding the valuation, transfer and management of the receivables, including those relating to the issue of any surety bond that may be requested as guarantee by the tax authorities before effecting the repayment.

The high level of technical know-how acquired thanks to its long experience in this sector enables Fast Finance to offer the Parties involved in Proceedings qualified assistance and the utmost efficiency in managing operations through a detailed analysis of every position, with particular attention to the type of taxation, the origination period, the amount, the possibility of collection, and the timeframe for the repayment.

Solutions offered by Fast Finance



**SETTLEMENT AND IMMEDIATE
FREEING-UP OF RECEIVABLES**



RAPID CLOSURE OF PROCEDURE



NO DUTY FOR THE ASSIGNOR



DRAWING UP OF CONTRACTS IN A NOTARY OFFICE LOCATED IN THE SAME TOWN/CITY AS THE COURTHOUSE HAVING JURISDICTION

Fast Finance has eight Area Managers who work on a daily basis with the courts, offering qualified assistance to the Parties involved in Proceedings by detailing them on the operational aspects, as well as supporting the Professional in preparing the documentation and working with him to handle and resolve any problems which may arise in the preparatory stage.

People

The workforce

Banca IFIS continues to invest in human resources: the number of employees rose from 536 at the end of 2013 to 604 at 31 December 2014. 516 are on open-ended contracts, 62 on fixed-term contracts, 20 on apprenticeship contracts, and 6 are foreign employees. It should be noted that the Bank is committed to stabilising employment relationships, transferring over 80 employees to open-ended contracts in 2014.

This positive growth trend is related to the Bank's constantly growing commercial presence, the consolidation of an organisational structure oriented to technological innovation, and also the need to support a market where risk management remains a priority.

The new positions were mainly in relationship management with client companies – the Bank's historical core business (sales account managers, credit management specialists, and credit analysts), in the support and management of Distressed Retail Loans (especially Analytical Management, but also Massive Management and Operating Services – especially the Call Centre – were bolstered), and technical support (organisational, IT and legal). The Non Performing Loans Area continues to hire Credit Consultants to strengthen its internal network of financial agents, which will be gradually implemented throughout 2015 and consist of 200 employees.

In 2015, the workforce is expected to grow double-digit once again, and the areas concerned will largely be the same as in 2014.

Recruitment, Training and Development

Recruitment is the Development Service's most resource-intensive activity. Looking for the most qualified and motivated candidates to join the various operating/business areas, in order to ensure the quantity and quality of staff is consistent with the Bank's strategic and growth targets, is challenging. However, our managers are driven by the awareness that they are giving employment opportunities to skilled people mired in a stagnant job market.

Spontaneous applications received through our website as well as the various social networks, and especially LinkedIn, have now become the main recruitment channel, reflecting the Bank's innovative and technological approach.

The selection process for most job openings is conventional (CV screening, management interview, technical interview, etc.). For two specific positions – the Sales Account Manager and the Financial Agent/Credit Consultant – the bank implemented a massive recruitment process consistent with its innovative approach; candidates are invited to a “Web Streaming Open Day” hosted by the Communications Function, followed by Skype interviews and other recruitment stages aimed at screening for a set of important personal characteristics critical for the positions concerned.

During 2014, as in late 2013, the Bank continued to recruit Credit Consultants through “Open Days” organised by the competent business functions. This recruiting process, focused on specific geographical areas, will be implemented also during the first half of 2015.

2014 saw several training initiatives and growth opportunities at Banca IFIS, with significant investments in people's development.

Specifically, during 2014 the Bank offered important and targeted training opportunities; employees and managers received both technical/operational and management training.

Here below are the main training programmes carried out:

- Experienced Sales People: 5 two-day outdoor sessions organised by the Palo Alto School involving all Sales Account Managers;
- Ambrosetti Communications Course: two 2-day workshops on Communications and Negotiations for high-potential employees (35 participants);
- Ambrosetti Resource Management Course: three 2-day workshops on Coaching, Delegation and Team Management for Service Managers or potential future work team managers (37 participants);
- Soft Skills Training: 22 all-day training sessions on the development of management skills based on performance evaluation findings (150 participants);
- Financial Statement Analysis: 3 sessions involving 45 participants, mainly from the branches' Credit Management units.

As part of the investments and initiatives aimed at providing opportunities to grow to the Bank's young employees, in the fourth quarter of 2014 12 deserving young staff members were enrolled in external Master programmes in “legal banking” and “management planning and control”.

Here below are the main recurring training programmes:

- **Giovani Leoni (Young Lions):** a programme aimed at training and developing the technical/operational/commercial skills of 8 new sales account managers at Banca IFIS; it lasts six weeks and is taught by in-house and external teachers;

- English: the Bank continued to provide English language courses to employees divided according to language proficiency tests. **101 participants attended the courses (involving also 1-1 sessions with managers)**; in 2014 the initiative was extended to the office in Florence, **adding a further 63 participants**;
- NPL Academy: technical/behavioural training for prospective agents/Credit Consultants; 7 editions were held, each lasting 2 days;
- Anti-money laundering: refresher courses and regulatory comparisons;
- Security and safety: courses for new hires, refresher courses for all staff, and specific courses for security and safety officers.

As for human resource management, two important changes were introduced in 2014:

- The Bank implemented the new "Performagement" evaluation system, a tool that will increase employees' awareness of their role.
- In the fourth quarter, it launched the "New-Hire Mentoring" project, aimed at helping new employees joining Banca IFIS by planning a shared training programme involving periodic monitoring throughout their first year at the company.

Organisation and technologies

The control over the development of the Bank's organisation, with reference to organisational structures, size and processes, is guaranteed by the Organisation and Information Systems Area.

In 2014, Banca IFIS continued in its growth and renewal efforts that have characterised the last few years, also by planning, launching and implementing several initiatives.

The projects launched in 2014 were driven by both the goal of aligning the Bank's governance and organisation to the new regulatory framework¹ and the need to implement the strategy outlined in the Bank's business plan.

In this sense, the Bank continued to enhance its organisational structure as far as both the business areas and the strengthening of risk control and management units are concerned.

In 2014, Banca IFIS's initiatives focused on the following areas:

1. for the Bank's traditional business, concerning lending to SMEs:
 - the verticalisation of products, allowing to acquire specific customer segments, customising specific operating processes where necessary;
 - the development of the Internet channel, maintaining a continued presence to acquire new customers;
 - the development of specific litigation support software to better monitor impaired positions;
 - the development of an electronic invoicing service to help customers in dealing with Italy's Public Administration in light of new regulations;

¹ The 15th update to the Bank of Italy's Circular no. 263/06 introduces important changes concerning the Internal Audit System (Chapter 7), the IT System (Chapter 8) and Business Continuity (Chapter 9).

- the reorganisation of the credit monitoring function to improve the quality of the portfolio, both in terms of preventing – based on a series of warning indicators – and managing risks concerning customer/debtor/guarantor positions that show signs of impairment;
2. for the Area specialising in the acquisition of non-performing loan portfolios:
 - the implementation of measures targeted at optimising production and control processes;
 - the introduction of diversified collection approaches aimed at turning debtors into “customers”;
 - the introduction of improved procedures and new capabilities enhancing existing software solutions, also in terms of equipment provided to debt collection agents and companies (tablets with specific applications directly accessing the Bank's database);
 - the consolidation of the debt collection network;
 - the development of a segregated environment for accessing information about distressed portfolios held by potential sellers, in order to optimise risk analysis processes concerning non-performing portfolios being considered for an acquisition;
 - the development of software updates to support portfolio sales operations (accounting, warning, etc.);
 3. for the retail funding Area, the Bank took actions aimed at consolidating the rendimax and contomax products;
 4. concerning Risk & Compliance:
 - the definition of the rules for the Risk Management Function;
 - the definition of the rules for the Compliance and Anti-Money Laundering Function;
 - the definition of the Group's Policy for assessing capital adequacy;
 - the definition of the Risk Appetite Framework pursuant to new Bank of Italy's regulations;
 - the definition of management processes for the major risks assumed by the Bank, especially credit risk, banking book interest rate risk, concentration risk, and operational risk. Furthermore, the Bank outlined the development and validation process it will adopt for the internal rating system. For this purpose, the Organisation and Information Systems Area, with operational assistance from the Risk Management Function, defined the Group's relevant policies;
 - the progress on the implementation of the SAS system for the purpose of risk management;
 - the establishment of criteria for identifying significant transactions;
 5. as for ICT governance, compliance and risk management, the main initiatives concerned:
 - the preparation of the Group's Policy for defining the ICT and technology strategic plan. This document outlines the process (and assigns roles and responsibilities to the organisational units involved) the Bank uses to plan its own ICT strategy, with initiatives ranging from the assessment of business goals (promoting a feedback loop with the general strategic planning process) to the definition of prospective architectural and infrastructural design as well as the planning and monitoring of the relevant enabling projects;
 - the preparation of the Group's Policy for information security risk assessment and management. This documents outlines the information security risk governance and management process as well as how the Bank intends to assess it pursuant to regulatory provisions;

- the preparation of the Group's Policy for IT Security management;
 - the outlining of procedures concerning change management as well as IT security accidents;
 - the definition of the data governance system;
6. as for infrastructural issues and cross-functional applications:
- the compliance with Business Continuity requirements (through off-site data centres);
 - the updating of operational and IT procedures to comply with the EBA's disclosure requirements (FinRep and Corep);
 - the development of a privacy assessment process to obtain awareness of potential privacy breach risks and then implement adequate organisational and IT measures to prevent them;
 - the deployment of ERP software solutions required to comply with the “Provisions Concerning Data Sharing and Tracking of Transactions in the Banking Sector”;
 - the development of the Bank's Intranet (IFIS 4 YOU), providing all employees with a single workstation displaying key information on the Bank's operations in a way similar to social networks;
 - the development of a dedicated tool for monitoring transactions with customers to identify any anomalies suggesting money laundering or terrorist financing activities are being or have been carried out or attempted;
 - the development of new claims management software, completely integrated with the Bank's technological platform, to increase the awareness of the staff responsible for managing customers' claims in order to constantly improve the relationship with the customer.

The Bank revised the main internal regulations and procedures in light of the above changes.

As every year, outsourcing agreements were revised and updated in order to bring them in line with changes in operations; where necessary, also the key performance indicators (KPIs) for the services supplied were improved.

The Bank also updated its Security Policy Document.

During the year, the organisational structure of the ICT division was strengthened even further, in order to bring it into line with business developments.

Finally, Business Continuity and Disaster Recovery of the Bank's ERP systems underwent the standard architectural and applicative tests during 2014. The tests were carried out in the presence of the Internal Audit function.

Risk Management

2014 saw outstanding progress on new initiatives aimed at enhancing the Bank's internal management processes.

The Bank consolidated some initiatives launched in the second half of 2013 concerning the introduction of new technological tools in use at the Risk Management function, which allow to manage and analyse databases in an easier and more integrated manner. Specifically, the Risk Management implemented SAS technology.

As for credit risk, concerning the trade receivables segment, a new internal rating model for assessing counterparty risk related to Italian businesses was developed.

The model consists in:

- a “financial statement” module, to assess the company's operating/financial soundness;
- a “central credit register” module, presenting the evolution of counterparty risk concerning the banking industry;
- two “internal performance” modules, monitoring signs of deterioration in the relationship between the counterparty and the Bank consistently with the business model of providing working capital financing, based on whether the counterparty is a seller or a debtor;
- a qualitative questionnaire intended to obtain “soft” information that the above modules cannot provide.

This model is currently being rolled out on the Bank's proprietary IT platform and will be implemented in operational processes during 2015.

As for non-performing loans managed by the DRL business area as well as tax receivables, the Bank enhanced the monitoring and control process concerning the portfolio's collection risk, thanks to technological solutions allowing to easily manage large data sets and through a new specific reporting process. It also assesses from time to time the performance of the credit assessment model.

As for operational risks, the Bank defined the relevant management and governance framework: although it calculates capital requirements using the basic indicator approach, it also implements a robust Loss Data Collection process – including throughout its network and at the Polish subsidiary – and periodically conducts Risk Self Assessments.

As for liquidity and interest rate risks, for which the Bank already has a monitoring policy in place, some changes were introduced to the risk control system to bolster it even further. Furthermore, as Basel 3 indicators became effective, the Bank implemented the method for calculating the LCR and NSFR liquidity ratios.

Concerning the information security risk, the Bank's management and relevant business functions defined the method for assessing it, which was first applied to high-priority IT services.

In addition, 2014 saw the Risk Management Function involved in a broad set of activities aimed at ensuring regulatory compliance: among other things, they concerned the definition of a Risk Appetite Framework and the implementation of procedures for identifying and assessing Significant Transactions, as well as a comprehensive review of risk governance and management policies.

Finally, the Function strengthened its staff by adding new and dynamic professionals, and continues to do so consistently with the bank's strategic development goals.

Funding

In 2014, the Italian banking industry's retail funding, mainly consisting of domestic deposits and bonds, fell overall, especially as a result of the negative trend in medium- and long-term funding. In November 2014, total funding amounted to 1.709 billion Euro, down 1,46% from November 2013 and 1,2% from the end of last year.

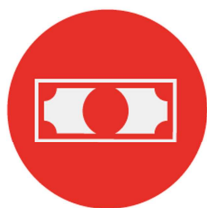
In 2014, Banca IFIS continued to access collateralised interbank loans through repurchase agreements, relying on a significant pool of Italian government bonds accepted as collateral by other lenders or, as a last resort, on the Eurosystem, thanks to the liquidity provided by the ECB.

During the year, the Bank disposed of a portfolio of assets previously used for refinancing operations with the Eurosystem by issuing and repurchasing 138 million Euro in bonds that the Italian Government had guaranteed for a three-year period and 69 million Euro in bonds the Government had guaranteed for a five-year period, paying 1,03% in fees. The reason was that the bond issuances could no longer be used for refinancing purposes; furthermore, their cost was relatively high.

In February 2012, Banca IFIS received a three-year 500 million Euro loan at a 0,25% rate (ECB's key interest rate) as part of the second tranche of the LTRO programme, which is yet to be reimbursed. The Bank participated in the ECB's second TLTRO (Targeted Long Term Refinancing Operation) auction, borrowing 119 million Euro in December for 4 years at a fixed 0,15% rate.

Funding never showed signs of stress and securities trading generated positive results in terms of profitability, helping to ease retail funding costs. These are traditionally higher on the online market, where the volatility of deposits not sufficiently remunerative for customers may represent a risk.

rendimax



Free



Return



Total freedom



Security

rendimax rendimax is Banca IFIS's high-yield online savings account aimed at private investors, companies and insolvency proceedings.

It was created in July 2008, and at the end of 2014 there were 80 thousand rendimax accounts with funding exceeding 3,2 billion Euro.

The decrease in deposits held at the bank is the intended result of a series of actions taken to reduce the cost of funding consistently with market trends, also in light of the excess liquidity and the availability of abundant alternative sources of funding.

The rendimax product still bears the hallmarks that have characterised it from the outset: the attention to the customer, the simplicity of the product, and the transparency and excellent quality of the dedicated service. Customers can still choose from a wide range of diverse offerings: call deposits, fixed-term deposits with interest paid in advance ("First option") or in quarterly arrears ("Top option"), or rendimax like, a call deposit with cash amounts available 33 days after the request. Here are some other characteristics of rendimax: exclusively online account opening and management, security (also due to the guarantee of the Interbank Deposit Protection Fund) and zero costs. In addition to the total exemption from setting-up and management fees, the stamp duty is paid by the Bank, and therefore the customer faces no such cost. The rendimax savings account also offers several maturity options for fixed-term deposits, from one to 24 months.

Rendimax savers can use the exclusive rendimax debit card (which runs on the Bancomat/Pagobancomat and Cirrus/Maestro services).

contomax

contomax

On 7 January 2013, Banca IFIS officially launched contomax, its crowd current account born from the dialogue with the Web. The account can be opened by visiting www.contomax.it

To date, there are approximately 2000 active accounts.

The main services available are: advanced Bancomat (debit card that can also be used for on-line purchases through the Maestro service); payment of utility bills and Telepass motorway tolls, the transfer of funds from one account to another and, in addition, mobile phone top-ups.

The account also guarantees high returns thanks to a series of interest rate solutions for the amounts deposited.

This account has no opening or management fees and the stamp duty is paid by the Bank.

ADVANTAGES AND SERVICES

Zero costs to open and close the account

- No management costs
- Advanced payment card without fees
- Unlimited POS and on-line payments
- First bank transfer of the month is free
- Pay the stamp duty for 2015 too (€34,30 and 0,20%, where due, for the first of your current accounts)
- Maximum security with three different access codes and protection of deposits thanks to the FITD guarantee

Investments in securities

Securities trading led to the creation of a very significant portfolio by the end of 2013. In 2014, in light of the trend in the rates of return, the Bank did not make further purchases; it focused instead on managing the cash flows generated as the portfolio reached maturity, as well as on optimising their refinancing. As usual, Banca IFIS did not trade in financial instruments.

The portfolio consists of Italian securities, virtually all government bonds (99,7%), of which most are at an indexed rate (70,1%); the average return is remarkably positive relative to refinancing costs. At the end of the year, the portfolio amounted to 5,1 billion Euro, including 2,2 billion Euro (44,1%) with maturity in 2015, 0,8 billion Euro (14,8%) in 2016, and the remainder (41,1%) between 2017 and 2018. Most of the securities (4,8 billion Euro, i.e. 95,3%) are classified as Held to Maturity.

Results and Strategy

Comment by the CEO

Amid a flurry of changes for Banca IFIS at such a challenging time, 2014 was a record year that saw strong growth. Key indicators are steadily improving, consistently with our intention to provide as much resources as possible to the economy.

While always ensuring sustainable growth, the Bank managed to increase its support to a rising number of companies and households, effectively using its capital position, liquidity, and ability to offer solutions. This achievement came against a deeply negative backdrop; in spite of a restrictive regulatory environment; and amid a radical overhaul of our operations, with the goal of making our growth more stable and consistent in the coming years.

The Bank increased its lending as it improved a credit quality that was already remarkably good to begin with, confirming the soundness of its approach. An achievement all the more important considering that in general Italian banks are struggling to both expand their support to businesses and households as well as keeping impaired and bad loans in check.

The data concerning Banca IFIS's **credit quality** as far as lending to businesses is concerned point to an outstanding performance: net bad loans accounted for just over 1% of trade receivables, with the proportion halving once again year-on-year; the bad loan coverage ratio reached a staggering 86,4%, outperforming the banking industry; total impaired loans amounted to less than 30% of equity, another unique achievement. These results, made possible thanks to the ability of promoting healthy lending and optimally managing distressed situations, show a bank that was able to weather the storm, quickly mend the damage by changing and innovating, and promptly resume its course.

We are **growing rapidly**: lending to businesses soared 27,0%, with the Bank improving its quality and profitability; in the segment of impaired loans from other originators, Banca IFIS brought the number of loans under management to over 775 thousand, with an overall par value of 5,6 billion Euro and an average book value slightly above 2%; in the tax receivables segment, it confirmed its leadership in the domestic market, with lending and profitability rising further. Therefore, throughout 2014 the Bank posted record volume growth in all segments where it operates as a lender.

These staggering volumes did not come at the expense of margins: all segments still present strong rates of return on loans (which are short-term in the case of businesses, and medium- or long-term when purchasing impaired loans or tax receivables). Rising volumes and margins show that the Bank's offering is appreciated by the markets it operates in, which is a necessary condition to continue performing well over time while supporting the surrounding economic environment.

Profitability was still affected – although to a gradually decreasing extent – by the **margins on the government bond portfolio**. By stopping purchases in late 2013 due to the narrowing of margins on new securities, the Bank ended up with a massive but rapidly shrinking portfolio: during 2014 alone, its book value fell from 8,4 to 5,1 billion Euro, and it is expected to contract further over the next four years until it is completely disposed of, absent new purchases which currently cannot be anticipated. A major focus was managing the portfolio's refinancing costs, and the Bank successfully curbed financial expenses. Towards the end of the year, it was able to refinance the government bonds posted as collateral at fractionally negative interest rates.

Another highlight in 2014 was the **falling cost of funding**. Collateralised interbank lending rates dropped to zero, and there was a dramatic reduction also in the returns on retail deposits, lowering the cost of money for the Bank. The average cost of retail funding raised through **rendimax** and **contomax** fell in just one year by 1,08%. Volumes were moderately down, and this was intended (with customers weighing risks against returns), but they still largely exceeded loans to businesses and households.

In the Bank's vision, the gradually **diminishing return on the government bond portfolio** was and will continue to be **offset** first by the **falling cost of funding**, and then by the steadily growing margins in all segments that see the Bank supporting the economy. In this sense, **the rising business lending volumes** were and will be key – a result made possible thanks to the Bank's current and future level of equity, raising capital through retained earnings. Another factor was the improved credit quality, with **the cost of risk falling** to 173 basis points in 2014 and expected to shrink further, especially in the event the economy does not deteriorate further. The Bank also has high expectations concerning the medium-term outlook for impaired loans from other originators. In 2014, this segment further refined its operational processes. It will take time for the result to show up on the bottom line due to the length of the portfolio's management cycle, but we expect cash flows to significantly improve over time, making an increasing contribution to the Bank's volumes and margins.

This is the backdrop against which Banca IFIS managed to achieve the results reported in this document. Let us stress that shareholders will see a 23,5% return on invested capital, in line with expectations, and that profitability never came in below 20% over the last 3 years.

We deeply believe that there cannot be such a thing as a bank operating without considering the situation it acts on. We believe that banking means striking a balance between the interests of the people who use the bank's services and the ambition to achieve the right level of remuneration. A bank which merely profits from a system that reluctantly allows it to do so, just as a bank which fails to keep its business on track when faced with adverse market conditions, are, for different reasons, doomed to fail. Our work is inspired by the principle of bringing objective improvements to all stakeholders. We are determined to continue making an impact on the real economy. We know we play an important role and have the responsibility to do so to the best of our ability, in the interest of our customers, our shareholders, our people, and all those who work alongside us.

Directors' report

Highlights

KEY DATA ON THE STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2014	31.12.2013	ABSOLUTE	%
Available for sale financial assets	243.325	2.529.179	(2.285.854)	(90,4)%
Held to maturity financial assets	4.827.363	5.818.019	(990.656)	(17,0)%
Loans to customers	2.787.345	2.296.933	490.412	21,4%
Total assets	8.302.952	11.337.797	(3.034.845)	(26,8)%
Due to banks	2.258.972	6.665.847	(4.406.875)	(66,1)%
Due to customers	5.483.142	4.178.276	1.304.866	31,2%
Equity	433.160	380.323	52.837	13,9%

KEY DATA ON THE INCOME STATEMENT (in thousands of Euro)	YEAR		CHANGE	
	2014	2013	ABSOLUTE	%
Net banking income	278.069	261.564	16.505	6,3%
Net value adjustments on receivables and other financial assets	(31.248)	(44.560)	13.312	(29,9)%
Net profit from financial activities	246.821	217.004	29.817	13,7%
Operating costs	(103.745)	(75.574)	(28.171)	37,3%
Pre-tax profit from continuing operations	143.076	141.430	1.646	1,2%
Net profit for the year	94.396	83.404	10.992	13,2%

QUARTERLY KEY DATA ON THE INCOME STATEMENT (in thousands of Euro)	4 th QUARTER		CHANGE	
	2014	2013	ABSOLUTE	%
Net banking income	69.322	70.057	(735)	(1,0)%
Net value adjustments on receivables and other financial assets	(1.594)	(10.023)	8.429	(84,1)%
Net profit from financial activities	67.728	60.034	7.694	12,8%
Operating costs	(34.700)	(21.396)	(13.304)	62,2%
Pre-tax profit from continuing operations	33.028	38.638	(5.610)	(14,5)%
Net profit for the year	21.291	17.731	3.560	20,1%

KPI

KPIs ⁽¹⁾	YEAR		CHANGE
	2014	2013	%
ROE	23,4%	24,6%	(1,2)%
ROA	1,7%	1,2%	0,5%
ROCA	1,2%	0,5%	0,7%
Cost/Income ratio	37,3%	28,9%	8,4%
Cost of credit quality	1,7%	2,5%	(0,8)%
Net non-performing /Loans to customers	3,7%	5,2%	(1,5)%
Net non-performing /Equity	23,8%	31,3%	(7,5)%
Total own funds Capital Ratio ⁽²⁾	14,1%	18,2%	(4,1)%
Common Equity Tier 1 Ratio ⁽²⁾	14,1%	18,1%	(4,0)%
Number of shares outstanding at period end ⁽³⁾ (in thousands)	52.924	52.728	0,4%
Book per share	8,18	7,14	14,7%
EPS	1,78	1,58	12,7%
Dividend per share	0,66	0,57	15,8%
Payout ratio	37,0%	36,0%	1,0%

(1) For the definition of the KPIs in the table, please see the annual report glossary.

(2) The new set of harmonised regulations for banks and investment firms included in EU Regulation no. 575/2013 (CRR) and in Directive 2013/36/EU (CRD IV) is applicable as from 1 January 2014. See the Impact of regulatory changes. Data for periods up until 31 December 2013 were recognised according to previous regulations (Basel 2). The Solvency ratio and the Core Tier 1 have been recognised under Total Equity Ratio and Common Equity Tier 1 Ratio, respectively.

(3) Outstanding shares are net of treasury shares held in the portfolio.

Context

The global economic crisis that started in 2007 is evolving rapidly, with some industrialised countries apparently leaving it behind. Elsewhere, and especially in Europe, the situation is still rather complicated.

The US and Japan focused on monetary policy, with varying results in boosting GDP and reducing unemployment, although there are some concerns and doubts over the quality of the measures implemented.

International institutions lowered global growth forecasts during the year, also in light of lingering geopolitical tensions in Ukraine and the Middle East and, more generally, the falling oil price.

World economic growth was sluggish, held back by an all but stagnant Europe and the performance of emerging countries, still below pre-crisis levels (China and India) or outright distressed (Russia and Brazil).

The US bucked the trend, with continued GDP growth and a strong job market.

Europe lacked the political consensus to take bold monetary policy measures, and entrenched short-termism prevented governments from passing the reforms necessary to improve the economic environment. This significantly affected both northern countries, which registered muted or flat GDP growth, and Mediterranean ones, especially Italy. As the ECB eased interest rates, the rate of return on money gradually fell to unprecedented levels hovering around zero for most maturities and the highest-quality risks. Italy continued to post zero or negative growth, with unemployment remaining high especially among the young and in the south.

After growing in the first six months of the year, the Eurozone's GDP slowed in the second half. Business surveys continued to point to a gradually improving outlook, even though confidence slid slightly from the end of 2013.

Inflation was well below the ECB's target, dropping dramatically towards the end of the year as energy prices, and especially oil, plunged and growth estimates for the Eurozone and emerging countries were slashed. International trade returned into positive territory, but was not enough to offset the other negative trends. The depreciation of the Euro against other currencies registered in late 2014 may boost exports; indirectly reduce imports, as the price of goods denominated in foreign currencies rise; and drive prices up, as European countries import inflation by purchasing goods and services denominated in foreign currencies despite an appreciating Euro.

In Italy, as in Europe, the recovery that started towards the end of 2013 gradually waned since the beginning of the summer, with GDP growth turning negative in October. The deteriorating trade balance and investment flows were not offset by higher domestic spending, which rose in spite of the still grim job market.

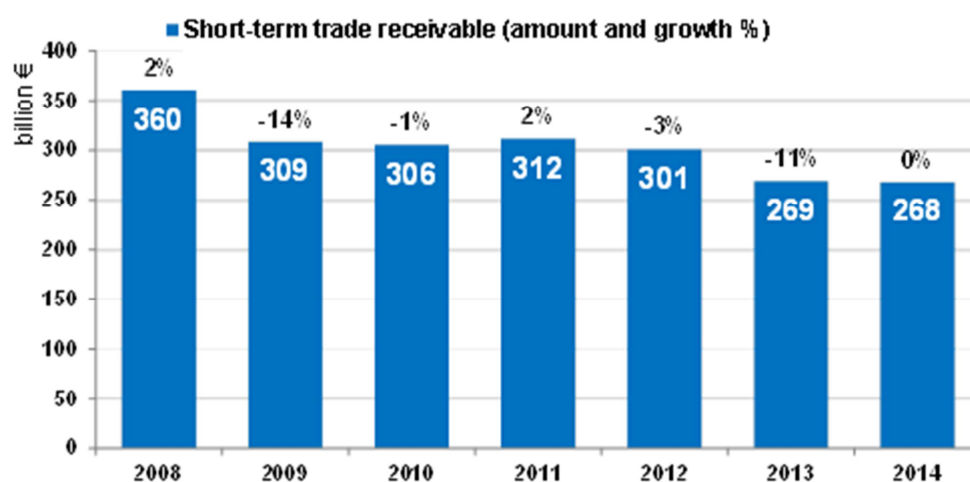
In the third quarter of 2014, Italy's GDP fell from the previous quarter and the end of 2013, and is estimated to have slowed by 0,4% in 2014. However, some elements warrant caution in reading the

numbers (plunging energy prices, which drag GDP down, are not necessarily bad per se) and further assessment in early 2015.

Reference markets

Trade Receivables

The Bank's reference market is the short-term trade receivable segment (short-term cash loans to non-financial companies and producer households), which amounted to 268 billion Euro at 30 June 2014. Overall, it was down 26% from 31 December 2008, when it was worth 360 billion Euro. The fall registered since the crisis broke out is the result of both slowing demand and the credit crunch, with financial intermediaries scaling back their support to Italy's economy.



The factoring market – the Bank supports businesses through factoring – accounts for only a fraction of Banca IFIS's reference market, and therefore turnover (i.e. the volume of receivables purchased during the period) and the relevant positioning do not represent a strategic goal, although they have a positive impact in terms of image, value and market perception.

Shifting the focus to this segment, in 2014 it saw its volumes increase.

During 2010-2011, the existing banking groups shifted a significant proportion of corporate loans from traditional banking products to factoring, boosting volumes.

The national-level data at 30 November 2014 showed that in 2014 volumes rose moderately, with turnover slightly up and the outstanding (total receivables outstanding at the reporting date) down.

Banca IFIS reported a full-year overall turnover of 8,3 billion Euro, soaring 45,8% from 2013.

Non-Performing loans

The non-performing loans (NPL) market is characterised by the presence of players who approach the business in often widely different ways and focus their attention on portfolios that are often non-homogeneous, especially as for the type of receivable that is bought, the account debtors, and the methods of collection.

As for the type of receivables bought, they can be divided into at least the following segments:

- NPLs from property-backed mortgages (residential, commercial or industrial properties);
- NPLs from various financial products and guaranteed by third parties (through surety bonds, loan guarantee consortia, others);
- NPLs from asset/salary-backed consumer credit/retail loans due from individuals;
- NPLs from consumer, renting, and automotive loans, or unsecured retail loans.

As for the type of debtors, they can be broken down into individuals with or without steady employment or pension income and businesses, differentiating between limited companies on the one hand and partnerships/sole proprietorships on the other.

We may distinguish two broad areas for collection, judicial and non-judicial.

All these differentiators significantly influence the NPL portfolios' potential to generate cash flows, as well as the supporting operational processes and organisational structure, collection costs, and, above all, the costs for purchasing the portfolios from the originators (usually financial companies related to banking groups, but also retailers of goods or services, or other intermediaries operating in the NPL sector).

Furthermore, there are players with different approaches to taking risks: some acquire and manage their portfolios until they collect the receivables, while others focus just on managing them for a fee (and the two often cooperate).

The above variables are key for assessing the NPL market, resulting in the presence of both very large and small players with diverse approaches, subject to different regulations, and equipped with varying financial and technological resources.

The Bank's NPL Area, which operates in the retail market under the Credi Famiglia brand, focuses mainly on NPLs from consumer, renting, and automotive loans, as well as unsecured retail loans. It operates also in the segment of NPLs from asset/salary-backed consumer credit/retail loans due from individuals. On rare occasions, Banca IFIS's NPL Area even dealt with NPLs from various financial products and guaranteed by third parties (through surety bonds, loan guarantee consortia, others). The NPL Area usually buys receivables portfolios directly from lenders, but it may also purchase them from other sellers. This market is known as "secondary": while it is already mature and active in other countries, in Italy it is still developing. The NPL Area will purchase the above asset classes on both the primary and secondary markets. It may also consider selling part of the portfolios acquired after turning the account debtors into paying customers, earning a significant margin relative to their purchase price right away.

The NPL Area is constantly innovating, looking for alternative payment methods allowing the debtors willing to settle their dues to do so using new and more flexible approaches. In this sense, it is currently reviewing the collection process in order to focus on turning the debtor into a customer, thus actively managing the relevant relationship also through CRM approaches. Concerning debtors who

may settle their debts but are not willing to do so, the NPL Area defined a court-ordered collection procedure to distraint one-fifth of the debtor's salary or pension. The Bank is currently bolstering its Call Centre, which will both assist with existing settlement plans (issuing reminders and collecting individual instalments by phone) and start processing portfolios by phone.

Tax receivables

According to the Quarterly Observatory on Corporate Crises (source: Cerved Group, data referring to the third quarter of 2014), 2014 confirmed that Italian companies are facing a systemic crisis: failures were on the rise in all sectors and geographic areas. There were 3 thousand filings for bankruptcy between July and September 2014, up 14,1% year-on-year. 2014 saw over 11 thousand defaults, growing 11,9% from the prior year.

The average bankruptcy risk of Italian companies (source: Cerved - the CeGRI, Cerved Group Risk Index, provides a measure on a scale from 1 – Minimum Risk to 100 – Maximum Risk) is estimated to have fallen slightly in 2014, to 74,3 points (75,6 in 2013), and is expected to drop further in 2015, to 70,1 points. Concerning individual sectors, here are the changes in the CeGRI from 2013 to 2014:

- Agriculture: from 64,2 to 63,6 (estimated at 62,5 in 2015)
- Industry: from 73,1 to 71,9 (estimated at 69,9 in 2015)
- Construction: from 81,6 to 79,9 (estimated at 77,8 in 2015)
- Services: from 74,8 to 73,0 (estimated at 71,4 in 2015).

The rise in bankruptcies during the first nine months of 2014 was registered for all forms of business, although with varying growth rates: 13,9% for limited companies, 6,3% for partnerships, and 6,1% for other forms. All economic sectors experienced an increase in bankruptcies: service firms led the way with a 16,2% rise, followed by construction companies (+11,8%). The pace sped up also among industrial entities (+3,5%).

Insolvencies rose also across all geographic areas, although not all of them saw the trend accelerate compared to last year. Specifically, in Italy's North East, bankruptcies grew double-digit in the first nine months of 2013, whereas in 2014 they were up 4,4%. The Centre and the South/Islands confirmed the trend registered in 2013, with a nearly 14% rise for the first nine months of 2014. The North West continued to deteriorate, going from 9,6% in 2013 to 13,8% in the first three quarters of 2014.

500 non-bankruptcy workouts were entered into between July and September, sharply down from the prior-year period (-24%). In the first nine months of the year, a total 2.200 agreements were filed, plunging by 40%.

The breakdown by sector reveals that approximately half of non-bankruptcy workouts concerned service firms: between January and September, the relevant number was down 12,5% from the prior-year period. There was an even larger drop among manufacturers (-19,8%), whereas construction companies registered a relatively mild decrease (-6,2%). Geographically, the slowdown was registered across the whole country, with the North East falling -18,2%, the South and the Islands -16,2%, the Centre -16,8%, and the North West -8.9%.

Against the backdrop of the above trend in insolvency proceedings, the market for tax receivables usually arising from them has been valued at 40 to 50 million Euro over the last five years, with peaks related to the disposal of large portfolios of receivables due from insolvency proceedings of important industrial groups and/or Extraordinary Administration proceedings.

Considering Italy's economy, operations related to Insolvency Proceedings (Bankruptcies, Arrangements with Creditors, Compulsory Liquidations and Extraordinary Administration proceedings) are likely to rise, despite a slight decrease in the number of companies in Liquidation and "blank" filings for arrangements with creditors (*Concordato "in bianco"*). Furthermore, once again in 2014 our historic relationship with leading firms which propose Bankruptcy Agreements (*Assignees - Assuntori*) strongly contributed to the rise in purchasing volumes.

Retail funding

Banca IFIS has been operating in the retail funding market for 7 years now, achieving outstanding results. The visibility brought by Rendimax, an online funding product, burnished its credentials in a constantly evolving sector. In January 2013, Banca IFIS introduced also the current account Con-tomax, which registered growing funding during 2013 and then stabilised in 2014.

The retail funding market, and specifically the segment of online savings accounts, presents mature product offerings from conventional banks with branch networks dedicated to direct funding as well as players specialising in online funding. However, the retail segment remains a crucial source of funding.

The quality of service continues to be one of the hallmarks of our product: customers consider it the most efficient offering on the market, with the call centre and the operational office ensuring constant support.

Impact of regulatory changes

Here below are some regulatory changes introduced in 2014 impacting Banca IFIS:

- It should be noted that, starting from 1 January 2014, the Bank adopted the following new accounting standards:
 - IFRS 12 Disclosure of Interests in Other Entities
 - Revised IAS 27 Separate Financial Statements

The adoption of the above new accounting standards did not have a significant impact on Banca IFIS financial statements.

The new set of harmonised regulations for banks and investment firms included in EU Regulation no. 575/2013 and in Directive 2013/36/EU (CRD IV) in order to assess the own funds and the prudential ratios is applicable as from 1 January 2014.

- The new set of harmonised regulations for banks and investment firms included in EU Regulation no. 575/2013 and in Directive 2013/36/EU (CRD IV) in order to assess the own funds and the prudential ratios is applicable as from 1 January 2014.

Financial and income results

Statement of financial positions items

MAIN STATEMENT OF FINANCIAL POSITION ITEMS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	2014	2013	ABSOLUTE	%
Available for sale financial assets	243.325	2.529.179	(2.285.854)	(90,4)%
Held to maturity financial assets	4.827.363	5.818.019	(990.656)	(17,0)%
Due from banks	269.985	409.822	(139.837)	(34,1)%
Loans to customers	2.787.345	2.270.837	516.508	22,7%
Property, plant and equipment and intangible assets	56.323	46.182	10.141	22,0%
Other assets	118.611	257.034	(138.423)	(53,9)%
Total assets	8.302.952	11.331.073	(3.028.121)	(26,7)%
Due to banks	2.258.972	6.665.856	(4.406.884)	(66,1)%
Due to customers	5.483.142	4.177.752	1.305.390	31,2%
Financial liabilities held for trading	-	358	(358)	(100,0)%
Other liabilities	127.678	110.867	16.811	15,2%
Equity	433.160	376.240	56.920	15,1%
Total liabilities and equity	8.302.952	11.331.073	(3.028.121)	(26,7)%

Available for sale (AFS) financial assets

Available for sale financial assets include debt and equity securities, and at 31 December 2014 stood at 243,3 million Euro, down 90,4% compared to 2.529,2 million Euro at the end of 2013. The valuation reserve, net of the tax impact, amounted to 6,0 million Euro at 31 December 2014 (-10,0 million Euro compared to the end of 2013). The change in the size of the portfolio from the end of the previous year was the main reason for the decrease in the AFS reserve.

The securities portfolio is held for the purposes described in the “Securities portfolio” section below.

Held to maturity (HTM) financial assets

The portfolio of held to maturity (HTM) financial assets stood at 4.827,4 million Euro at 31 December 2014, down 17,0% compared to the previous year, and consists of Italian government bonds with residual maturity at the time of purchase of over one year. At the reporting date, the HTM portfolio showed unrecognised net capital gains amounting to 133,7 million Euro before taxes. These capital gains were not recognised according to the amortised cost method applicable to this portfolio.

The securities portfolio is held for the purposes described in the “Securities portfolio” section below.

Receivables due from banks

At 31 December 2014, receivables due from banks totalled 270,0 million Euro, compared to 409,8 million Euro at 31 December 2013 (-34,1%). This item includes some securities not listed on an active market with banking counterparties, totalling 11,0 million Euro (-54,2% compared to 31 Decem-

ber 2013), and treasury loans with other lenders, amounting to 259,0 million Euro (-32,9% compared to 31 December 2013), largely related to maintaining excess liquidity in the system.

Securities portfolio

In order to provide a comprehensive analysis of the Bank's securities portfolio, the debt securities portfolio, represented by several asset items in the statement of financial position, and the equity portfolio are commented on below.

Debt securities portfolio

Debt securities held in the portfolio at 31 December 2014 amounted to 5.068,3 million Euro, down 39,4% compared to 31 December 2013 as a result of 3.538.0 million Euro in redemptions of bonds maturing in the period. The Bank does not carry out any trading activity on the security portfolio. At 31 December 2014, 44,1% of securities in the portfolio would mature in December 2015, 14,8% in December 2016, 13,8% in 2017, and 27,3% before the end of 2018.

This significant resource allowed Banca IFIS to access funding at reasonable costs through repurchase agreements on the MTS platform or refinancing operations on the Eurosystem.

These securities have been classified as shown in the following table on the basis of their characteristics and in compliance with the provisions of IAS 39.

DEBIT SECURITIES PORTFOLIO (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2014	31.12.2013	ABSOLUTE	%
DEBIT SECURITIES INCLUDED UNDER:				
Available for sale financial assets	229.868	2.515.810	(2.285.942)	(90,9)%
Held to maturity financial assets	4.827.363	5.818.019	(990.656)	(17,0)%
Receivables due from banks - bonds	11.025	24.048	(13.023)	(54,2)%
Total securities held	5.068.256	8.357.877	(3.289.621)	(39,4)%

Here below is the breakdown by issuer and by maturity of the debt securities held.

Issuer/Maturity	Within 31.03.2015	Between 1.04.2015 and 30.06.2015	Between 1.07.2015 and 30.09.2015	Between 1.10.2015 and 31.12.2015	Between 1.01.2016 and 31.12.2016	Between 1.01.2017 and 31.12.2018	Total
Government securities	178.649	1.193.483	155.721	697.049	747.447	2.084.369	5.056.718
% of total	3,5%	23,5%	3,1%	13,8%	14,7%	41,1%	99,7%
Banks	3.014	3.005		-	5.006	513	11.538
% of total	0,1%	0,1%	0,0%	0,0%	0,1%	0,0%	0,3%
Total	181.663	1.196.488	155.721	697.049	752.453	2.084.882	5.068.256
% of total	3,6%	23,6%	3,1%	13,8%	14,8%	41,1%	100%

Equity portfolio

Available for sale financial assets include equity securities relating to non-controlling interests in unlisted companies, amounting to 13,5 million Euro (+0,7% compared to 31 December 2013), which are considered strategic for Banca IFIS.

Loans to customers

At 31 December 2014, **total loans to customers** reached 2.787,3 million Euro, up 22,7% or +516,5 million Euro compared to 2.270,8 million Euro at the end of 2013. Specifically, trade receivables increased by 515,7 million Euro compared to the end of 2013 (+27,0%). The sustained growth in lending was driven by increased marketing efforts towards Italy's businesses, which paid off in a scenario where banks continued to reduce loans, and occurred despite significant collections concerning positions due from the Public Administration (PA). Receivables due from the PA at 31 December 2014 accounted for 27,4% of total receivables in the segment, as at 31 December 2013, while receivables due from the private sector accounted for 72,6% (as at 31 December 2013). Distressed Retail Loans rose by 7,5 million Euro (+5,8%) and tax receivables by 29,2 million Euro (+32,3%). As far as the Governance and Services segment is concerned, loans fell by 35,9 million Euro (-25,6%) mainly due to 52,7 million Euro in reverse repurchase agreements with Cassa di Compensazione e Garanzia coming to maturity. Such fall was partially offset by the 22,6 million Euro increase in margin lending with Cassa di Compensazione e Garanzia related to repurchase agreements in government bonds on the MTS platform.

The breakdown of loans to customers is essentially in line with the Trade Receivables segment, with 28,2% of receivables due from the Public Administration (compared to 27,0% at 31 December 2013) and 71,8% due from the private segment (compared to 73,0% at 31 December 2013).

With regard to activities in support of SMEs, the loans duration was confirmed as short-term, in line with the strategy to support working capital that represents the core business.

Geographically, the item is broken down as follows: 97,6% of loans are to customers resident in Italy (99,1% at 31 December 2013) and 2,4% to customers resident abroad (0,9% at 31 December 2013).

Finally, it should be noted that the item includes 4 positions, for a total amount of 181,0 million Euro, which fall within the category of major risks.

BANKING PRODUCTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2014	31.12.2013	ASSOLUTA	%
Current accounts	114.157	133.271	(19.114)	(14,3)%
Advance accounts for future receivable transfers and other financing	90.146	42.328	47.818	113,0%
Factoring advance accounts	2.192.097	1.691.205	500.892	29,6%
Non-performing loans	65.340	61.440	3.900	6,3%
Tax receivables	119.473	89.783	29.690	33,1%
Mortgages	287	2.214	(1.927)	(87,0)%
Receivable repurchase agreements	-	52.698	(52.698)	(100,0)%
Other operations	102.707	80.090	22.617	28,2%
Total net current loans ⁽²⁾	2.684.207	2.153.029	531.178	24,7%
Net non-performing loans	103.138	117.808	(14.670)	(12,5)%
Total due from customers	2.787.345	2.270.837	516.508	22,7%

Credit quality

Can a small/medium sized enterprise have the same creditworthiness as a large enterprise?



By adopting a business model suitable for transferring risk from customers to better-structured debtors, the Bank manages to mitigate its exposure to customer default risk. Even though the prolonged economic downturn has caused also receivables due from higher-quality debtor to deteriorate, the improvement concerning the most significant impaired loans—i.e. those in the Trade Receivables segment—registered in 2013 continued into 2014, as shown in the table below. Specifically, said improvement was due to the following factors: a) new bad loans continued to decrease; b) the Bank is extremely effective at promptly recognising losses on positions found to be impaired (adjusting the item impairment/losses in profit or loss accordingly); finally, c) particular attention was paid to objective substandard loans, considerably improving their situation.

Total **net impaired loans** amounted to 248,0 million Euro, compared to 291,1 million Euro at the end of 2013 (-14,8%). In the Trade Receivables segment alone, whose performance is crucial for the purpose of assessing the Bank's overall credit quality, total impaired loans dropped 30,8%, from 162,6 million Euro at the end of 2013 to 112,6 million Euro.

Impaired loans, including receivables in the DRL segment, rose from 127,9 million Euro to 135,4 million Euro (+5,8%). This was the result, on the one hand, of the purchase of a significant portfolio of non-performing loans with a par value of 1,3 million Euro, and on the other hand, of the sale of bills of exchange with a par value of 219 million Euro. This segment's business is closely associated with recovering impaired loans: therefore, DRL loans are recognised as bad or substandard loans. In particular, those loans maintain the same classification as that assigned by the invoice seller, provided the latter is subject to the same law as Banca IFIS: otherwise, if the Bank has not ascertained the debtor's state of insolvency, those loans are classified as substandard. In light of the above, the amount of distressed retail loans classified as bad or substandard is not critical: on the contrary, it is an indicator of the normal and positive performance of the segment.

CREDIT QUALITY (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31/12/2014	31/12/2013	ASSOLUTA	%
Non-performing loans	103.138	117.808	(14.670)	(12,5)%
Substandard loans	103.212	123.236	(20.024)	(16,2)%
Restructured loans	14.374	8.351	6.023	72,1%
Past due loans	27.322	41.658	(14.336)	(34,4)%
Total net impaired assets	248.046	291.053	(43.007)	(14,8)%
Net performing loans due from customers	2.539.299	1.979.784	559.515	28,3%
Total due from customers (cash)	2.787.345	2.270.837	516.508	22,75%

As for Trade Receivables, total **net bad loans** to customers at 31 December 2014, net of impairment losses, were 33,0 million Euro, compared to 50,8 million Euro in December 2013 (down 34,9%). This decrease was due to the slowing pace of new bad loans, the gains arising from some items that had already been classified as bad loans in previous years, as well as the adjustments made during the period.

Total **substandard loans** were 37,8 million Euro, compared to 61,8 million Euro in the previous year (-38,7%), while **restructured loans** rose from 8,4 million Euro in 2013 to 14,4 million Euro.

Past due loans totalled 27,3 million Euro, compared with 41,7 million Euro in December 2013 (-34,4%). Net past due loans refer for 3,9 million Euro (6,0 million Euro at the end of 2013) to receivables due from the Public Administration purchased outright as part of financing operations.

The positive trend in impaired loans despite the adverse economic scenario is also due to the correct balance of the model for assuming credit risk and the careful management of loans to customers coupled with a virtuous monitoring process.

The ratio of net bad loans to loans improved sharply, from 2,7% at the end of 2013 to 1,4% at 31 December 2014, as did the ratio of net substandard loans to loans, falling from 3,2% to 1,6%. The ratio of total net impaired loans to loans dropped from 8,5% at the end of 2013 to 4,6% at 31 December 2014. Net impaired loans amounted to 26,0% as a percentage of equity (43,2% at the end of 2013).

IMPAIRED TRADE RECEIVABLES (in thousands of Euro)	NON PERFORMING ⁽¹⁾	SUBSTANDARD	RESTRUCTURED	PAST DUE	TOTAL
BALANCE AT 31.12.2014					
Gross amount	243.571	51.275	15.972	27.994	338.812
<i>Incidence on gross total receivables</i>	9,1%	1,9%	0,6%	1,1%	12,7%
Adjustments	210.522	13.434	1.598	672	226.226
<i>Incidence on gross value</i>	86,4%	26,2%	10,0%	2,4%	66,8%
Net amount	33.049	37.841	14.374	27.322	112.586
<i>Incidence on net total receivables</i>	1,4%	1,6%	0,6%	1,1%	4,6%
BALANCE AT 31.12.2013					
Gross amount	234.563	72.302	9.395	42.432	358.692
<i>Incidence on gross total receivables</i>	11,1%	3,4%	0,4%	2,0%	17,0%
Adjustments	183.759	10.506	1.044	774	196.083
<i>Incidence on gross value</i>	78,3%	14,5%	11,1%	1,8%	54,7%
Net amount	50.804	61.796	8.351	41.658	162.609
<i>Incidence on net total receivables</i>	2,7%	3,2%	0,4%	2,2%	8,5%

(1) Bad loans are recognised in the financial statements up to the point in which all credit collection procedures have been entirely completed.

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 5,7 million Euro, against 5,5 million Euro at 31 December 2013 (+3,9%).

The item refers almost entirely to software.

Property, plant and equipment and investment property amounted to 50,6 million Euro, up 24,4% following the purchase of a property in Florence which will house the new headquarters of the NPL business area.

The property classified under property, plant and equipment and investment property mainly includes: the important historical building Villa Marocco, located in Mestre (Venice) and housing Banca IFIS's registered office, and the property in Mestre (Venice), where some of the Bank's services were relocated.

The carrying amount of the property above has been confirmed by experts specialising in the appraisal of luxury property. Villa Marocco is not depreciated as its estimated residual value at the end of its useful life is expected to be higher than its carrying amount.

The current head office of the NPL business area in Florence, which was acquired under a finance lease, was recognised at 4,0 million Euro.

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.

Deferred tax assets, amounting to 38,3 million Euro at 31 December 2014, refer for 36,0 million Euro to impairment losses on receivables which can be deducted in the following years.

Deferred tax liabilities, amounting to 14,3 million Euro at 31 December 2014, refer mainly for 6,1 million Euro to the measurement of the tax receivables of the former subsidiary Fast Finance S.p.A., which was carried out at the time of the business combination, and for 2,8 million Euro to taxes on the valuation reserve for AFS securities held in the portfolio.

Other assets and liabilities

At 31 December 2014, other assets stood at 51,8 million Euro (-73,1% from 31 December 2013), mainly due to the conclusion of the securitisation entailing the cancellation of receivables due from the SPV. Said receivables correspond to the funds available to the SPV arising from the collections of receivables which have not yet been paid to the originator, on the basis of the technical characteristics of the transaction. The item includes a 10,6 million Euro receivable due from the parent company La Scogliera S.p.A. deriving from the tax consolidation regime, as payments on account were higher than the tax bill.

Other liabilities, totalling 109,8 million Euro at the end of the period, showed an increase of 18,2 million Euro, mainly related to amounts due to customers that have not yet been credited.

Funding

Funding, net of the rendimax savings account and the contomax current account, shall be analysed in a comprehensive manner based on market trends; it consists of wholesale funding through repurchase agreements (classified under payables due to customers, as they are carried out with counterparties formally other than banks), refinancing transactions on the Eurosystem, and short-term treasury transactions with other lenders.

FUNDING (in thousands of Euro)	YEAR		CHANGE	
	2014	2013	ABSOLUTE	%
Due to customers:	5.483.142	4.177.752	1.305.390	31,2%
<i>Repurchase agreements</i>	2.082.854	263.670	1.819.184	689,9%
<i>Rendimax</i>	3.241.746	3.817.745	(575.999)	(15,1)%
<i>Contomax</i>	72.454	50.342	22.112	43,9%
<i>Other payables</i>	86.088	45.995	40.093	87,2%
Due to banks:	2.258.972	6.665.856	(4.406.884)	(66,1)%
<i>Eurosystem</i>	2.226.872	6.656.465	(4.429.593)	(66,5)%
<i>Other payables</i>	32.100	9.391	22.709	241,8%
Total funding	7.742.114	10.843.608	(3.101.494)	(28,6)%

Total **funding**, which amounted to 7.742,1 million Euro at 31 December 2014, down 28,6% compared to 31 December 2013, is represented for 70,8% by **Payables due to customers** (compared to 38,5% at 31 December 2013) and for 29,2% by **Payables due to banks** (compared to 61,5% at 31 December 2013).

The significant decrease in Payables due to banks compared to the end of the previous year is due to the fact that the Bank carried out less refinancing operations on the Eurosystem, rather using the MTS platform and dealing with Cassa di Compensazione e Garanzia as counterparty (classified as payables due to customers). The Bank turns to the ECB or the MTS platform exclusively based on which is more convenient in light of interest rate trends.

Payables due to customers at 31 December 2014 totalled 5.483,1 million Euro (+31,2% compared to 31 December 2013). This increase was mainly due to the higher use of repurchase agreements with underlying Government bonds and Cassa di Compensazione e Garanzia as counterparty, amounting to 2.082,9 million Euro (compared to 263,7 million Euro at the end of 2013). Retail funding totalled 3.314,2 million Euro at 31 December 2014, down from 3.868,1 million Euro at 31 December 2013, as interest rates slid gradually throughout the year.

The Bank still bears proportional stamp duty costs on rendimax and contomax, which amount to 0,20%.

Payables due to banks, amounting to 2.259,0 million Euro (compared to 6.665,9 million Euro at 31 December 2013), mainly consisted of funding from refinancing operations on the Eurosystem for 2.226,9 million Euro, compared with 6.656,5 million Euro at 31 December 2013. These amounts include 500,0 million Euro in LTRO loans at a 0,05% rate (ECB's key interest rate) maturing on 26 February 2015 as well as the 119,6 million Euro TLTRO loan received in December 2014 at a fixed 0,15% rate and maturing on 26 September 2018. In October 2014, the Bank cancelled the bonds it had issued and repurchased and which were guaranteed by the Italian Government, totalling 207 million Euro.

The remainder of payables due to banks consists of 32,1 million Euro in interbank deposits, including 10,0 million Euro on the E-Mid platform.

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	2014	2013	ABSOLUTE	%
Legal disputes	1.527	375	1.152	307,2%
FITD provisions (Deposit Protection Fund)	461	158	303	191,8%
Total provisions for risks and charges	1.988	533	1.455	273,0%

Legal disputes

The provision outstanding at 31 December 2014, amounting to 2,0 million Euro, includes 45 thousand Euro for a labour dispute, 1,449 thousand Euro for four disputes concerning the Trade Receivables segment – of which 1,119 thousand Euro were set aside during 2014 – and 33 thousand Euro for five disputes concerning the DRL segment, which were fully set aside during the year.

Overall, the Bank recognises contingent liabilities totalling 12,4 million Euro in claims, represented by 17 disputes; supported by the legal opinion of its lawyers, the Bank made no provisions for these positions, as the risk of defeat is low.

Tax dispute

On 25 July 2008, the Italian Revenue Agency – Regional Department of Veneto started a check relating to the tax year 2005. This inspection ended on 5 December 2008: the relevant report of verification included two challenges concerning the correct calculation of limits for the deductibility of receivables (ceiling) as per art. 106 paragraph 3 of Presidential Decree 917/86, for a total of 1,4 million Euro. Moreover, considering that the ceiling mechanism sets limits for deducting impairment losses on receivables and that the surplus (arising from the difference between the ceiling and net impairments) is deductible on a straight-line basis over the next eighteen years, the application of the criterion indicated in the aforementioned report of verification would imply a tax benefit for the Bank in the years following 2005.

The aforementioned report of verification included also a notification regarding an alleged case of tax avoidance as set out in Article 37-bis of Presidential Decree 600/73 regarding the write-down in 2003 of the equity investment in Immobiliare Marocco S.p.A. (which merged into the Issuer with deed dated 19 October 2009). This investment was deducted in fifths in the following years based on the losses recognised by this company pursuant to arts. 61 and 66 of Presidential Decree 917/86 (in force up to 31 December 2003). On 2 February 2009 the Agency sent a verification notice to the Bank, requesting clarification on the write-down. The Bank promptly replied to it.

Again in reference to the notification of the alleged tax avoidance, on 3 December 2009 the Bank received a verification notice relating to the year 2004, in which the Revenue Agency revised the income for the year 2004 subject to the corporate tax (IRES), applying the anti-avoidance provision no. 26 as set out in art. 37-bis of Presidential Decree 600/73 for a total of 837 thousand Euro, with a

higher tax liability relating to the tax year concerned of approximately 276 thousand Euro plus interest and penalties.

On 21 June 2010, the Bank received a verification notice referring to the following year, in which the Revenue Agency revised the income for the year 2005 subject to the corporate tax (IRES), applying the anti-avoidance provision as set out in art. 37-bis of Presidential Decree 600/73, for a total amount of 837 thousand Euro, with a higher tax liability relating to the tax year in question of approximately 276 thousand Euro plus interest and penalties. The same verification notice relating to the year 2005 treated as taxable the amount relating to the redetermination of the ceiling for deducting losses on receivables concerning the above-mentioned findings, for a total of 1,4 million Euro, with higher taxes of around 478 thousand plus interests and penalties due in relation to the year 2005.

Subsequently, by the end of 2010 the Bank received a notice cancelling under the appeal process the verification notices issued for 2005.

On 22 February 2011, the appeal regarding the verification notice for the tax year 2004 was discussed before the first level Provincial Tax Commission of Venice. On 29 June 2011, the Provincial Tax Commission of Venice rejected the appeal. On 7 November 2011, the Bank was served a notice of payment for the amounts enrolled on the tax register following the ruling of the court of first instance, pursuant to the laws on tax verification and collection, totalling 423 thousand Euro. Banca IFIS paid those amounts on 29 December 2011. Subsequently, the company filed an appeal with the Regional Tax Commission against this sentence. On 25 September 2012 the appeal was heard before the second-degree Regional Tax Commission of Venice. On 18 October 2012 the Commission's ruling was issued: it accepted the appeal by Banca IFIS S.p.A. and La Scogliera S.p.A. and, overturning the first-instance ruling, it proceeded to cancel the verification notices for 2004 that had been challenged and ordered the Revenue Agency to reimburse the costs for the two-level proceedings to the appellant.

As a consequence of the second-instance ruling, the Revenue Agency returned the sums paid by the Bank following the negative outcome of the first appeal. These had been previously recognised as a 423 thousand Euro receivable in the Bank's accounts.

On 22 August 2012, the Bank received a verification notice for 2005 that is closely related to the notices received during 2010 and subsequently cancelled under appeal process by the end of the same year. The verification notice, besides containing the same points and therefore the sums requested (in terms of taxes and penalties) included in the previous notice that was then cancelled, considers as tax avoidance some security trading and lending transactions and challenges the deduction of sums such as non-deductible capital losses and manufactured dividends for a total of 6,3 million Euro. The higher tax overall due in relation to this latter finding totals 2,1 million Euro, plus interest and penalties.

Therefore, the overall amount subjected to taxation in the verification notice totals 8,6 million Euro, with higher taxes for the year under review of 2,8 million Euro. The verification notice, which has now passed the ordinary deadline for its issue, i.e. 31 December 2010, was sent on the basis of the Tax Office's assumption that the doubling of the statute of limitations provided for by the law can be applied to this case, i.e. it represents a criminal offence.

In relation to this verification notice, the Bank applied for composition proceedings with the aim of finding out whether the Office was willing to reconsider its stance, but the application was rejected; the Revenue Agency preferred to continue with the dispute by appealing to the Court of Cassation

regarding the verification notice for 2004, effectively forcing the Bank to file a counter-appeal with the Court on 29 January 2013, within the legal time limits; the analysis of the Revenue Agency's appeal exposes the weakness of their case, already apparent in the previous hearings. Therefore, the tax consultants assisting the Bank in the proceedings believe the chance of defeat is unlikely, and the Bank did not make any provisions for the tax proceedings concerned.

The appeal against the verification notice for 2005 was filed on 11 February 2013.

Before examining in detail the individual findings and the assessment errors made by the Revenue Agency, the appeal focuses on the reasons why the judges should completely annul the notice. Serious material errors were made, to the point that they completely invalidate the act: the criminal charge, which seeks to have the statute of limitations doubled and that the Public Prosecutor completely rejected by ordering a non-suit; a series of verification notices served and then cancelled under the appeal process; and several legal errors contained in the last act issued.

Besides this, the defence case, which had already been set out in the application for composition proceedings, has been expanded and explained in detail. The fragility of the challenge to the write-down on the equity investment in Immobiliare Marocco was highlighted once again, and made even more apparent by the victory in the court of second instance regarding 2004 and which, at this point, would cover all the subsequent years.

Then, the appeal sets out the reasons why the challenges to the calculations of the ceiling for the deduction of receivables are wrong, both as far as the method adopted and interpretation provided by the tax officials in the report of verification are concerned, and even more so in light of the subsequent amendments and supplements to the laws regulating the principles for determining the income of long-time and first-time adopters of IAS.

As for the claims related to securities trading, the appeal highlighted that the transactions concerned produced positive results for the Bank, net of taxes, and they were not completely risk-free or entered into guaranteeing right from the start the conditions to neutralise any profit or loss from the transaction. The cross call and put options only had the effect of limiting the risk of losses and the potential excess returns, and in any case did not rule them out completely, as was hastily claimed in the verification notice. Above all, the challenged transactions simply applied the regime in force at the time, without eluding the law or its underlying principles; in fact, the system established with the 2004 reform envisages a double regime for stock transfers. Therefore, there is nothing strange in short-term equity trading on equity investments that do not qualify for participation exemption, with dividends received partially exempt from tax and deductible capital losses.

In any case, the Bank asked to recalculate the challenged amounts, which did not take into account the positive components that, as taxable income, are included in the determination of income. In April 2013, the Bank was notified of the Revenue Agency's response to the appeal. At 31 December 2014, the date for the first instance hearing had yet to be settled.

In light of the above, the tax consultants hired to resolve the dispute have stated that they reasonably believe it possible to validly defend the Bank's case, and that therefore the chance of defeat is unlikely.

However, it is necessary to consider the Circular dated 8 August 2012 in which the Bank of Italy clarified that intermediaries, should they have to pay the tax authorities a certain amount following the enrolment in the tax register of higher taxes and the relevant interest and penalties, must assess whether or not it represents a contingent asset as defined by IAS 37. On the basis of this accounting

standard, the asset should not be recognised whenever the profit on the same is not all but certain, and the amounts paid to the tax authorities must therefore be recognised at cost and not as tax receivables.

At 31 December 2012, 159 thousand Euro were allocated to the provision for tax proceedings for higher taxes and 35 thousand Euro for interest, resulting in a total of 194 thousand Euro against the likely provisional enrolment on the tax register⁽¹⁾ following the appeal, pursuant to Bank of Italy's Circular dated 8 August 2012. The Bank will not make any provision for the risk of defeat in the ongoing tax proceedings. At 30 September 2013, the Bank recognised an adjustment to said provision based on the amounts actually enrolled on the tax register and notified to the Bank on 9 October 2013. Compared to the provision previously made, there was a difference of 13 thousand Euro, mainly due to the reimbursement of collection costs. The Bank promptly paid the amount requested in light of the obligations pursuant to the law, although it expects a positive outcome.

(1) The provisional amounts enrolled on the tax register are those made on the basis of a verification notice that is not final, since it has been challenged. An appeal filed against a verification notice does not suspend its execution; pending the rulings of the court of first instance and of the court of second instance, part of the verified income tax, plus interest and part of the penalties, can be collected. In particular, as regards the income tax and value added tax, after the verification notice has been served, the Office can enrol on the tax register 1/3 of the verified taxes and interests. In relation to the charges relating to the anti-avoidance provision as set out in art. 37 bis of Presidential Decree 600/73, the amounts due before the first instance ruling cannot be enrolled on the tax register (para. 6, art. 37 bis, Presidential Decree 600/73). Subsequent to the rulings of the tax commissions, further fractions of the amounts due become payable, based on the grounds of the decision and the level of the judicial body.

Provision for the share of the Interbank Deposit Protection Fund's intervention

Italy's Interbank Deposit Protection Fund (FITD, *Fondo Interbancario di Tutela dei Depositi*), of which Banca IFIS is a member, approved in a letter dated 16 September 2014 another rescue loan to Banca Tercas, based in Ascoli Piceno. The relevant potential obligation for Banca IFIS amounts to 0,5 million Euro. Therefore, Banca IFIS allocated said amount to the provisions for risks and charges.

Equity and capital adequacy ratios

At 31 December 2014, Equity was 433,2 million Euro, compared to 376,2 million Euro at 31 December 2013 (+15,1%). The breakdown of the item and the change compared to the previous year are detailed in the tables below.

EQUITY: BREAKDOWN (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2014	31.12.2013	ABSOLUTE	%
Capital	53.811	53.811	-	0,0%
Share premiums	57.113	75.560	(18.447)	(24,4)%
Valuation reserve:	5.707	15.904	(10.197)	(64,1)%
- AFS securities	5.969	15.980	(10.011)	(62,6)%
- post-employment benefit	(262)	(76)	(186)	244,7%
Reserves	228.848	155.464	73.384	47,2%
Treasury shares	(6.715)	(7.903)	1.188	(15,0)%
Profit for the period	94.396	83.404	10.992	13,2%
Equity	433.160	376.240	56.920	15,1%

EQUITY: CHANGES (in thousands of Euro)	YEAR 2014
Equity at 31.12.2013	376.240
Increases:	97.283
Profit for the year	94.396
Sale of treasury instruments	2.741
Other variations	146
Decreases:	40.363
Dividends distributed	30.166
Change in valuation reserve:	10.197
- AFS securities	10.011
- post-employment benefit	186
Equity at 31.12.2014	433.160

The change in the valuation reserve for AFS securities mainly refers to the effects of the fair value measurement of Government bonds held in the portfolio and the redemption of some of them.

OWN FUNDS AND CAPITAL RATIOS (in thousands of Euro)	AMOUNTS AT		
	31.12.2014 ⁽¹⁾	31.12.2014 ⁽²⁾	31.12.2013 ⁽³⁾
Common equity Tier 1 Capital (CET1) ⁽⁴⁾	386.637	386.373	324.660
Tier 1 Capital (AT)	386.637	386.373	324.660
Total own funds	386.757	386.523	324.884
Total RWA	2.741.855	2.779.523	1.789.688
Common Equity Tier 1 Ratio	14,10%	13,90%	18,14%
Tier 1 Capital Ratio	14,10%	13,90%	18,14%
Total own funds Capital Ratio	14,11%	13,91%	18,15%

(1) Data recognised according to the new regulations (Basel 3)

(2) Data recognised according to the previous regulations (Basel 2).

(3) Data recognised according to the previous regulations (Basel 2).

(4) Core tier 1 capital includes the profit for the year net of estimated dividends.

The new set of harmonised regulations for banks and investment firms included in EU Regulation no. 575/2013 and in Directive 2013/36/EU (CRD IV) in order to assess the own funds and the prudential ratios is applicable as from 1 January 2014. The data shown in this table have been recognised according to the new regulations. To allow for a comparison with the previous period, the data at 31 December 2014 recognised according to the previous regulations is shown as well.

Pursuant to Bank of Italy's Regulation dated 18 May 2010, Banca IFIS calculated its equity at 31 December 2014 by adopting the so-called "symmetric filter", which allows to neutralize both gains and losses on securities issued by the Central Administrations of EU Member States. The net amount of the item was 5,7 million Euro, included under available for sale financial assets, as if those securities were measured at cost.

Income statements items

Formation of net banking income

Net banking income rose 6,3% to 278,1 million Euro (261,6 million Euro in the previous year) thanks to the positive contribution from all core segments.

NET BANKING INCOME (in thousands of Euro)	YEAR		CHANGE	
	2014	2013	ABSOLUTE	%
Net interest income	217.504	205.662	11.842	5,8%
Total net commission income	56.818	55.918	900	1,6%
Dividends and similar income	-	84	(84)	(100,0)%
Net result from trading	(65)	(111)	46	(41,4)%
Profit from sale or buyback of receivables	3.581	-	3.581	n.a.
Profit from sale or buyback of financial assets	231	11	220	n.s.
Net banking income	278.069	261.564	16.505	6,3%

The recorded rise was mainly due to the higher number of financed companies (+13,1%, over 4.200 SMEs), with a turnover of 8,0 billion Euro compared to 5,4 billion Euro in 2013 (+47,3%), and to the performance of the Pharma business area, which collected 22,2 million Euro in interest on arrears (compared to 7,8 million Euro in 2013) as it managed to bring various situations to a successful conclusion. A result achieved amid an acceleration in payments from Italy's Public Administration, with the Bank collecting 649,6 million Euro (compared to 586,1 million in 2013, +10,8%) and posting a turnover of 848,5 million Euro, +51,1% from 561,5 million Euro in the previous year.

Starting from 2014, interest on arrears includes a portion (one million Euro in the period) of the interest accruing from the estimated collection date on receivables from the Health Service: the Bank, based on historical data and available information, estimates that at least 20% can be recovered.

At 31 December 2014 the Bank accrued, but did not recognise, interest on arrears – calculated from the invoice's original maturity date – related to already collected receivables (totalling approximately 49,1 million Euro) as well as non-collected receivables (approximately 39,0 million Euro) due from the Public Administration.

Net banking income in the DRL segment, which deals with acquiring and managing non-performing loans, totalled 30,0 million Euro, compared with 24,4 million Euro in 2013 (+23,2%). To strike a balance between the operations of the business units and the interests of the various stakeholders, in late 2014 the Bank sold a portfolio of bills of exchange with a par value of 219 million Euro and a Book Value of 48,1 million Euro, adding 3,6 million Euro to net banking income. It should be noted that the trend in net banking income is not representative of the DRL segment's operating performance since, as far as bad loans in the DRL segment are concerned, it does not account for the economic impact of the changes in expected cash flows, which are recognised under impairment losses/reversals on receivables according to the Bank's current interpretation of IAS/IFRS. On the other hand, from the operating viewpoint, the DRL segment's operating performance shall be recognised accounting for this item, too.

The Tax Receivables segment posted 11,0 million Euro (9,3 million Euro in 2013, +18,5%). The two figures cannot be compared on a like-for-like basis: the result at 31 December 2013 included the double impact of the revision of estimated cash flows, higher than expected, and debt collection

time, shorter than expected, with a 5,2 million Euro non-recurring positive contribution to net banking income. A non-recurring item, amounting to 1,2 million Euro, was recognised also during this year. It refers to the collection of a loan previously written off by the former Fast Finance. Net of these non-recurring items, net banking income more than doubled from the previous year, rising from 4,1 million Euro in 2013 to 9,8 million Euro in 2014.

The Governance and Services segment was down to 84,0 million Euro, compared to 100,5 million Euro at 31 December 2013. The performance reflects the lower margins in terms of interest income on the securities portfolio (103,9 million Euro compared to 126,3 million Euro in 2013) and lower retail funding costs.

Net interest income went from 205,7 million Euro at 31 December 2013 to 217,5 million Euro at 31 December 2014 (+1,6%).

Net commission income totalled 56,8 million Euro and is essentially in line with the amount at 31 December 2013 (+2,1%).

Commission income, totalling 63,2 million Euro compared to 62,1 million Euro at 31 December 2013, came primarily from factoring commissions on the turnover generated by individual customers (with or without recourse, in a flat or monthly scheme) as well as from other fees usually charged to customers for services.

Commission expense, totalling 6,4 million Euro compared to 6,2 million Euro at 31 December 2013, came primarily from approved banks' brokering, the work of other credit brokers, and commissions paid to correspondent banks and factors. At 31 December 2014, the item included also commissions paid on bonds guaranteed by the Italian Government.

NET COMMISSION INCOME (in thousands of Euro)	YEAR		CHANGE	
	2014	2013	ABSOLUTE	%
Endorsement loans	(1.751)	(2.268)	517	(22,8)%
Management and brokerage services	1.083	1.054	29	2,8%
Collection and payment services	(1.662)	1.035	(2.697)	(260,6)%
Factoring services	59.314	58.237	1.077	1,8%
Other services	(166)	(2.140)	1.974	(92,2)%
Total net commission income	56.818	55.918	900	1,6%

Net profit from trading, amounting to 65 thousand Euro at 31 December 2014 – compared to 111 thousand Euro in 2013 – is the result of exchange differences arising as a physiological consequence from the mismatch between drawdowns by customers and the Treasury Department's funding operations in foreign currency.

The 3,6 million Euro profit **from the disposal of receivables** refers to the result of the mentioned sale of a portfolio of bills of exchange.

The profit **from the disposal of financial assets** of 231 thousand Euro is due to the sale of a non-controlling interest in a bank for 519 thousand Euro, reclassifying the Valuation reserve made in previous years to profit or loss.

Formation of net profit from financial activities

The table below shows the formation of net profit from financial activities for the period starting from the previously mentioned net banking income, compared with the previous year.

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	YEAR		CHANGE	
	2014	2013	ABSOLUTE	%
Net banking income	278.069	261.564	16.505	6,3%
Net impairment losses on:	(31.248)	(44.560)	13.312	(29,9)%
Receivables	(31.248)	(44.501)	13.253	(29,8)%
Available for sale financial assets	-	(59)	59	n.a.
Net profit from financial activities	246.821	217.004	29.817	13,7%

Net impairment losses on receivables stood at 31,2 million Euro, compared to 44,6 million Euro at 31 December 2013 (-29,8%). The period saw a decrease in new impaired loans, thanks to constantly improving lending standards and increasingly efficient credit management and monitoring processes.

The decrease in net impairment losses, due also to the significant effect of the collection of loans that had been previously written off and the change in the valuation of receivables in light of improved collection estimates, resulted in a remarkable improvement in the ratio of *credit risk cost* to the Bank's overall average loan balance over the last 12 months, down to 173 bp from 250 bp at 31 December 2013.

In light of the above trends, Banca IFIS's **net profit from financial activities** totalled 246,8 million Euro, compared to 217,0 million Euro at 31 December 2013, up 13,7%.

The net profit from financial activities in the Trade Receivables segment soared 52,0% to 120,1 million Euro from 79,0 million Euro at 31 December 2013, due to rising net banking income and falling impairment losses on loans and receivables; the DRL segment posted 31,5 million Euro, compared to 27,8 million Euro at 31 December 2013 (+13,1%). As for the mentioned sale of part of the DRL portfolio, it concerned over 26.700 receivables from bills of exchange, with a Book Value of 48,1 million Euro and sold for 51,7 million Euro. Throughout 2014, this portfolio contributed 12,0 million Euro to the Bank's net interest income. This sale must be put into the perspective of a strategic vision concerning the Bank's presence, with a focus on creating value for all stakeholders – originators, households, and shareholders. Creating value depends on the length of time and the rate of return: striking the right balance in managing the various portfolios allows to maximise the achievement of shared goals.

Net profit from financial activities in the Tax Receivables area rose 16,3% to 11,3 million Euro from 9,7 million Euro at 31 December 2013, whereas the Governance and Services segment was down 16,3%, from 100,8 million Euro in 2013 to 84,3 million Euro.

The DRL segment's performance was influenced by both the mentioned positive impact of the sale of part of the NPL portfolio and the new credit collection system, involving a higher use of settlement plans (expression of willingness) instead of bills of exchange. It should be noted that a total 122,2 million Euro were raised using the above-mentioned instruments in 2014, while in the prior year bills

of exchange – the only available instalment option – brought in 79,0 million Euro. Collections made in 2014 amounted to 32,6 million, compared to 28,8 million in the prior year. In particular, settlement plans agreed with the debtors (generating an increase in debtors' underwriting) impact the income statement about one quarter after the date they are signed, due to the conservative approach adopted by the Bank. They are recognised at amortised cost only once the customer has paid an amount at least equal to three monthly instalments.

Formation of profit for the year

The table below shows the formation of the bank's profit for the year starting from the previously mentioned net profit from financial activities, compared with the previous year.

FORMATION OF PROFIT FOR THE YEAR (in thousands of Euro)	YEAR		CHANGE	
	2014	2013	ABSOLUTE	%
Net profit from financial activities	246.821	217.004	29.817	13,7%
Operating costs	(103.745)	(75.574)	(28.171)	37,3%
Pre-tax profit from continuing operations	143.076	141.430	1.646	1,2%
Income tax expense	(48.680)	(58.026)	9.346	(16,1)%
Profit for the year	94.396	83.404	10.992	13,2%

At 31 December 2014, operating costs were up 37,3%, from 75,6 million Euro in 2013 to 103,7 million Euro. The increase was mostly due to the DRL segment and consulting expenses for new development projects. Specifically, a sizeable portion of the costs incurred by the DRL segment can be attributed to commissions paid to debt collection agents and companies, also in relation to the sale of the portfolio of bills of exchange and the collection of information on customers. Furthermore, stamp duty costs relating to retail funding increased from 0,15% in 2013 to 0,20% in 2014.

OPERATING COSTS (in thousands of Euro)	YEAR		CHANGE	
	2014	2013	ABSOLUTE	%
Personnel expenses	42.030	36.677	5.353	14,6%
Other administrative expenses	58.957	38.687	20.270	52,4%
Allocation to provisions for risks and charges	1.613	215	1.398	650,2%
Net impairment losses on tangible and intangible assets	3.180	2.978	202	6,8%
Other operating income(expenses)	(2.035)	(2.983)	948	(31,8)%
Total operating costs	103.745	75.574	28.171	37,3%

Personnel expenses, totalling 42,0 million Euro at 31 December 2014, rose 14,6% compared to 2013; this increase is essentially the result of the higher number of employees, amounting to 604 at the end of the period (compared to 536 at 31 December 2013).

Other administrative expenses at 31 December 2014 reached 59,0 million Euro, compared to 38,7 million Euro in 2013 (+52,4%).

This increase was essentially attributable to the reasons already mentioned with reference to operating costs.

Please note that part of the expenses included in this item (in particular legal expenses and indirect taxes) is charged back to customers and the relevant revenue is recognised under other operating

income. Net of this component, other administrative expenses totalled 55,4 million Euro, compared to 34,7 million Euro at 31 December 2013 (+59,7%).

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	YEAR		CHANGE	
	2014	2013	ASSOLUTA	%
Expenses for professional services	26.025	14.611	11.414	78,1%
Legal and consulting services	9.253	7.220	2.033	28,2%
Auditing	223	366	(143)	(39,1)%
Outsourced services	16.549	7.025	9.524	135,6%
Direct and indirect taxes	10.907	7.826	3.081	39,4%
Expenses for purchasing non-professional goods and other services	22.025	16.250	5.775	35,5%
Customer information	4.340	2.249	2.091	93,0%
Property expenses	3.397	3.362	35	1,0%
Software assistance and hire	2.979	1.716	1.263	73,6%
Car fleet management and maintenance	2.250	2.070	180	8,7%
Postage of documents	2.174	1.643	531	32,3%
Advertising and inserts	1.961	974	987	101,3%
Telephone and data transmission expenses	1.386	1.149	237	20,6%
Trips and business travel personnel	884	697	187	26,8%
Other sundry expenses	2.654	2.390	264	11,0%
Total administrative expenses	58.957	38.687	20.270	52,4%
Expense recoveries	(3.563)	(4.002)	439	(11,0)%
Total net other administrative expenses	55.394	34.685	20.709	59,7%

Net impairment losses on intangible assets largely refer to IT devices and at 31 December 2014 stood at 1,8 million Euro, down +2,9% from 2013.

Net impairment losses on property, plant and equipment and investment property totalled 1,3 million Euro, compared to 1,2 million Euro at 31 December 2013 (+12,6%).

Other net operating income totalled 2,0 million Euro (-31,8% compared to 2013) and refers mainly to revenue from the recovery of expenses charged to third parties. The relevant cost item is included in other administrative expenses, namely under legal expenses and indirect taxes.

Pre-tax profit for the year stood at 143,1 million Euro, compared to 141,4 million Euro at 31 December 2013, up 1,2%.

Income tax expense amounted to 48,7 million Euro, down 16,1% from the prior year (58,0 million Euro). The Bank's tax rate fell from 41,0% at 31 December 2013 to 34,0% at 31 December 2014, largely due to the negative one-off impact of the changes introduced by the 2014 Budget Law (Law 147 of 27/12/2013) on the previous year.

Profit for the year totalled 94,4 million Euro, compared to 83,4 million Euro in 2013 (+13,2%).

Main risks and uncertainties

Taking into account the business carried out and the results achieved, the Bank's financial position is proportionate to its needs. Indeed, the Bank's financial policy is aimed at favouring funding stability and diversification rather than the immediate operating needs. The main risks and uncertainties deriving from the present conditions of financial markets do not represent a particular problem for the Bank's financial balance and, in any case, they are not likely to threaten business continuity.

Reference should be made to section E of the Notes for further information on Banca IFIS's risks.

Banca IFIS shares

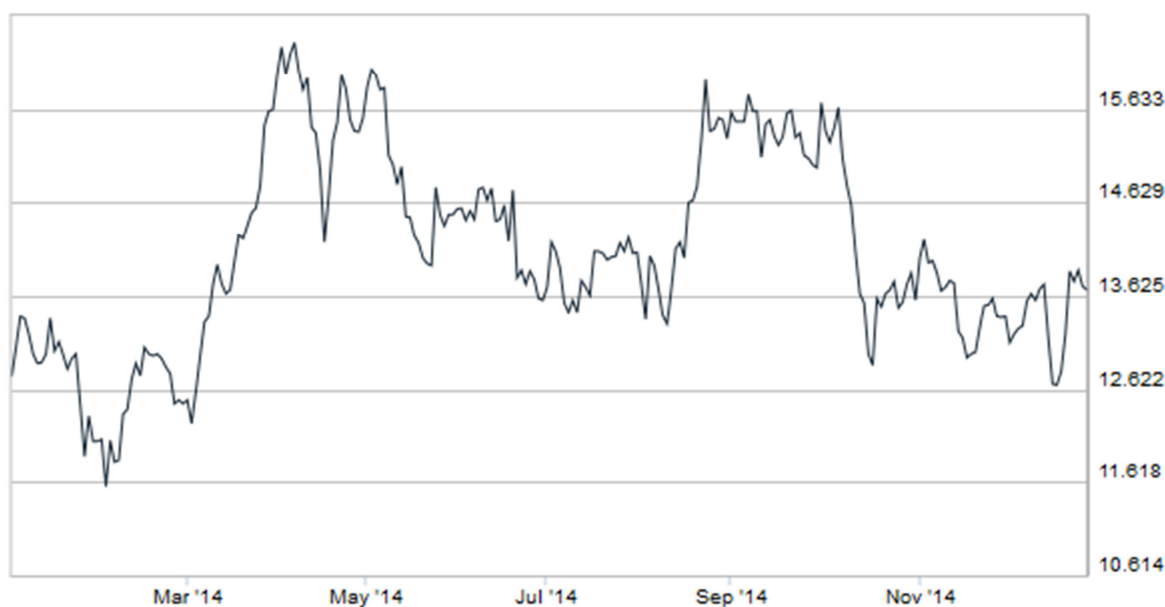
Banca IFIS shares

The share price

As from 29 November 2004, Banca IFIS S.p.A.'s ordinary shares have been listed in the STAR segment of Borsa Italiana (the Italian stock exchange). The transfer to STAR occurred a year after the listing on the Mercato Telematico Azionario (MTA, an electronic stockmarket) of Borsa Italiana S.p.A.. Previously, as from 1990, the shares had been listed on the Mercato Ristretto (MR, a restricted market) of Borsa Italiana. The following table shows the share prices at the end of the year. As from 18 June 2012, Banca IFIS joined the Ftse Italia Mid Cap index.

Official share price	2014	2013	2012	2011	2010 ⁽¹⁾
Share price at year-end	13,69	12,95	5,53	4,00	5,24

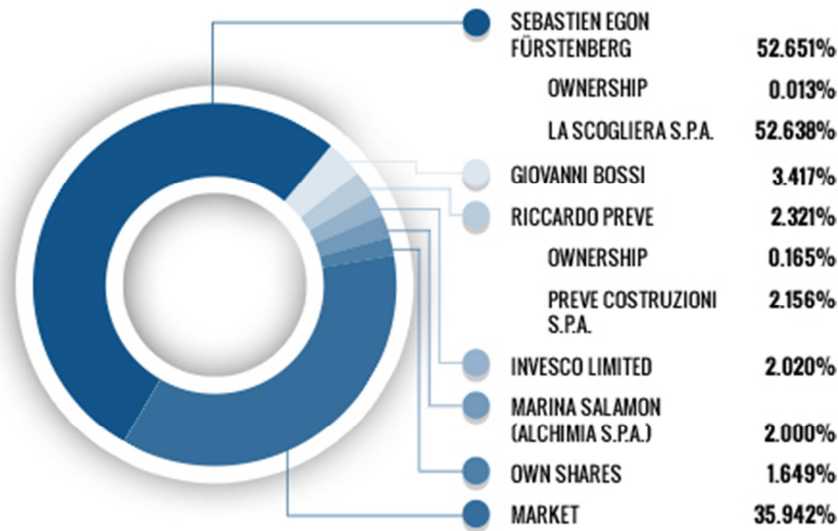
(1) The increase in free and paid share capital in 2010 had a diluting effect on the share price.



Shareholders

The share capital at 31 December 2014 amounted to 53.811.095 Euro and is broken down into 53.811.095 shares with a par value of 1 Euro each.

Banca IFIS's shareholders that, either directly or indirectly, own equity instruments with voting rights representing over 2% of share capital are the following:



Corporate governance rules

Banca IFIS adopted the Corporate Governance Code for listed companies.

A Control and Risks Committee and an Appointments and Remuneration Committee have been set up within the Bank's Board of Directors, which has also appointed a Supervisory Board with independent powers of action and control as per Legislative Decree 231/2001.

Internal dealing rules

Banca IFIS S.p.A. has for some time adopted a specific Code of Conduct as regards internal dealing. The aim of this Code of Conduct is to make internal regulations and procedures compliant with disclosure requirements concerning any significant transactions carried out by relevant subjects, or parties closely related to them, on financial instruments issued by the company or other related instruments, hence ensuring the transparency and consistency of information disclosed to the market.

This Code, in addition to identifying the relevant subjects – and defining their conduct and disclosure requirements – and the person responsible for receiving, managing and disseminating information, also forbids said transactions in the 15 days prior to Board of Directors' Meetings convened to approve financial statements (blackout periods).

This Code of Conduct for internal dealing is available on the Company's website, www.bancaifis.it, under the 'Investor Relations' section.

List of Insiders

In compliance with article 115-bis of Legislative Decree no. 58/1998, Banca IFIS has drawn up a list of subjects who, in carrying out their professional role and duties, have access to privileged information (the list of insiders). Banca IFIS takes care to timely update this list.

In addition, the Bank has laid down regulations for the internal management and external dissemination of documents and corporate information.

Significant events occurred during the year

Banca IFIS transparently and timely discloses information to the market, constantly publishing information on significant events through press releases. Please refer to the “Investor Relations\Press Releases” section on the website www.bancaifis.it for complete details.

<http://www.bancaifis.com/Media-room/Press-releases>

Here below is a summary of the most important events:

End of the securitisation process

In October 2013, the revolving period of the securitisation started in October 2008 with IFIS Collection Services S.r.l., a special purpose vehicle set up for this transaction, ended. The amortisation period, during which the securities issued by the vehicle, amounting to 328 million Euro, were reimbursed in full, ended on 24 February 2014, when the termination letters were signed. On the same day, the Bank bought back the portfolio of receivables sold to the vehicle and not collected.

Sale of ordinary shares by La Scogliera

On 10 March 2014, La Scogliera S.p.A. sold 2.168.332 ordinary shares in Banca IFIS S.p.A., representing 4,03% of the share capital, for 28,2 million Euro, following the requests of two major international institutional investors at a price of 13 euro per share.

As a result, La Scogliera owns approximately 52,6% of Banca IFIS's share capital, subject to a 180-day lock-up period starting from the date of 10 March 2014.

Appointment of new Independent Auditors

In its meeting of 17 April 2014, the Bank's Shareholders' Meeting, upon proposal by the Board of Statutory Auditors, assigned Reconta Ernst & Young S.p.A. the task of performing the audit of the Bank's separate and consolidated financial statements for the period 2014-2022 and the additional duties closely related to audit activities.

Purchase of a DRL segment portfolio

On 4 July 2014 Banca IFIS announced the purchase of a Non-Performing Loans portfolio in the Personal Loans and Credit cards/Revolving segments of the Consumer Credit segment. This is the largest portfolio purchased by the Bank so far, with a par value of 1,3 billion Euro, and consisting of over 120.000 positions of Italian households.

Cancellation of Government-backed bonds

On 15 October 2014 Banca IFIS, after having obtained the necessary authorisations, cancelled its bonds backed by the Italian Government in full. Such bonds, issued in January 2012 for a total

amount of 207 million Euro, had been bought back in full by the Bank at the time of issue and were never placed on the market.

Significant subsequent events

No significant events occurred between the end of the year and the preparation of the financial statements.

Outlook

The Bank's prospects for 2015 are positive, even though it faces an economic scenario characterised by high uncertainty over the time it will take to eventually see tentative signs of a recovery.

On the economic front, expectations are still definitely negative. It will be several quarters before GDP returns to growth; inflation is expected to fall to nearly zero or even into negative territory, significantly below the European Central Bank's target, mainly due to the staggering fall of raw material prices, chief among them oil; unemployment, especially among the young and in Italy's south, still prevents consumer spending from recovering.

As for the European monetary policy, after the recent actions aimed at reducing the cost of money for the banks operating in the Eurosystem, the ECB seems keen to intervene much more actively in the market: the impact on the availability of lending to the real economy and the costs/returns of debt and assets remain to be seen. The current imbalance in the Eurozone would require stronger price rises, notably in Northern countries. This scenario is not likely to materialise for political reasons, requiring more radical reforms in Europe's South. However, within this context, supply-side policies may not be sufficient, if they are not supported by demand-side measures. Furthermore, the EU common policy will seemingly not generate positive systematic solutions. The challenges that some Euro area countries – chief among them Greece – will face are only partly mitigated by the low interest rates on public debts.

Amid this already complicated backdrop came the oil price crash. On the one hand, it is good news for an energy importer such as Italy; on the other hand, it is having a one-off impact on energy prices, increasing the risk of deflation.

The Bank can count on sustainable margins thanks to the soundness and flexibility of its business model.

It appears impossible to leave the crisis behind without restarting the flow of credit to the economy. Our lending to businesses may be positively influenced by the opportunities to acquire new customers and new loans. A key factor is the protracted scarce availability of lending to businesses. This is attributable to both non-specialist banks' use of conventional credit instruments in supporting businesses and lenders' focus on improving equity ratios, aimed at reducing risks or at least the capital absorption of loans of players with lower credit ratings. The performance will in any case depend on the trend in credit quality, a key variable for the banking market in challenging economic times. Should the excellent signs registered by the Bank in this sense be confirmed once again, it would

bolster the Bank's operations as far as lending to SMEs is concerned. This could both prompt the Bank to step up its efforts and positively impact returns on loans net of credit costs.

As far as non-performing loans are concerned, the Bank will continue to pay attention to the several portfolios of receivables due from households that originators will place on the market. The outcome of bids will also be influenced by the attention paid by international operators to offers and prices.

The Bank will relentlessly continue to buy the portfolios offered by the sellers in all segments, adopting also innovative direct approaches to intervene faster.

Concerning the management of Non-Performing Loans, the sale in the fourth quarter of 2014 of the sizeable portfolio of bills of exchange resulting from approaches that are gradually being discontinued should mark a change that will allow the bank to better focus its operations.

The focus on debt sustainability, the possibility of extending debtors' payments terms, and establishing a constant dialogue at low costs will most likely be crucial to boost the turnover and profitability of this business area, which operates in a social segment that has been badly hit by the crisis. In this segment, the introduction of new collection and management instruments and the necessarily conservative accounting of expected cash flows temporarily influenced the business area's results. The expected acceleration will depend on the continuation of this negative trend and on any difficulties arising from the implementation of the new collection methods, through which the Bank can often sharply improve the quality of its portfolios, with long-term effects, following particularly strict margin recognition policies.

As for the Tax Receivables segment, which is strongly dependent on the time it takes for the Italian Treasury to make payments, the Bank is very actively acquiring often sizeable positions, given the good medium-term profitability of these investments.

The Bank will continue to develop its two brands, Credi Impresa Futuro and CrediFamiglia, dedicated to financing companies operating in the domestic market and ensuring households settle their financial debts, respectively. Both brands will grow further thanks to their increasingly sophisticated web presence and, especially in the case of Credi Impresa Futuro, the fast ways to communicate with customers.

As for funding, the reduction in interest rates paid to customers due to market changes caused a further significant fall in the average cost of funding, and will continue to do so going forward, also as a result of term deposits with high interest rates coming to maturity. The closely monitored decrease in funding is slight in absolute terms compared to the very high opening levels, and retail funding shall not increase further in order to prevent economic imbalances deemed unnecessary in the current scenario.

The current trends in market rates have made it no longer profitable for the Bank to continue purchasing government bonds, which ended at the end of 2013. The portfolio will continue to shrink over time as the bonds mature. Presumably, refinancing operations will continue with funding costs hovering around zero.

In light of the above, Banca IFIS can reasonably expect to remain profitable also in 2015.

Other information

Bank of Italy inspection

The Bank of Italy carried out an inspection at the Bank's Head Office from 1 August to 14 December 2012, pursuant to art. 54 of Legislative Decree no. 385 of 1.9.1993.

The inspection was a follow-up on the checks performed by the Supervisory Board in the period 27/09/2010 – 27/12/2010.

On 13 March 2013, the Bank's senior management received the inspection report. Based on the outcome of the inspection, Banca IFIS drew up and submitted to the Bank of Italy, with a communication dated 10 May 2013, an action plan that was already implemented in part during 2013 and includes measures, some of which had already been included by the Bank in its own development plans, aimed at relentlessly updating processes as well as enhancing the organisational structure and operating systems.

On 1 August 2013, the Supervisory Authority notified the Bank that it had received the above action plan and invited the Bank to implement it in the agreed timeframe, keeping the Supervisory Authority up to date on the actual implementation of the actions.

Report on Corporate Governance and Shareholding Structure

Pursuant to article 123 bis, paragraph three, of Legislative Decree no. 58 of 24 February 1998 (the Consolidated Law on Banking), a report, separate from this Directors' report, was prepared. It was approved by the Board of Directors and published together with the draft financial statements at 31 December 2014. This report is also available in the 'Corporate Governance' section of the Bank's internet site www.bancaifis.it.

The Report on Corporate Governance and Shareholding Structure has been drawn up according to the format provided by Borsa Italiana.

Together with this Report, the "Report on Remuneration" prepared pursuant to art. 123 ter of the Consolidated Law on Finance, was also made available.

Adoption of Opt-Out Option Pursuant To Consob Regulation 18079 of 20 January 2012

On 21 January 2013, Banca IFIS's Board of Directors' Meeting resolved, as per article 3 of Consob Regulation no. 18079 of 20 January 2012, to adopt the opt-out option pursuant to article 70, paragraph 8 and article 71, paragraph 1-bis, of Consob's Regulation on Issuers, thus exercising the right to depart from the obligations to publish information documents required in connection with significant operations like mergers, demergers, capital increases by contribution in kind, acquisitions and sales.

Privacy measures

In compliance with article 34, paragraph 1, letter g) of Leg. Decree no. 196 of 30 June 2003 (the Personal Data Protection Code), the Bank periodically updates its 'Security Policy Document' setting out the measures taken to guarantee the protection of processed personal data.

Parent Company management and coordination

Pursuant to articles 2497 to 2497 sexies of the Italian Civil Code, it should be noted that the Parent Company La Scogliera S.p.A. does not carry out any management and coordination activities with respect to Banca IFIS, notwithstanding article 2497 sexies of the Italian Civil Code, since the management and coordination of investee financial companies and banks is expressly excluded from La Scogliera's corporate purpose.

National consolidated tax regime

Banca IFIS, together with the parent company, La Scogliera S.p.A., opted for the application of group taxation (tax consolidation) in accordance with articles 117 et seq. of Presidential Decree no. 917/86.

Transactions between these companies were regulated by means of a private written agreement between the parties, signed in the month of May 2013. This agreement lapses after three years. Banca IFIS has an address for service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company.

Under this tax regime, Banca IFIS's taxable income is transferred to La Scogliera S.p.A. which is responsible for calculating the overall group income. Following this decision, at 31 December 2012 Banca IFIS recognised payables due to the parent company amounting to 2,0 million Euro. This amount takes into account the offsetting of the Parent Company's tax losses in accordance with the procedure applicable under both this regime and the specific agreements the companies entered into.

Transactions on treasury shares

The Ordinary Shareholders' Meeting of 17 April 2014 renewed the authorisation to purchase and sell treasury shares, pursuant to art. 2357 et seq. of the Italian Civil Code, as well as art. 132 of Legislative Decree 58/98, establishing a price interval within which the shares can be bought between a minimum of 4 Euro and a maximum of 25 Euro, for a total amount of 40 million Euro. The Meeting also established that the authorisation lapses after 18 months from the date the resolution was passed.

At 31 December 2013, the bank held 1.083.583 treasury shares recognised at a market value of 7,9 million Euro and a par value of 1.083.583 Euro.

During the year it sold, at an average price of 13,96 Euro, 196.418 treasury shares with a market value of 2,7 million Euro and a par value of 196.418 Euro, making profits of 1,5 million Euro which, in compliance with international accounting standards, were recognised under capital reserves.

The remaining balance at the end of the year was 887.165 treasury shares with a market value of 6,7 million Euro and a par value of 887.165 Euro.

Related party transactions

In compliance with the provisions of Consob resolution 17221 of 12 March 2010 and subsequently amended by means of Resolution 17389 dated 23 June 2010, the procedure relating to transactions with related parties, approved by the Board of Directors on 1 December 2010 and revised by the same body on 29 June 2012, was prepared. This document is publicly available on Banca IFIS's website, www.bancaifis.it, in the 'Investor Relations' Section.

During 2013 no significant transactions with related parties were undertaken.

For information on individual related party transactions, please refer to part H of the Notes.

Atypical or unusual transactions

During 2014 Banca IFIS did not carry out atypical or unusual transactions as defined by Consob Communication no. 6064293 of 28 July 2006.

Research and development activities

Due to its business, Banca IFIS did not implement any research and development programmes during the year.

Annual profit distribution proposal

Shareholders,

The Board of Directors proposes to allocate the profit for the year, amounting to 94.396.413 Euros as follows:

- a) a dividend of 0,66 Euro per share outstanding at the ex-dividend date to the shareholders. The dividend includes the portion attributable to same date company held treasury shares;
- b) the residual to other reserves.

Venice - Mestre, 18 February 2015

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

Financial Statements

Statement of Financial Position

	Assets (in Euro)	31.12.2014	31.12.2013
10.	Cash and cash equivalents	24.109	29.938
20.	Financial assets held for trading	181.431	10.187
40.	Available for sale financial assets	243.324.747	2.529.178.951
50.	Held to maturity financial assets	4.827.363.226	5.818.018.938
60.	Due from banks	269.985.431	409.821.679
70.	Due from customers	2.787.344.967	2.270.836.844
100.	Equity investments	26.356.254	26.356.254
110.	Property, plant and equipment and investment property	50.585.781	40.657.940
120.	Intangible assets	5.736.517	5.524.081
130.	Tax assets:	40.269.929	37.894.709
	a) current	1.971.681	3.939.879
	b) deferred	38.298.248	33.954.830
150.	Other assets	51.780.123	192.743.739
	Total assets	8.302.952.515	11.331.073.260

	Liabilities and equity (in Euro)	31.12.2014	31.12.2013
10.	Due to banks	2.258.971.467	6.665.856.449
20.	Due to customers	5.483.141.993	4.177.752.251
40.	Financial liabilities held for trading	-	357.801
80.	Tax liabilities	14.268.114	17.296.072
	a) current	-	1.004.461
	b) deferred	14.268.114	16.291.611
100.	Other liabilities	109.804.702	91.555.952
110.	Post-employment benefits	1.617.949	1.481.611
120.	Provisions for risks and charges	1.987.612	532.846
	b) other reserves	1.987.612	532.846
130.	Valuation reserves	5.707.211	15.904.007
160.	Reserves	228.847.228	155.464.412
170.	Share premiums	57.113.239	75.560.372
180.	Share capital	53.811.095	53.811.095
190.	Treasury shares (-)	(6.714.508)	(7.903.048)
200.	Profit (loss) for the year (+/-)	94.396.413	83.403.440
	Total liabilities and equity	8.302.952.515	11.331.073.260

Income Statement

Items (in Euro)		31.12.2014	31.12.2013
10.	Interest receivable and similar income	310.742.975	344.659.698
20.	Interest due and similar expenses	(93.239.275)	(138.997.561)
30.	Net interest income	217.503.700	205.662.137
40.	Commission income	63.245.205	62.079.101
50.	Commission expense	(6.427.422)	(6.161.537)
60.	Net commission income	56.817.783	55.917.564
70.	Dividends and similar income	406	83.934
80.	Net profit (loss) from trading	(65.020)	(111.121)
100.	Profit (loss) from sale or buyback of:	3.811.823	11.442
	a) receivables	3.580.566	-
	b) available for sale financial assets	231.257	11.442
120.	Net banking income	278.068.692	261.563.956
130.	Net impairment losses/reversal on	(31.248.008)	(44.560.177)
	a) receivables	(31.248.007)	(44.500.814)
	b) available for sale financial assets	(1)	(59.363)
140.	Net profit from financial activities	246.820.684	217.003.779
150.	Administrative expenses:	(100.987.047)	(75.363.487)
	a) personnel expenses	(42.030.402)	(36.676.325)
	b) other administrative expenses	(58.956.645)	(38.687.162)
160.	Net allocations to provisions for risks and charges	(1.612.612)	(215.396)
170.	Net impairment losses/reversal on plant, property and equipment	(1.336.799)	(1.187.016)
180.	Net impairment losses/reversal on intangible assets	(1.843.074)	(1.791.195)
190.	Other operating income (expenses)	2.035.096	2.983.119
200.	Operating costs	(103.744.436)	(75.573.975)
250.	Pre-tax profit (loss) for the year from continuing operations	143.076.249	141.429.804
260.	Income taxes for the year relating to current operations	(48.679.835)	(58.026.364)
290.	Profit (loss) for the year	94.396.413	83.403.440

Statement of Comprehensive Income

Items (in Euro)		31.12.2014	31.12.2013
10.	Profit (loss) for the year	94.396.413	83.403.440
	Other comprehensive income, net of taxes, without reversal to income statement	(186.026)	75.863
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	(186.026)	75.863
50.	Non-current assets under disposal:	-	-
60.	Share of reserves from valuation of investments at equity	-	-
	Other comprehensive income, net of taxes, with reversal to income statement	(10.010.770)	10.678.180
70.	Hedges of foreign investments	-	-
80.	Exchange differences	-	-
90.	Hedges of cash flows	-	(30.663)
100.	Available for sale financial assets	(10.010.770)	10.708.843
110.	Non-current assets under disposal	-	-
120.	Share of reserves from valuation of investments at equity	-	-
130.	Total other comprehensive income, net of taxes	(10.196.796)	10.754.043
140.	Total comprehensive income (item 10+130)	84.199.617	94.157.483

Statement of Changes in Equity at 31 December 2014

	Balance at 31/12/2013	Change in opening balances	Balance at 1/1/2013	Allocation of profit from previous year		Changes occurred during the year							Equity at 31/12/2014	
				Reserves	Dividends and other allocations	Changes in reserves	Equity transactions					Comprehensive income for the year 2014		
							Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares			Stock Options
Share capital														
a) ordinary shares	53.811.095	-	53.811.095	-	-	-	-	-	-	-	-	-	-	53.811.095
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	75.560.371	-	75.560.371	-	-	(20.000.000)	1.552.868	-	-	-	-	-	-	57.113.239
Reserves:														
a) of profit	133.624.847	-	133.624.847	53.236.841	-	-	-	-	-	-	-	-	-	186.861.688
b) other	21.839.565	-	21.839.565	-	-	20.145.976	-	-	-	-	-	-	-	41.985.541
Valuation reserves	15.904.007	-	15.904.007	-	-	-	-	-	-	-	-	(10.196.796)	-	5.707.211
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(7.903.047)	-	(7.903.047)	-	-	-	1.188.539	-	-	-	-	-	-	(6.714.508)
Profit (loss) for the year	83.403.440	-	83.403.440	(53.236.841)	(30.166.599)	-	-	-	-	-	-	-	94.396.413	94.396.413
Equity	376.240.278	-	376.240.278	-	(30.166.599)	145.976	2.741.407	-	-	-	-	-	84.199.617	433.160.679

Statement of Changes in Equity at 31 December 2013

	Balance at 31/12/2012(1)	Change in opening balances	Balance at 1/1/2013(1)	Allocation of profit from previous year		Changes occurred during the year							Equity at 31/12/2013	
				Reserves	Dividends and other allocations	Changes in reserves	Equity transactions					Comprehensive income for the year 2013		
							Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares			Stock Options
Share capital														
a) ordinary shares	53.811.095	-	53.811.095	-	-	-	-	-	-	-	-	-	-	53.811.095
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	73.187.964	-	73.187.964	-	-	-	2.372.407	-	-	-	-	-	-	75.560.371
Reserves:														
a) of profit	76.237.564	-	76.237.564	57.387.283	-	-	-	-	-	-	-	-	-	133.624.847
b) other	21.814.370	-	21.814.370	-	-	25.195	-	-	-	-	-	-	-	21.839.565
Valuation reserves	5.149.964	-	5.149.964	-	-	-	-	-	-	-	-	-	10.754.043	15.904.007
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(1.340.426)	-	(1.340.426)	-	-	-	2.363.812	(8.926.433)	-	-	-	-	-	(7.903.047)
Profit (loss) for the year	76.925.027	-	76.925.027	(57.387.283)	(19.537.744)	-	-	-	-	-	-	-	83.403.440	83.403.440
Equity	305.785.558	-	305.785.558	-	(19.537.744)	25.195	4.736.219	(8.926.433)	-	-	-	-	94.157.483	376.240.278

(1) Data restated after initial publication. See Part A Accounting policies in the Notes.

Cash Flows Statement

Indirect method (in Euro)	31.12.2014	31.12.2013
A. OPERATING ACTIVITIES		
1. Operations	150.253.619	131.816.411
- profit(loss) for the year (+/-)	94.396.413	83.403.440
- profit/loss on financial assets held for trading and on financial assets/liabilities carried at fair value (-/+)	(130.489)	(258.771)
- profit/loss on hedging activities		-
- net impairment losses/reversal on loans (+/-)	31.248.008	44.561.177
- net imp. losses/reversal on property, plant, equipment and invest. property and intangible assets (+/-)	3.179.873	2.978.211
- net allocations to provisions for risks and charges and other costs/revenues (+/-)	1.632.379	245.326
- unpaid taxes (+)	48.679.835	58.026.364
- other adjustments (+/-)	(28.752.400)	(57.139.336)
2. Cash flows generated/absorbed by financial assets	2.007.211.919	(1.254.053.494)
- Financial assets held for trading	(171.244)	(10.187)
- Financial assets at fair value		-
- Available for sale financial assets	2.272.367.161	(1.246.369.988)
- due from banks on demand	158.087.916	55.843.572
- other due from banks	(18.274.925)	70.295.499
- due from customers	(547.756.130)	(58.030.597)
- other assets	142.959.141	(75.781.793)
3. Cash flows generated/absorbed by financial liabilities	(3.134.908.778)	3.082.729.100
- due to banks on demand	(411.772)	(51.017.639)
- other due to banks	(4.406.473.210)	6.159.551.071
- due to customers	1.305.389.742	(2.941.194.690)
- outstanding securities		-
- financial liabilities held for trading	(227.312)	31.039
- Financial liabilities at fair value		-
- other liabilities	(33.186.226)	(84.640.681)
Net cash flows generated/absorbed by operating activities A (+/-)	(977.443.240)	1.960.492.017
B. INVESTMENT ACTIVITIES		
1. Cash flows generated by:	1.250.583.750	1.060.398.764
- sale of equity investments		316.927
- dividends collected on equity investments		-
- sale of financial assets held to maturity	1.250.000.000	1.060.000.000
- sale of property, plant and equipment and investment property	583.750	81.837
- sale of intangible assets		-
- sale of business branches		-
2. Cash flows absorbed by:	(245.867.122)	(2.997.159.176)
- purchase of investments		-
- financial assets held to maturity	(231.947.148)	(2.992.619.853)
- purchase of property, plant and equipment and investment property	(11.864.464)	(2.057.116)
- purchase of intangible assets	(2.055.510)	(2.482.207)
- purchase of business branches		-
Net cash flows generated/absorbed by investment activities B (+/-)	1.004.716.628	(1.936.760.412)
C. FINANCING ACTIVITIES		
- issue/buyback of treasury shares	2.741.407	(4.190.214)
- issue/buyback of equity instruments	145.975	-
- distribution of dividends and other	(30.166.599)	(19.537.744)
Net cash flows generated/absorbed by financing activities C (+/-)	(27.279.217)	(23.727.958)
NET CASH FLOWS GENERATED /ABSORBED DURING THE YEAR D=A+/-B+/-C	(5.829)	3.647
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	29.938	26.291
NET CASH FLOWS GENERATED /ABSORBED DURING THE YEAR D	(5.829)	3.647
CASH AND CASH EQUIVALENTS: EXCHANGE RATE EFFECTS F		
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	24.109	29.938

Notes to the Financial Statements

The notes are divided into the following parts:

- Part A – Accounting policies
- Part B – Statement of financial position
- Part C – Income statement
- Part D – Statement of comprehensive income
- Part E – Information on risks and risk management policies
- Part F – Equity
- Part G – Business combinations
- Part H – Related-party transactions
- Part I – Share-based payments
- Part L – Segment reporting

Part A – Accounting policies

A.1 – Overview

Section 1 – Statement of compliance with international accounting standards

The 2014 Banca IFIS S.p.A. financial statements have been drawn up in accordance with the IASs/IFRSs in force at 31 December 2014 issued by the International Accounting Standards Board (IASB), together with the relevant interpretations (IFRICs and SICs). These standards were endorsed by the European Commission in accordance with the provisions in article 6 of European Union Regulation no. 1606/2002. This regulation was implemented in Italy with Legislative Decree no. 38 of 28 February 2005.

In interpreting and adopting the international accounting standards, reference was made also to IASB's 'Framework for the preparation and presentation of financial statements', even though it was not officially approved.

These separate financial statements are subject to certification by the delegated corporate bodies and the Corporate Accounting Reporting Officer, as per article 154 bis paragraph 5 of Legislative Decree no. 58 of 24 February 1998.

The separate financial statements are audited by Reconta Ernst & Young S.p.A.

Section 2 – Basis of preparation

The financial statements consist of:

- the financial statements (statement of financial position and income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows);
- the Notes to the Financial Statements.

In addition, they contain the Directors' Report.

The financial statements have been drawn up according to the general principles of IAS 1, also referring to IASB's 'Framework for the preparation and presentation of financial statements', with particular attention to the fundamental principles of substance over legal form, the concepts of relevance and materiality of information, and the accruals and going concern accounting concepts.

For the preparation of these financial statements, reference was made to the format set out by Bank of Italy's Circular no. 262 of 22 December 2005, 2nd update of 22 December 2014, due to changes in the relevant accounting framework.

The money of account is the Euro and, if not indicated otherwise, amounts are expressed in thousands of Euro. The tables in the notes may include rounded amounts; any inconsistencies and/or discrepancies in the data presented in the different tables are due to these rounding differences.

The notes do not include the items and tables required by Bank of Italy's Regulation no. 262/2005 where these items are not applicable to Banca IFIS.

Assets and liabilities, as well as costs and revenues, have been offset only if required or permitted by an accounting standard or the relevant interpretation.

We have used the same classification for the items in the financial statements as in the previous financial year.

Changes in accounting standards

Starting from 1 January 2014, Banca IFIS adopted the following new accounting standards and the amendments subsequently made to other accounting standards, whose nature and impact is reported below:

IFRS 12: Disclosure of Interests in Other Entities

The objective of this new accounting standard is to require the disclosure of information that enables users of financial statements to evaluate:

- the nature of, and risks associated with, its interests in other entities;
- the effects of those interests on its financial position, financial performance and cash flows.

In order to achieve this objective, the entity shall provide:

- significant judgements and assumptions it has made in determining the nature of its interest (subsidiary, joint venture or associate);
- information on investments in:
 - subsidiaries;
 - associates and joint ventures;
 - structured entities that are not controlled by the entity.

According to this standard, a “Structured Entity” has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, because the relevant activities are directed by means of contractual arrangements.

On the basis of the standard, Banca IFIS presents information separately for interests in:

- subsidiaries;
- structured entities;
- associates;
- joint ventures;
- unconsolidated structured entities;
- sponsored structured entities.

-

IAS 27: Separate Financial Statements

This standard governs the accounting and the disclosures to be made in the separate financial statements for investments in subsidiaries, associates and joint ventures.

Investments in subsidiaries, associates and joint ventures shall be accounted for in the separate financial statements at cost or in accordance with IAS 39

The same accounting (cost or IAS 39) shall be applied for each category of investments. In Banca IFIS's separate financial statements, investments are accounted for at cost less any impairment losses.

Investments in associates recognised at fair value through profit or loss in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.

Dividends are recognised as income in the separate financial statements when the right to receive payment is established.

The investors shall also disclose the list of significant investments in subsidiaries, associates and joint ventures (name, country of incorporation or residence, proportion of ownership interest, and the accounting method used in the separate financial statements).

Changes in operating procedures

Receivables Purchased Outright (ATD, a *titolo definitivo* in Italian): starting from 2014, interest on arrears includes a portion of the interest accruing from the estimated collection date on receivables from the Health Service: the Bank, based on historical data and available information, estimates that at least 20% can be recovered.

Information on the business as a going concern

The Bank of Italy, Consob and Isvap, with document no. 2 issued on 6 February 2009 (“Disclosure in financial reports on the going concern assumption, financial risks, asset impairment tests and uncertainties in the use of estimations”), together with the subsequent document no. 4 of 4 March 2010, require directors to assess with particular accuracy the existence of the company as a going concern, as per IAS 1.

Unlike in the past, present conditions on financial markets and in the real economy, together with the negative short/medium-term forecasts, require particularly accurate assessments of the going concern assumption, as records of the company’s profitability and easy access to financial resources may no longer be sufficient in the current context.

In this regard, having examined the risks and uncertainties connected to the present macro-economic context, and considering the financial and economic plans drawn up by the company, Banca IFIS can indeed be considered a going concern, in that it can be reasonably expected to continue to operate in the foreseeable future. Therefore, the 2014 financial statements have been prepared in accordance with this fact.

Uncertainties connected to credit and liquidity risks are considered insignificant or, at least, not significant enough to raise doubts over the company’s ability to continue as a going concern, thanks also to the good profitability levels that the Bank has consistently achieved, to the quality of its loans, and to its current access to financial resources.

Section 3 - Subsequent events

No significant events occurred between year-end and the preparation of these financial statements other than those already included herein.

For information on such events, please refer to the Directors’ report.

Section 4 – Other aspects

Risks and uncertainties related to estimates

Estimates on the carrying amounts of items recognised in the financial statements at 31 December 2014, as per the international accounting standards and relevant regulations in force, are largely based on the expected future recoverability of the amounts recognised and were made on a going concern basis.

Management is required to make subjective estimates mainly about the following:

- calculating the amounts of impairment losses on receivables;

- calculating the amounts of provisions for risks and charges;
- determining the fair value of goodwill.

In particular, with reference to distressed retail loans in the DRL sector, it should be noted that the expected cash flows used for calculating amortised cost are estimated with a statistical model using data derived from historical time series on collection activities, and are regularly reviewed.

It is important to note that this estimation process was particularly complicated by current macroeconomic and market conditions, which could undergo unpredictable and rapid changes.

Coming into effect of new accounting standards

For the introduction of new accounting standards to be applied by the Bank as from 1 January 2014, see Section 2 - Basis of preparation in Part A.

Deadlines for the approval and publication of the separate financial statements

Pursuant to art. 154-ter of Legislative Decree no. 58/98 (Consolidated Law on Finance), Banca IFIS must approve the separate financial statements and publish the annual financial report, including the draft separate financial statements, the directors' report, and the declaration as per article 154-bis, paragraph 5, within 120 days of the end of the financial year. The Board of Directors approved the separate financial statements on 18 February 2015 and it will be submitted to the Shareholders' Meeting to be held on 2 April 2015 on first call for approval.

There were no other changes requiring disclosure as per IAS 8, paragraphs 28, 29, 30, 31, 39, 40 and 49.

A.2 – Main items of the financial statements

1 – Financial assets held for trading

Classification criteria

Financial assets held for trading include financial instruments held with the intention of generating profit from fluctuations in their prices in the short term.

Recognition criteria

Debt and equity instruments, as well as derivatives held for trading purposes, are classified in this category. Initial recognition is made at fair value, corresponding to the consideration paid, excluding the transaction costs attributable to the instrument, which are recognised in profit or loss.

Measurement criteria

Also subsequent to initial recognition, financial assets held for trading are measured at fair value. The fair value of instruments traded on an active market is determined based on market prices.

If a market for a financial instrument is not active, an entity establishes fair value by using a measurement technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and internal models or measurement techniques generally used for pricing financial instruments.

Derecognition criteria

Financial assets held for trading are derecognised exclusively when all relevant risks and rewards have been transferred. Should the company retain part of the relevant risks and rewards, the financial assets will continue to be recognised, even though legal ownership has been actually transferred to a third party.

Where it is not possible to ascertain the substantial transfer of the risks and rewards, financial assets are derecognised if the company no longer has control over them. Otherwise, the financial assets are recognised proportionally to the entity's continuing involvement in the asset, measured according to the exposure to changes in the transferred assets' value and cash flow.

Lastly, as for the transfer of collection rights, transferred financial assets are derecognised even if contractual rights to receive cash flows are maintained but an obligation to pay such flows to one or more companies is taken on.

2 – Available for sale financial assets

Classification criteria

These are financial assets not classified as loans and receivables, held-to-maturity investments, or financial assets held for trading. They can fall under available-for-sale financial investments, money market securities, other debt instruments and equity securities.

Recognition criteria

Available for sale financial assets are initially recognised at fair value, i.e. the cost of the operation including transaction costs directly attributable to the instrument, if any.

For interest-bearing instruments, interest is recognised at amortised cost, using the effective interest method.

Measurement criteria

Subsequent to their initial recognition, these investments are measured at their year-end fair value. The fair value is calculated based on the same criteria as those used for financial assets held for trading. Gains and losses resulting from changes in fair value are recognised under a dedicated equity reserve until the financial asset is transferred: then, accrued profits and losses are recognised in profit or loss. Changes in fair value recognised in the item "valuation reserve" are also included in the statement of comprehensive income under item 100 "Available for sale financial assets".

If there is objective evidence that the asset is permanently impaired, the accrued loss recognised directly to equity is transferred to profit or loss. The total amount of this loss is equal to the difference between the carrying amount (acquisition cost, net of any impairment losses previously recognised in the income statement) and the fair value.

As for debt instruments, any circumstances indicating that the borrower is experiencing financial difficulties which could undermine the collection of the principal or interests represent a permanent impairment loss.

As far as equity instruments are concerned, the existence of impairment losses is assessed on the basis of indicators such as fair value falling below cost and adverse changes in the environment in which the company operates, as well as the issuer's debt servicing difficulties. A significant or lasting fall in the fair value of an equity instrument below its cost is considered objective evidence of an impairment loss. The impairment loss is considered significant if the fair value falls by more than 20% below cost, and is considered lasting if it persists for more than 9 months.

If, at a later date, the fair value of a debt instrument increases and such an increase can be objectively related to an event occurring after the period in which the impairment loss was recognised in profit or loss, the impairment loss is reversed, recognising the corresponding amount in profit or loss.

As for equity securities, instead, if the grounds for impairment no longer exist, the impairment losses are later reversed through equity.

Derecognition criteria

Available for sale financial assets are derecognised exclusively when all relevant risks and rewards have been transferred. Should the company retain part of the relevant risks and rewards, the financial assets will continue to be recognised, even though legal ownership has been actually transferred to a third party.

Where it is not possible to ascertain the substantial transfer of the risks and rewards, financial assets are derecognised if the company no longer has control over them. Otherwise, the financial assets are recognised proportionally to the entity's continuing involvement in the asset, measured according to the exposure to changes in the transferred assets' value and cash flow.

Lastly, as for the transfer of collection rights, transferred financial assets are derecognised even if contractual rights to receive cash flows are maintained but an obligation to pay such flows to one or more companies is taken on.

3 – Held to maturity financial assets

Classification criteria

Investments held until maturity are securities, with fixed or determinable payments and a fixed maturity date, that an entity is objectively willing and able to hold to maturity.

These securities may be used in repurchase agreements, loans or temporary refinancing transactions.

Recognition criteria

After initial recognition at fair value, which is usually equal to the consideration paid including expenses and income directly attributable to the acquisition or issue of the financial asset (even if not yet settled), these assets are recognised at amortised cost using the effective interest method.

Measurement criteria

If there is objective evidence that the issuer's solvency is deteriorated, the assets are tested for impairment: the resulting impairment losses are equal to the difference between the carrying amount of the impaired assets and the present value (calculated based on the internal rate of return) of cash flows expected for principal and interest; any reversals of impairment losses cannot exceed the amortised cost that would have been incurred if no impairment loss had been recognised.

Derecognition criteria

Should a significant amount of such assets be sold or reclassified before their maturity during the period, the remaining financial assets held to maturity shall be reclassified as available for sale and the use of the portfolio concerned be blocked for the following two years, unless such sale or reclassification:

- is so close to maturity or the option expiration date that changes in the market interest rate would not significantly affect the financial asset's fair value;

- occurs after the entity has collected essentially all of the financial asset's original principal through scheduled payments or prepayments; or
- is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably foreseen by the entity.

4 - Loans and receivables

Classification criteria

Receivables include loans to customers and banks with fixed or determinable payment dates and not traded on an active market.

Receivables due from customers consist of:

- demand advances to customers as part of factoring operations vis-à-vis a receivables portfolio factored with recourse and still recognised in the seller's statement of financial position, or vis-à-vis receivables factored without recourse, providing no contractual clauses that eliminate the conditions for their recognition exist.
- distressed retail loans acquired from banks and retail lenders;
- tax receivables resulting from insolvency proceedings.

Distressed retail loans, due to their nature, are classified as either substandard or bad loans according to the criteria established in Circular 272/2008, which sets out the rules for reporting on supervisory, statistical, and financial matters as well as prudential capital ratios, and Circular 139/1991, relating to the Central Credit Register. In particular, those loans maintain the same classification as that assigned by the invoice seller, provided the latter is subject to the same law as Banca IFIS: otherwise, if the Bank has not ascertained the debtor's state of insolvency, those loans are classified as substandard.

Recognition criteria

Loans are initially recognised at the date they are granted and/or acquired at their fair value, including any transaction costs. Transaction costs are incremental costs directly attributable to the acquisition or granting of loans and determinable right from the beginning of the transaction, even though they are settled at a later date. Incremental costs are those costs that the company would not have incurred had it not acquired or granted credit. Costs meeting these characteristics, but to be reimbursed by the debtor or falling under normal internal administrative costs, are excluded.

Measurement criteria

After initial recognition, the receivables are measured at amortised cost, which is equal to the initial amount minus/plus reimbursements of principal, impairment losses/reversals of impairment losses, and amortisation calculated using the effective interest method. The effective interest rate is calculated as the rate at which the present value of expected cash flows for the principal and interest is equal to the loan granted, including any directly attributable costs/revenues. This finance-based accounting method allows to spread the economic effect of costs/revenues over the expected residual life of the receivable.

The amortised cost method usually does not apply to short-term loans, as the effect of discounting would be insignificant. These are measured instead at their acquisition cost. A similar criterion applies to loans without a definite payment date or revocable loans. Furthermore, newly acquired distressed retail loans are measured at cost until the Bank has started taking action to recover the receivable, as specified later on in the part concerning impaired loans in the DRL sector.

At the end of every reporting period, including interim periods, receivables are reviewed in order to identify those objectively at risk of impairment following events occurred after their initial recognition. In accordance with both Bank of Italy's regulations and IASs, bad, substandard, restructured and past due loans fall into this category.

In the notes, impairment losses on loans are classified as individual impairment losses in the mentioned income statement item even under a lump-sum/statistical calculation method.

As for the **impaired loans included in the trade receivables sector**, they were measured according to the following criteria.

Bad loans are individually evaluated, and the total amount of the impairment loss on each loan is equal to the difference between the carrying amount at measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the effective interest method at the moment in which the loan went bad. Expected cash flows are calculated taking into account expected recovery times based on historical elements and other significant characteristics, as well as the estimated realisable value of guarantees, if any.

Each subsequent change in the amount or maturities of expected cash flows causing a negative change from the initial estimates results in the recognition of an impairment loss in the income statement.

If the quality of an impaired loan improves and there is reasonable certainty of a timely recovery of the principal and the interests, in keeping with the relevant initial terms and conditions, the impairment loss is reversed through profit and loss to a value not higher than the amortised cost that would have been incurred if no impairment loss had been recognised.

Outstanding gross loans below 100 thousand Euro as well as those above 100 thousand Euro which went bad over 10 years prior to the reporting date are written down to zero.

Substandard loans are represented by loans to customers facing temporary difficulties which are likely to be overcome within a reasonable period of time ("subjective substandard loans").

Based on the definition contained in the Bank of Italy's regulations currently in force, substandard loans also include loans not classified as bad loans, granted to customers other than Public Administrations, and satisfying both the following conditions ("objective substandard loans"):

- are past due and have not been paid and/or have been overdrawn for more than 270 days;
- the total amount of the above loans and of the other instalments that have been due for less than 270 days relating to the same debtor is at least 10% of the total exposure to this debtor.

In the factoring sector, the continuity of past due amounts shall be determined as follows:

- in the case of "non-recourse" transactions, for every account debtor reference shall be made to the invoice with the biggest payment delay;
- in the case of "recourse" transactions, the following conditions must be satisfied:
 - the advance payment made is equal to or higher than the total amounts falling due;
 - there is at least one invoice which has been past due for more than 270 days and the overall amount of past due invoices is higher than 10% of total receivables.

Subjective substandard loans amounting to more than 100 thousand Euro are evaluated individually; the write-down to each loan is equal to the difference between the amount recognised in the balance sheet at the time of recognition (amortised cost) and the current value of expected future cash flows, calculated using the original effective interest rate or, in case of indexed rates, the last contractually

applied rate. Subjective substandard loans that are individually evaluated and not found to be impaired are then collectively tested for impairment.

Subjective substandard loans below 100 thousand Euro and objective substandard loans are collectively or, should circumstances warrant it, individually tested for impairment.

Restructured loans, represented by loans to counterparties with whom special agreements have been reached providing for a moratorium on debt payments as well as the renegotiation of terms and conditions at interest rates lower than the original ones, are evaluated individually.

Past due loans, as defined by the Bank of Italy, are collectively tested for impairment. Such measurement applies to categories of loans with a homogeneous credit risk. The relevant losses are estimated as a percentage of the original loan amount by taking into account historical time series based on observable market data existing at the time of measurement and allowing to calculate the latent losses for each category.

Performing loans are collectively tested for impairment. Such measurement applies to categories of loans with a homogeneous credit risk. The relevant losses are estimated as a percentage of the original loan amount by taking into account historical time series based on observable market data existing at the time of measurement and allowing to calculate the latent losses for each category.

Impaired loans included in the DRL sector are recognised and assessed through the following steps:

1. at the time of purchase, receivables are recognised by allocating the portfolio's purchase price among the individual receivables it consists of through the following steps:
 - recognition of the individual receivables at a value equal to the contract price, which is used for the purposes of reporting to the Central Credit Register;
 - after verifying the documentation, if provided in the contract, the Bank returns the loans lacking documentation or beyond the statute of limitations to the seller, and measures the fair value of receivables which actually exist and can be collected; finally, after sending a notice of assignment to the debtor, the Bank can start taking action to collect the receivable;
2. once the collection process begins, receivables are measured at amortised cost using the effective interest rate method;
3. the effective interest rate is calculated on the basis of the price paid, the transaction costs, if any, and the estimated cash flows and collection time calculated using either a proprietary statistical model (point 5), individual estimates made by managers, or, in the case of bills of exchange or agreements finalised with the creditor (the so-called settlement plans or expression of willingness), the relevant repayment plans;
4. the effective interest rate as set out in the previous point is unchanged over time;
5. the cash flows and collection time are estimated using a statistical model, on the basis of historical time series on revenues from similar portfolios over a statistically significant period of time;
6. repayment plans referring to bills of exchange or agreements finalised with the creditor are adjusted by a historical proportion of unpaid accounts;

7. at the end of each reporting period, interest income accrued on the basis of the original effective interest rate is recognised under Interest Income. Said interest is calculated as follows: Amortised Cost at the beginning of the period x IRR/365 x days in the period;
8. in addition, at the end of each reporting period, the expected cash flows for each position are re-estimated;
9. should events occur (higher or lower revenues realised or expected compared to forecasts and/or a change in collection times) which cause a change in the amortised cost (calculated by discounting the new cash flows at the original effective rate compared to the amortised cost in the period), this change is also recognised under Interest Income, except in the situation set out in the following point;
10. should the loans be classified as bad loans, all the changes as set out in the previous point are recognised under Impairment losses/reversals on receivables;
11. should loans be classified as substandard, or should they be objectively impaired, the changes as set out in point 9) are recognised under Impairment losses/reversals on receivables; if an impairment loss had already been recognised, reversals can be recognised up to the amount of said impairment loss, recognising the surplus under Interest Income.

It is important to bear in mind that the recognition of the various economic elements under Interest Income and Impairment losses/reversals is purely for accounting purposes, since it is connected to the classification of receivables; on the other hand, from the viewpoint of business, the economic effects shall be considered on the whole and divided into two macro-categories: interest generated by the measurement at amortised cost (point 7) and the economic components due to the changes in cash flows (points 8-9-10-11).

Finally, **tax receivables** are classified under performing loans, since they are due from the Public Administration.

Derecognition criteria

A receivable is entirely derecognised when it is considered unrecoverable. Derecognitions are directly recorded under net impairment losses on receivables and are recognised as a reduction of the principal. Partial or complete reversals of previous impairment losses are recognised as a reduction of net impairment losses on receivables.

Sold or securitised financial assets are derecognised exclusively when all relevant risks and rewards have been transferred. Should the company retain part of the relevant risks and rewards, the financial assets will continue to be recognised, even though legal ownership has been actually transferred to a third party.

In such cases, a financial liability is recognised for an amount equal to the consideration received.

If some, but not all, the risks and rewards have been transferred, financial assets are derecognised only if the company no longer has control over them. Otherwise, the financial assets are recognised proportionally to the entity's continuing involvement in them.

Finally, as for the transfer of collection rights, transferred financial assets are derecognised even if contractual rights to receive cash flows are maintained but an obligation to pay such flows to one or more entities is taken on.

7 - Equity investments

Classification criteria

Controlled companies are those in which:

- 1) one owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional cases, it can be demonstrated that such ownership does not constitute control;
- 2) one owns half or less of the voting power and has:
 - a. control of more than half of the voting rights by virtue of an agreement with other investors;
 - b. power to govern the financial and operating policies of the entity under a statutory clause or a contractual agreement;
 - c. power to either appoint or remove the majority of the members of the board of directors or equivalent governing body and the management of the company by that board or body;
 - d. power to cast the majority of votes at board meetings or equivalent governing body and the management of the company is by that board or body.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity

Recognition criteria

For investments acquired before 1 July 2009, the acquisition cost is the sum of:

- the fair value at the acquisition date, of assets given, assumed liabilities, and net equity instruments issued by the acquirer in exchange for control of the acquiree;
- any cost directly attributable to the acquisition itself.

Measurement criteria

Should there be evidence that the value of an investment may have been impaired, the Company will proceed to estimate the recoverable amount of the investment, taking into account the present value of future cash flows which could be generated by the investment, including the value of final distribution. Where the recoverable amount is less than the carrying amount, the difference is reported in the income statement.

If the reasons for impairment cease to exist following an event occurring after the recognition of said impairment, recoveries will be reflected through the income statement.

Derecognition criteria

Investments are cancelled upon expiration of the contractual rights on asset cash flows or upon the sale of the investment, essentially transferring all associated risks and benefits.

8 - Property, plant and equipment and investment property

Classification criteria

The item includes tangible assets used in operations and those held for investment. It also includes those acquired under financial leasing.

All property (either fully owned or leased) held by the company for the purposes of obtaining rent and/or a capital gain fall under investment property.

All property (either fully owned or leased) held by the company for business and expected to be used for more than one fiscal year fall under property for functional use.

Property, plant and equipment for functional use include:

- land
- buildings
- furniture and accessories
- electronic office machines
- various machines and equipment
- vehicles
- leasehold improvements on third-party property

Those are physical assets held for use in production, in providing goods and services or for administrative purposes, and that are expected to be used for more than one fiscal year.

This item also includes assets used as a lessee under lease contracts.

Financial leases are leases that essentially transfer all the risks and rewards deriving from ownership of an asset to the lessee.

Leasehold improvements on third-party property are improvements and expenses relating to identifiable and separable asset. Normally, this kind of investment is sustained in order to make a property rented from third parties suitable for use.

Recognition criteria

Property, plant and equipment and investment property are initially recognised at cost, including all directly attributable costs connected to the acquisition or to bring the asset into use.

Subsequently incurred expenses are added to the carrying amount of the asset, or recognised as separate assets, if they are likely to yield future economic benefits exceeding those initially estimated and if the cost can be measured reliably; otherwise, they are recognised in profit or loss.

Measurement criteria

Property, plant and equipment and investment property are measured at cost, net of any depreciation or impairment losses.

Property, plant and equipment and investment property with a finite useful life are systematically depreciated on a straight-line basis over their useful life.

Property, plant and equipment and investment property with an indefinite useful life, whose residual value is equal to or higher than their carrying amount, are not depreciated.

For accounting purposes, land and buildings are treated separately, even when acquired together. Land is not depreciated, as it has an indefinite useful life. Where the value of land is included in the value of a building, the former is considered separately by applying the component approach. The separate values of the land and the building are calculated by independent experts in this field and only for entirely owned properties.

The useful life of property, plant and equipment and investment property is reviewed at the closure of each period and, if expectations are not in line with previous estimates, the depreciation rate for the current period and subsequent ones is adjusted.

If there is objective evidence that an individual asset may be impaired, the asset's carrying amount is compared to its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use, intended as the present value of future cash flows expected to arise from this asset. Any impairment loss is recognised in profit or loss.

When an impairment loss is reversed, the new carrying amount cannot exceed the net carrying amount that would have been measured if no impairment loss had been recognised on the asset in previous years.

The usually estimated useful lives are the following:

- buildings: not exceeding 34 years
- furniture: not exceeding 7 years;
- electronic systems: not exceeding 3 years
- other: not exceeding 5 years.
- improvements on third party property/leasehold improvements: not exceeding 5 years

Derecognition criteria

Property, plant and equipment and investment property are derecognised from the statement of financial position on disposal or when they are withdrawn from use and no future economic benefits are expected from their disposal.

9 - Intangible assets

Classification criteria

Intangible assets are non-monetary assets, identifiable even though they lack physical substance, that meet the requirements of identifiability, control over a resource and existence of future economic benefits. Intangible assets mainly include goodwill and software.

Recognition criteria

Intangible assets are recognised in the statement of financial position at cost, i.e. the purchase price and any direct cost incurred in preparing the asset for use.

Goodwill is represented by the positive difference between the acquisition cost and the fair value of the acquiree's assets and liabilities and when such positive difference is representative of the capacity to generate returns in the future.

Measurement criteria

Intangible assets with a finite useful life are systematically amortised according to their estimated useful life.

If there is objective evidence that a single asset may be impaired, the asset's carrying amount is compared to its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use, intended as the present value of future cash flows expected to arise from this asset. Any impairment loss is recognised in profit or loss.

Intangible assets with an indefinite useful life are not amortised. The carrying amount is compared with the recoverable amount at least on an annual basis. If the carrying amount is greater than the recoverable amount, a loss equal to the difference between the two amounts is recognised in profit or loss.

Should the impairment of an intangible asset (excluding goodwill) be reversed, the increased net carrying amount cannot exceed the net carrying amount that would have been measured if no impairment loss had been recognised on the asset in previous years.

Goodwill is recognised in the statement of financial position at cost, net of any accrued losses, and is not subject to amortisation. Goodwill is tested for impairment at least annually by comparing its carrying amount to its recoverable amount. To this end, goodwill must be allocated to cash-

generating units (CGUs) in compliance with the maximum combination limit that cannot exceed the "operating segment" identified for internal management purposes.

The impairment loss, if any, is calculated based on the difference between the carrying amount of the CGU plus its recoverable amount, which is the higher of the CGU's fair value less costs to sell and its value in use.

The amount of any impairment losses is recognised in profit or loss and is not derecognised in the following years should the reason for the impairment be no longer valid.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal.

11 – Current and deferred taxes

Classification criteria

Current and deferred taxes, calculated in compliance with national tax laws, are recognised in profit or loss with the exception of items directly credited or debited to equity.

Current tax liabilities are shown in the statement of financial position net of relative tax advances paid for the current period.

Deferred tax assets and liabilities are recognised in the statement of financial position at pre-closing balances and without set-offs, and are included in the item 'tax assets' and 'tax liabilities', respectively.

Recognition and measurement criteria

Deferred tax assets and liabilities are calculated based on temporary differences – without time limits – between the value attributed to the asset or liability according to statutory criteria and the corresponding tax value, applying the tax rates expected to be applicable for the year in which the tax asset will be realised, or the tax liability will be settled, according to theoretical tax laws in force at the realisation date.

Deferred tax assets are entered in the statement of financial position according to the likelihood of their recovery, calculated on the basis of the company's (or, due to tax consolidation, the parent company's) ability to continue to generate positive taxable income.

Deferred tax liabilities are entered in the statement of financial position, with the sole exception of the tax-relieved major assets represented by strategic investments not expected to be sold and reserves, as it can be safely assumed that operations giving rise to their taxation will be avoided, based on the amount of already taxed available reserves.

12 – Provisions for risks and charges

These provisions consist of liabilities arising when:

- a legal or constructive obligation exists as a result of a past event;
- it is likely that it will be necessary to spend resources which could generate economic benefits to settle the obligation;
- the amount of the obligation can be reliably estimated.

Should all these conditions not be met, no liability is recognised.

The amount recognised as a provision represents the best estimate of the expense required to meet the obligation and reflects the risks and uncertainties regarding the facts and circumstances in question.

Where the cost deferral is significant, the amount of the provision is determined as the present value of the best estimate of the cost to settle the obligation. In this case, a discount rate is used that reflects current market assessments.

The provisions made are periodically reviewed and, if necessary, adjusted to reflect the best current estimate. When the review finds that the cost is unlikely to be incurred, the provision is reversed.

13 – Payables and outstanding securities

Classification criteria

Payables due to banks and customers and outstanding securities include the various forms of inter-bank funding, as well as funding from customers and through outstanding bonds, net of any buy-backs.

In addition, payables incurred by the lessee as part of finance lease transactions are also included.

Recognition criteria

Payables due to banks and customers and outstanding securities are initially recognised at their fair value, which is equal to the consideration received, net of transaction costs directly attributable to the financial liability.

Measurement criteria

After initial recognition at fair value, these instruments are later measured at amortised cost, using the effective interest method.

Compound debt instruments, connected to equity instruments, foreign currencies, credit instruments or indexes are all considered structured instruments. The embedded derivative is split from the host contract and accounted for separately if the criteria for splitting are met. The embedded derivative is recognised at its fair value and then measured. Any fair value changes are recognised in profit or loss.

The value corresponding to the difference between the total collected amount and the fair value of the embedded derivative is attributed to the host contract and then measured at amortised cost.

Instruments convertible into newly issued treasury shares are considered as structured instruments and imply the recognition, at the date of issue, of a financial liability and an equity component.

The instrument's residual value, resulting from the deduction from its overall value of the value separately calculated for a financial liability without conversion clause with the same cash flows, is attributed to the equity component.

The financial liability is recognised net of directly attributable transaction costs and later measured at amortised cost using the effective interest method.

Derecognition criteria

Financial liabilities are derecognised when they expire or are settled. The difference between the carrying amount and the acquisition cost is recognised in profit or loss.

Liabilities are derecognised also when previously issued securities are bought back, even if such instruments will be sold again in the future. Gains and losses from such derecognition are recognised in profit or loss when the buyback price is higher or lower than the carrying amount.

Subsequent sales of the company's own bonds on the market are considered as an issuance of new debt.

14 – Financial liabilities held for trading

Classification criteria

Financial liabilities held for trading refer to derivative contracts that are not hedging instruments.

Recognition criteria

At initial recognition, financial liabilities held for trading are recognised at fair value.

Measurement criteria

Also subsequent to initial recognition, financial liabilities held for trading are measured at fair value at the reporting date. The fair value is calculated based on the same criteria as those used for financial assets held for trading.

Derecognition criteria

Financial liabilities held for trading are derecognised when they are settled or when the obligation is fulfilled, cancelled or expired. The difference arising from their derecognition is recognised in profit or loss.

16 – Foreign currency transactions

Initial recognition

At initial recognition, foreign currency transactions are recognised in the money of account, applying the exchange rate at the date of the transaction.

Subsequent recognitions

At each reporting date, including interim periods, foreign currency monetary items are translated using the closing rate.

Non-monetary assets and liabilities recognised at historical cost are translated at the historical exchange rate, while those measured at fair value are translated using the year-end rate. Any exchange differences arising from the settlement of monetary elements or their translation at exchange rates different from those used at initial recognition or in previous financial statements are recognised in profit or loss in the period in which they arise, excluding those relating to available for sale financial assets, as they are recognised in equity.

17 - Other information

Post-employment benefits

Pursuant to IAS 19 'Employee benefits' and up to 31 December 2006, the so-called 'TFR' post-employment benefit for employees of the Bank was classified as a defined benefit plan. The Bank had to recognise this benefit by discounting it using the projected unit credit method.

Following the coming into force of the 2007 Budget Law, which brought the reform regarding supplementary pension plans - as per Legislative Decree no. 252 of 5 December 2005 - forward to 1 January 2007, the employee was given a choice as to whether to allocate the post-employment benefits earned as from 1 January 2007 to supplementary pension funds or to maintain them in the company, which would then transfer it to a dedicated fund managed by INPS (the Italian National Social Security Institute).

This reform has led to changes in the accounting of such benefits as for both the benefits earned up to 31 December 2006 and those earned from 1 January 2007.

In particular:

- benefits earned as from 1 January 2007 constitute a defined-contribution plan, regardless of whether the employee has chosen to allocate them to a supplementary pension fund or to INPS's Treasury Fund. Those benefits shall be calculated according to contributions due without applying actuarial methods;
- benefits earned up to 31 December 2006 continue to be considered as a defined-benefit plan, and as such are calculated on an actuarial basis which, however, unlike the calculation method applied until 31 December 2006, no longer implies that the benefits be proportionally attributed to the period of service rendered: the employee's service is considered entirely accrued due to the change in the accounting nature of benefits earned as from 1 January 2007.

Actuarial gains/losses shall be included immediately in the calculation of the net obligations to employees through equity, to be reported in other comprehensive income.

Share-based payments

They are payments granted to employees or similar parties as remuneration for the services received settled in equity instruments.

The relevant international accounting standard is IFRS 2 – Share-based payments; specifically, since the Bank is to settle the obligation for the service received in equity instruments (shares “to the value of”, i.e. a given amount is converted into a variable number of shares based on the fair value at grant date), those payments fall under “equity-settled share-based payments”.

Generally, IFRS 2 requires entities to recognise share-based payment transactions as personnel expenses, with an increase in the corresponding reserve in equity; the cost is amortised on a straight-line basis over the vesting period.

Treasury shares

Pursuant to regulations in force in Italy, buying back treasury shares requires a specific resolution of the shareholders' meeting and the recognition of a specific reserve in equity. Treasury shares in the portfolio are deducted from equity and measured at cost, calculated using the “Fifo” method. Differences between the purchase price and the selling price deriving from trading in these shares during the accounting period are recognised under equity reserves.

Recognition of revenues

Income from management and guarantee services for receivables purchased through factoring activities are recognised under commission income according to their duration. Components considered in the amortised cost to calculate the effective interest rate are excluded and recognised instead under interest income.

Dividends

Dividends are recognised in profit or loss in the year in which the resolution concerning their distribution is passed.

Repurchase agreements

Securities received as a result of transactions that contractually require they are subsequently sold, as well as securities delivered as a result of transactions that contractually require they are subsequently repurchased, are not recognised in and/or derecognised from the financial statements.

Consequently, in cases of securities acquired under a repurchase agreement, the amount paid is recognised as due from customers or banks, or as a financial asset held for trading; and in cases of securities sold under a repurchase agreement, the liability is entered under payables due to banks or customers, or under financial liabilities held for trading. Income from these commitments, made up of the coupons matured on the securities and of the difference between their spot price and their forward price, is recognised under interest income in profit or loss.

The two types of transactions are offset if, and only if, they have been carried out with the same counterparty and if such offsetting is contractually envisaged.

Amortised cost

The amortised cost of a financial asset or liability is its amount upon initial recognition, net of any principal repayments, plus or minus the overall amortisation of the difference between the initial and the maturity value calculated using the effective interest method, and deducting any impairment losses.

The effective interest method is a method of spreading interest income or interest expense over the duration of a financial asset or liability. The effective interest rate is the rate that precisely discounts expected future payments or cash flows over the life of the financial instrument at the net carrying amount of the financial asset or liability. It includes all the expenses and basis points paid or received between the parties to a contract that are an integral part of such rate, as well as the transaction costs and all other premiums or discounts.

Commissions considered an integral part of the effective interest rate are the initial commissions received for selling or buying a financial asset not classified as measured at fair value: for example, those received as remuneration for the assessment of the debtor's financial situation, for the assessment and the registration of sureties and, in general, for completing the transaction.

Transaction costs, in turn, include fees and commissions paid to agents (including employees that act as sales agents), advisors, brokers and dealers, levies charged by regulatory bodies and stock exchanges, and transfer taxes and duties. Transaction costs do not include financing, internal administration or operating costs.

A.4 – Fair value disclosure

Qualitative disclosure

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date, under current market conditions (i.e. the exit price), regardless of the fact that said price is directly observable or that another measurement approach is used.

IFRS 13 establishes a fair value hierarchy based on the extent to which inputs to valuation techniques used to measure the underlying assets/liabilities are observable. Specifically, the hierarchy consists of three levels.

- Level 1: the instrument's fair value is measured based on quoted prices in active markets.
- Level 2: the instrument's fair value is measured based on valuation models using inputs observable in active markets, such as:
 - a) quoted prices for similar assets or liabilities;
 - b) quoted prices for identical or similar assets or liabilities in non-active markets;
 - c) observable inputs such as interest rates or yield curves, implied volatility, default rates and illiquidity factors;
 - d) inputs that are not observable but supported and confirmed by market data.
- Level 3: the instrument's fair value is measured based on valuation models using mainly inputs that are unobservable in active markets.

Each financial asset or liability of the Bank is categorised in one of the above levels, and the relevant measurements may be recurring or non-recurring (see IFRS 13, paragraph 93, letter a).

The choice among the valuation techniques is not optional, since these shall be applied in a hierarchical order: indeed, the fair value hierarchy gives the highest priority to (unadjusted) quoted prices available on active markets for identical assets or liabilities (Level 1 data) and the lowest priority to unobservable inputs (Level 3 data).

Valuation techniques used to measure fair value are applied consistently on an on-going basis.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

In the absence of quoted prices on an active market, the fair value measurement of a financial instrument is performed using valuation techniques maximising the use of inputs observable on the market.

The use of a valuation technique is intended to estimate 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, under current market conditions. In this case, the fair value measurement may be categorised in Level 2 or Level 3, according to what extent inputs to the pricing model are observable.

In the absence of observable prices on an active market for the financial asset or liability to be measured, the fair value of the financial instruments is measured using the so-called "comparable approach" (Level 2), requiring valuation models based on market inputs.

In this case, the valuation is not based on the quoted prices of the financial instrument being measured (identical asset), but on prices, credit spreads or other factors derived from the official quoted prices of instruments that are substantially similar in terms of risk factors and duration/return, using a given calculation method (pricing model).

In the absence of quoted prices on an active market for a similar instrument, or should the characteristics of the instrument to be measured not allow to apply models using inputs observable on active markets, it is necessary to use valuation models assuming the use of inputs that are not directly observable on the market and, therefore, requiring to make estimates and assumptions (non observable input - Level 3). In these cases, the financial instrument is measured using a given calculation method that is based on specific assumptions regarding:

- the trend in future cash flows, possibly contingent on future events whose probability of occurring can be derived from historical experience or based on behavioural assumptions;
- the level of specific inputs not quoted on active markets: for the purposes of estimating them, information acquired from prices and spreads observed on the market shall have a higher priority. If these are not available, entities shall use historical data about the specific underlying risk factor or specialist research on the matter (e.g. reports by ratings agencies or primary market players).

In the cases described above, entities may make valuation adjustments taking into account the risk premiums considered by market participants in pricing instruments. If not explicitly considered in the valuation model, valuation adjustments may include:

- model adjustments: adjustments that take into account any deficiencies in the valuation models highlighted during calibration;
- liquidity adjustments: adjustments that take into account the bid-ask spread if the model calculates a mid price;
- credit risk adjustments: adjustments related to the counterparty or own credit risk;
- other risk adjustments: adjustments related to a risk premium “priced” on the market (e.g. relating to the complexity of valuation of an instrument).

The trade receivables portfolio measured at fair value consists of the on-balance-sheet exposures classified as performing with a residual life exceeding one year (medium-long term²). Therefore, all exposures classified as in Default, the ones with a residual life less than one year, and unsecured loans are excluded from the valuation. For the purposes of measuring performing loans at fair value, given the absence of prices directly observable on active and liquid markets, entities shall use valuation techniques based on a theoretical model meeting the requirements of IASs/IFRSs (Level 3). The approach used to determine the fair value of receivables is the Discounted Cash Flow Model, i.e. the discounting of expected future cash flows at a risk free rate for the same maturity, increased by a spread representative of the counterparty’s risk of default.

As for the Distressed Retail Loan portfolio, i.e. the portfolio of receivables generated by the NPL business area, which purchases and manages non-performing receivables mainly due from individuals, the Discounted Cash Flow Model is used to calculate fair value. In this case, the expected net cash flows are discounted at a risk free rate for the same maturity. Cash flows are discounted without considering a credit spread, since the credit risk of the individual counterparties is already incorporated in the statistical model used to estimate future cash flows with regard to collective management (non-judicial operations). Based on historical evidence concerning the Bank’s portfolio, the model projects the cash flows of homogeneous sub-portfolios. As far as individual management (judicial operations) is concerned, the manager defines the projections of future cash flows for individ-

² For short-term receivables, the book value is considered representative of fair value.

ual positions. The cash flows are net of expected collection costs, since these are required to achieve the estimated return. The Bank projected the average historical costs incurred over the last twelve months, calculated based on the party collecting the debt (external debt collection agencies, in-house agent network, attorneys, call center): it estimates them at an average 15% of the amounts collected.

As for purchased tax receivables, the Bank believes their amortised cost can be used as an approximation of fair value. The only element of uncertainty concerning these receivables due from tax authorities is the time required for collecting them; currently, there are no significant differences in the time it takes for the tax authorities to repay their debts. It should also be noted that Banca IFIS is one of the leading players in this operating segment, which makes it a price maker in the case of sales.

In general, for the purposes of non-recurring Level 3 fair value measurement of assets and liabilities, reference is made to:

- risk free rates calculated, according to market practice, using money market rates for maturities less than one year, and swap rates for greater maturities;
- Banca IFIS's credit spread, which, since there are no bond issuances to be used as a reference, was calculated using bond issuances of counterparties considered equivalent as a reference;
- financial statements and information from business plans.

A.4.2 Measurement processes and sensitivity

In compliance with IFRS 13, for fair value measurements categorised within level 3, the Bank tests their sensitivity to changes in one or more unobservable inputs used in the fair value measurements. Specifically, a negligible amount of the Bank's financial assets measured at fair value are categorised within level 3, except for DRL loans: in light of their specific nature, Banca IFIS adopted a "comparable" approach, i.e. it assumes it would sell them at market prices calculated on the basis of the average value of the transactions carried out over the last twelve months.

A.4.3. Fair value hierarchy

Concerning recurring fair value measurements of financial assets and liabilities, Banca IFIS transfers them between levels of the hierarchy based on the following guidelines.

Debt securities are transferred from level 3 to level 2 when the inputs to the valuation technique used are observable at the measurement date. The transfer from level 3 to level 1 is allowed when it is confirmed that there is an active market for the instrument at the measurement date. Finally, they are transferred from level 2 to level 3 when some inputs relevant in measuring fair value are not directly observable at the measurement date.

Equity securities classified as available for sale financial assets are transferred between levels when:

- observable inputs became available during the period (e.g. prices for identical assets and liabilities defined in comparable transactions between independent and knowledgeable parties). In this case, they are reclassified from level 3 to level 2;
- inputs directly or indirectly observable used in measuring them are no longer available or current (e.g. no recent comparable transactions or no longer applicable multiples). In this case, the entity shall use valuation techniques incorporating unobservable inputs.

Quantitative disclosure

A.4.5 – Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

Assets/liabilities measured at fair value	31.12.2014			31.12.2013		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	-	-	181	-	-	10
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	229.355	-	13.970	2.515.344	-	13.835
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	229.355	-	14.151	2.515.344	-	13.845
1. Financial liabilities held for trading	-	-	-	-	-	358
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	-	-	-	-	358

Key

L1= Level 1: fair value of a financial instrument quoted in an active market;

L2= Level 2: fair value measured using valuation techniques based on observable market inputs other than the financial instrument's price;

L3= Level 3: fair value calculated using valuation techniques based on inputs not observable in the market.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets at fair value	Available for sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	10	-	13.835	-	-	-
2. Increases	181	-	653	-	-	-
2.1 Purchases	181	-	-	-	-	-
2.2 Profit taken to:	-	-	-	-	-	-
2.2.1 Income statement	-	-	-	-	-	-
-of which: capital gains	-	-	-	-	-	-
2.2.2 Equity	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	-	653	-	-	-
3. Decreases	10	-	518	-	-	-
3.1 Sales	-	-	518	-	-	-
3.2 Redemptions	10	-	-	-	-	-
3.3 Losses taken to:	-	-	-	-	-	-
3.3.1 Income statement	-	-	-	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2 Equity	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other reductions	-	-	-	-	-	-
4. Closing balance	181	-	13.970	-	-	-

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities at fair value	Hedging derivatives
1. Opening balance	358	-	-
2. Increases	-	-	-
2.1 Issues	-	-	-
2.2 Losses taken to:	-	-	-
2.2.1 Income statement	-	-	-
-of which: capital losses	-	-	-
2.2.2 Equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	358	-	-
3.1 Redemptions	358	-	-
3.2 Repurchases	-	-	-
3.3 Profit taken to:	-	-	-
3.3.1 Income statement	-	-	-
- of which capital gains	-	-	-
3.3.2 Equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other reductions	-	-	-
4. Closing balance	-	-	-

The item Financial liabilities held for trading outstanding at the beginning of the period represented the value attributed to the financial instruments known as I.R.S. (Interest Rate Swap), which matured during 2014.

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2014				31.12.2013			
	BV	L1	L2	L3	VB	L1	L2	L3
1. Held to maturity financial assets	4.827.363	4.961.031	-	-	5.818.019	5.910.638	-	-
2. Due from banks	269.985	-	-	269.985	409.822	-	-	409.822
3. Loans to customers	2.787.345	-	-	2.893.562	2.270.837	-	-	2.354.103
4. Property, plant and equipment held for investment	720	-	-	926	720	-	-	926
5. Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-
Total	7.885.413	4.961.031	-	2.622.651	8.499.398	5.910.638	-	2.764.851
1. Due to banks	2.258.972	-	-	2.258.972	6.665.856	-	-	6.665.856
2. Due to customers	5.483.142	-	-	5.484.081	4.177.752	-	-	4.183.384
3. Debt securities issued	-	-	-	-	-	-	-	-
4. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	7.742.114	-	-	7.743.053	10.843.608	-	-	10.849.240

Key

BV= Book value

L1= Level 1

L2= Level 2

L3= Level 3

Part B – Statement of financial position

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	31.12.2014	31.12.2013
a) Cash	24	30
b) On demand deposits at Central banks	-	-
Total	24	30

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by type

Type/Amounts	31.12.2014			31.12.2013		
	Level 1	Level 2	Livello 3	Level 1	Level 2	Livello 3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Others	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-
3. O.E.I.C. units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total A	-	-	-	-	-	-
B. Derivative instruments						
1. Financial derivatives	-	-	181	-	-	10
1.1 For trading	-	-	181	-	-	10
1.2 Connected to the fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 For trading	-	-	-	-	-	-
2.2 Connected to the fair value option	-	-	-	-	-	-
2.3 Others	-	-	-	-	-	-
Total B	-	-	181	-	-	10
Total (A+B)	-	-	181	-	-	10

2.2 Financial assets held for trading: breakdown by debtor/issuer

Type/Amounts	31.12.2014	31.12.2013
A. Cash assets		
1. Debt securities	-	-
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity instruments	-	-
a) Banks	-	-
b) Other issuers	-	-
- insurance companies	-	-
- financial institutions	-	-
- non-financial companies	-	-
- others	-	-
3. O.E.I.C. units	-	-
4. Loans	-	-
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total A	-	-
B. Derivative instruments	181	10
a) Banks		-
- fair value	-	10
b) Customers		-
- fair value	181	-
Total B	181	10
Total (A+B)	181	10

Section 4 – Available for sale financial assets – item 40

4.1 Available for sale financial assets: breakdown by type

Type/Amounts	31.12.2014			31.12.2013		
	Level 1	Level 2	Livello 3	Level 1	Level 2	Livello 3
1. Debt securities	229.355	-	513	2.515.344	-	466
1.1 Structured	-	-	513	-	-	466
1.2 Others	229.355	-	-	2.515.344	-	-
2. Equity instruments	-	-	13.457	-	-	13.369
2.1 At fair value	-	-	10.413	-	-	10.325
2.2 At cost	-	-	3.044	-	-	3.044
3. O.E.I.C. units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
Total	229.355	-	13.970	2.515.344	-	13.835

Level 1 “other debt securities” primarily refer to Italian government bonds, either fixed-rate and very short-term bonds or floating-rate and medium-term ones.

These securities have been mainly used for short-/very short-term repurchase agreements with banks, on the MTS platform or on the Eurosystem.

Level 3 equity instruments refer to non-controlling interests considered strategic for the Bank, including a 3 million Euro interest that was measured at cost, as allowed by IAS 39.

4.2 Available for sale financial assets: breakdown by debtor/issuer

Type/Amounts	31.12.2014	31.12.2013
1. Debt securities	229.868	2.515.810
a) Governments and Central banks	229.355	2.490.380
b) Other public entities	-	-
c) Banks	513	25.430
d) Other issuers	-	-
2. Equity instruments	13.457	13.369
a) Banks	9.798	10.316
b) Other issuers	3.659	3.053
- insurance companies	-	-
- financial institutions	3.087	3.049
- non-financial companies	572	4
- others	-	-
3. O.E.I.C. units	-	-
4. Loans	-	-
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	243.325	2.529.179

4.4 Available for sale financial assets: annual changes

	Debt securities	Equity instruments	O.E.I.C. units	Loans	Total 31.12.2014
A. Opening balance	2.515.810	13.369	-	-	2.529.179
B. Increases	25.761	606	-	-	26.367
B1. Purchases	-	-	-	-	-
B2. Fair value gains	46	-	-	-	46
B3. Reversal on impairment losses	-	-	-	-	-
- through profit or loss	-	X	-	-	-
- equity-accounted	-	-	-	-	-
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other changes	25.715	606	-	-	26.321
C. Reductions	2.311.703	518	-	-	2.312.221
C1. Sales	-	518	-	-	518
C2. Redemptions	2.275.000	-	-	-	2.275.000
C3. Fair value losses	12.383	-	-	-	12.383
C4. Impairment losses	-	-	-	-	-
- through profit or loss	-	-	-	-	-
- equity-accounted	-	-	-	-	-
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other changes	24.320	-	-	-	24.320
D. Closing balance	229.868	13.457	-	-	243.325

For debt securities, other increases refer to actual interests accrued during the period; other reductions refer to coupons earned.

For equity securities, other increases refer to the classification of equity instruments deriving from a restructured loan under AFSs. Sales refer to the disposal of shares in a credit institution; the relevant previously recorded valuation reserve was recognised in profit or loss with a 231 thousand Euro profit;

The fair value gains and losses refer to the valuation of securities recognised in equity.

Section 5 – Held to maturity financial assets – Item 50

5.1 Held to maturity financial assets: breakdown by type

Type/Amounts	31.12.2014					31.12.2013			
	Book value	Fair value			Book value	Fair value			
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
1. Debt securities	4.827.363	4.961.033	-	-	5.818.019	5.910.638	-	-	
1.1 Structured	-	-	-	-	-	-	-	-	
1.2 Others	4.827.363	4.961.033	-	-	5.818.019	5.910.638	-	-	
2. Loans	-	-	-	-	-	-	-	-	
Total	4.827.363	4.961.033	-	-	5.818.019	5.910.638	-	-	

5.2 Held to maturity financial assets: breakdown by debtor/issuer

Type/Amounts	31.12.2014	31.12.2013
1. Debt securities	4.827.363	5.818.019
a) Governments and Central banks	4.827.363	5.818.019
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	4.827.363	5.818.019
Total fair value	4.961.033	5.910.638

The portfolio of held to maturity financial assets stood at 4.827,4 million Euro at the end of the period and consists of Italian government bonds with residual maturity at the time of purchase of over one year, in light of the ability and willingness to hold them until maturity.

At the reporting date, securities recognised in this item included unrecognised net capital gains amounting to 133,7 million Euro before taxes. Such net capital gains were not recognised according to the amortised cost method applicable to this portfolio.

5.4 Held to maturity assets: annual changes

	Debt securities	Loans	31.12.2014
A. Opening balance	5.818.019	-	5.818.019
B. Increases	351.820	-	351.820
B1. Purchases	231.947	-	231.947
B2. Write-backs	-	-	-
B3. Transfers from other portfolios	-	-	-
B4. Other changes	119.873	-	119.873
C. Reductions	1.342.476	-	1.342.476
C1. Sales	-	-	-
C2. Redemptions	1.250.000	-	1.250.000
C3. Write-downs	-	-	-
C4. Transfers to other portfolios	-	-	-
C5. Other changes	92.476	-	92.476
D. Closing balance	4.827.363	-	4.827.363

Other increases refer to actual interests, while other reductions refer to coupons earned.

Section 6 – Due from banks – Item 60

6.1 Due from banks: breakdown by type

Type/Amounts	31.12.2014			31.12.2013				
	BV	FV Level 1	FV Livello 2	BV	FV Level 1	FV Livello 1	BV	FV Level 1
A. Due from Central banks	18.516	-	-	18.516	34.110	-	-	34.110
1. Restricted deposits	-	X	X	X	-	X	X	X
2. Legal reserve	18.516	X	X	X	33.973	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Others	-	X	X	X	137	X	X	X
B. Due from banks	251.469	-	-	251.469	375.712	-	-	375.712
1. Loans	240.444	-	-	240.444	351.664	-	-	351.664
1.1 Current accounts and on demand deposits	101.679	X	X	X	259.630	X	X	X
1.2 Restricted deposits	138.765	X	X	X	87.962	X	X	X
1.3 Other loans:	-	X	X	X	4.072	X	X	X
- Repurchase agreements	-	X	X	X	4.072	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Others	-	X	X	X	-	X	X	X
2. Debt securities	11.025	-	-	11.025	24.048	-	-	24.048
2.1 Structured	-	X	X	X	-	X	X	X
2.2 Others	11.025	X	X	X	24.048	X	X	X
Total	269.985	-	-	269.985	409.822	-	-	409.822

Key

FV= fair value

BV= book value

Other debt securities refer to bonds issued by banks which, given their characteristics, are classified under due from banks.

Lending financial resources to other credit institutions is not part of the Bank's core business, and it is largely related to maintaining levels of liquidity exceeding period-end maturities.

The fair value of receivables due from banks is in line with the relevant book value, considering the fact that interbank deposits and debt securities are short- or very short-term indexed-rate instruments.

Section 7 – Loans to customers – Item 70

7.1 Loans to customers: breakdown by type

Type/Amounts	31.12.2014						31.12.2013					
	Book value			Fair value			Book value			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Others					Purchased	Others			
Loans	2.539.299	135.460	112.586	-	-	2.893.562	1.979.784	128.444	162.609	-	-	2.354.103
1. Current accounts	94.260	7.873	19.896	X	X	X	104.052	9.333	27.884	X	X	X
2. Repurchase agreements	-	-	-	X	X	X	52.698	-	-	X	X	X
3. Loans/mortgages	-	2.896	287	X	X	X	1.861	3.171	353	X	X	X
4. Credit cards, personal loans and salary-backed loans	-	42.374	-	X	X	X	-	40.859	-	X	X	X
5. Finance leases	-	218	-	X	X	X	-	373	-	X	X	X
6. Factoring	2.145.507	-	79.640	X	X	X	1.618.407	-	124.255	X	X	X
7. Other loans	299.532	82.099	12.763	X	X	X	202.766	74.708	10.117	X	X	X
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
8 Structured	-	-	-	X	X	X	-	-	-	X	X	X
9 Others	-	-	-	X	X	X	-	-	-	X	X	X
Total	2.539.299	135.460	112.586	-	-	2.893.562	1.979.784	128.444	162.609	-	-	2.354.103

Impaired purchased loans mainly refer to the distressed retail loans of the DRL sector, whose business is by nature closely associated with recovering impaired assets. Therefore, loans in the DRL sector are recognised under bad or substandard loans. In particular, those loans maintain the same classification as that assigned by the invoice seller, provided the latter is subject to the same law as Banca IFIS: otherwise, if the Bank has not ascertained the debtor's state of insolvency, those loans are classified as substandard.

Performing loans classified under "Other transactions" refer to tax receivables (119,4 million Euro) and the margin lending related to repurchase agreements on government bonds on the MTS platform (102,7 million Euro).

7.2 Loans to customers: breakdown by debtor/issuer

Type/Amounts	31.12.2014			31.12.2013		
	Performing	Impaired		Performing	Impaired	
		Purchased	Others		Purchased	Others
1. Debt securities:	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial institutions	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- others	-	-	-	-	-	-
2. Loans to:	2.539.299	135.460	112.586	1.979.784	128.444	162.609
a) Governments	82.851	-	684	57.045	-	574
b) Other public entities	652.731	-	11.253	491.919	-	18.382
c) Other issuers	1.803.717	135.460	100.649	1.430.820	128.444	143.653
- non-financial companies	1.679.073	12.052	82.174	1.273.574	18.180	128.950
- financial institutions	120.453	19	9.058	151.440	35	7.027
- insurance companies	1	-	-	-	-	-
- others	4.190	123.389	9.417	5.806	110.229	7.676
Total	2.539.299	135.460	112.586	1.979.784	128.444	162.609

Sezione 10 – Equity investments – Item 100

10.1 Equity investments in subsidiaries, joint ventures or companies under significant influence: information on shareholders' equity

Name	Main office	Head office	Equity %	Voting rights %
A. Subsidiaries				
1. IFIS Finance Sp. Z o. o.	Warsaw	Warsaw	100%	100%
B. Joint ventures	-	-	-	-
C. Companies under significant influence	-	-	-	-

10.5 Equity investments: annual changes

	2014	2013
A. Opening balance	26.356	26.673
B. Increases	-	-
B.1 Purchases	-	-
B.2 Write-backs	-	-
B.3 Revaluation	-	-
B.4 Other changes	-	-
C. Decreases	-	317
C.1 Sales	-	-
C.2 Write-downs	-	-
C.3 Other changes	-	317
D. Closing balance	26.356	26.356
E. Total revaluation	-	-
F. Total write-downs	-	-

Section 11 – Property, plant and equipment and investment property – Item 110

11.1 Property, plant and equipment for functional use: breakdown of assets measured at cost

Assets/amounts	31.12.2014	31.12.2013
1. Owned	45.860	35.795
a) Land	6.738	6.738
b) Buildings	36.523	26.715
c) Furnishings	626	776
d) Electronic systems	1.240	830
e) Others	733	736
2. Acquired under finance leases	4.006	4.143
a) Land	-	-
b) Buildings	4.006	4.143
c) Furnishings	-	-
d) Electronic systems	-	-
e) Others	-	-
Total	49.866	39.938

The buildings and land recognised under property, plant and equipment for functional use at the end of the year mainly include the important historical building Villa Marocco, located in Mestre (Venice) and housing Banca IFIS's registered office, and the property in Mestre (Venice), where some of the Bank's services were relocated.

The book value of the above property, totalling 32,2 million Euro overall, has been confirmed by experts specialising in the appraisal of luxury property.

The current head office of the NPL business area in Florence, which was acquired under a finance lease, was recognised at 4,0 million Euro.

11.2 Investment property: breakdown of assets measured at cost

Assets/amounts	31.12.2014				31.12.2013			
	Book Value	Fair value			Book Value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned	720	-	-	926	720	-	-	926
a) Land	-	-	-	-	-	-	-	-
b) Buildings	720	-	-	926	720	-	-	926
2. Acquired under finance leases	-	-	-	-	-	-	-	-
a) Land	-	-	-	-	-	-	-	-
b) Buildings	-	-	-	-	-	-	-	-
Total	720	-	-	926	720	-	-	926

11.5 Property, plant and equipment for functional use: annual changes

	Land	Buildings	Furnish-ings	Electronic systems	Others	Total 31.12.2014
A. Gross opening balances	6.738	32.574	4.355	4.344	1.780	49.791
A.1 Total impairment losses	-	(1.716)	(3.579)	(3.514)	(1.044)	(9.853)
A.2 Net opening balance	6.738	30.858	776	830	736	39.938
B. Increases	-	10.431	152	1.013	269	11.865
B.1 Purchases	-	10.431	152	1.013	269	11.865
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains taken to:	-	-	-	-	-	-
a) Equity	-	-	-	-	-	-
b) Income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	-	-	-	-	-
C. Reductions	-	(760)	(302)	(603)	(272)	(1.937)
C.1 Sales	-	(510)	-	-	(90)	(600)
C.2 Depreciation	-	(250)	(302)	(603)	(182)	(1.337)
C.3 Impairment losses taken to:	-	-	-	-	-	-
a) Equity	-	-	-	-	-	-
b) Income statement	-	-	-	-	-	-
C.4 Fair value losses taken to:	-	-	-	-	-	-
a) Equity	-	-	-	-	-	-
b) Income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to	-	-	-	-	-	-
a) Investment property	-	-	-	-	-	-
b) Assets under disposal	-	-	-	-	-	-
C.7 Other reductions	-	-	-	-	-	-
D. Net closing balance	6.738	40.529	626	1.240	733	49.866
D.1 Total net impairment losses	-	1.853	3.881	4.082	1.076	10.892
D.2 Gross closing balances	6.738	42.382	4.507	5.322	1.809	60.758
E. Measurement at cost	-	-	-	-	-	-

Property, plant and equipment for functional use are measured at cost and are depreciated on a straight-line basis over their useful life, with the exclusion of land with an indefinite useful life and the “Villa Marocco” property, whose residual value at the end of its useful life is expected to be higher than its book value.

As for buildings, purchases refer to a property in Florence that will house the new headquarters of the NPL business area.

Property, plant and equipment not yet brought into use at the reporting date are not depreciated.

11.6 Investment property: annual changes

	31.12.2014	
	Land	Buildings
A. Gross opening balance	-	720
B. Increases	-	-
B.1 Purchases	-	-
B.2 Capitalised improvement expenses	-	-
B.3 Fair value gains:	-	-
B.4 Reversals of impairment losses	-	-
B.5 Exchange gains	-	-
B.6 Transfers from property for functional use	-	-
B.7 Other increases	-	-
C. Reductions	-	-
C.1 Sales	-	-
C.2 Depreciation	-	-
C.3 Fair value losses	-	-
C.4 Impairment losses	-	-
C.5 Exchange losses	-	-
C.6 Transfers to other asset portfolios:	-	-
a) Assets for functional use	-	-
b) Non-current assets under disposal	-	-
C.7 Other reductions	-	-
D. Closing balance	-	720
E. Measurement at fair value	-	-

Buildings held for investment purposes are measured at cost and refer to leased property. This property is not amortised as it is destined for sale.

Section 12 – Intangible assets – Item 120

12.1 Intangible assets: breakdown by asset type

Assets/amounts	31.12.2014		31.12.2013	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill:	X	-	X	-
A.2 Other intangible assets	5.737	-	5.524	-
A.2.1 Assets measured at cost:	5.737	-	5.524	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	5.737	-	5.524	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	5.737	-	5.524	-

Other intangible assets at 31 December 2014 refer exclusively to software purchase and development, amortised on a straight-line basis over the estimated useful life, which is 5 years from deployment.

12.2 Intangible assets: annual changes

	Goodwill	Other internally generated intangible assets		Other intangible assets		Total 31.12.2014
		Finite	Indef.	Finite	Indef.	
A. Opening balance	-	-	-	5.524	-	5.524
A.1 Total impairment losses	-	-	-	-	-	-
A.2 Net opening balance	-	-	-	5.524	-	5.524
B. Increases	-	-	-	2.056	-	2.056
B.1 Purchases	-	-	-	2.056	-	2.056
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Reversals of impairment losses	X	-	-	-	-	-
B.4 Fair value gains:	-	-	-	-	-	-
- Equity	X	-	-	-	-	-
- Income statement	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Reductions	-	-	-	1.843	-	1.843
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses and amortisation:	-	-	-	1.843	-	1.843
- Amortisation	X	-	-	1.843	-	1.843
- Impairment losses	-	-	-	-	-	-
+ Equity	X	-	-	-	-	-
+ Income statement	-	-	-	-	-	-
C.3 Fair value losses	-	-	-	-	-	-
- Equity	X	-	-	-	-	-
- Income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets under disposal	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other reductions	-	-	-	-	-	-
D. Net closing balance	-	-	-	5.737	-	5.737
D.1 Total net amortisation, impairment losses and reversals of impairment losses	-	-	-	-	-	-
E. Gross closing balance	-	-	-	5.737	-	5.737
F. Measurement at cost	-	-	-	-	-	-

Key

Finite: definite useful life
Indef: indefinite useful life

Purchases refer exclusively to investments for the enhancement of IT systems.

Section 13 – Tax assets and liabilities – Item 130 of assets and 80 of liabilities

13.1 Deferred tax assets: breakdown

The main types of deferred tax assets are set out below.

Deferred tax assets	31.12.2014	31.12.2013
Loans to customers	36.482	32.384
Others	1.816	1.571
Total	38.298	33.955

Deferred tax assets at 31 December 2014 refer for 36,5 million Euro to impairment losses on receivables that can be deducted in the next years.

13.2 Deferred tax liabilities: breakdown

The main types of deferred tax liabilities are shown below.

Deferred tax liabilities	31.12.2014	31.12.2013
Loans to customers	11.106	8.260
Available for sale securities	2.837	7.707
Property, plant and equipment and investment property	325	325
Total	14.268	16.292

Deferred tax liabilities, amounting to 14,3 million Euro at 31 December 2014, refer for 6,1 million Euro to the fair value measurement of the tax receivables of the former subsidiary Fast Finance S.p.A., which was carried out at the time of the business combination, and for 2,8 million Euro to taxes on the valuation reserve for AFS securities held in the portfolio.

13.3 Changes in deferred tax assets (recognised through profit or loss)

	31.12.2014	31.12.2013
1. Opening balance	33.928	24.561
2. Increases	8.737	12.546
2.1 Deferred tax assets recognised in the current year	8.669	12.546
a) relative to previous years	-	663
b) due to the change in accounting standards	-	-
c) reversals of impairment losses	-	-
d) others	8.669	11.883
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	68	-
3. Decreases	4.367	3.179
3.1 Deferred tax assets reversed during the year	4.367	3.154
a) reversals	4.367	3.154
b) impairment losses due to unrecoverability	-	-
c) due to change in accounting standard	-	-
d) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	25
a) transformation into tax credits as per L. 214/2011	-	-
b) others	-	25
4. Closing balance	38.298	33.928

The increase in deferred tax assets recognised through profit or loss compared to 31 December 2013 mainly refers to impairment losses on receivables that can be deducted in the next years.

13.4 Changes in deferred tax liabilities (recognised through profit or loss)

	31.12.2014	31.12.2013
1. Opening balance	8.585	10.801
2. Increases	3.455	713
2.1 Deferred tax liabilities recognised in the year	16	-
a) relative to previous years	-	-
b) due to the change in accounting standards	-	-
c) others	16	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	3.439	713
3. Decreases	608	2.929
3.1 Deferred tax liabilities reversed during the year	5	2.914
a) reversals	5	2.914
b) due to the change in accounting standards	-	-
c) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	603	15
4. Closing balance	11.432	8.585

13.5 Changes in deferred tax assets (recognised through equity)

	31.12.2014	31.12.2013
1. Opening balance	27	54
2. Increases	-	-
2.1 Deferred tax assets recognised in the year	-	-
a) relative to previous years	-	-
b) due to the change in accounting standards	-	-
c) others	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	27	27
3.1 Deferred tax assets reversed during the year	27	27
a) reversals	27	27
b) impairment losses due to unrecoverability	-	-
c) due to change in accounting standards	-	-
d) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	-	27

13.6 Changes in deferred tax liabilities (recognised through equity)

	31.12.2014	31.12.2013
1. Opening balance	7.707	2.470
2. Increases	-	5.237
2.1 Deferred tax liabilities recognised in the year	-	5.237
a) relative to previous years	-	-
b) due to the change in accounting standards	-	-
c) others	-	5.237
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	4.871	-
3.1 Deferred tax liabilities reversed during the year	4.871	-
a) reversals	4.871	-
b) due to the change in accounting standards	-	-
c) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	2.836	7.707

The decline in deferred tax liabilities recognised through equity compared to 31 December 2013 mainly refers to the latent gain related to the fair value measurement of the portfolio of available for sale financial assets following its reduction.

Section 15 – Other assets – Item 150

15.1 Other assets: breakdown

	31.12.2014	31.12.2013
Tax receivables	13.952	2.685
Prepayments and accrued income	8.961	13.984
Guarantee deposits	7.584	624
Receivables from securitisation transactions	553	154.288
Other items	20.730	21.162
Total	51.780	192.743

Tax receivables refer for 5,7 million Euro to payments on account for the virtual stamp duty and for 7,9 million Euro to payments on account for withholding taxes on interest paid to customers, specifically on the rendimax savings account.

Prepayments and accrued income refer for 3,1 million Euro to interest on arrears due from the Public Administration and for 1,4 million Euro to prepaid interests in favour of customers with a fixed-term rendimax account.

Security deposits at 31 December 2014 refer for 7,1 million Euro to an escrow account held with the Italian Revenue Agency concerning a pending appeal in an outstanding tax dispute (as described in section 12 under liabilities, Provisions for risks and charges). The Bank voluntarily set up said account to allow the Fast Finance Business Area to collect tax receivables as usual; the Bank can simply request for it to be returned.

Receivables for securitisations represent the deferred consideration for the sale of receivables not yet paid to the special purpose vehicle. The notable decrease from the previous year was due to the end of the securitisation with IFIS Collection Services, a special purpose vehicle, in February 2014. The receivable corresponded to the funds available to the vehicle arising from the collections of receivables that have been resold and not yet paid to the originator, on the basis of the technical characteristics of the transaction.

Other items include a 10,6 million Euro receivable due from the parent company La Scogliera S.p.A. deriving from the tax consolidation regime, as payments on account were higher than the tax bill. They also include 4,8 million Euro in receivables due from customers for expenses to be recovered.

LIABILITIES

Section 1 – Due to banks – Item 10

1.1 Due to banks: breakdown by type

Type of operations/Amounts	31.12.2014	31.12.2013
1. Due to Central banks	2.226.872	6.656.466
2. Due to banks	32.100	9.390
2.1 Current accounts and on demand deposits	100	511
2.2 Term deposits	32.000	8.879
2.3 Loans	-	-
2.3.1 Repurchase agreements	-	-
2.3.2 Others	-	-
2.4 Debt from buyback commitments on treasury equity instruments	-	-
2.5 Other payables	-	-
Total	2.258.972	6.665.856
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	2.258.972	6.665.856
Total fair value	2.258.972	6.665.856

Payables due to central banks refer to refinancing operations with the Eurosystem carried out using the debt securities held.

The decline in Payables due to banks compared to the end of the previous year is because the Bank entered into less repurchase agreements through Eurosystem auctions compared with the use of the MTS platform and the Cassa di Compensazione e Garanzia as counterparty (classified as payables due to customers). Turning to the ECB or the MTS platform depends exclusively on which one is more convenient. The tensions observed in the liquidity market towards the end of 2013, which caused interest rates on the MTS platform to rise slightly, had made it more convenient to turn to the Eurosystem. As the tensions gradually eased, the Bank returned to operate almost exclusively on the MTS platform.

The fair value of payables due to banks is in line with the relevant carrying amount, considering the fact that interbank deposits are short- or very short-term.

Section 2 – Due to customers – Item 20

2.1 Due to customers: breakdown by type

Type of operations/Amounts	31.12.2014	31.12.2013
1. Current accounts and on demand deposits	655.596	469.256
2. Term deposits	2.733.194	3.436.245
3. Loans	2.086.890	267.771
3.1 Repurchase agreements	2.082.854	263.670
3.2 Others	4.036	4.101
4. Debt from buyback commitments on treasury equity instruments	-	-
5. Other payables	7.462	4.480
Total	5.483.142	4.177.752
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	5.484.081	4.183.384
Total fair value	5.484.081	4.183.384

Current accounts and on demand deposits at 31 December 2014 included funding from the on demand rendimax savings account and the contomax online current account, amounting to 567,1 million and 14,9 million Euro, respectively; term deposits included 2.732,2 million Euro in funding from the fixed-term rendimax and contomax accounts.

Repurchase agreements were entered into with Cassa di Compensazione e Garanzia as counterparty and government bonds as the underlying assets.

It should be noted that Banca IFIS does not carry out "term structured repo" transactions.

Other loans refer mainly to payables for finance leases; they are recognised by using the financial method set out in IAS 17 to measure the leased property housing the NPL area (DRL sector), as detailed in paragraph 2.5 below.

Other payables refer to payables to sellers of tax or non-performing receivables portfolios with deferred price settlement.

2.5 Payables for finance leases

	31.12.2014	31.12.2013
Payables for finance leases	4.036	4.101

The payables described above relate to the real estate lease the former company Toscana Finanza SpA entered into in 2009 for the property located in Florence, which housed the company's registered office and is now the headquarters of the NPL area. The term of the lease entered into with Centro Leasing S.p.A. is 18 years (from 01.03.2009 to 01.03.2027) and provides for the payment of 216 monthly instalments of 28.490 Euro, including the principal, interest and an option to buy the asset at the end of the lease for 1.876.800 Euro.

On 13th May 2014 Banca IFIS sold this finance lease agreement to a newco, a special purpose vehicle set up exclusively to manage said property and owned by a real estate company not related to the Banca IFIS. Since the sale of the lease agreement does not meet the requirements of IAS 39 for

derecognising the financial liability, Banca IFIS continues to recognise the building under property, plant and equipment, and the relevant financial liability under payables due to customers.

Section 4 – Financial liabilities held for trading - item 40

4.1 Financial liabilities held for trading: breakdown by type

Type of operation/ Amounts	31.12.2014					31.12.2013				
	NV	FV			FV *	NV	FV			FV *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Others	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments										
1. Financial derivatives	-	-	-	-	-	-	-	-	358	-
1.1 Held for trading	X	-	-	-	X	X	-	-	358	X
1.2 Related to fv option	X	-	-	-	X	X	-	-	-	X
1.3 Others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-			-	-	-	
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Related to fv option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total B		-	-	-	-		-	-	358	-
Total (A+B)	X	-	-	-	X	X	-	-	358	X

Key

FV= fair value

FV* = Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness compared to the date of issuance.

NV = Nominal or notional value

Section 8 – Tax liabilities – Item 80

See section 13 under assets.

Section 10 – Other liabilities – Item 100

10.1 Other liabilities: breakdown

	31.12.2014	31.12.2013
Due to suppliers	10.189	7.867
Sums available to customers	8.931	5.979
Due to personnel	4.562	4.282
Due to the Tax Office and Social Security agencies	4.024	10.259
Accrued expenses and deferred income	1.623	2.470
Other payables	80.475	60.699
Total	109.804	91.556

Payables due to personnel include the bonuses for the Top Management, including those for the previous years, subject to deferred payment, as well as payables for unused annual leave.

Other payables include mainly 74,9 million Euro in amounts due to customers that have not yet been credited, and 2,9 million Euro in illiquid items to be credited to customers for banker's drafts that have not reached their value date yet.

Section 11 – Post-employment benefits – item 110

11.1 Post-employment benefits: annual changes

	31.12.2014	31.12.2013
A. Opening balance	1.482	1.565
B. Increases	206	30
B.1 Allocations for the year	20	30
B.2 Other increases	186	-
C. Reductions	70	113
C.1 Payments made	68	34
C.2 Other reductions	2	79
D. Closing balance	1.618	1.482
Total	1.618	1.482

Other increases include the impact of the discounting of benefits earned up to 31 December 2006 and still held in the company, which, based on the changes introduced by the new IAS 19, are recognised through equity.

Payments made, instead, represent the benefits paid to employees during the year.

Pursuant to the requirements of the ESMA in the document "European common enforcement priorities for 2012 financial statements" of 12 November 2012, the discount rate used was the interest rate based on the market yield of a benchmark of AA-rated European corporate bonds with maturity over 10 years. The same interest rate was used for the purposes of discounting the obligations at 31 December 2013.

11.2 Other information

Under IASs/IFRSs, a company's liabilities regarding benefits that will be paid to employees at the conclusion of the employer/employee relationship (post-employment benefits) should be recognised based on actuarial calculations of the amount that will be paid at maturity.

Specifically, these allocations must take into account the amount already earned over the period at the reporting date, projecting it into the future in order to calculate the amount that will be paid at the conclusion of the employer/employee relationship. This amount must then be discounted to take into account the time that will pass until payment.

Following the coming into force of the 2007 Budget Law, which brought the reform regarding supplementary pension plans - as per Legislative Decree no. 252 of 5 December 2005 - forward to 1 January 2007, the employee was given a choice as to whether to allocate the post-employment benefits earned as from 1 January 2007 to supplementary pension funds or to maintain them in the company, which would then transfer it to a dedicated fund managed by INPS (the Italian National Social Security Institute).

This reform has led to changes in the accounting of such benefits as for both the benefits earned up to 31 December 2006 and those earned from 1 January 2007.

In particular:

- benefits earned as from 1 January 2007 constitute a defined-contribution plan, regardless of whether the employee has chosen to allocate them to a supplementary pension fund or to INPS's Treasury Fund. Those benefits shall be calculated according to contributions due without applying actuarial methods;
- benefits earned up to 31 December 2006 continue to be considered as a defined-benefit plan, and as such are calculated on an actuarial basis which, however, unlike the calculation method applied until 31 December 2006, no longer implies that the benefits be proportionally attributed to the period of service rendered: the employee's service is considered entirely accrued due to the change in the accounting nature of benefits earned as from 1 January 2007.

Section 12 – Provision for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2014	31.12.2013
1 Pensions and other post retirement benefit obligations	-	-
2. Other provisions for risks and charges	1.988	533
2.1 Legal disputes	1.527	375
2.2 Staff expenses	-	-
2.3 Other	461	158
Total	1.988	533

12.2 Provisions for risks and charges: annual changes

Items/Components	Pensions and post retirement benefit obligations	Other provisions	Total 31.12.2014
A. Opening balance	-	533	533
B. Increases	-	1.613	1.613
B.1 Provisions for the year	-	1.613	1.613
B.2 Changes due to the passage of time	-	-	-
B.3 Differences due to discount-rate changes	-	-	-
B.4 Other increases	-	-	-
C. Decreases	-	158	158
C.1 Use during the year	-	158	158
C.2 Differences due to discount-rate changes	-	-	-
C.3 Other decreases	-	-	-
D. Closing balance	-	1.988	1.988

12.4 Provisions for risks and charges – Other provisions

Legal disputes

The provision outstanding at 31 December 2014, amounting to 1,5 million Euro, refers to:

- a labour dispute, which caused the Bank to set aside 45 thousand Euro at 31 December 2013 for a lawsuit brought by employees against Banca IFIS;
- four disputes concerning the Trade Receivables segment, for which the Bank set aside 1,4 million Euro of which 1,1 million Euro during 2014. The plaintiffs seek 2,7 million Euro in damages;
- five disputes concerning the DRL segment totalling 33 thousand Euro, which were fully set aside during the year.

Overall, the Bank recognises contingent liabilities totalling 12,4 million Euro in claims, represented by 17 disputes; supported by the legal opinion of its lawyers, the Bank made no provisions for these positions, as the risk of defeat is low.

Other (provision for the share of the Interbank Deposit Protection Fund's intervention)

The provision outstanding at 31 December 2014 concerned the amount set aside in light of the notice dated 16 September 2014 from Italy's Interbank Deposit Protection Fund (FITD, *Fondo Interbancario di Tutela dei Depositi*), informing that it had approved another rescue loan (in addition to the ones notified on 9 January 2014 and 17 July 2014) to Banca Tercas, based in Ascoli Piceno. The relevant expense for Banca IFIS is likely to amount to 461 thousand Euro. Therefore, Banca IFIS allocated said amount to the provisions for risks and charges.

In 2013, the FITD had approved a rescue loan to Banca Tercas, based in Ascoli Piceno. The relevant potential obligation for Banca IFIS amounted to up to 2,0 million Euro, of which 667 thousand Euro were certain. The Bank had recognised the part already determined under Other liabilities and allocated 158 thousand Euro, i.e. the estimate of the amount not yet determined, to the provision for risks.

Based on the due diligence of Banca Tercas' assets, made available in July 2014, the FITD announced the final amount to be paid by Banca IFIS, equal to 1,9 million Euro. Banca IFIS paid the

amount requested, recognising the amount in excess of the previously recognised provision and liabilities under other operating expenses.

Other (tax proceedings)

On 25 July 2008, the Italian Revenue Agency – Regional Department of Veneto started a check relating to the tax year 2005. This inspection ended on 5 December 2008: the relevant report of verification included two challenges concerning the correct calculation of limits for the deductibility of receivables (ceiling) as per art. 106 paragraph 3 of Presidential Decree 917/86, for a total of 1,4 million Euro. Moreover, considering that the ceiling mechanism sets limits for deducting impairment losses on receivables and that the surplus (arising from the difference between the ceiling and net impairments) is deductible on a straight-line basis over the next eighteen years, the application of the criterion indicated in the aforementioned report of verification would imply a tax benefit for the Bank in the years following 2005.

The aforementioned report of verification included also a notification regarding an alleged case of tax avoidance as set out in Article 37-bis of Presidential Decree 600/73 regarding the write-down in 2003 of the equity investment in Immobiliare Marocco S.p.A. (which merged into the Issuer with deed dated 19 October 2009). This investment was deducted in fifths in the following years based on the losses recognised by this company pursuant to arts. 61 and 66 of Presidential Decree 917/86 (in force up to 31 December 2003). On 2 February 2009, the Agency sent a verification notice to the Bank, requesting clarification on the write-down. The Bank promptly replied to it.

Again in reference to the notification of the alleged tax avoidance, on 3 December 2009 the Bank received a verification notice relating to the year 2004, in which the Revenue Agency revised the income for the year 2004 subject to the corporate tax (IRES), applying the anti-avoidance provision no. 26 as set out in art. 37-bis of Presidential Decree 600/73 for a total of 837 thousand Euro, with a higher tax liability relating to the tax year concerned of approximately 276 thousand Euro plus interest and penalties.

On 21 June 2010, the Bank received a verification notice referring to the following year, in which the Revenue Agency revised the income for the year 2005 subject to the corporate tax (IRES), applying the anti-avoidance provision as set out in art. 37-bis of Presidential Decree 600/73, for a total amount of 837 thousand Euro, with a higher tax liability relating to the tax year in question of approximately 276 thousand Euro plus interest and penalties. The same verification notice relating to the year 2005 treated as taxable the amount relating to the redetermination of the ceiling for deducting losses on receivables concerning the above-mentioned findings, for a total of 1,4 million Euro, with higher taxes of around 478 thousand plus interests and penalties due in relation to the year 2005.

Subsequently, before the end of 2010, the Bank received a notice cancelling under the appeal process the verification notices issued for 2005.

On 22 February 2011, the appeal regarding the verification notice for the tax year 2004 was discussed before the first-level Provincial Tax Commission of Venice. On 29 June 2011, the Provincial Tax Commission of Venice rejected the appeal. On 7 November 2011, the Bank was served a notice of payment for the amounts enrolled on the tax register following the ruling of the court of first instance, pursuant to the laws on tax verification and collection, totalling 423 thousand Euro. Banca IFIS paid those amounts on 29 December 2011. Subsequently, the company filed an appeal with the Regional Tax Commission against this sentence. On 25 September 2012, the appeal was heard before the second-level Regional Tax Commission of Venice. On 18 October 2012, the Commission

issued its ruling: it accepted the appeal by Banca IFIS S.p.A. and La Scogliera S.p.A. and, overturning the first-instance ruling, it cancelled the verification notices for 2004 that had been challenged, ordering the Revenue Agency to reimburse the costs for the two-level proceedings to the appellant.

As a consequence of the second-instance ruling, the Revenue Agency returned the sums paid by the Bank following the negative outcome of the first appeal. These had been previously recognised as a 423 thousand Euro receivable in the Bank's accounts.

On 22 August 2012, the Bank received a verification notice for 2005 that is closely related to the notices received during 2010 and subsequently cancelled under appeal process before the end of the same year. The verification notice, besides containing the same points and therefore the sums requested (in terms of taxes and penalties) included in the previous notice that was then cancelled, considers as tax avoidance some security trading and lending transactions and challenges the deduction of sums such as non-deductible capital losses and manufactured dividends for a total of 6,3 million Euro. The higher tax overall due in relation to this latter finding totals 2,1 million Euro, plus interest and penalties.

Therefore, the overall amount subjected to taxation in the verification notice totals 8,6 million Euro, with higher taxes for the year under review of 2,8 million Euro. The verification notice, which has now passed the ordinary deadline for its issue, i.e. 31 December 2010, was sent on the basis of the Tax Office's assumption that the doubling of the statute of limitations provided for by the law can be applied to this case, i.e. it represents a criminal offence.

In relation to this verification notice, the Bank applied for composition proceedings with the aim of finding out whether the Office was willing to reconsider its stance, but the application was rejected; the Revenue Agency preferred to continue with the dispute by appealing to the Court of Cassation regarding the verification notice for 2004, effectively forcing the Bank to file a counter-appeal with the Court on 29 January 2013, within the legal time limits; the analysis of the Revenue Agency's appeal exposes the weakness of their case, already apparent in the previous hearings. Therefore, the tax consultants assisting the Bank in the proceedings believe the chance of defeat is unlikely, and the Bank did not make any provisions for the tax proceedings concerned.

On 11 February 2013, the Bank filed the appeal against the verification notice for 2005.

Before examining in detail the individual findings and the assessment errors made by the Revenue Agency, the appeal focuses on the reasons why the judges should completely annul the notice. Serious material errors were made, to the point that they completely invalidate the act: the criminal charge, which seeks to have the statute of limitations doubled and that the Public Prosecutor completely rejected by ordering a non-suit; a series of verification notices served and then cancelled under the appeal process; and several legal errors contained in the last act issued.

Besides this, the defence case, which had already been set out in the application for composition proceedings, has been expanded and explained in detail. The fragility of the challenge to the write-down on the equity investment in Immobiliare Marocco was highlighted once again, and made even more apparent by the victory in the court of second instance regarding 2004 and which, at this point, would cover all the subsequent years.

Then, the appeal sets out the reasons why the challenges to the calculations of the ceiling for the deduction of receivables are wrong, both as far as the method adopted and interpretation provided by the tax officials in the report of verification are concerned, and even more so in light of the subsequent amendments and supplements to the laws regulating the principles for determining the income of long-time and first-time adopters of IAS.

As for the claims related to securities trading, the appeal highlighted that the transactions concerned produced positive results for the Bank, net of taxes, and they were not completely risk-free or entered into guaranteeing right from the start the conditions to neutralise any profit or loss from the transaction. The cross call and put options only had the effect of limiting the risk of losses and the potential excess returns, and in any case did not rule them out completely, as was hastily claimed in the verification notice. Above all, the challenged transactions simply applied the regime in force at the time, without eluding the law or its underlying principles; in fact, the system established with the 2004 reform envisages a double regime for stock transfers. Therefore, there is nothing strange in short-term equity trading on equity investments that do not qualify for participation exemption, with dividends received partially exempt from tax and deductible capital losses.

In any case, the Bank asked to recalculate the challenged amounts, which did not take into account the positive components that, as taxable income, are included in the determination of income. In April 2013, the Bank was notified of the Revenue Agency's response to the appeal. At 31 December 2014, the date for the first instance hearing had yet to be settled.

In light of the above, the tax consultants hired to resolve the dispute have stated that they reasonably believe it possible to validly defend the Bank's case, and that therefore the chance of defeat is unlikely.

However, it is necessary to consider the Circular dated 8 August 2012 in which the Bank of Italy clarified that intermediaries, should they have to pay the tax authorities a certain amount following the enrolment in the tax register of higher taxes and the relevant interest and penalties, must assess whether or not it represents a contingent asset as defined by IAS 37. On the basis of this accounting standard, the asset should not be recognised whenever the profit on the same is not all but certain, and the amounts paid to the tax authorities must therefore be recognised at cost and not as tax receivables.

At 31 December 2012, 159 thousand Euro were allocated to the provision for tax proceedings for higher taxes and 35 thousand Euro for interest, resulting in a total of 194 thousand Euro against the likely provisional enrolment on the tax register⁽¹⁾ following the appeal, pursuant to Bank of Italy's Circular dated 8 August 2012. The Bank will not make any provision for the risk of defeat in the ongoing tax proceedings. At 30 September 2013, the Bank recognised an adjustment to said provision based on the amounts actually enrolled on the tax register and notified to the Bank on 9 October 2013. Compared to the provision previously made, there was a difference of 13 thousand Euro, mainly due to the reimbursement of collection costs. In October 2013, the Bank promptly paid the amount requested in light of the obligations pursuant to the law, although it expects a positive outcome.

(1) The provisional amounts enrolled on the tax register are those made on the basis of a verification notice that is not final, since it has been challenged. An appeal filed against a verification notice does not suspend its execution; pending the rulings of the courts of first and second instance, part of the verified income tax, plus interest and part of the penalties, can be collected. In particular, as regards the income tax and value added tax, after the verification notice has been served, the Office can enrol on the tax register 1/3 of the verified taxes and interests. In relation to the charges relating to the anti-avoidance provision as set out in art. 37 bis of Presidential Decree 600/73, the amounts due before the first instance ruling cannot be enrolled on the tax register (para.6, art. 37 bis, Presidential Decree 600/73). Subsequent to the rulings of the tax commissions, further fractions of the amounts due become payable, based on the grounds of the decision and the level of the judicial body.

Section 14 – Equity – Items 130, 150, 160 170, 180, 190 and 200

14.1 Share capital and treasury shares: breakdown

Items		31.12.2014	31.12.2013
180	Share capital (in thousands of Euro)	53.811	53.811
	Number of ordinary shares	53.811.095	53.811.095
	Nominal amount of ordinary shares	1 euro	1 euro
190	Treasury shares (in thousands of Euro)	6.715	7.903
	Number of treasury shares	887.165	1.083.583

14.2 Share capital - number of shares: annual changes

Items/Components	Ordinaries	Others
A. Shares held at the beginning of the year	53.811.095	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	1.083.583	-
A.2 Outstanding shares: opening balance	52.727.512	-
B. Increases	196.418	-
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- Other	-	-
- free:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- Other	-	-
B.2 Sale of treasury shares	196.418	-
B.3 Other increases	-	-
C. Reductions	-	-
C.1 Annulments	-	-
C.2 Buybacks of treasury shares	-	-
C.3 Company sell-offs	-	-
C.4 Other reductions	-	-
D. Outstanding shares: closing balance	52.923.930	-
D.1 Treasury shares (+)	887.165	-
D.2 Shares held at the end of the year	53.811.095	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-

14.3 Share capital: other information

The share capital is composed of 53.811.095 ordinary shares with a nominal value of 1 Euro each, bearing no rights, liens and obligations, including those relating to dividend distribution and capital redemption.

14.4 Income-related reserves: other information

Items/Components	31.12.2014	31.12.2013
Legal reserve	10.762	10.762
Extraordinary reserve	178.175	124.938
Other reserves	(2.075)	(2.075)
Total income-related reserves	186.862	133.625
Buyback reserve	6.715	7.903
Future buyback reserve	33.285	12.097
Other reserves	1.986	1.839
Total item 160 reserves	228.848	155.464

Pursuant to art. 1, paragraph 145 of the 2014 Budget law (Law no. 147 of 27 December 2013), the Bank realigned the difference between the tax base and carrying amount of property, plant and equipment recognised at 31 December 2012 and still held at 31 December 2013.

The amount corresponding to the higher values following the realignment, net of the substitute tax, generated a 7,4 million Euro untaxed reserve.

Other information

1. Commitments and guarantees granted

Transactions	31.12.2014	31.12.2013
1) Financial guarantees	77.216	51.489
a) Banks	10.594	12.839
b) Customers	66.622	38.650
2) Commercial guarantees	-	-
a) Banks	-	-
b) Customers	-	-
3) Irrevocable commitment to grant funds	32.644	19.650
a) Banks	3.295	-
i) Certain use	3.295	-
ii) Uncertain use	-	-
b) Customers	29.349	19.650
i) Certain use	-	-
ii) Uncertain use	29.349	19.650
4) Commitments underlying credit derivatives: Sale of protection	-	-
5) Assets used as collateral by third parties	-	-
6) Other commitments	97.463	95.462
Total	207.323	166.601

Financial guarantees granted to banks refer to the commitment towards Italy's Interbank Deposit Protection Fund (FITD), net of the amount set aside during the year for measures already approved. See Part B, Section 12 Provisions for risks and charges in these Notes.

Financial guarantees granted to customers essentially refer to guarantees granted in favour of invoice sellers for collected tax receivables.

Other commitments refer to unused bank overdraft facilities on customers' current accounts.

Part C – Income statement

Section 1 – Interest - Items 10 and 20

1.1 Interest receivable and similar income: breakdown

	Composition	Debt securities	Loans	Other assets	31.12.2014	31.12.2013
1	Financial assets held for trading	-	-	-	-	-
2	Available for sale financial assets	28.090	-	-	28.090	49.756
3	Financial assets held to maturity	119.873	-	-	119.873	149.340
4	Due from banks	50	1.488	2.433	3.971	6.677
5	Loans to customers	-	92.578	66.223	158.801	138.885
6	Financial assets at fair value	-	-	-	-	-
7	Hedging derivatives	X	X	-	-	-
8	Other assets	X	X	8	8	1
	Total	148.013	94.066	68.664	310.743	344.659

The slight decrease from 2013 was due to the lower interest income from debt securities in the portfolio as a result of their reduction.

Available for sale financial assets include 2,4 million Euro in both actual interest accrued on debt securities classified in this category and the recognition through profit or loss of the valuation reserve relating to the securities transferred to the portfolio of held to maturity financial assets. Said reserve, calculated at the time of the transfer, is recognised through profit or loss under the amortised cost method until the securities reach maturity.

The sub-item Loans to customers, Other assets, includes 22,2 million Euro in interest on arrears due from the Public Administration recognised by the Pharma business area. Starting from 2014, interest on arrears includes a portion (one million Euro in the period) of the interest accruing from the estimated collection date on receivables from the Health Service: the Bank, based on historical data and available information, estimates that at least 20% can be recovered.

Please note that at 31 December 2014, interests on arrears accrued on amounts due from the Public Administration, calculated from the invoice's original maturity, relate to receivables already settled (49,1 million Euro) and outstanding receivables (39,0 million Euro).

1.3 Interest receivable and similar income: other information

1.3.1 Interest income on foreign currency financial assets

	31.12.2014	31.12.2013
Interest income on financial assets in currency	714	381

1.4 Interest due and similar expenses: breakdown

	Composition	Debt	Loans	Other assets	31.12.2014	31.12.2013
1	Due to Central banks	-	X	(3.277)	(3.277)	(3.627)
2	Due to banks	(142)	X	-	(142)	(197)
3	Due to customers	(84.817)	X	(4.770)	(89.587)	(134.805)
4	Outstanding securities	X	-	-	-	-
5	Financial liabilities held for trading	-	-	-	-	-
6	Financial liabilities at fair value	-	-	-	-	-
7	Other liabilities and provisions	X	X	(168)	(168)	(137)
8	Hedging derivatives	X	X	(65)	(65)	(231)
	Total	(84.959)	-	(8.280)	(93.239)	(138.997)

Interest expense on payables due to central banks and customers concerning "other assets" refers to repurchase agreements on the MTS platform or through Eurosystem Auctions entered into during the year.

At 31 December 2014, Interest expense on payables due to customers classified under "debts" referred to the rendimax savings account for 83,0 million Euro, compared with 123,9 million Euro at 31 December 2013, as interest rates gradually declined throughout the year.

1.5 Interest due and similar expenses: spreads on hedging transactions

	31.12.2014	31.12.2013
A. Premium spreads on hedging transactions:	-	-
B. Discounts spreads on hedging transactions:	(65)	(231)
C. Balance (A-B)	(65)	(231)

1.6 Interest due and similar expenses: other information

1.6.1 Interest expense on foreign currency liabilities

	31.12.2014	31.12.2013
Interest expense on liabilities in currency	(101)	(36)

1.6.2 Interest expense on liabilities for financial leasing

	31.12.2014	31.12.2013
Interest payable on liabilities for financial leasing	(167)	(86)

Section 2 – Commissions – Items 40 and 50

2.1 Commission income: breakdown

Composition/Type	31.12.2014	31.12.2013
a) Guarantees granted	102	-
b) Derivatives on loans	-	-
c) Management, brokerage and consultancy services:	-	-
1. Trading of financial instruments	-	-
2. Trading in currency	-	-
3. Asset management:	-	-
3.1. Individual	-	-
3.2. Collective	-	-
4. Safe custody and management of securities	-	-
5. Depository bank	-	-
6. Placement of securities	-	-
7. Order collection and transmission	-	-
8. Consultancy	-	-
8.1 On investments	-	-
8.2 On financial structure	-	-
9. Third party services	-	-
9.1. Asset management:	-	-
- 9.1.1. Individual	-	-
- 9.1.2. Collective	-	-
9.2. Insurance products	-	-
9.3. Other products	-	-
d) Services of collection and payment	1.009	1.190
e) Servicing services for securitisation transactions	-	-
f) Services for factoring transactions	59.314	58.237
g) Tax collection and payment	-	-
h) Management of multi-lateral trading systems	-	-
i) Current account holding and management	1.083	1.054
j) Other services	1.737	1.598
Total	63.245	62.079

2.3 Commission expense: breakdown

Services/Values	31.12.2014	31.12.2013
a) Guarantees received	(1.853)	(2.268)
b) Derivatives on loans	-	-
c) Management, brokerage and consultancy services:	(91)	(97)
1. Trading of financial instruments	-	-
2. Trading in currency	-	-
3. Asset management:	-	-
3.1 treasury portfolio	-	-
3.2 third parties portfolio	-	-
4. Safe custody and management of securities	(91)	(97)
5. Placement of financial instruments	-	-
6. Off-site offer of financial instruments, services and products	-	-
d) Services of collection and payment	(2.671)	(155)
e) Other services	(1.812)	(3.641)
Total	(6.427)	(6.161)

Guarantees received include 1,7 million Euro in commissions paid on bonds guaranteed by the Italian Government. These bonds were settled in October 2014.

Other services substantially include commissions arising from approved banks' brokering, the work of other credit brokers, and commissions paid to correspondent factors.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Transactions/Types	31.12.2014		31.12.2013	
	Dividends	Income from O.E.I.C. units	Dividends	Income from O.E.I.C. units
A. Financial assets held for trading	-	-	-	-
B. Available for sale financial assets	-	-	84	-
C. Financial assets at fair value	-	-	-	-
D. Equity investments	-	X	-	X
Total	-	-	84	-

Section 4 – Net profit (loss) from trading – Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions/Return	Capital gain (A)	Profit from trading (B)	Capital loss (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 O.E.I.C. units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	(195)
4. Derivative instruments	130	-	-	-	130
4.1 Financial derivatives:	130	-	-	-	130
- on debt securities and interest rates	130	-	-	-	130
- on equity instruments and share indexes	-	-	-	-	-
- on currency and gold	X	X	X	X	-
- others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	130	-	-	-	(65)

Section 6 – Profit (loss) from sale or buyback - Item 100

6.1 Profit (loss) from sale or buyback: breakdown

Items>Returns	31.12.2014			31.12.2013		
	Profit	Losses	Net result	Profit	Losses	Net result
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	3.581	-	3.581	-	-	-
3. Available for sale financial assets	5.996	(5.765)	231	918	(907)	11
3.1 Debt securities	5.765	(5.765)	-	918	(907)	11
3.2 Equity instruments	231	-	231	-	-	-
3.3 O.E.I.C. units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	9.577	(5.765)	3.812	918	(907)	11
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Outstanding securities	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

Profits from the disposal of loans to customers were achieved by selling a portfolio of bills of exchange of the DRL sector. At the time of disposal, the loans had a book value of 48,1 million Euro and a par value of 219 million Euro.

The profits from the disposal of equity instruments derived from the sale of a non-controlling interest in a bank for 519 thousand Euro, reclassifying the Valuation reserve made in previous years to profit or loss.

Section 8 – Net impairment losses/reversals – Item 130

8.1 Net impairment losses on receivables: breakdown

Income items	Impairment losses (1)			Reversals of impairment losses (2)				Total 31.12.2014	Total 31.12.2013
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Due from banks	-	-	-	-	-	-	-	-	
- loans	-	-	-	-	-	-	-	-	
- debt securities	-	-	-	-	-	-	-	-	
B. Loans to customers	(100)	(54.432)	(3.670)	2.251	24.703	-	-	(31.248)	(44.501)
Non-performing loans purchased	-	-	-	-	-	-	-	-	-
- loans	-	-	X	-	-	X	X	-	-
- debt securities	-	-	X	-	-	X	X	-	-
Other receivables	(100)	(54.432)	(3.670)	2.251	24.703	-	-	(31.248)	(44.501)
- loans	(100)	(54.432)	(3.670)	2.251	24.703	-	-	(31.248)	(44.501)
- debt securities	-	-	-	-	-	-	-	-	-
C. Total	(100)	(54.432)	(3.670)	2.251	24.703	-	-	(31.248)	(44.501)

Key

A= from interest

B= other reversals

Net impairment losses on receivables stood at 31,2 million Euro, compared to 44,5 million Euro at 31 December 2013 (-29,8%). The period saw a decrease in new impaired loans, thanks to constantly improving lending standards and increasingly efficient credit management and monitoring processes.

This item includes 1,4 million Euro in net reversals of impairments losses on DRL loans (compared to 3,5 million Euro in net reversals in 2013).

The impairment losses and reversals include the 'time value' effect deriving from the process of discounting expected future cash flows.

8.2 Net impairment losses on available for sale financial assets: breakdown

Items/Return	Impairment losses (1)		Reversals of impairment losses (2)		Total 31.12.2014	Total 31.12.2013
	Specific		Specific			
	Write-offs	Others	A	B		
A. Debt securities	-	-	-	-	-	
B. Equity instruments	-		X	X		(59)
C. O.E.I.C. units	-	-	X	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-		-	-	-	(59)

Key

A= from interest

B= other reversals

Section 9 – Administrative expenses – Item 150**9.1 Personnel expenses: breakdown**

Type of expense/Sector	31.12.2014	31.12.2013
1) Employees	(38.441)	(32.565)
a) salaries and wages	(28.497)	(24.368)
b) social security contributions	(8.098)	(6.509)
c) post-employment benefits	(1.352)	(1.272)
d) pension expense	-	-
e) allocations for post-employment benefits	(20)	(30)
f) allocations to pensions and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments made to supplementary external funds	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
h) share-based payment agreements	-	-
i) other employee benefits	(474)	(386)
2) Other serving employees	(180)	(180)
3) Directors and Statutory Auditors	(3.409)	(3.409)
4) Retired personnel	-	-
5) Recoveries of payments for second employees to other companies	-	-
6) Refund of expenses for employees seconded to the company	-	-
Total	(42.030)	(42.030)

Personnel expenses, totalling 42,0 million Euro at 31 December 2014, rose 14,6% compared to 2013; this increase is essentially the result of the higher number of Bank's employees, amounting to 604 at the end of the period (compared to 536 at 31 December 2013).

Post-employment benefits include both contributions that employees have chosen to leave in the company and to be paid to INPS's Treasury Fund, and contributions to be paid to supplementary pension funds. Allocations for post-employment benefits refer to the revaluation of post-employment benefits earned up to 31 December 2006 and left in the company.

This report has not yet been audited by Reconta Ernst & Young S.p.A.

Other employee benefits included costs sustained for training and refresher courses.

9.2 Average number of employees by category

Employees:	31.12.2014	31.12.2013
Employees:	570,0	491,0
(a) senior managers	22,5	16,0
(b) middle managers	49,5	44,0
(c) remaining personnel	498,0	431,0
Other personnel	-	-

9.5 Other administrative expenses: breakdown

Expenses/Amounts	31.12.2014	31.12.2013
Expenses for professional services	(26.025)	(14.611)
Legal and consulting services	(9.253)	(7.220)
Auditing	(223)	(366)
Outsourced services	(16.549)	(7.025)
Direct and indirect taxes	(10.907)	(7.826)
Expenses for purchasing non-professional goods and services	(22.025)	(16.250)
Customer information	(4.340)	(2.249)
Property expenses	(3.397)	(3.362)
Software assistance and hire	(2.979)	(1.716)
Car fleet management and maintenance	(2.250)	(2.070)
Postage of documents	(2.174)	(1.643)
Advertising and inserts	(1.961)	(974)
Telephone and data transmission expenses	(1.386)	(1.149)
Business trips and transfers	(1.340)	(697)
Other sundry expenses	(2.198)	(2.390)
Total administrative expenses	(58.957)	(38.687)

Other administrative expenses at 31 December 2014 reached 59,0 million Euro, compared to 38,7 million Euro in 2013 (+52,4%).

The increase was mostly due to the DRL segment and consulting expenses for new development projects. Specifically, a sizeable portion of the costs incurred by the DRL segment can be attributed to commissions paid to debt collection agents and companies, also in relation to the sale of the portfolio of bills of exchange and the collection of information on customers. Furthermore, stamp duty costs relating to retail funding increased from 0,15% in 2013 to 0,20% in 2014.

Section 10 – Net allocations to provisions for risks and charges – Item 160

10.1. Net allocations to provisions for risks and charges: breakdown

Expenses/Amounts	31.12.2014	31.12.2013
- Provisions for liabilities and charges for legal disputes	(1.152)	(45)
- Provisions for liabilities and charges for tax proceedings	-	(12)
- Other provisions for liabilities and charges	(461)	(158)
Total	(1.613)	(215)

Provisions for legal disputes mainly refer to the provision for lawsuits concerning trade receivables.

Provisions for sundry risks and charges refer to the amount set aside as the estimate of what the Bank may be required to pay for the rescue loan to Banca Tercas, based in Ascoli Piceno, already approved by Italy's Interbank Deposit Protection Fund (FITD).

For more details, see Part B, Section 12 Provisions for risks and charges in these Notes.

Section 11 – Net impairment losses/reversals on property, plant and equipment – Item 170

11.1. Net impairment losses on property, plant and equipment: breakdown

Income items		Depreciation (a)	Impairment losses (b)	Reversals of impairment losses(c)	Net result (a + b - c)
A.	Property, plant and equipment and investment property				
	A.1 Owned	(1.337)	-	-	(1.337)
	- for functional use	(1.337)	-	-	(1.337)
	- for investment purposes	-	-	-	-
	A.2 Acquired under finance leases	-	-	-	-
	- for functional use	-	-	-	-
	- for investment purposes	-	-	-	-
	Total	(1.337)	-	-	(1.337)

Section 12 – Net impairment losses/reversals on intangible assets – Item 180

12.1 Net impairment losses on intangible assets: breakdown

Income items		Amortisation (a)	Impairment losses (b)	Reversals of impairment losses(c)	Net result (a + b - c)
A.	Intangible assets				
	A.1 Owned	(1.843)	-	-	(1.843)
	- Internally generated	-	-	-	-
	- Others	(1.843)	-	-	(1.843)
	A.2 Acquired under finance leases	-	-	-	-
	Total	(1.843)	-	-	(1.843)

Section 13 – Other operating income (expenses) – Item 190

13.1 Other operating expenses: breakdown

Expenses/Amounts	31.12.2014	31.12.2013
a) Contribution to the Interbank Deposit Protection Fund (FITD)	(1.062)	(667)
b) Transactions with customers	(31)	(103)
c) Other expenses	(824)	(465)
Total	(1.917)	(1.235)

In 2014, Banca IFIS recognised under other operating expenses the amount paid to Italy's Interbank Deposit Protection Fund (FITD) for the rescue loan to Banca Tercas, based in Ascoli Piceno, net of the portions already set aside during 2013, as described in Part B, Section 12 Provisions for risks and charges of these Notes.

13.2 Other operating income: breakdown

Expenses/Amounts	31.12.2014	31.12.2013
a) Recovery of third party expenses	3.563	4.002
b) Receivable rental fees	80	101
c) Other income	309	115
Total	3.952	4.218

The item 'Recovery of third party expenses' refers to charges on customers for legal and consulting expenses, as well as registration fees and stamp duties recognised under the item 'Other administrative expenses'.

Section 18 – Income taxes for the year relating to current operations – Item 260

18.1 Income taxes for the year relating to current operations: breakdown

Income components/Sectors	31.12.2014	31.12.2013
1. Current tax expense (-)	(50.203)	(71.138)
2. Changes in current taxes of previous years (+/-)	-	1.521
3. Reductions in current taxes for the year (+)	-	-
3.bis Reductions in current tax for the year for tax credits as per Law n. 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	4.370	9.374
5. Changes in deferred tax liabilities (+/-)	(2.847)	2.217
6. Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(48.680)	(58.026)

18.2 Reconciliation between theoretical tax charges and effective tax charges for the year

Items/Components	31.12.2014
Pre-tax profit (loss) for the year from continuing operations	143.076
Corporate tax – theoretical tax charge (36%)	(39.346)
- Effect of non-taxable income and other reductions - permanent	2.171
- Effect of undeductible expenses and other increases – permanent	(1.517)
- Benefits from the application of national tax consolidation	407
- Non-current corporate tax (IRES)	(734)
- Deferred non-current corporate tax	671
- Reconciliation between tax and statutory amounts	-
- Effect of changes in tax rates on deferred taxes	-
Corporate tax – Effective tax charges	(38.348)
Regional tax on productivity (IRAP) – theoretical tax charges (5,57%)	(7.969)
- Effect of income/charges that are not part of the taxable base	(2.350)
- Effect of other changes	3
- Non-current regional tax on productivity (IRAP)	(16)
Regional tax on productivity (IRAP) – Effective tax charges	(10.332)
Other taxes	-
Effective tax charges for the year	(48.680)

Section 20 – Other information

There is no further information to be reported in addition to that already included in previous or following sections of these notes to the financial statements.

Section 21 – Earnings per share

21.1 Average number of ordinary diluted shares

Earnings per share and diluted earnings per share	31.12.2014	31.12.2013
Profit for the year (in thousands of Euro)	94.396	83.404
Average number of outstanding shares	52.899.739	52.690.028
Average number of potentially dilutive shares	6.093	-
Average number of diluted shares	52.893.646	52.690.028
Earnings per share (Units of Euro)	1,78	1,58
Diluted earnings per share (Units of Euro)	1,78	1,58

Potentially dilutive shares refer to share-based payments for upfront variable pay, as described in Part I of these Notes.

Part D – Statement of comprehensive income

STATEMENT OF COMPREHENSIVE INCOME

Changes in the values of assets recognised during the year against valuation reserves are reported below.

Items (in thousands of Euro)		Gross amount	Income tax	Net amount
10.	Profit for the year	X	X	94.396
	Other comprehensive income (expenses) without reversal to income statement	(257)	71	(186)
20	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Actuarial gains (losses) on defined benefit plans	(257)	71	(186)
50.	Non-current assets under disposal	-	-	-
60.	Fair value reserves	-	-	-
	Other comprehensive income (expenses) with reversal to income statement			
70.	Hedging of foreign investments:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
80.	Exchange rate differences:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
90.	Hedging of cash flows:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
100.	Available for sale financial assets:	(14.882)	4.871	(10.011)
	a) fair value gains (losses)	(6.556)	2.178	(4.378)
	b) transfer to income statement	(231)	16	(215)
	- impairment losses	-	-	-
	- profit/loss from realisation	(231)	16	(215)
	c) other changes	(8.095)	2.677	(5.418)
110	Non-current assets under disposal:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
120	Fair value reserves:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) transfer to income statement	-	-	-
	- impairment losses	-	-	-
	- profit/loss from realisation	-	-	-
	c) other changes	-	-	-
130	Total other comprehensive income	(15.139)	4.942	(10.197)
140	Total comprehensive income (Item 10+130)	(15.139)	4.942	84.199

Part E – Information on risks and risk management policies

The prudential supervisory provisions for banks continue to strengthen the system of rules and incentives that allow to measure more accurately potential risks connected to banking and financial operations as well as maintain internal capital levels more suited to the effective level of risk exposure of each intermediary.

Concerning risk governance, the Bank regularly reviews the strategic guidelines set out in the so-called Risk Appetite Framework. Meanwhile, the second pillar of the provisions includes the ICAAP process (Internal Capital Adequacy Assessment Process), pursuant to which the bank autonomously assesses its own current and expected capital adequacy in relation to both so-called first-pillar risks (credit risk, counterparty risk, market risk and operational risk) and other risks (liquidity risk, banking book interest rate risk, concentration risk, etc.). This examination accompanied the preparation and the forwarding to the Supervisory body of the annual ICAAP report as at 31 December 2013. In May 2014, again with reference to 31 December 2013 and in compliance with the obligations in the relevant provisions, Banca IFIS published information on its capital adequacy, its exposure to risks, and the general characteristics of the systems it has put in place for the identification, measurement and management of these risks. This document has been published on Banca IFIS's website www.bancaifis.it in the 'Institutional Investors' section.

With reference to the above and as per Circular 229 of 21 April 1999 - Supervisory Instructions for banks, Banca IFIS has set up an Internal Control System that aims to guarantee a reliable and sustainable generation of value in a context of sensible risk control and taking, so as to protect the Bank's financial solidity. Banca IFIS's Internal Control System consists of rules, procedures and organisational structures aiming to ensure corporate strategies are complied with and the following goals achieved:

- effectiveness and efficiency of corporate processes (administration, production, distribution, etc.);
- safeguarding of assets' value and protection from losses;
- reliability and integrity of accounting and operating information;
- compliance of operations with the law, supervisory regulations and internal policies, plans, regulations and procedures, as well as the Codes (Code of Ethics, Corporate Governance Code, etc.) adopted by the Bank.

Audits involve all personnel to varying degrees and constitute an integral part of daily operations. They can be classified according to the relevant organisational structures. Some types of audits are highlighted below:

- Line audits aim to ensure operations are carried out correctly. These audits are carried out by the operational structures themselves, incorporated in procedures, or performed as part of back office operations;
- The second line of defence in risk management (including compliance risk) aims to define methods for measuring/evaluating risks, verify if limits assigned to the various operational areas are being respected, and check if operations within all areas are consistent with the risk appetite and tolerance objectives set out every year in the so-called Risk Appetite Framework. These audits are entrusted to structures other than the operational ones;
- Internal audit activities aim to identify anomalies and violations of procedures and regulations, as well as to assess the overall efficiency and effectiveness of the Internal Control Sys-

tem. These activities are carried out all the time, either regularly or exceptionally, by structures other than and independent from the operational ones, also via on-the-spot audits.

The role of the different players involved in the Internal Control System (the Board of Directors, the Control and Risks Committee, the Executive Director in charge of the Internal Control System, the Supervisory Body as per Legislative Decree no. 231/2001, the Internal Audit Function, the Corporate Accounting Reporting Officer, the Risk Management Function and the Compliance and Anti-Money Laundering Function) are described in detail in the 'Report on Corporate Governance and Shareholding Structure', prepared pursuant to the third paragraph of article 123 bis of Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance), approved by the Board of Directors on 6 March 2014 and published on the Bank's Internet website in the Corporate Governance section.

Section 1 - Credit risk

Qualitative information

Overview

Banca IFIS currently operates in the following fields:

- Acquisition and management of trade receivables in Italy and abroad; the offer of financial and accounts receivable management support is mainly aimed at the segment of Small- and Medium-sized Enterprises;
- acquisition and management of non-performing loans (Distressed Retail Loans);
- acquisition and management of tax receivables.

The Treasury Department's operations complement such activities, and although they are particularly significant on certain occasions, they do not change the mission of the Bank, which continues to be focused on providing financial and accounts receivable management support to Small and Medium-sized Enterprises.

The factoring business is characterised by the direct assumption of risks related to granting advances and loans, as well as guarantees, if any, on trade receivables of mainly small- and medium-sized enterprises, according to the growth strategies defined and pursued by the Bank.

Traditional factoring operations are complemented with the business of acquiring distressed financial (Distressed Retail Loans, that is non-performing loans), trade and tax receivables. The sellers are typically banks, financial institutions, insolvency proceedings and businesses.

Given the particular business, credit risk is the most important element to consider as far as the general risks assumed by the Bank are concerned. The maintenance of effective credit risk management is a strategic objective for Banca IFIS, pursued through the adoption of integrated tools and processes that ensure correct credit risk management in all its phases (preparation, lending, monitoring and management, and intervening on troubled loans).

Vis-à-vis surplus liquidity, if any, Banca IFIS carries out operations involving very short-term deposits with highly creditworthy banking counterparties. Given the counterparties, the short time frames and the modest amounts involved, the credit risk associated with this activity is particularly low.

During 2014, the Bank did not purchase securities. The outstanding portfolio consists of securities largely classified under available for sale or held to maturity financial assets. These financial assets, which due to their classification are included in the banking book's scope even though they are not involved in the Bank's traditional lending operations, give rise to credit risk. The risk lies in the issu-

er's inability to repay in part or in full its obligations at maturity. However, bonds held by Banca IFIS consist almost entirely of Italian government bonds and, to a lesser extent, bank bonds. The overall portfolio's average residual life is approximately twenty-two months and the maximum duration per individual asset is lower than five years.

Banca IFIS does not carry out any operation involving credit derivatives.

Credit risk management policies.

Organisational aspects

Credit risks in factoring operations directly arise from financing the business customers and guaranteeing them, when requested, against the account debtor's default. Credit risk management takes place during two specific phases of the credit process: the initial credit assessment phase and, in case of a positive outcome, throughout the entire relationship with the seller/debtor counterparties. In order to increase the quality of its receivables portfolio, Banca IFIS deemed it appropriate to centralise the main phases related to risk taking and control as part of factoring operations in the Bank's Head Office, allowing for a high degree of homogeneity in lending operations and to strictly monitor individual positions through the specialisation of resources and separation of functions at all decision-making levels.

In the first phase of the risk management process, the responsible organisational structure shall assess the creditworthiness of the seller and debtor counterparties, the nature of the commercial relationship between them, and the quality of the receivables factored. A multi-level system of delegations and decision-making powers allows the most senior analysts to assume increasingly growing, but still modest, risks. Greater risks can be taken by service and area managers. As for higher amounts, powers are attributed solely to the General Manager, the Chief Executive Officer, the Credit Committee, and the Board of Directors.

The Bank's branches do not have decision-making powers as for the assumption of credit risk. Rather, they have the responsibility of doing business in the local area and managing relationships with customers. Therefore, within the limits and with the procedures established by the Head Office's competent bodies, Branches manage ordinary operations with customers under the constant monitoring of the Head Office.

Qualified and specialised staff follow all stages of a relationship: from the sale of the receivables to the granting of advances, from the administrative management of the receivables to their collection, from the identification of anomalies, if any, to the verification and definition of the most appropriate actions to recover the debt, also with support from the Legal Department, if necessary.

As already specified, Banca IFIS purchases also distressed receivables in the following business areas:

- tax receivables usually acquired from insolvency proceedings and due from tax authorities;
- financial receivables acquired from consumer credit companies, banks and leasing companies;
- trade receivables acquired from insolvency proceedings and companies.

Purchasing the different types of receivables is a fundamental aspect of the credit process. Prior to this phase, highly skilled analysts carry out a thorough due diligence of the portfolio being transferred and the relevant organisational impact. Once the due diligence is completed, the Bank sets the terms and conditions for offering/acquiring the receivables portfolio and how to manage it (individual or collective management), assessing the relevant impact on operating structures.

In order to collect distressed retail loans (DRL), Banca IFIS can count on an in-house legal office, a widespread and tested network of credit collection companies operating throughout Italy, and a network of agents. This structure, together with several lawyers located near the courts, ensures the utmost flexibility as well as effective and timely actions to recover all types of receivables.

Banca IFIS pays particular attention to the concentration of credit risk, both at an individual and consolidated level. Banca IFIS's Board of Directors has delegated the Top Management to take action to contain major risks. In line with the Board of Directors' instructions, all positions at risk that significantly expose the Bank, even if amounting to less than 10% of total own funds, are systematically monitored.

Management, measurement and control systems

The operational procedure governing Banca IFIS's credit process within traditional factoring operations is audited during the year and expressly requires a thorough and individual assessment of all the counterparties (both the customer-seller and the account debtor) involved in the factoring relationship.

Within factoring operations, credit risk is constantly monitored by means of procedures and instruments allowing to rapidly identify particular anomalies.

The bank has instruments and procedures in place allowing to evaluate and monitor risks. Specifically:

- it assesses the creditworthiness of the seller and the debtor;
- it immediately identifies the risk in each individual cash advance or financing transaction;
- it defines adequate pricing for each class of risk right from the initial commercial analysis of the feasibility of the operation.

Following a positive assessment and after starting to work with the customer, the bank continues to monitor the relevant credit risk using selected databases.

Protests, prejudicial events or signs of loans turning bad automatically lead to the suspension of operations. The ensuing analysis aims to assess the seriousness of the anomalies and whether the problems are permanent or temporary, so as to decide whether to maintain the relationship or reduce the exposures.

As for the activities concerning the Distressed Retail Loans business and the purchasing of tax receivables arising from insolvency proceedings, in order to ensure increasingly efficient control over the operations undertaken, the Bank continued to invest in information systems dedicated to monitoring those portfolios.

Purchases of distressed retail loans are particularly significant. Those loans are classified as from their purchase under impaired loans. These are financial receivables (purchased from consumer credit companies, banks and leasing companies) and, to a lesser extent, trade receivables (acquired from insolvency proceedings and companies) which, in light of the characteristics of the receivable and the invoice seller, are duly classified in portfolios homogeneous in terms of management and collection methods (judicial and non-judicial). In particular, the Bank implements the following methods:

- collective management, characterised by non-judicial collection operations carried out mainly by specialist collection agencies;
- individual management, characterised by judicial collection operations carried out mainly with the help of specialist external law firms.

With reference to these receivables, the Bank systematically monitors the cash flows from debt collection operations, which are used also for the purposes of backtesting the simulation model of expected cash flows or the individual estimates made by the managers of the individual positions.

As for the credit risk associated with the bond portfolio, considering that it is made up mainly of Italian government bonds and, to a lower extent, short-term bank bonds, Banca IFIS constantly monitors the credit quality of the bond issuers. The Risk Management function periodically reports to the bank's Board of Directors and Top Management on the composition of the bond portfolio.

As for Basel 2 principles for calculating capital requirements against first-pillar credit risks, the Bank chose to adopt the Standardised Approach.

Credit risk mitigation techniques

Within the factoring activity, when the type and/or quality of factored receivables do not fully satisfy requirements or, more generally, the invoice seller is not sufficiently creditworthy, the bank's established practice is to hedge the credit risk assumed by the Bank by obtaining additional surety bonds from the shareholders or directors of the invoice seller.

As for the account debtors in factoring relationships, wherever the Bank believes that the elements available to assess the account debtor do not allow to properly measure/assume the related credit risk, or the proposed amount of risk exceeds the limits identified during the debtor's assessment, the Bank adequately hedges the risk of default of the account debtor. Guarantees issued by correspondent factors and/or insurance policies underwritten with specialised operators are the main hedge against non-domestic account debtors in non-recourse operations.

As for operations concerning distressed loans (Distressed Retail Loans and purchases of tax receivables arising from insolvency proceedings) and the relevant business model, generally no action is taken to hedge credit risks.

Impaired financial assets

With reference to factoring operations, relationships with customers are constantly monitored by the competent Head Office's department, based on both the relationship's performance and monitoring instruments implemented for counterparties at risk (Central Credit Register, protests and prejudicial events, etc.). Should anomalous trends and/or prejudicial elements arise on the part of the counterparty, the situation is placed under watch and the Head Office's Credit Management Area directly supervises the Branch's management of the relationship until the anomalies have been overcome.

Should the situation deteriorate or become critical, the Troubled Loans Area – Monitored Positions Service takes over the management of the relationship. Once it has duly examined the case and the relevant opportunities, it decides whether to maintain the position until the problems have been overcome or reduce the exposure. Based on available information, it also considers whether or not to classify the counterparty under bad loans or subjective substandard loans.

Managing impaired positions, either substandard or bad loans, normally falls under the responsibility of the Troubled Loans Area – Disputes Service, which takes the most appropriate actions to hedge and recover debts, periodically reporting to the Top Management and the Board of Directors. If it is believed that the problems encountered by the seller and/or the debtor could be successfully overcome with the Bank adequately hedging the credit risk, the position may be restructured and placed, once again, under the management and monitoring of the Monitored Positions Service or, if appropriate, the Customer Area.

Individual impairment losses, upon proposal by the Disputes Service, are assessed by the Top Management and submitted to the Board of Directors for approval.

A significant portion of Distressed Retail Loans is classified under impaired loans. The purchase of receivables at amounts well below their par value and cash flows generally higher than the price paid minimise the risk of losses.

As for impaired loans purchased and not yet collected, the overall outstanding par value of the portfolio is around 5.617 million Euro. At the time of purchase, the historical par value of these receivables was approximately 5.673 million Euro, and they were acquired for approximately 151 million Euro, i.e. an average price equal to 3,4% of the historical par value. During 2014, the Bank acquired approximately 2.025 million Euro in receivables at an average price of 3,74%; out of the total 2.025 million Euro, the receivables for which the debtor had already signed bills of exchange accounted for nearly 10 million Euro, and the relevant average purchase price was 24,5%. The overall portfolio of impaired loans purchased and not yet collected has an overall weighted average life of around 29 months from their purchase date.

As far as collective management is concerned (receivables managed through non-judicial operations), the annual trend in cash flows registered an average negative deviation of approximately 4% compared to the estimates made using the forecasting model (amount-weighted average), and an average positive deviation of 53% compared to the manager's collection estimates for the individually managed portfolio (judicial operations).

Furthermore, it should be noted that overall at the end of 2014 there were approximately 12 million Euro in outstanding bills of exchange. In December 2014, the Bank sold a portfolio of receivables from bills of exchange with a total par value of nearly 219 million Euro.

Furthermore, at the end of 2014 there were approximately 71 million Euro in outstanding settlement plans.

Should DRL be classified as bad loans, or should they become objectively impaired, the changes in the amortised cost calculated by discounting the new cash flows at the original effective interest rate compared to the prior period amortised cost are recognised under item 130 Net impairment losses/reversals on receivables.

DRL receivables are measured at amortised cost; the expected cash flows used for calculating the amortised cost are estimated with a statistical model based on proprietary historical time series on collection operations as far as the so-called collective management is concerned, and the estimates made by the analyst as far as the so-called individual management is concerned.

Quantitative information

A. Credit quality

A.1 Impaired and performing loans: amounts, impairment losses, trend, economic and geographical distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/quality	Non performing loans	Substandard loans	Rescheduled loans	Overdue loans	Overdue loans not impaired	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	181	181
2. Available for sale financial assets	-	-	-	-	-	229.868	229.868
3. Financial assets held to maturity	-	-	-	-	-	4.827.363	4.827.363
4. Due from banks	-	-	-	-	-	269.985	269.985
5. Loans to customers	103.138	103.212	14.375	27.321	838.598	1.700.701	2.787.345
6. Financial assets measured at fair value	-	-	-	-	-	-	-
7. Financial assets under disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 31.12.2014	103.138	103.212	14.375	27.321	838.598	7.028.098	8.114.742
Total 31.12.2013	117.808	123.236	8.351	41.658	633.731	10.089.714	11.014.498

Equity securities and OEIC units are not included in this table.

A.1.2 Distribution of exposures by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Impaired loans			Performing			Total (net exposure)
	Gross exposure	Specific impairment losses	Net exposure	Gross exposure	Specific impairment losses	Net exposure	
1. Financial assets held for trading	-	-	-	X	X	181	181
2. Available for sale financial assets	-	-	-	229.868	-	229.868	229.868
3. Financial assets held to maturity	-	-	-	4.827.363	-	4.827.363	4.827.363
4. Due from banks	-	-	-	269.985	-	269.985	269.985
5. Loans to customers	474.272	226.226	248.046	2.549.853	10.554	2.539.299	2.787.345
6. Financial assets measured at fair value	-	-	-	X	X		-
7. Financial assets under disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X		-
Total 31.12.2014	474.272	226.226	248.046	7.877.069	10.554	7.866.696	8.114.742
Total 31.12.2013	487.136	196.083	291.053	10.730.499	7.064	10.723.445	11.014.498

Equity securities and OEIC units are not included in this table.

In compliance with paragraph 37, letter a) of IFRS 7 “Financial Instruments: Disclosures”, here below is the maturity analysis for past due amounts relating to performing loans – Other loans.

<i>(in thousand of Euros)</i>	31.12.2014	31.12.2013
Overdue up to 3 months	364.633	252.336
Overdue > 3 months < 6 months	130.910	135.858
Overdue > 6 months < 1 year	107.560	77.050
Overdue > 1 year	236.742	169.147
Total	839.845	634.391

A.1.3 On- and off-balance-sheet exposures to banks: gross and net amounts

Types of loans/values	Gross exposure	Specific net impairment losses	Portfolio impairment losses	Net exposure
A. CASH EXPOSURE				
a) Non-performing loans	-	-	X	-
b) Substandard loans	-	-	X	-
c) Rescheduled loans	-	-	X	-
d) Overdue loans	-	-	X	-
f) Other	270.498	X	-	270.498
Total A	270.498	-	-	270.498
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	-	-	X	-
b) Other	13.888	X	-	13.888
Total B	13.888	-	-	13.888
Total (A+B)	284.386	-	-	284.386

On-balance-sheet exposures include all cash financial assets due from banks, regardless of the portfolio they are included in (held for trading, available for sale, held to maturity, loans and receivables, etc.).

A.1.6 On- and off-balance-sheet exposures to customers: gross and net amounts

Types of loans/values	Gross exposure	Specific net impairment losses	Portfolio impairment losses	Net exposure
A. CASH EXPOSURE				
a) Non-performing loans	313.660	210.522	X	103.138
b) Substandard loans	116.646	13.434	X	103.212
c) Rescheduled loans	15.972	1.598	X	14.374
d) Overdue loans	27.994	672	X	27.322
f) Other	7.606.571	X	10.554	7.596.017
TOTAL A	8.080.843	226.226	10.554	7.844.063
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	6.637	-	X	6.637
b) Other	186.798	X	-	186.798
TOTAL B	193.435	-	-	193.435
TOTAL (A+B)	8.274.278	226.226	10.554	8.037.498

On-balance-sheet exposures include all cash financial assets due from customers, regardless of the portfolio they are included in (available for sale, held to maturity, loans and receivables).

A.1.7 On-balance-sheet exposures to customers: trends in gross impaired loans

Type/Categories	Non-performing loans	Substandard loans	Rescheduled loans	Overdue loans
A. Opening gross exposure	301.567	133.742	9.395	42.432
- of which: transferred and not derecognised	-	-	-	-
B. Increases	64.118	210.880	12.992	345.818
B.1 Inflows from performing loans	259	73.642	-	254.363
B.2 Transfers from other impaired loan categories	29.613	24.416	9.682	2.823
B.3 Other increases	34.246	112.822	3.310	88.632
C. Reductions	52.025	227.975	6.414	360.256
C.1 Outflows to performing loans	-	27.428	367	218.904
C.2 Derecognitions	2.752	116	-	86
C.3 Collections	29.575	73.245	3.842	115.792
C.4 Collections from transfers	9.190	16.495	-	-
C.4 <i>bis</i> Losses on disposal	-	-	-	-
C.5 Transfers to other impaired loan categories	46	41.798	1.105	23.585
C.6 Other reductions	10.462	68.893	1.101	1.889
D. Closing gross exposure	313.660	116.646	15.972	27.994
- of which: transferred and not derecognised	-	-	-	-

Total **net impaired loans** amounted to 248,0 million Euro, compared to 291,1 million Euro at the end of 2013 (-14,8%). All categories except restructured loans registered a decrease.

Total **bad loans** to customers at 31 December 2014, net of value adjustments, were 103,1 million Euro, against 117,8 million Euro at 31 December 2013. The change was substantially due to the decrease in the trade receivables sector (-34,9%).

At 31 December 2014, **substandard loans** totalled 103,2 million Euro, compared to 123,2 million Euro in 2013 (-16,2%), of which 65,3 million Euro related to the DRL sector (61,4 million Euro at the end of 2013). The decrease is substantially due to transfers to lower risk categories (past-due or performing) or collections, as well as the adjustments made during the period.

Restructured loans totalled 14,4 million Euro, compared with 8,4 million Euro at the end of 2013 (+72,1%). The rise was largely attributable to the transfer of receivables previously classified as substandard to this category.

Past due loans totalled 27,3 million Euro, compared with 41,7 million Euro for the previous financial year. It should be noted that net past due loans refer for 3,9 million Euro (6,0 million Euro at the end of 2013) to receivables due from the Public Administration purchased outright as part of factoring operations.

A.1.8 On-balance-sheet exposures to customers: trends in overall impairment losses/reversals

Type/Categories	Non-performing loans	Substandard loans	Rescheduled loans	Overdue loans
A. Opening balance of total impairment losses/reversals of impairment losses	183.759	10.506	1.044	774
- of which: transferred and not derecognised	-	-	-	-
B. Increases	32.737	9.006	1.254	-
B.1 Impairment losses	29.009	9.006	1.254	-
B.1 bis Losses on disposal	-	-	-	-
B.2 Transfers from other impaired loan categories	3.728	-	-	-
B.3 Other increases	-	-	-	-
C. Reductions	5.974	6.078	700	102
C.1 Impairment reversals from measurement	5.674	2.233	290	-
C.2 Impairment reversals from collection	133	1	-	-
C.2 bis Profit from disposal	-	-	-	-
C.3 Derecognitions	167	116	-	-
C.4 Transfers to other impaired loan categories	-	3.728	-	-
C.5 Other reductions	-	-	410	102
D. Closing balance of total impairment losses/reversals of impairment losses	210.522	13.434	1.598	672
- of which: transferred and not derecognised	-	-	-	-

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of on- and off-balance-sheet exposures by class of external rating

For the purposes of calculating capital requirements against credit risk, Banca IFIS uses the external credit assessment institution (ECAI) Fitch Ratings exclusively for the positions recognised under “Exposures to Central Governments and Central Banks”; no external ratings are used for the other asset classes. In light of the composition of the Bank’s assets, external ratings are used exclusively for the portfolio of government bonds.

A.2.2 Distribution of on- and off-balance-sheet exposures by class of internal rating

Banca IFIS does not use internal ratings for the purposes of prudential supervision. The Bank is currently implementing the new Internal Rating System for the domestic business segment.

A.3 Distribution of guaranteed exposures by guarantee type

A.3.2 Guaranteed exposures to customers

	Net exposure	Collateral(1)				Personal guarantees (2)								Total (1)+(2)	
										Credit derivatives					Endorsement credits
		Property mortgages	Property finance leases	Securities	Other collateral					CLN	Other derivatives				Governments and central banks
						Governments and central banks	Other public bodies	Banks	Other subjects						
1. Cash exposures:	277.726	41.660	-	-	-	-	-	-	-	-	-	-	-	233.050	274.710
1.1 wholly guaranteed	215.128	25.817	-	-	-	-	-	-	-	-	-	-	-	189.311	215.128
- of which impaired	29.643	25.817	-	-	-	-	-	-	-	-	-	-	-	3.826	29.643
1.2 partially guaranteed	62.598	15.843	-	-	-	-	-	-	-	-	-	-	-	43.739	59.582
- of which impaired	6.415	5.589	-	-	-	-	-	-	-	-	-	-	-	675	6.264
2. Guaranteed off-balance sheet exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 wholly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Concentration and distribution of exposures
B.1 Distribution of on- and off-balance-sheet exposures to customers by category (book value)

Exposures/ counterparties	Governments and Central Banks			Other public entities			Financial institutions			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal
A. Cash exposure																		
A.1 Non-performing loans	-	-	X	4.601	5.940	X	17	-	X	-	-	X	34.782	196.378	X	63.738	8.204	X
A.2 Substandard loans	-	-	X	3.406	1.868	X	2	-	X	-	-	X	35.626	11.274	X	64.178	292	X
A.3 Rescheduled loans	-	-	X	-	-	X	9.058	1.362	X	-	-	X	5.316	236	X	-	-	X
A.4 Overdue loans	684	-	X	3.245	1	X	-	-	X	-	-	X	18.503	537	X	4.890	134	X
A.5 Other	5.139.570	X	-	652.730	X	88	120.453	X	54	1	X	-	1.679.073	X	10.386	4.190	X	26
Total A	5.140.254	-	-	663.982	7.809	88	129.530	1.362	54	1	-	-	1.773.300	208.425	10.386	136.996	8.630	26
B. Off-balance-sheet exposures"																		
B.1 Non-performing loans	-	-	X	-	-	X	-	-	X	-	-	X	156	-	X	-	-	X
B.2 Substandard loans	-	-	X	-	-	X	-	-	X	-	-	X	5.502	-	X	-	-	X
B.3 Other impaired loans	-	-	X	-	-	X	-	-	X	-	-	X	979	-	X	-	-	X
B.4 Other	-	X	-	540	X	-	17.813	X	-	100	X	-	167.726	X	-	619	X	-
Total B	-	-	-	540	-	-	17.813	-	-	100	-	-	174.363	-	-	619	-	-
Total (A+B) 31.12.2014	5.140.254	-	-	664.522	7.809	88	147.343	1.362	54	101	-	-	1.947.663	208.425	10.386	137.615	8.630	26
Total (A+B) 31.12.2013	8.366.556	1	-	510.306	8.106	187	172.466	1.265	32	-	-	-	1.559.634	180.353	6.801	124.036	6.358	44

B.2 Geographical distribution of on- and off-balance-sheet exposures to customers (book value)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/ reversals	Net exposure	Overall impairment losses/ reversals	Net exposure	Overall impairment losses/ reversals	Net exposure	Overall impairment losses/ reversals	Net exposure	Overall impairment losses/ reversals
A. Cash exposure										
A.1 Non-performing loans	102.352	206.236	766	4.281	9	5	1	-	10	-
A.2 Substandard loans	102.455	12.861	738	573	11	-	2	-	6	-
A.3 Rescheduled loans	14.374	1.598	-	-	-	-	-	-	-	-
A.4 Overdue loans	27.322	672	-	-	-	-	-	-	-	-
A.5 Other	7.522.294	10.146	72.860	403	-	-	543	3	320	2
Total A	7.768.797	231.513	74.364	5.257	20	5	546	3	336	2
B. Off-balance-sheet exposure"										
B.1 Non-performing loans	156	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	5.500	-	2	-	-	-	-	-	-	-
B.3 Other impaired loans	979	-	-	-	-	-	-	-	-	-
B.4 Other	179.418	-	5.857	-	-	-	1.005	-	518	-
Total B	186.053	-	5.859	-	-	-	1.005	-	518	-
Total (A+B) 31.12.2014	7.954.850	231.513	80.223	5.257	20	5	1.551	3	854	2
Total (A+B) 31.12.2013	10.693.444	199.151	38.918	3.994	20	-	391	1	225	1

B.3 Geographical distribution of on- and off-balance-sheet exposures to banks (book value)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal
A. Cash exposure										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
A.3 Rescheduled loans	-	-	-	-	-	-	-	-	-	-
A.4 Overdue loans	-	-	-	-	-	-	-	-	-	-
A.5 Other	270.068	-	244	-	186	-	-	-	-	-
Total A	270.068	-	244	-	186	-	-	-	-	-
B. Off-balance-sheet exposure"										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired loans	-	-	-	-	-	-	-	-	-	-
B.4 Other loans	13.888	-	-	-	-	-	-	-	-	-
Total B	13.888	-	-	-	-	-	-	-	-	-
Total (A+B) 31.12.2014	283.956	-	244	-	186	-	-	-	-	-
Total (A+B) 31.12.2013	448.085	-	5	-	-	-	-	-	-	-

B.4 Major exposures

		31.12.2014	31.12.2013
a)	Carrying amount	5.720.136	8.850.762
b)	Weighted value	375.451	333.388
c)	Number	11	10

The overall weighted amount of major exposures at 31 December 2014 consisted of 194,4 million Euro in receivables due from banks and 181,0 million Euro in loans to customers.

Disclosure regarding Sovereign Debt

On 5 August 2011, CONSOB (drawing on ESMA document no. 2011/266 of 28 July 2011) issued Communication no. DEM/11070007 on disclosures by listed companies of their exposures to sovereign debt and market performance, the management of exposures to sovereign debt, and their operating and financial impact also subsequent to 31 December 2014.

In compliance with the provisions of the aforementioned communication, it should be noted that at 31 December 2014 the book value of exposures to sovereign debt⁽¹⁾ represented by debt securities was 5.056,7 million Euro, and consisted entirely of Italian government bonds; these securities, with a par value of 5.093,5 million Euro, are classified under Available for sale (AFS) financial assets or Held-to-maturity (HTM) financial assets and included in the banking book; the weighted residual average life of these securities is approximately twenty-two months.

The fair values used to measure the exposures to sovereign debt at 31 December 2014 are considered level 1, and the exposures concerned were not impaired at that date. For further details on the measurement method applied and the classification, please refer to the sections on Accounting policies and Information on the statement of financial position.

Pursuant to the CONSOB Communication, besides the exposure to sovereign debt, it is also necessary to consider receivables due from the Italian National Administration, which at 31 December 2014 totalled 747,5 million Euro, with 83,5 million Euro due from the “central Government” (of which 81,9 million Euro relating to tax receivables) and 664,0 million Euro due from “other public bodies”.

The valuation reserve, gross of the tax effect related to the overall position in Italian government bonds, went from a positive value of 471 thousand Euro (315 thousand Euro net of the tax effect) to a positive value of approximately 141 million Euro at 18 February 2015 (94 million Euro net of the tax effect). At the date of preparation of these Notes, the latent gain relating to government bonds recognised in the HTM portfolio and measured at amortised cost (133,7 million Euro gross of the relevant tax effect at the end of 2014) amounted to 147,2 million Euro, gross of taxes.

(1) As indicated in the ESMA document, ‘exposures to sovereign debt’ refer to bonds issued by and loans given to central and local government and governmental bodies.

E. Sale transactions

A. Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised refer to Italian government bonds used for repurchase agreements with Cassa di Compensazione e Garanzia as counterparty. Those financial assets are recognised under available for sale financial assets and held to maturity financial assets, whereas financing for repurchase agreements is recognised under payables due to customers.

Quantitative information

E.1 Financial assets sold and not derecognised: book value and full value

Banking products/ portfolio	Financial assets held for trading			Financial assets measured at fair value			Available for sale financial assets			Financial assets held to maturity			Due from banks			Due from customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.14	31.12.13
A. Cash assets	-	-	-	-	-	-	-	-	-	2.027.433	-	-	-	-	-	-	-	-	2.027.433	262.223
1. Debt securities	-	-	-	-	-	-	-	-	-	2.027.433	-	-	-	-	-	-	-	-	2.027.433	262.223
2. Equity securities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. O.E.I.C.	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31.12.2014	-	-	-	-	-	-	-	-	-	2.027.433	-	-	-	-	-	-	-	-	2.027.433	X
<i>of which impaired</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X
Total 31.12.2013	-	-	-	-	-	-	28.368	-	-	233.855	-	-	-	-	-	-	-	-	X	262.223
<i>of which impaired</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	-

Key:

A= Financial assets sold and fully recognised (book value)

B= Financial assets sold and partly recognised (book value)

C= Financial assets sold and partly recognised (full value)

Section 2 – market risks

Generally, as Banca IFIS does not usually trade in financial instruments, its financial risk profile refers mainly to the banking portfolio.

At the end of 2014, the Bank recognised a currency swap, included under the Bank's financial assets, with a mark-to-market value of approximately 181 thousand Euro. The classification of this derivative under financial assets held for trading does not reflect the purpose of the transactions, which is to mitigate the impact of potential fluctuations in the exchange rates.

2.1 Interest rate risk and price risk – supervisory trading book

Qualitative information

Banca IFIS does not usually trade in financial instruments. At the end of 2014, excluding the minor derivative described above, the only asset included in the supervisory trading book was a convertible bond of negligible amount, which was fully written down after the issuer declared default.

Quantitative information

1. Supervisory trading book: distribution by residual duration (re-pricing date) of cash financial assets and liabilities and financial derivatives

Currency: Euro

Type/Residual duration	on demand	up to 3 months	over 3 months up to 6 months	over 6 months up to 1 year	over 1 year up to 5 years	over 5 years up to 10 years	over 10 years	indefinite duration
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	13.000	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	13.000	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other	-	13.000	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	13.000	-	-	-	-	-	-

This report has not yet been audited by Reconta Ernst & Young S.p.A.

2.2 Interest rate risk and price risk – banking portfolio

Qualitative information

A. Overview, management procedures and measurement methods concerning the interest rate risk and the price risk

In general, Banca IFIS does not assume significant interest rate risks, as it obtains funds mainly from interbank deposits (either collateralised or not) and from retail customers through the rendimax and contomax current accounts. Interbank funding operations are generally at a fixed rate and very short-term. Customer deposits on the rendimax and contomax current accounts are at a fixed rate for the fixed-term part, while on demand and call deposits are at a non-indexed floating rate the Bank can unilaterally revise without prejudice to legal and contractual provisions. Loans to customers are usually revocable and at floating rate. Interest rates applied to traditional customers for factoring relationships are normally indexed (mainly at the 3-month Euribor rate) with automatic adjustment to the trend in the cost of money. In some cases, the interest rates are not indexed, but they can be unilaterally changed by the Bank without prejudice to legal and contractual provisions in this case, too.

As far as operations on Distressed Retail Loans are concerned, with a business model that focuses on acquiring receivables at prices lower than their book value, there is a potential interest rate risk connected to the uncertainty about when the receivables will be collected. The variability in the loan's term, which to all intents and purposes can be considered at a fixed rate, is particularly important with reference to tax receivables, the overall par value of which is highly likely to be collected, although in the medium/long term. In this context, and in order to effectively mitigate interest rate risk, it is particularly important to correctly assess the operation during the initial acquisition stage. Taking into account the impact of purchases of distressed retail loans, the contribution in terms of interest rate risk to the Banca IFIS's overall position, although positive, cannot be considered material.

At the end of 2014, approximately fifty-six per cent of the bond portfolio consisted of bonds indexed to market rates and fourteen per cent of inflation-indexed bonds. The remainder consists of fixed-rate short-term bonds. The average duration of the overall portfolio is approximately five months.

The interest rate risk connected to funding operations carried out by the Treasury Department is assumed according to the limits and policies set by the Board of Directors, with precise delegations of power limiting the autonomy of those authorised to operate within the Bank's Treasury Department.

The business functions responsible for ensuring interest rate risk is managed correctly are: the Treasury Department, which directly manages funding operations and the bond portfolio; the Risk Management function, responsible for selecting the most appropriate risk indicators and monitoring assets and liabilities with reference to pre-set limits; and, lastly, the Top Management, which every year shall make proposals to the Board regarding policies on lending, funding and the management of the interest rate risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Bank.

As part of current operations and based on funding indications from the Treasury Department, as well as interest rate forecasts and assessments of lending trends, the Top Management provides the Treasury Department with guidelines on the use of available credit lines, with a view to taking

advantage of changes in interest rates on very short-term maturities and monitoring interest rate-risk trends with reference to the physiological mismatching between assets and liabilities.

In order to monitor interest rate risk, the Top Management receives a daily summary on the overall cash position. Furthermore, the Risk Management function periodically reports to the Bank's Board of Directors on the interest rate risk position by means of a quarterly Dashboard prepared for the Bank's management.

The Integrated Treasury (SIT) and Risk Management System provides further tools for assessing and monitoring the main interest rate sensitive credit and debit items.

With reference to the 2012 ICAAP Report, sent to the Supervisory Body in April 2014, the interest rate risk falls under the category of second-pillar risks. In the final document sent to the Supervisory Body, as per the relevant regulations (Circular 263 of 27 December 2006 – Title III, Chapter 1, Annex C), the Interest Rate Risk has been specifically measured in terms of capital absorption. In the face of a warning threshold of 20% of total own funds, the resulting risk indicator for the Bank was 9,7% as at 31 December 2013.

Considering the extent of the risk assumed, Banca IFIS does not usually hedge interest rate risk.

As for the price risk, the Bank does not generally assume risks connected with price fluctuations on financial instruments, as its business focuses on financing SMEs' working capital.

As for bonds held, some are classified under Available for sale financial assets, giving rise to the risk that the Bank's capital reserves could fluctuate as a consequence of the change in the bonds' fair value. Nonetheless, this risk is relatively low, given the high credit standing of the issuers and the short average duration of the portfolio.

The Risk Management function is responsible for monitoring the price risk that the Bank assumes in carrying out its operations. Thanks to the Integrated Treasury System (SIT) and the contribution of the Risk Management System, Banca IFIS can assess and monitor the operations of the treasury, providing appropriate tools for assessing price risks. Specifically, the SIT also allows to:

- manage the Treasury's traditional operations (securities, exchange rates, money market and derivatives);
- measure and control the exposure to specific types of market risk;
- establish and constantly monitor limits set for the various operational functions.

B. Fair value hedging

There are no fair value hedges.

C. Cash flow hedging

There are no cash flow hedges.

Quantitative information

1. Banking portfolio: distribution by residual duration (re-pricing date) of financial assets and liabilities - Currency: Euro

Type/residual duration	on demand	up to 3 months	over 3 months up to 6 months	over 6 months up to 1 year	over 1 year up to 5 years	over 5 years up to 10 years	over 10 years	indefinite duration
1. Cash assets	2.380.168	568.839	4.752.210	241.268	126.552	45.338	187	-
1.1 Debt securities	-	201.879	4.710.144	155.721	513	-	-	-
- with early redemption option	-	-	-	-	513	-	-	-
- other	-	201.879	4.710.144	155.721	-	-	-	-
1.2 Loans to banks	101.679	157.281	-	-	-	-	-	-
1.3 Loans to customers	2.278.489	209.679	42.066	85.547	126.039	45.338	187	-
- current accounts	155.449	642	1.252	1.264	18.479	1.838	17	-
- other loans	2.123.040	209.037	40.814	84.283	107.560	43.500	170	-
- with early redemption option	75.387	-	-	-	-	-	-	-
- other	2.047.653	209.037	40.814	84.283	107.560	43.500	170	-
2. Cash liabilities	659.300	6.244.529	301.834	295.128	238.014	946	2.363	-
2.1 Due to customers	659.200	3.985.657	301.834	295.128	238.014	946	2.363	-
- current accounts	659.200	1.902.726	301.673	292.989	232.191	-	-	-
- other payables	-	2.082.931	161	2.139	5.823	946	2.363	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	2.082.931	161	2.139	5.823	946	2.363	-
2.2 Due to banks	100	2.258.872	-	-	-	-	-	-
- current accounts	100	-	-	-	-	-	-	-
- other payables	-	2.258.872	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet	-	6.590	-	-	-	-	-	-
+ long positions	-	3.295	-	-	-	-	-	-
+ short positions	-	3.295	-	-	-	-	-	-

2.3 Currency risk

Qualitative information

A. Overview, management procedures and measurement methods concerning the currency risk

Assumption of the currency risk, intended as an operating element that could potentially improve treasury performance, represents a speculative instrument: in principle, therefore, it is not part of Banca IFIS's policies. The Bank's currency operations basically involve transactions in the name or on behalf of customers and are normally associated with traditional factoring operations. In this sense, the advances in foreign currency granted to customers are generally hedged with deposits and/or loans from other banks in the same currency, thus eliminating for the most part the risk of losses connected to exchange rate fluctuations. In some cases, synthetic instruments are used as hedging instruments.

A residual currency risk arises as a physiological consequence of the mismatch between the clients' borrowings and the Treasury Department's funding operations in foreign currency. Such mismatches are mainly a result of the difficulty in correctly anticipating financial trends connected with factoring operations, with particular reference to cash flows from account debtors vis-à-vis the maturities of loans granted to customers, as well as the effect of interest on them.

However, the Treasury Department strives to minimise such mismatches every day, constantly realigning the size and timing of foreign currency positions.

Currency risk related to the Bank's business is assumed and managed according to the risk policies and limits set by the Board of Directors, with precise delegations of power limiting the autonomy of those authorised to operate, as well as especially strict limits on the daily net currency position.

The business functions responsible for ensuring the currency risk is managed correctly are: the Treasury Department, which directly manages the bank's funding operations and currency position; the Risk Management function, responsible for selecting the most appropriate risk indicators and monitoring them with reference to pre-set limits; and the Top Management, which every year shall make proposals to the Bank's Board of Directors regarding policies on funding and the management of the currency risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Bank.

In order to monitor the currency risk, the Top Management receives a daily summary on the treasury's general position, showing, among other things, the Bank's currency position broken down by currency. The Integrated Treasury System (SIT) provides control functions with the appropriate tools for monitoring and managing the currency risk. Furthermore, the Risk Management function periodically reports to the Bank's Board of Directors on the currency risk position by means of a quarterly Dashboard prepared for the Bank's management.

With the acquisition of the Polish subsidiary, Banca IFIS has assumed the currency risk represented by the initial investment in IFIS Finance's share capital for an amount of 21,2 million Zloty and the subsequent share capital increase for an amount of 66 million Zloty.

Furthermore, Banca IFIS owns a 10% interest in India Factoring and Finance Solutions Private Limited, worth 200 million Indian rupees and with a market value of 3.044 thousand Euro at the historical exchange rate.

Considering the size of this investment, the Bank did not deem it necessary to hedge the ensuing currency risk.

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items	Currency					
	US DOLLAR	POUND STERLING	JAPANESE YEN	CANADIAN DOLLAR	SWISS FRANC	OTHER CURRENCIES
A. Financial assets	19.910	298	-	38	26	20.451
A.1 Debts securities	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	-
A.3 Loans to banks	1.670	100	-	38	26	14.667
A.4 Loans to customers	18.240	198	-	-	-	5.784
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	-	-	-	-	-	-
C. Financial liabilities	18.093	29	17	-	-	3.982
C.1 Due to banks	18.022	-	17	-	-	3.982
C.2 Due to customers	71	29	-	-	-	-
C.3 Equity securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	437
E. Financial derivatives	-	-	-	-	-	13.181
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	13.181
Total assets	19.910	298	-	38	26	20.451
Total liabilities	18.093	29	17	-	-	17.600
Unbalance (+/-)	1.817	269	(17)	38	26	2.851

2.4 Derivative instruments

A. Financial derivatives

Banca IFIS does not trade in financial derivatives on behalf of third parties and limits proprietary trading to instruments hedging against market risk.

Banca IFIS often uses financial derivatives to hedge currency exposures. At 31 December 2014, recognised a currency swap hedging against fluctuations in the EUR/Zloty exchange rate classified under Financial assets held for trading. As for the transactions entered into, it should be noted that the Bank never undertakes speculative transactions.

A.1 Supervisory trading book: year-end notional and average amounts

Underlying assets/ Types of derivatives	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	-	-	10.000	-
a) Options	-	-	-	-
b) Swap	-	-	10.000	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equity instruments and share indexes	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currency and gold	13.000	-	21.423	-
a) Options	-	-	-	-
b) Swap	13.000	-	21.423	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Goods	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	13.000	-	31.423	-
Average values	13.000	-	5.237	-

A.3 Financial derivatives: positive fair value – breakdown by product

Underlying assets/Types of derivatives	Positive fair value			
	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	181	-	10	-
a) Options		-	-	-
b) Interest rate swap		-	-	-
c) Cross currency swap	181	-	10	-
c) Equity swap	-	-	-	-
d) Forward	-	-	-	-
e) Futures	-	-	-	-
e) Others	-	-	-	-
B. Banking book - hedging	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
c) Equity swap	-	-	-	-
d) Forward	-	-	-	-
e) Futures	-	-	-	-
e) Others	-	-	-	-
C. Banking book – other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
c) Equity swap	-	-	-	-
d) Forward	-	-	-	-
e) Futures	-	-	-	-
e) Others	-	-	-	-
Total	181	-	10	-

A.4 Financial derivatives: negative fair value – breakdown by product

Underlying assets/Types of derivatives	Negative fair value			
	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	-	-	358	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	130	-
c) Cross currency swap	-	-	228	-
c) Equity swap	-	-	-	-
d) Forward	-	-	-	-
e) Futures	-	-	-	-
e) Others	-	-	-	-
B. Banking book - hedging	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
c) Equity swap	-	-	-	-
d) Forward	-	-	-	-
e) Futures	-	-	-	-
e) Others	-	-	-	-
C. Banking book – other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
c) Equity swap	-	-	-	-
d) Forward	-	-	-	-
e) Futures	-	-	-	-
e) Others	-	-	-	-
Total	-	-	358	-

A.6 OTC financial derivatives: supervisory trading book: notional values, gross positive and negative fair value by counterparty – contracts included in netting agreements

Contracts included in netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Others
1) Debt securities and interest rates							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Equity instruments and share indexes							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3) Currency and gold							
- notional value	-	-	-	13.000	-	-	-
- positive fair value	-	-	-	181	-	-	-
- negative fair value	-	-	-	-	-	-	-
4) Other assets							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional amounts

Underlying/Residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A. Supervisory trading book	13.000	-	-	13.000
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	13.000	-	-	13.000
A.4 Financial derivatives on other assets	-	-	-	-
B. Banking book	-	-	-	-
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
B.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other value	-	-	-	-
Total 31.12.2014	13.000	-	-	13.000
Total 31.12.2013	31.423	-	-	31.423

Section 3 - Liquidity risk

Qualitative information

A. Overview, management procedures and measurement methods of the liquidity risk

The liquidity risk refers to the possibility that the Bank fails to service its debt obligations due to the inability to raise funds or sell enough assets on the market to address the financial deficit. The liquidity risk also refers to the inability to secure new adequate financial resources, in terms of amount and cost, to meet its operating needs and opportunities, hence forcing the Bank to either slow down or stop its operations, or incur excessive funding costs in order to service its obligations, significantly affecting its profitability.

Financial resources are represented by equity, on-line funding from retail customers, and funding operations carried out both on the domestic and international interbank market and with the Eurosystem. Considering the composition of the Bank's assets, the kind of business it carries out, and the strategies the Board of Directors defined in order to limit factoring operations on trade receivables to short or very short terms (normally not exceeding 6 months, excluding receivables due from the Public Administration, with average collection periods usually up to 12 months), the liquidity risk for Banca IFIS, under normal financial market conditions, is not particularly critical.

With reference to the Bank's operations concerning Distressed Retail Loans and the purchases of tax receivables arising from insolvency proceedings, the characteristics of the business model imply a high level of variability concerning both the amount collected and the date of actual collection. Therefore, the timely and careful management of cash flows is particularly important. Due to the limited amount of distressed retail loans as a proportion of Banca IFIS's total assets, the overall impact on the maturity matching of assets and liabilities can be deemed marginal. In order to ensure expected cash flows are correctly assessed, also with a view to correctly pricing the operations undertaken, the Bank carefully monitors the trend in collections compared to expected flows.

Banca IFIS has always secured financial resources more than adequate for its needs thanks to its wide and diverse interbank relationships, the market's positive response to its on-line funding source, the setting up of a portfolio eligible for Repo transactions, the refinancing operations with the Eurosystem (LTRO and TLTRO); and the type and quality of its assets.

During the period, the Bank pursued particularly prudent financial policies aimed at favouring funding stability. This policy, which affects the economic efficiency of treasury management, in terms of the rate spread between interbank funding and lending, to guarantee certain and stable liquidity, is adequately supported by the profitability of the Bank's operations.

At the moment, the available financial resources are adequate for current and future business volumes. Nonetheless, the Bank is constantly striving to improve the state of its financial resources, in terms of both size and cost.

The Bank's business functions responsible for ensuring that liquidity policies are properly implemented are: the Treasury Department, which directly manages liquidity; the Risk Management function, responsible for selecting the most appropriate risk indicators and monitoring them with reference to pre-set limits; and the Top Management, which every year shall make proposals to the Bank's Board of Directors regarding policies on funding and the management of liquidity risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Bank.

More specifically, as part of current operations and based on indications from the Treasury Department, as well as assessments of lending trends, the Top Management establishes policies for financing operations with durations over 3 months, in order to support ordinary short-/very short-term treasury operations, as well as manage and monitor liquidity risk.

As for its own direct operations, the Bank adopted a model for analysing and monitoring present and future liquidity positions as an additional element systematically supporting the Top Management's and the Board of Directors' decisions concerning liquidity. The results of periodic analyses carried out under both normal and stress market conditions are reported directly to the Supervisory Body. In compliance with supervisory provisions, the Bank also has a Contingency Funding Plan aimed at protecting Banca IFIS from losses or threats arising from a potential liquidity crisis and guaranteeing business continuity even in the midst of a serious emergency arising from its own internal organisation and/or the market situation.

Furthermore, the Risk Management function periodically reports to the Bank's Board of Directors on the liquidity risk position by means of a Dashboard prepared for the Bank's management.

As part of the continuous process of updating internal procedures, and taking into account the changes in the relevant prudential regulation, the Bank has implemented a liquidity risk governance and management system.

Quantitative information

1. Distribution by residual contractual duration of financial assets and liabilities - Currency: Euro

Items/Duration	on demand	over 1 day up to 7 days	over 7 days up to 15 days	over 15 days up to 1 month	over 1 month up to 3 months	over 3 months up to 6 months	over 6 months up to 1 year	over 1 year up to 5 years	over 5 years	Indefinite duration
Cash assets	1.166.090	166.751	167.347	350.952	781.046	1.400.975	1.108.694	3.125.298	92.152	18.516
A.1 Government securities	-	-	3.375	-	178.719	1.225.102	898.126	2.855.500	-	-
A.2 Other debt securities	-	-	-	4	3.016	3.014	519	5.466	-	-
A.3 O.E.I.C. units	-	-	-	-	-	-	-	-	-	-
A.4 Loans to	1.166.090	166.751	163.972	350.948	599.311	172.859	210.049	264.332	92.152	18.516
- banks	106.552	128.250	3.744	7.046	-	-	-	-	-	18.516
- customers	1.059.538	38.501	160.228	343.902	599.311	172.859	210.049	264.332	92.152	-
Cash liabilities	683.835	3.750.640	70.761	129.303	2.193.288	319.146	305.728	352.431	3.310	-
B.1 Deposits and current accounts	683.835	67.737	70.761	129.303	1.686.035	319.146	305.728	232.814	3.310	-
- banks	9.338	13.940	8.620	8.633	825	-	-	-	-	-
- customers	674.497	53.797	62.141	120.670	1.685.210	319.146	305.728	232.814	3.310	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	3.682.903	-	-	507.253	-	-	119.617	-	-
Off-balance-sheet transactions	-	-	-	-	6.590	-	-	-	-	-
C.1 Financial derivatives with exchange of	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives with exchange of	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitment to grant funds	-	-	-	-	6.590	-	-	-	-	-
- long positions	-	-	-	-	3.295	-	-	-	-	-
- short positions	-	-	-	-	3.295	-	-	-	-	-
C.5 Financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with capital exchange	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without capital exchange	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

This report has not yet been audited by Reconta Ernst & Young S.p.A.

Self-securitisation operation IFIS Collection Service

On 13 October 2008, Banca IFIS, together with Securitisation Services S.p.A. as the Arranger, BNP Paribas S.p.A. as the Co-arranger and IFIS Collection Services S.r.l., a special purpose vehicle, initiated a revolving securitisation programme under which Banca IFIS would transfer, without recourse and as per Law 130/99, a portfolio of performing trade receivables due from account debtors the Bank previously acquired from its customers as part of its factoring operations.

The programme was intended to last five years and involved the transfer of a trade receivables portfolio due from account debtors, identifiable in block according to contractually defined eligibility criteria that are particularly strict and rigorous, in order to guarantee the positive performance of the factored portfolio.

Under the securitisation programme, the special purpose vehicle IFIS Collection Services S.r.l. had issued limited-recourse asset-backed securities for an initial par value of 328 million Euro, which Banca IFIS underwrote in full.

In October 2013, the revolving period of the securitisation came to an end. The amortisation period, during which the securities issued by the vehicle were reimbursed in full, ended on 24 February 2014, when the termination letters were signed. On the same day, the Bank bought back the portfolio of receivables sold to the vehicle and not collected.

Self-securitisation operation Il Giglio

On 25 January 2011, Toscana Finanza's Board of Directors resolved to implement a securitisation programme for non-performing loans pursuant to Law 130 of 30 April 1999 in order to optimise the operational and economic management of part of its financial receivables portfolio.

The operation concerned non-performing banking loans identifiable in block and largely backed by mortgages for an overall par value of around 33,7 million Euro.

The special purpose vehicle, Giglio Srl, issued floating-rate asset-backed securities that were wholly underwritten by the merged company Toscana Finanza S.p.A., which was given a specific sub-servicing mandate for the collection and management of the receivables.

It should be noted that, pursuant to the terms and conditions of the operation, there is no substantial transfer of all the risks and rewards relating to the transferred assets (receivables). Therefore, and on the basis of international accounting standards (IAS/IFRS – Derecognition), the operation undertaken does not have any significant impact on the financial statements.

Exposure to high risk instruments – disclosure

Considering the goals it pursues and the technical aspects of the revolving securitisation of trade receivables described above, Banca IFIS faces no exposure or risks arising from the trading or holding of structured credit products, whether carried out directly or through unconsolidated special purpose vehicles or entities. In particular, it is important to stress that the securitisation operations have not removed any risk from the Bank's total assets, since the derecognition requirements set by IAS 39 were not met. Meanwhile, the underwriting of the securities arising from the securitisation has not added any risk nor changed the presentation of the financial statements compared to that prior to said securitisation.

With reference to the Recommendation set out in the Report of the Financial Stability Forum of 7 April 2008, Appendix B, we can state that there are no exposures to instruments deemed highly risky by the market or implying a risk greater than previously expected.

Section 4 - Operational risks

Qualitative information

A. Overview, management procedures and measurement methods concerning the operational risk

Operational risk is the risk of losses arising from inadequate or dysfunctional procedures, human resources, internal systems or external events. Losses from fraud, human error, business disruption, unavailability of systems, breach of contract and natural disasters all fall under this category. Managing operational risks requires the ability to identify the risks entailed by all significant products, activities, processes and systems that could compromise the Bank's goals. Operational risks include the risks of judicial or administrative sanctions, significant financial losses or reputational damage following violations of mandatory legal provisions (laws and regulations, such as the laws on banking transparency, anti-money laundering, privacy and administrative liability of legal entities) or corporate governance provisions (for example, the Corporate Governance Code for listed companies).

Correctly managing operational risks strictly requires adequate organisational structures, operational procedures and IT support. It is also extremely important to properly train resources. Indeed, Banca IFIS is constantly committed to the professional training and growth of its human resources.

During 2014, the Bank further strengthened the controls over operational risks, also by progressively updating internal processes aimed at monitoring and identifying potential anomalous situations. In addition, it started a gradual process to enhance the methods for identifying and measuring operational risks, consistently with the sector's market practices.

As far as business continuity is concerned, Banca IFIS has adopted a Business Continuity Plan, that is a set of initiatives and counter-measures designed to keep business disruptions within the limits set in business continuity strategies. The Business Continuity Plan also includes the Disaster Recovery plan, designed to deal with events that could disrupt the corporate IT systems.

As for Basel 2 principles for calculating capital requirements against first-pillar operational risks, the Bank chose to adopt the Basic Indicator Approach.

Part F – Equity

Section 1 – Equity

A. Qualitative information

Managing equity concerns a set of policies and decisions necessary to establish capital levels that are consistent with the assets and risks taken by the bank. Banca IFIS is subject to the capital adequacy requirements established by the so-called Basel Committee (CRR/CRD IV).

Ensuring that supervisory and capital adequacy requirements are met is a dynamic process based on objectives set right from the planning stage. Said objectives account for the potential evolution of risk, as well as the provisions of the Risk Appetite Framework (so-called RAF), which is constantly monitored.

Furthermore, also in accordance with the European Central Bank's recommendation of 28 January 2015, the Bank ensures compliance with capital adequacy through a pay-out policy linked to the achievement of the above minimum capital requirements, as well as the careful assessment of the potential impact of extraordinary financial operations (share capital increases, convertible loans etc.).

Thus, the Bank monitors compliance with regulatory capital ratios and ensures capital adequacy as measured under the RAF throughout the year and on a quarterly basis.

The Bank's capital adequacy is further assessed and monitored every time an extraordinary operation is planned. In these cases, based on available information regarding said operations, Banca IFIS estimates the impact on capital adequacy ratios and considers the necessary measures, if any, to meet requirements.

Transactions on treasury shares

The Ordinary Shareholders' Meeting of 17 April 2014 renewed the authorisation to purchase and sell treasury shares, pursuant to art. 2357 et seq. of the Italian Civil Code, as well as art. 132 of Legislative Decree 58/98, establishing a price interval within which the shares can be bought between a minimum of 4 Euro and a maximum of 25 Euro, for a total amount of 40 million Euro. The Meeting also established that the authorisation lapses after 18 months from the date the resolution was passed.

At 31 December 2013, the bank held 1.083.583 treasury shares recognised at a market value of 7,9 million Euro and a par value of 1.083.583 Euro.

During the year it sold, at an average price of 13,96 Euro, 196.418 treasury shares with a market value of 2,7 million Euro and a par value of 196.418 Euro, making profits of 1,5 million Euro which, in compliance with international accounting standards, were recognised under capital reserves.

The remaining balance at the end of the year was 887.165 treasury shares with a market value of 6,7 million Euro and a par value of 887.165 Euro.

B. Quantitative information

B.1 Equity: breakdown

Items	31.12.2014	31.12.2013
1. Share capital	53.811	53.811
2. Share premium reserve	57.113	75.560
3. Reserves	228.848	155.465
- from profits	186.862	133.625
a) legal	10.762	10.762
b) statutory	-	-
c) treasury shares	-	-
d) other	176.100	122.863
- other ⁽¹⁾	41.986	21.840
4. Equity instruments		-
5. (Treasury shares)	(6.715)	(7.903)
6. Revaluation reserves	5.707	15.904
- Available-for sale financial assets	5.969	15.980
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Non-current assets classified held for sale	-	-
- Actuarial gains (losses) on defined benefit plans	(262)	(76)
- Changes in valuation reserve pertaining to equity method investments:	-	-
- Special revaluation loans	-	-
7. Net profit (loss)	94.396	83.403
Total	433.160	376.240

(1) The item includes euro 40,0 million of treasury shares reserve and future purchase of treasury shares which do not result from Reserves from profits

B.2 Valuation reserves of available for sale financial assets: breakdown

Assets/amounts	31.12.2014		31.12.2013	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	7.553	1.853	18.772	(3.240)
2. Equity instruments	270	1	449	(1)
3. O.E.I.C. units	-	-	-	-
4. Loans	-	-	-	-
Total	7.823	1.854	19.221	(3.241)

B.3 Valuation reserves of available for sale financial assets: annual changes

	Debt Securities	Equity instruments	O.E.I.C. units	Loans
1. Opening balance	15.532	448	-	-
2. Increases	1.320	36	-	-
2.1 Fair value gains	31	36	-	-
2.2 Reversal to income statement of negative reserves:	-	-	-	-
- from impairment losses	-	-	-	-
- from realisation	-	-	-	-
2.3 Other increases	1.289	-	-	-
3. Reductions	11.152	215	-	-
3.1 Fair value losses	1.144	-	-	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to income statement of positive reserves:	-	215	-	-
- from realisation	-	215	-	-
3.4 Other reductions	10.008	-	-	-
4. Closing balance	5.700	269	-	-

As required by art. 2427 cc, paragraph 7-bis, the following table shows the equity items along with the nature, utilization and distribution possibilities, as well as what has been used previous years.

Equity Items	Amount as of 31.12.2014	Potential Usage Purpose (*)	Available Amount	Activity Summary for last three years	
				Losses Coverage	Other reasons
Share capital	53.811		-	-	-
Share premiums	57.113	A, B, C ⁽¹⁾	57.113	-	20.000
Reserves:	228.848		224.292	-	-
- <i>Legal Reserve</i>	10.762	B	10.762	-	-
- <i>Extraordinary Reserve</i>	178.175	A, B, C	178.175	-	-
- <i>Reserve from International Accounting Standards adoption</i>	(2.159)		-	-	-
- <i>Treasury share Reserves</i>	40.000	A, B ⁽²⁾	33.285	-	-
- <i>other</i>	2.070	A, B, C	2.070	-	-
Revaluation Reserves:	5.707		-	-	-
- <i>Available-for sale financial assets</i>	5.969	⁽³⁾	-	-	-
- <i>Actuarial gains (losses) on defined benefit plans</i>	(262)		-	-	-
<i>Treasury share (-)</i>	(6.715)		-	-	-
Net profit (loss)	94.396		-	-	-
Total	433.160		281.405	-	20.000

(*) A = to increase capital, B = to cover losses, C = for distribution to shareholders.

(1) The share premium reserve is available and distributable as the legal reserve has reached one fifth of the share capital

(2) Available within the limits of the amount of treasury shares, pursuant to art. 2357 CIVIL CODE.

(3) The reserve is restricted pursuant to art. 6 of Legislative Decree 38/2005.

Section 2 – Own funds and prudential ratios

2.1 Own Funds

A. Qualitative information

Own funds, risk-weighted assets and solvency ratios at 31 December 2014 were determined based on the new harmonised framework set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, as well as Bank of Italy's Circulars no. 285 and 286 (issued during 2013) and the update to Circular no. 154.

Pursuant to the provisions concerning own funds, the new regulatory framework will be gradually phased in over a transitional period extending until approximately 2017.

1. Common equity Tier 1 Capital (CET1)

A) Common equity Tier 1 Capital (CET1)

This item includes:

- 53,8 million Euro in paid-up capital instruments;
- 57,1 million Euro in share premium;
- 6,7 million Euro in own CET1 instruments;
- 288,2 million Euro in other reserves, including retained earnings; specifically, this item includes the 47,8 million Euro profit recognised under Own Funds pursuant to article 26 of the CRR, less the foreseeable dividends to be paid to the owners of the Parent, totalling 59,3 million Euro;
- accumulated other comprehensive income, positive to the tune of 5,7 million Euro and consisting of:
 - 0,2 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with the new IAS19;
 - 5,9 million Euro in positive reserves for available for sale financial assets;

D) Items to be deducted from CET1

This item includes the following main aggregates:

- 5,7 million Euro other intangible assets.

E) Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions

This item includes the following transitional adjustments:

- exclusion of unrealised gains on AFS securities, totalling 5,9 million Euro (-);
- positive filter on negative actuarial reserves (IAS 19), amounting to 0,2 million Euro (+);

2. Additional Tier 1 Capital (AT1)

Additional Tier 1 Capital is not quantifiable in the absence of elements.

3. Tier 2 Capital (T2)

O) Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions

This item includes:

- positive national filter introduced by Bank of Italy Circular no. 285, equal to 80% of the 50% of unrealised gains on AFS securities, which amounts to 0,1 million Euro (+);

B. Quantitative information

	31.12.2014	31.12.2013 ⁽¹⁾
A. Common Equity Tier 1 (CET1) before application of prudential filters	398.081	324.660
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	-	-
C. CET1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	398.081	338.185
D. Items to be deducted from CET1	5.737	13.525
E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions	(5.707)	-
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	386.637	324.660
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime	-	-
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions	-	-
L. Total Additional Tier 1 Capital (AT1) (G-H+/-I)	-	-
M. Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime	-	449
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	225
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions	120	-
P. Total Tier 2 Capital (T2) (M-N+/-O)	120	224
Q. Total own funds (F+L+P)	386.757	324.884

(1) Data recognised according to the previous regulations (Basel 2).

2.2 Capital adequacy

A. Qualitative information

Starting from 1 January 2014, Italian banks must meet a CET 1 ratio of at least 4,5%, a Tier 1 ratio of at least 5,5% (6% from 2015), and a Total Capital Ratio of at least 8%. In addition to these minimum ratios, starting from 1 January 2014, banks must also hold a capital buffer of 2,5% of the bank's overall risk exposure represented by common equity tier 1 capital.

As showed in the table on the breakdown of risk-weighted assets and prudential ratios, at 31 December 2014, Banca IFIS had a CET1 capital ratio of 14,1%, a Tier1 capital ratio of 14,1%, and a Total capital ratio of 14,1%.

B. Quantitative information

Categories/Items	Non-weighted amounts		Weighted amounts/ requirements	
	31.12.2014	31.12.2013 ⁽¹⁾	31.12.2014	31.12.2013 ⁽¹⁾
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	8.399.834	11.351.771	2.245.296	2.000.293
1. Standardised approach	8.399.834	11.351.771	2.245.296	2.000.293
2. Internal rating method	-	-	-	-
2.1 Basic indicator approach	-	-	-	-
2.2 Advanced measurement approach	-	-	-	-
3. Securitisation programmes	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS			-	-
B.1 Credit risk and counterparty risk			179.624	160.023
B.2. Credit valuation adjustment risk			-	-
B.3. Settlement risk			-	-
B.4 Market risks			-	-
1. Standard method			-	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			39.725	30.877
1. Basic indicator approach			39.725	30.877
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation factors			-	(47.725)
B.7 Total prudential requirements			219.349	143.175
C. RISK ASSETS AND CAPITAL REQUIREMENT RATIOS			-	-
C.1 Risk-weighted assets			2.741.855	1.789.688
C.2 Common equity Tier 1 Capital/Risk-weighted assets (CET 1 Capital ratio)			14,10%	18,14%
C.3 Tier 1 Capital /Risk-weighted assets (Tier 1 capital ratio)			14,10%	18,14%
C.4 Total own funds/ Risk-weighted assets (Total capital ratio)			14,11%	18,15%

(1) Data recognised according to the previous regulations (Basel 2).

Part G – Business combinations

Section 1 – Transactions carried out during the year

In 2014, Banca IFIS did not carry out business combinations as per IFRS 3.

Section 2 – Transactions carried out after the end of the year

Banca IFIS did not carry out any business combinations between the end of the year and the date of preparation of these financial statements.

Section 3 – Retrospective adjustments

Banca IFIS did not carry out any business combinations as per IFRS 3 during the year, therefore this section will be left blank.

Part H – Related-party transactions

In compliance with the provisions of Consob resolution no. 17221 of 12 March 2010 (as subsequently amended by means of Resolution no. 17389 of 23 June 2010) and the provisions of Circular 263/2006 (Title V, Chapter 5) of the Bank of Italy, Banca IFIS prepared the procedure relating to transactions with “related parties”, the current version of which was approved by the Board of Directors on 17 July 2013. This document is publicly available on Banca IFIS’s website, www.bancaifis.it, in the ‘Corporate Governance’ Section.

During 2014, no significant transactions with related parties were undertaken.

As at 31 December 2014, the Banca IFIS Group is controlled by La Scogliera S.p.A. and consists of the Parent Company, Banca IFIS S.p.A., and the wholly owned subsidiary IFIS Finance Sp. Z o.o.

The types of related parties, as defined by IAS 24, that are relevant for Banca IFIS include:

- the parent company;
- managers with strategic responsibilities;
- close relatives of key management personnel and the companies controlled by (or associated to) them or their close relatives.

Here below is the information on the remuneration of key management personnel as well as transactions undertaken with the different types of related parties.

1. Information on the remuneration of key management personnel

The definition of key management personnel, as per IAS 24, includes all those persons having authority and responsibility for planning, directing and controlling the activities of Banca IFIS, directly or indirectly, including the Bank’s directors (whether executive or otherwise).

In compliance with the provisions of the Bank of Italy’s Circular no. 262 of 22 December 2005 (as updated on 22 December 2014), key management personnel also include the members of the Board of Statutory Auditors.

Managers with strategic responsibilities

Short-term employee benefits	Post employment benefits	Other long-term benefits	Termination benefits	Share-based payments
3.585	-	79	40	185

The above information includes fees paid to Directors (2,5 million Euro, gross amount) and Statutory Auditors (290 thousand Euro, gross amount).

2. Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 31 December 2014, broken down by type of related party pursuant to IAS 24.

Items	Parent company	Subsidiaries	Managers with strategic responsibilities	Other related parties	Total	% on item
Held for trading financial assets	-	181	-	-	181	100,0%
Loans to customers	-	9.243	-	-	9.243	0,3%
Other assets	10.580	-	-	-	10.580	20,4%
Total assets	10.580	9.424	-	-	20.004	0,2%
Due to customers	75	-	833	1.675	2.583	0,0%
Total liabilities	75	-	833	1.675	2.583	0,0%

Items	Parent company	Subsidiaries	Managers with strategic responsibilities	Other related parties	Total	% on item
Interest receivable and similar income	1	16	-	-	17	0,0%
Interest due and similar expenses	(3)	-	(44)	(61)	(108)	0,1%
Net profit (loss) from trading	-	181	-	-	181	278,5%
Other operating income/expenses	36	542	-	(15)	(521)	(25,6)%

Transactions with the **Parent Company** relate to:

- the current account relationship with the Parent Company, La Scogliera S.p.A. The balance at 31 December 2014 shows a 75 thousand Euro payable due from Banca IFIS S.p.A. to the parent. Relations with La Scogliera S.p.A. are conducted at arm's length;
- the lease from Banca IFIS to La Scogliera of part of the property that housed the Bank's registered office until the end of 2005. Under the agreement, the annual lease payments total 32 thousand Euro plus VAT. This price was determined at arm's length.
- Banca IFIS, together with the parent company, La Scogliera S.p.A., opted for the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of Presidential Decree 917/86. Intragroup transactions were regulated by means of a private written agreement between the parties, signed in the month of May 2013. This agreement lapses after three years. Banca IFIS has an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company. Under this tax regime, Banca IFIS's taxable income is transferred to La Scogliera S.p.A., the consolidating company, which is responsible for calculating overall group income. Following this decision, at 31 December 2014 Banca IFIS recognised 10,6 million Euro in receivables due from the parent company under Other assets. This amount takes into account the offsetting of the Parent Company's tax losses in accordance with the procedure applicable under both this regime and the specific agreements the companies entered into.

Transactions with the **Subsidiaries Company** relate to:

- the loan granted by Banca IFIS at the end of 2014 to IFIS Finance Sp.Zo.o. 9,2 million Euro. These loans were repaid in January 2015;
- the interest rate swaps between Banca IFIS and IFIS Finance spp. Z o.o. for 181 thousand Euro.

Transactions with **key management personnel** relate almost entirely to rendimax or contomax savings accounts.

Transactions with **other related parties** are part of Banca IFIS's ordinary business and the conditions applied are at arm's length. Specifically, some individuals qualifying as other related parties held rendimax or contomax accounts with the Bank amounting to 1,7 million Euro overall.

Part I – Share-based payment agreements

A. Qualitative information

1. Description of share-based payment agreements

Top Management's remuneration consists of fixed pay and variable pay calculated as a percentage of consolidated profit gross of taxes.

Variable pay, which is limited to a maximum proportional to fixed pay, is paid partly upfront and partly deferred.

Upfront variable pay is awarded and paid after the approval of the financial statements and ICAAP report for the year to which it refers.

Deferred variable pay is deferred by three years and is not paid if:

- there is a pre-tax loss;
- in one of the three years following its determination, "overall capital" is reported to be less than "overall internal capital" in the "ICAAP report" to be submitted every year to the Bank of Italy;
- at the end of the third year, the recipient is no longer in the position for which pay was awarded.

Starting from 2014, variable pay is paid 50% in cash and 50% in Banca IFIS S.p.A. shares. This applies to both upfront and deferred variable pay.

For this purpose, the Bank plans to use treasury shares in its portfolio; the reference price for determining the number of shares equivalent to the value of the variable pay concerned will be the average share price for the period from 1 April through 30 April of the year the compensation is awarded and paid.

Upfront variable pay can be clawed back if in the year following its award the right to it has not vested.

B. Quantitative information

The table on annual changes is not presented here, since for Banca IFIS share-based payment agreements do not fall within the category concerned by said table.

2. Other information

The portion to be settled in shares of Top Management's variable pay awarded for the year 2014 amounts to 146 thousand Euro: the number of shares to be awarded will be calculated as described above.

Part L - Segment reporting

Banca IFIS S.p.A., parent company of the Group Banca IFIS, prepares segment information in Part L of the consolidated notes, as allowed by IFRS 8.

Venice - Mestre, 18 February 2015

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

Annexes to the financial statements

Financial statements of the subsidiary IFIS Finance Sp. Z o.o.

IFIS FINANCE SP. Z O.O.**Balance Sheet**

(All amounts are stated in PLN thousand)

ASSETS	Note	31.12.2014	31.12.2013
Non-current assets		1 049	615
Tangible fixed assets	1		
Fixed assets			
technical equipment and machinery		25	18
vehicles		340	282
other fixed assets		44	38
		<u>409</u>	<u>338</u>
Long-term receivables	2		
From other parties		169	166
		<u>169</u>	<u>166</u>
Non-current prepayments and deferred expenses			
Deferred tax asset	12.3	471	111
		<u>471</u>	<u>111</u>
Current assets		181 962	183 311
Short-term receivables			
trade receivables		-	-
other		5	3
		<u>5</u>	<u>3</u>
Short-term investments			
in related parties	3.1	-	1 047
in third parties	3.2	161 041	157 340
cash and cash equivalents	3.3	20 825	24 907
		<u>181 866</u>	<u>183 294</u>
Short-term prepayments and deferred expenses	4	91	14
TOTAL ASSETS		<u>183 011</u>	<u>183 926</u>

The balance sheet should be analyzed together with the supplementary information and explanations which are an integral part of the financial statements.

IFIS FINANCE SP. Z O.O.**Balance Sheet**

(All amounts are stated in PLN thousand)

EQUITY AND LIABILITIES	Note	31.12.2014	31.12.2013
Equity			
Share capital	5.1	47 000	47 000
Reserve capital		66 496	66 496
Other capital reserves		9 489	3 461
Net profit		6 188	6 027
		<u>129 173</u>	<u>122 984</u>
Liabilities and provisions for liabilities		53 838	60 942
Provisions for liabilities			
Deferred tax liability	12.3	0	199
		<u>0</u>	<u>199</u>
Long-term liabilities			
Liabilities due to third parties other financial liabilities	6.1	332	251
		<u>332</u>	<u>251</u>
		<u>332</u>	<u>251</u>
Short-term liabilities			
Related party liabilities		39 929	47 436
other	7.1	39 929	47 436
Liabilities due to third parties		12 991	12 762
other financial liabilities	7.2	12 111	12 159
trade liabilities	7.3	33	37
taxation, custom duties and social security liabilities		847	392
other		0	174
		<u>52 920</u>	<u>60 198</u>
Accruals and deferred income			
Other		586	294
- short-term	8.1	586	294
		<u>586</u>	<u>294</u>
TOTAL EQUITY AND LIABILITIES		<u>183 011</u>	<u>183 926</u>

Alessandro Csillaghy
President of the Management Board

Daniela Bonzanini
Member of the Management Board

Agnieszka Moskwiak
Chief Accountant
Person entrusted with maintaining
accounting records

Warsaw, February 13, 2015

IFIS FINANCE SP. Z O.O.**Profit and Loss Account**

(All amounts are stated in PLN thousand)

	Note	01.01.2014 - 31.12.2014	01.01.2013 - 31.12.2013
Net revenue and net revenue equivalents, including:			
Net revenue from sales of finished products	9	10 307	9 048
		<u>10 307</u>	<u>9 048</u>
Operating expenses			
Depreciation and amortisation expense		(247)	(109)
Raw materials and energy used		(40)	(22)
External services		(1 556)	(1 143)
Taxes and charges including:		(71)	(278)
Payroll		(1 865)	(1 464)
Social security and other employee benefits		(300)	(262)
		<u>(4 079)</u>	<u>(3 278)</u>
Profit on sales		6 228	5 770
Other operating income			
Gain on disposal of non-financial fixed assets		17	-
Other		7	18
		<u>24</u>	<u>18</u>
Other operating costs			
Other		(214)	(114)
		<u>(214)</u>	<u>(114)</u>
Operating profit		6 038	5 674
Financial income			
Interest	10	464	896
Other		2 926	1 188
		<u>3 390</u>	<u>2 084</u>
Financial costs			
Interest, including:	11	(136)	(75)
- <i>from related parties</i>		(92)	(53)
Other		(1 499)	-
		<u>(1 635)</u>	<u>(75)</u>

The profit and loss account should be analyzed together with the supplementary information and explanations which are an integral part of the financial statements.

IFIS FINANCE SP. Z O.O.**Profit and Loss Account**

(All amounts are stated in PLN thousand)

	Note	01.01.2014 - 31.12.2014	01.01.2013 - 31.12.2013
Profit before taxation		7 793	7 683
Corporate income tax	12.1	(1 605)	(1 656)
Net profit		<u>6 188</u>	<u>6 027</u>

Alessandro Csillaghy
President of the Management Board

Daniela Bonzanini
Member of the Management Board

Agnieszka Moskwiak
Chief Accountant
*Person entrusted with maintaining
accounting records*

Warsaw, February 13, 2015

Fee Schedule for audit and non-audit services pursuant to art. 149-k of Consob Regulation no. 11971 of 14 May 1999

Type of services	Service provider	Beneficiary	Fees (in Euro)
Independent auditors' fees	Reconta Ernst & Young S.p.A.	Banca IFIS S.p.A.	71.525
		Subsidiaries	20.315
Certification services	Reconta Ernst & Young S.p.A.	Banca IFIS S.p.A.	-
		Subsidiaries	-
Tax consultancy services	Reconta Ernst & Young S.p.A.	Banca IFIS S.p.A.	-
		Subsidiaries	-
Other services	Reconta Ernst & Young S.p.A.	Banca IFIS S.p.A.	
		Subsidiaries	
Total			91.840

**Declaration on the Financial Statements as per article 81-ter of
Consob Regulation no. 11971 of 14 May 1999**

Certification of the statutory financial statements as at 31 December 2014 pursuant to art. 81 ter of Consob Regulation no. 11971 of 14 May 1999 and ensuing amendments

1. We, the undersigned, Giovanni Bossi – CEO and Carlo Sirombo – Manager responsible for financial reporting for Banca IFIS S.p.A., taking into account that stated in article 154-bis, paragraphs 3 and 4, of Legislative decree no.58 of 24 February 1998, attest to:

- i. The adequacy of the financial report given the company's characteristics;
- ii. The effective application of administrative and accounting procedures for the preparation of Banca IFIS's statutory financial statements, during the period from 1 January 2014 to 31 December 2014.

2. Assessment of the suitability and effective implementation of administrative and accounting procedures for the completion of the financial statements was carried out following an in-house developed methodology based on assessment of the risk of incorrect financial reporting. The methodology adopted is compliant with the requirements envisaged by the supervisory laws on risk assessment and internal audit systems.

3. Furthermore, we attest that:

3.1 the statutory financial statements:

- a) have been drawn up in compliance with International Accounting Standards, endorsed by the European Commission as for European regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002;
- b) correspond with the results contained in accounting records, books and registers;
- c) give a true and fair view of the financial position and results of operations of Banca IFIS.

3.2 the Directors' report contains a reliable analysis of trends and corporate results, as well as of the position of Banca IFIS, together with a description of the main risks and uncertainties to which it is exposed.

Venice - Mestre, 18 February 2015

CEO

.....
Giovanni Bossi



Manager responsible for financial reporting

.....
Carlo Sirombo



Glossary

Account debtor

The account debtor is the individual or legal entity, either Italian or foreign, that entered or will enter into commercial dealings with the invoice seller and is therefore obliged to pay the supplier one or more receivables.

Auction

Italy's Economy Ministry places Italian government bonds (BoT, CcT, BTp, CTz) on the market by means of an auction in which only qualified market participants can take part directly, submitting bids via an electronic system. In the past, bids used to be submitted in sealed envelopes: the electronic channel was set up only in 1994.

Bad bank

A bad bank is an entity set up in order to receive (by contribution or transfer) distressed debts. A bank sets up a new entity in which it owns a controlling interest. Part of the bank's receivable portfolio is transferred to the new entity. The receivables transferred are distressed, toxic, or non-performing; this is why the new entity is called a bad bank.

Bad loans

On- and off-balance-sheet exposures to a party in default (even when not confirmed in judicial terms) or in a substantially similar situations, regardless of losses estimated by the bank.

Bail-Out Fund

The European Financial Stability Facility (EFSF, which the media call the Bail-Out Fund) is a Special Purpose Vehicle created by twenty-seven EU Member States on 9 May 2010 in the wake of the 2008 – 2010 economic crisis for the sole purpose of giving financial help to the Member States, thus preserving the financial stability of the Euro-zone under economic stress scenarios. Formally, it is a company set up under Luxembourg law and based in Avenue John F. Kennedy 43 in Luxembourg. Its current President is the German Klaus Regling.

As from July 2012, it was replaced by the European Stability Mechanism, with the provision that financial assistance to insolvent countries is conditional on the participation of the private sector (the so-called bail-in).

Book value per share

Book Value per Share (BVPS) is a measure of equity expressed in monetary terms with reference to each share. It is calculated by dividing the book value of equity by the number of outstanding ordinary shares.

Buffer

The capital conservation buffer is aimed at ensuring that during periods of calm banks accumulate capital reserves they can use to absorb losses incurred. The requirement is based on simple provisioning rules designed to comply with minimum capital ratios.

Buoni del Tesoro Poliennali

BTPs (Italian long-term treasury bonds) are issued with 3-, 5-, 10-, 15- and 30-year maturities. They are medium/long-term bonds best suited for investors who want to receive regular payments every six months.

Business Continuity

Business Continuity refers to the ability to ensure that critical business functions continue to operate or are restored as soon as possible in case of internal or external disruptions.

Capitalisation

It refers to the market value of a company's shares and is calculated by multiplying the number of shares by their market price, which can differ even significantly from the par value. Capitalisation is an important measure for listed companies because it tends to be associated with the stock's level of liquidity. This is mainly because most stock indices attribute greater weight to larger-capitalisation companies.

Carry trade

It is used to boost the rate of return of a financial transaction by correlating the level of interest rates to exchange rates. The investor borrows in a country with a low cost of money and invests in one with high interest rates. In the case of government bonds, "carry trade" indicates the use of liquidity acquired by banks thanks to the ECB's auctions. These resources allow the banks to carry trade government bonds: money borrowed at 1% is used to buy bonds (BTPs with 2-, 3- or even 10-year maturities), earning the difference between the higher yield and the cost of borrowing.

Cassa Compensazione e Garanzia

Cassa di Compensazione e Garanzia (CC&G) is an Italian Joint-Stock Company owned by the London Stock Exchange Group. It ensures trades relating to listed securities and transactions in futures and options, as well as on the NEW MIC — the collateralised interbank market — are properly cleared and settled. Therefore, CC&G eliminates counterparty risk, acting as buyer vis-à-vis the seller and vice versa, and thus ensuring trades are successfully completed.

CDS

Credit default swaps (CDSs) are financial instruments that act as insurance policies. By paying a premium, any institutional investor can insure itself against the default of a state or a company: in the case of default, whoever has sold CDSs (i.e. the policy) must compensate the loss by reimbursing the whole capital to the investor. Therefore, CDSs are instruments that offer purchasers protection on their investment. This is why the restructuring of Greece's debt has created problems: since Greece did not formally default, CDSs were not triggered.

Common Equity Tier 1 (CET 1)

Common Equity Tier 1 Capital consists of Tier 1 capital and Additional Tier 1 capital. Tier 1 capital consists of:

- a) capital instruments, provided specific conditions are met;
- b) the share premium related to the instruments as per letter a);
- c) retained earnings;

- d) accumulated other comprehensive income;
- e) other reserves;
- f) funds for general banking risks.

Additional Tier 1 capital consists of:

- a) capital instruments, provided specific conditions are met;
- b) the share premium related to the instruments as per letter a).

Chirography (unsecured debt)

The word chirography derives from Greek “chiro-graphos”, where “chiro” means hand and “graphos” means writing. It means that the loan derives from a formally signed document. With reference to receivables, this expression is used to indicate a loan that is not backed, for example, by a mortgage, but only by the debtor’s word.

Collateral

Securities a borrower pledges with a lender to obtain a loan. Should the loan not be repaid, the collateral is transferred to the creditor. The ECB, for example, accepts bonds as collateral for the purposes of its refinancing operations. Essentially, banks obtain loans from the European Central Bank and pledge debt securities.

Common equity

Common equity consists of share capital plus reserves and is considered the highest quality component of a bank’s capital. Basel 2, which sets higher capital ratios for banks, requires that half the Tier 1 capital consists of common equity. The other half is of similarly high quality compared to the other components of the capital structure, although not in the same class as ordinary shares or retained earnings.

Corporate bond

Debt securities issued by companies in order to raise money to fund their growth. The term usually refers to debt securities with long-term maturities or instruments that normally generate constant interest income for a number of years, with medium or long-term maturities. Corporate bonds are generally offered through direct placement through Italian financial institutions (banks and financial planners) or secondary markets. This instrument is best suited for investors wishing to set aside their capital and protect it against inflation, with medium to low risk appetite.

Cost/income ratio

Ratio of operating costs to net banking income. It is one of the main indicators of the bank’s operating efficiency: the lower its value, the higher the bank’s efficiency.

Cost of credit quality

The cost of credit quality expresses the quality of loans to customers and is calculated as the annualised ratio of impairment losses on receivables to the average of receivables due from customers: the lower the ratio, the milder the effects deriving from the risk profile of the bank’s loans.

Credit insurance

Credit insurance allows companies to reduce or transfer the risks of default of their customers and to transform them into opportunities to grow. Entrepreneurs can cover (total or partial) losses on receivables, receiving also the following benefits: support in the process of assuming and managing trade receivables; preliminary assessment of his/her customers' solvency; a constant monitoring service; compensation for losses incurred; and debt collection services.

Credit watch/ Under review/ Rating watch

For Standard&Poor's, a credit watch indicates a likely, imminent downgrade of a sovereign debt's rating, with at least a 50% chance that it will be cut within 90 days. The same concept is indicated by Moody's using the expression "rating under review" and by Fitch as "rating watch". It is a short-term warning, focused on events that can cause a rating to be monitored particularly closely.

Debt agency

In several Euro-zone countries, but not in Italy, the management of public debt is entrusted to a dedicated structure. Germany, France, and Spain have set up public debt agencies which operate in compliance with the guidelines issued by their respective Economic Ministries. The level of specialisation of the agencies' staff is very high. In some countries, the creation of bodies independent from the ministries allowed to directly recruit "public" operators from big banks – offering them appropriate remuneration packages – to manage auctions, buy-backs, derivatives, and liquidity on behalf of the State. The agencies are transparent and dedicated to disclose information to the markets.

Deleveraging

Deleveraging is the reduction of financial leverage, i.e. the divestment carried out by repaying accrued debt with available liquidity or selling financial assets held to raise cash.

Disaster recovery

In IT, and specifically in IT security, disaster recovery means the set of technological and logistical/organisational measures aimed at restoring systems, data and infrastructure needed to deliver business services in the face of severe emergencies disrupting their normal operation.

Dividends

Dividends are profits which a company decides to distribute to its shareholders at the end of each year, as remuneration for invested capital. When companies pay out dividends, however, their share price falls

Dividend yield

The dividend yield (the dividend/price ratio) is the ratio between the most recent dividend per share paid to shareholders or announced and the stock's most recent closing price. It is used as an immediate yield indicator, independent of the share price performance.

Downgrade

It is a term used when a ratings agency revises down, i.e. lowers, the credit rating, i.e. the measure of the ability of an issuer of shares and bonds to timely meet its obligations. Such a downgrade is possible for both private companies and government bodies, which will pay more for the money they want to borrow on the market after they have been downgraded. The debt crisis in the euro-zone set

off a series of downgrades of countries that adopted the Euro. It started with Greece in early 2010, then in 2011 also Portugal, Ireland, Spain, Italy, Cyprus, France and Austria saw their rating downgraded; only Germany, the Netherlands, Finland and Luxembourg maintain their triple A-rating in the Euro-zone.

Duration

Duration is a synthetic measure of the speed with which invested capital will be repaid. Normally, a longer duration is accompanied by a greater financial risk for the security: therefore, should there be a significant risk that the issuer will default, it is important to consider this indicator, as a change in rates is accompanied by a fluctuation in the price. The longer the security's duration, the sharper the fluctuation.

EBA

The European Banking Authority is a body of the European Union based in London that as from 1 January 2011 has the duty of supervising the European banking market. It has legal status and its primary objective is to protect the public interest, contributing to the stability and effectiveness of the financial system to the benefit of the EU economy.

All the EU banking supervisory authorities take part in the EBA. The Authority, which replaced the Committee of European Banking Supervisors (CEBS), must protect the public interest and the stability of the financial system.

ECB deposits or Deposit facility

European banks can deposit their liquidity overnight at the so-called ECB deposit facility. By doing so, the banks receive a very low rate compared to the interest they could earn by placing it on the market. The fact that during 2011 deposits reached a record level showed that banks were afraid of investing their liquidity on the market.

EFSF

The EFSF is the European Financial Stability Facility created by Euro-zone countries. The initial lending capacity of 255 billion Euro has been increased to 440 billion Euro. The Fund can issue triple A-rated bonds (or other instruments guaranteed by euro-zone countries) to finance struggling sovereigns.

Eligible assets

For the purposes of the Eurosystem's refinancing operations, eligible assets are securities that meet the European Central Bank's eligibility standards for assets used as collateral to obtain liquidity. The list of eligible assets is published on the ECB's website and is updated several times each month.

EPS

A measure of the earnings a company generated in proportion to the number of shares issued by said company. It is calculated as the ratio of net profit to the average number of outstanding issued shares net of treasury shares.

ESM

The ESM (European Stability Mechanism) is the Euro-zone's financial assistance facility. It has a capacity of 650 billion Euro, which will be available to countries in financial distress. The ESM replaced the EFSF, the European Financial Stability Facility created by Euro-zone countries.

ESMA

The European Securities and Markets Authority (ESMA) has been operational since 1 January 2011. It has the duty of supervising financial markets and ratings agencies so as to guarantee the stability of the EU's financial system. It works closely with two new European authorities, the EBA (banks) and the EIOPA (insurance and pensions). It may suspend the publication of sovereign ratings in limited cases, when one Member State is negotiating a rescue package or when doubts about a country's solvency suddenly arise. The ESMA, in addition, coordinates the actions of the financial authorities and supervises the emergency measures adopted in critical situations.

Eurosystem

The Eurosystem includes the European Central Bank and the National Central Banks of the EU Member States that adopted the Euro in the Third Phase of the Economic and Monetary Union (EMU). Currently, fifteen national central banks participate in it. It is headed by the ECB's Governing Council and Executive Board.

Firewall

Term used to define the group of instruments set up by the European Union and other authorities such as the ECB in order to create a safety net and ward off contagion from the debt crisis. It includes, for example, the EFSF and the ESM.

Haircut

In finance, the term indicates the percentage of reduction in the value of a security compared to its par value when it is accepted as collateral. In the discussions regarding turmoil in the Euro-zone, the haircut corresponds to the loss that a bank or investor will suffer on a government bond they hold, should that country's debt be restructured.

ICAAP

The ICAAP process has the main purpose of making banks ensure their capital is adequate in relation to the risks assumed as part of their operations. To achieve this goal, generally they must adopt a robust corporate governance framework as well as a suitable and clear organisational structure; define and implement procedures to effectively identify, manage, monitor and report risks; and have appropriate internal control mechanisms in place—all in accordance with the principle of proportionality that governs prudential supervision.

IMF

The International Monetary Fund is an organisation that includes the governments of 187 countries. It was created at the Bretton Woods Conference in 1944. The purpose of the IMF, which is based in Washington, is to ensure financial stability, support monetary cooperation, and promote international trade and sustainable growth.

Impaired loans

Bad, substandard, restructured and past due loans fall under this category pursuant to Bank of Italy's regulations consistent with IASs/IFRSs (see item).

Institutional investors

These are companies and entities (banks, insurance companies, social security institutions, financial companies, mutual funds) which, under the law or their own by-laws, invest systematically in the securities market. They can be divided into technical investors (insurance companies); welfare investors (welfare funds, mutual insurance companies, etc.); and financial investors (financial holding companies, investment firms, banks, mutual funds).

Interbank fund

Current account deposits, unlike bonds, are guaranteed by the Interbank Deposit Protection Fund. This guarantee was recently reduced from 103 thousand Euro to 100 thousand Euro and protects

every accountholder at every bank, regardless of the total number of accounts the saver holds. This means that it is possible to open an unlimited number of accounts with different banks that will all be guaranteed up to the value of 100 thousand Euro.

Italian BOTs (Buoni Ordinari del Tesoro, i.e. treasury bills) and other sovereign bonds are, on the other hand, guaranteed directly by the State: most Italian citizens are now familiar with the concept of the spread, i.e. the differential between Italian BTPs and German Bunds that measures the markets' confidence in Italy.

Invoice seller

The invoice seller is the factoring contract's counterparty that pledges to transfer to a factor all the receivables derived or deriving from its business operations conducted vis-à-vis another entrepreneur (account debtor).

Libor

The Libor (London Interbank Offered Rate) is a reference rate in the interbank market. It is calculated daily by the British Bankers Association on the basis of the rates required to grant a loan in a given currency (among others, pound sterling, US dollar, Swiss franc and the Euro).

Liquidity crisis

The financial crisis exposed the relationship between credit, market and liquidity risks (both funding- and market-wise) in unprecedented ways. Before the Greek crisis, European government bonds were considered risk-free. Since the moment the Euro-zone threatened private investors with a haircut (capital loss) should public debts be restructured, government bonds have been considered as a credit risk.

Ltro e Tltro

The Long Term Refinancing Operations (LTROs) are the refinancing operations undertaken by the ECB, which can decide to intervene in the interbank market by lending banks money in two ways: MROs (Main Refinancing Operations), which are ordinary refinancing operations with a maturity of one week, and LTROs. The latter normally have 3- to 6-month maturity, extended in the current sit-

uation up to three years. The ECB also undertakes immediate interventions, defined as Fine-Tuning Operations (FTOs), to manage liquidity surpluses or deficits in the interbank market.

Starting in 2014, the ECB launched the “Targeted Long-Term Refinancing Operation” (Tltro), which provides financing to banks on the condition they lend to households and businesses.

Mark to market

Daily revaluation of an investment portfolio on the basis of market prices, as opposed to the process of calculating the value of the portfolio based on the assets' historical acquisition costs. The EBA, the European Banking Authority, requires European banks to mark to market the government bonds they hold. This process sharply penalises Italian institutions, and is therefore strongly contested by the Italian Banking Association.

Mid swap

Mid swap is an interbank rate adopted by banks to swap money, similarly to the better known Euribor. It is the arithmetic mean of the demand and supply of the interest rates the banks offer for each given maturity in order to swap cash on the interbank market.

MTS

The electronic wholesale market for government bonds (MTS) is a platform for trading Italian or foreign government bonds and state-guaranteed securities on the secondary market. The MTS market is reserved for professional investors. Bids may be made for minimum quantities of 2,5 million and depending on the instrument. The MTS is divided into the cash (spot trading), repo (repurchase trading), and coupon stripping (separate trading of strips) segments.

Net exposure

Banks calculate their net exposure to express potential losses once hedging transactions and other forms of risk protection are accounted for. These can include derivatives such as credit default swaps (CDSs) and debt insurance contracts. American banks are disclosing more and more information on their exposure to the European sovereign debt crisis, reporting both gross and net exposure. The effectiveness of some risk protection measures adopted, such as CDSs, is nonetheless debatable.

NEW-MIC

The New MIC is the segment of the e-MID (the electronic market for interbank deposits) dedicated to Euro-denominated deposits with maturities up to a year. It uses the New MIC Guarantee System managed by Cassa di Compensazione e Garanzia. Trades, which are settled in Target2, are carried out anonymously with protection against counterparty risk. The guarantee is provided by the collateral pledged by each member; a mutual insurance scheme, consisting of 10% of the collateral pledged by each member; and the interposition of the CC&G between the counterparties for each trade settled.

Non-recourse factoring

In non-recourse factoring, the seller transfers to the factor a receivable without offering any guarantee should the debtor default. Therefore, the seller guarantees the factor only that the receivable sold exists, and not that the debtor is solvent.

NPL

Non-performing loans are loans on which the borrower can no longer repay the principal and interest due to the lender. In practice, these are loans for which there is uncertainty about whether they can be collected on time and in full. In banking, non-performing loans are also known as impaired loans and are divided into several categories, chief among them substandard and bad loans.

Off-the-run

Off-the-run indicates government bonds that are no longer being issued. The Italian Economy Ministry can reoffer these securities through the marginal auction system. The price and quantity are determined by means of a discretionary award system within a minimum and maximum emission range referred to the whole pool of bonds. Conversely, on-the-run indicates bonds planned on the basis of the annual calendar of auctions.

Outright purchases

With outright purchases, the factor entirely assumes the debtor's risk of default: therefore, it does not finance the receivable, but rather purchases it in full. In this case, the amount paid to the invoice seller is not an advance on the consideration, but the outright collection of the credit, and does not therefore represent a liability for the invoice seller.

Overnight index swap

The overnight index swap (OIS) is an agreement between two parties to swap loans at a fixed rate for a set period. This rate reflects that expected on the overnight interbank market for the duration of the swap. It is considered less risky than the Libor.

Own funds

“Own funds” (the new name for regulatory capital pursuant to Regulation (EU) No. 575/2013 - Bank of Italy Circular no. 285 dated 17 December 2013) is the sum of Tier 1 and Tier 2 Capital.

P/E and dividend yield

P/E is the ratio between the market price of a company's stock and the earnings per share reported in the most recent period. The price/earnings ratio corresponds to the yield on a share: more precisely, it indicates how much time is needed for the earnings arising from it to equal the price paid for its purchase. The lower the ratio, the more attractive is the stock.

Past due loans

On- and off-balance sheet exposures, other than those classified as bad, substandard or restructured loans, which are past due or have been overdrawn for more than 90 days as at the reference date.

Pay-out

Pay-out is the distribution of net profits in the form of dividends. In particular, the pay-out ratio, i.e. the ratio between dividends paid and net profits for the year, is widely used in accounting. This indicator represents a company's strategic choices as to how to fund its investments: the higher the ratio, the lower the share of net profits the company can use to finance its future projects. A company's net profits can be put to only two uses: be distributed as dividends, thus increasing the pay-out, or be retained in the company, increasing its equity and thus the rate of self-financing.

Performing loans

A receivable held by the bank due from customers deemed solvent and therefore able to timely repay their debt as agreed.

Rating

The assessment made by a specialist private agency of the creditworthiness of an issuer. Analysts rate corporate bonds, government bonds, individual stocks or entire economic sectors. The rating provides market participants with standardised information on the issuers' risk profile and is important for investors who cannot independently carry out risk and credit analyses. It is composed of a rating usually expressed on a scale from AAA (the maximum level) to D (the minimum) for bond issuers, and an outlook indicating the analysts' expectations. Being rated makes it easier for issuers to price and place their securities.

Real yield

Real yield means the return on an investment net of inflation. In other words, investors shall take into account the increase in the cost of living and the reduction in purchasing power when calculating the yield on an investment.

Recession

Recession is an economic cycle characterised by levels of production lower than those that could potentially be achieved by using all available inputs fully and efficiently. Technically, a country enters recession when real GDP contracts and remains negative for at least two consecutive quarters. If stagnation is accompanied by inflation, we talk of stagflation. Conversely, economic growth means an increase in the main macroeconomic variables.

Record date

It is the mechanism introduced in Italy in 2010 aimed at establishing whether or not shareholders have the right to attend the general meetings of listed companies: the record date identifies the moment when the party requesting to participate in the meeting must be registered as shareholder. Those who are registered as shareholders as at the seventh trading day prior to the date of the meeting and have notified their intention to participate via a qualified intermediary are entitled to attend the meeting.

Recourse factoring

In recourse factoring, the seller transfers to the factor a receivable guaranteeing the debtor will repay it. The seller therefore guarantees the factor both that the receivable sold exists and that the debtor is solvent.

ROA

The Return on Assets (ROA) is an indicator that measures the return on the invested capital or the business carried out. It is the ratio between pre-tax operating profit and total assets.

ROCA

The Return on Core Assets (ROCA) is an indicator of the return on the assets dedicated to the core business. It is calculated as the ratio between gross profit minus net earnings on debt securities and total assets excluding debt securities.

ROE

In corporate finance, the Return On Equity (ROE) is a synthetic measure of the company's operating results. It is calculated as the ratio of net profit to the average of equity.

In order to assess whether a given value of ROE is good or bad, it is necessary to compare it with the yield on alternative investments (BoT, CcT, bank deposits, etc.), i.e. to assess the opportunity cost of investing in the company concerned.

Repurchase agreements

Repurchase agreements (also known as repos) involve the sale of securities together with an agreement for the seller to buy back the securities later from the buyer. The repurchase price is obviously greater than the original sale price. On the repurchase date, the buyer must have the securities available. It is, therefore, a kind of financing transaction, with the return represented by the repurchase spread.

Restructured loans

On- and off-balance-sheet exposures for which a bank, because of the deteriorated economic-financial condition of the debtor, agrees to revise the original terms and conditions, resulting in a loss.

RWA (Risk Weighted Assets)

Risk weighted assets are on- and off-balance-sheet assets (derivatives and guarantees) classified and weighted based on several risk-related ratios, in accordance with bank regulations issued by the supervisory authorities concerning solvency ratios.

Secondary market

The secondary financial market is where outstanding securities can be traded until their maturity. It is the stage following the primary financial market: every security starts in the primary market and, after its issue and placement, moves to the secondary market, where all transactions following the auction are carried out. In other words, the existence of a secondary market ensures that securities can be sold prior to their maturity at market price. Logically, the two markets (which are significantly different in size) are opposites, but they deal with the same products, therefore more liquidity in the secondary market allows for more securities in the primary market.

Shadow banking

The shadow banking system is a network of unregulated market participants acting in parallel to the regulated system, from which it receives securities and other receivables, changing their duration, maturity and liquidity. It then returns them as liquidity available for new transactions.

The shadow banking system is financed through structured derivatives, thus creating liquidity that is in turn invested in long-term assets.

Solvency

Solvency is a debtor's ability to meet its obligations.

Sovereign funds

Public special investment vehicles controlled directly by the governments of the relevant countries and used to invest in financial instruments (shares, bonds, real estate) and other assets. Sovereign

funds have been created above all in oil-exporting countries: United Arab Emirates, Qatar, and Norway.

Spread

The word spread indicates a difference or gap. In the case of government bonds, the spread indicates the gap between the yields of Italian and German government bonds, which are considered more reliable. The higher the spread, the higher the cost for the bond issuer, i.e. the State, to re-finance its debt. In the medium to long term, high spreads can lead either to sovereign defaults or to drastic cuts in public spending and/or tax hikes to avoid bankruptcy.

Subordinate loan

A loan is subordinate when, should the issuer be put into liquidation, it will be repaid only after all senior debts, but before the share capital. There are two tiers of subordinate loans: LOWER TIER 2 securities represent the most senior subordinate loans. UPPER TIER 2 securities are riskier, since they envisage the possibility (not the obligation) of deferring the interest payment.

Subprime

Subprime mortgages are those granted to borrowers with past credit problems. They are loans to borrowers with no personal guarantees. Subprime mortgages, which US banks used to supply generously despite the poor credit standing of applicants, were granted because the bank immediately

transferred the credit risk to the financial market through securitisation, asset-backed securities (ABSs) and collateralised debt obligations (CDOs).

Substandard loans

On- and off-balance-sheet exposures to parties in a temporary state of objective difficulty that can be overcome in a due period of time. Pursuant to the Bank of Italy's regulations, substandard loans also include the so-called "objective substandard loans".

Takeover bid

A takeover bid is a public offer aimed at purchasing financial instruments. In the case of Italian companies with shares listed on regulated markets, anyone holding more than 30% of the capital shall launch a takeover bid for the rest of the shares. In the case of crises and corporate restructurings, Consob (the Italian securities regulator) can exempt an investor buying a controlling interest in the company concerned from making a takeover bid for all the shares.

Tier 1 capital

Tier 1 capital is composed of the following elements defined by the Bank of Italy as being of primary quality: paid-up share capital, reserves, the provision for general banking risks, and innovative capital instruments. The sum of these elements, after deducting treasury shares, goodwill, intangible assets, and losses recognised in previous financial years and in the current one, represents the Tier 1 capital.

Tltro

Starting in 2014, the ECB launched the "Targeted Long-Term Refinancing Operation" (Tltro), which provides financing to banks on the condition they lend to households and businesses.

Total receivables

The sum of outstanding receivables purchased by the factor as at a specific date.

Turnover

Turnover is the gross flow of the receivables sold by the customers to the factoring company in a specific period of time (for instance, one year).

Volatility

Volatility is a measure of the variation in price over a defined period of time. It measures the standard deviation of returns on a security compared to the reference market.

Yield curve

The yield curve is the relationship between the interest rates and the maturities of securities. Under normal market conditions, the curve tends to be positive, with long-term rates higher than short-term ones..