BANCA IFIS

CONSOLIDATED INTERIM REPORT AT 30 JUNE 2016

1H 2016

Banca IFIS Group

CONSOLIDATED FINANCIAL STATEMENT

DRL

TRADE RECEIVABLES

EVOLUTION OF QUARTERS

FUNDING

TAX RECEIVABLES

MANAGEMENT AND BOD

Approving date
July 28, 2016

www.bancaifis.com

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Corporate Bodies

Board of Directors

Chairman	Sebastien Egon Fürstenberg
Deputy Chairman	Alessandro Csillaghy De Pacser
CEO	Giovanni Bossi [(1)]
Directors	Giuseppe Benini
	Francesca Maderna
	Antonella Malinconico
	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 Ciriotto
	Massimo Miani
Alternate Auditors	Guido Gasparini Berlingieri
	Valentina Martina

Independent Auditors	EY S.p.A.
Corporate Accounting Reporting Officer	Mariacristina Taormina

BANCA IFIS

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

FCI

Member of Factors Chain International

Brands and areas of operation

Trade receivables segment

Faced with strong demand and armed with a decade of experience in this segment, Banca IFIS Impresa aims to foster the growth of trade finance loans to Italian SMEs operating abroad. Banca IFIS Impresa's target companies are SMEs in the small segment that are not benefiting from the liquidity available on the market: this allows Banca IFIS to take a strong position in this segment, so as to pursue growth targets in terms of the number of customers and loans. Multichannel service, real-time continuous support, a constantly expanding team of professionals that ensures an open and constant dialogue with clients, and the physical presence through our network of sales account managers—these are the strengths of Banca IFIS Impresa. The web—in all its forms, and especially through the website www.bancaifisimpresa.it—is the preferred method to contact customers, giving more and more opportunities for raising financing to businesses requiring it. Banca IFIS is also one of the leading players in international factoring. It stands out from the competition due to its direct presence in foreign markets, such as Poland (with the subsidiary **IFIS Finance**), Romania, and India. In addition, there is a unit based in Milan dedicated to international growth. The goal of international operations is developing exports by promoting relations with companies more oriented to international markets, which are considered to be more stable and have greater growth potential compared to businesses more focused on the domestic market. With 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, Banca IFIS Impresa effectively supports companies in seizing growth opportunities.

Banca IFIS Pharma specialises in 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. Since 1 July 2015, the Pharma Area includes the new “Pharmacies” business unit, which offers pharmacy owners a comprehensive and reliable package of solutions meeting all their financial needs. The purpose of this new business unit is establishing itself as a more structured player adept at supporting working capital. In particular, medium-long term loans can help pharmacies deal with their stock of debts—the result of the sudden tightening of the terms and conditions imposed by their suppliers seen in the last few years. This has generated a stock of past due exposures that hinders their ability to negotiate more favourable terms and conditions, and therefore to manage working capital more freely. The website of these two units is http://pharma.bancaifis.it/

Distressed Retail Loans (DRL) Segment

This is the Group’s Area dedicated to factoring distressed retail loans in Italy's unsecured retail market. Based in Florence, the NPL Area stands out for its ability to acquire, manage and assess important portfolios and to establish a massive database containing detailed information about over one million debtors. The recent acquisitions of NPL portfolios finalised in the first half of 2016 contributed to this impressive figure. The NPL Area 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. Finally, it is also considering the opportunity of dealing with receivables guaranteed by third parties (through surety bonds, loan guarantee consortia, others) due from corporate counterparties. Today, the NPL area is one of Italy's leading debt buyers,

CREDI FAMIGLIA In 2013, the Bank launched CrediFamiglia, which focuses on addressing the financial problems of households and individuals, upholding the values of dialogue, transparency, knowledge, ethics and sustainability. 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. Finally, in terms of debt collection operations, there are two macro-areas, i.e. judicial and non-judicial. Professionals with CrediFamiglia and the NPL Area manage them through four channels: call centre, in-house network, external network, and Legal Factory. The brand's website is www.credifamiglia.it

Tax receivables segment

FAST FINANCE Fast Finance is Banca IFIS's unit specialised in purchasing tax receivables, trade receivables and claims concerning insolvency proceedings. 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.

Governance & Services Segment

Retail funding

rendimax rendimax is Banca IFIS's high-yield online savings account for private investors, companies and insolvency proceedings. It can be activated on the website www.rendimax.it The Bank has been operating in the retail funding market for 8 years now, achieving outstanding results. The visibility brought by rendimax burnished its credentials in a constantly evolving sector. The quality of the service provided by Banca IFIS is one of the hallmarks of this product: customers consider it the most efficient offering on the market, with the call centre and the operational office ensuring constant support.

contomax Born in early 2013, contomax is Banca IFIS's crowd current account, born from the dialogue with the Web. It can be activated on the website www.contomax.it. To date, there are over 2.500 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. This account has no opening or management fees, and the Bank pays the stamp duty. The account also guarantees high returns thanks to a series of interest rate solutions for the amounts deposited.

Group Key Data

Introductory notes on how to read the data

Here are the events that should be considered when comparing the results to previous periods:

- Reclassification of DRL receivables to amortised cost: in the first half of the year, the Bank reclassified to amortised cost a sizeable portion of the DRL portfolio (over 197 million Euro) following the end of the documentary verification process and the ensuing collection of bills of exchange and settlement plans. This resulted in a 7,7 million Euro increase in **Interest receivable and similar income.**
- Sales of DRL receivables, at the end of the first half, the Bank finalised two sales of portfolios of DRL receivables, resulting in a 5,7 million Euro **gain on sale of receivables**. At 30 June 2015, the Bank had not finalised any sales.
- Rebalancing of government bond portfolio: based on the trends in market rates on government bonds in the Bank's portfolio, as well as considerations on the costs to refinance the debt collateralised by said securities, the Bank deemed it expedient to rebalance part of the Italian government bond portfolio in April 2015. Its size remained the same, but the average maturity of the portfolio increased slightly. The sale of the portfolio resulted in a 124,5 million Euro **gain on the sale of available for sale financial assets** in the first half of 2015.
- Deposit Guarantee Schemes and Italian Bank Resolution Fund: at the end of 2015, the provisions concerning the protection of bank depositors and the resolution of banking crises, set out respectively in the Deposit Guarantee Schemes Directive (DGSD) 2014/49/EU and the Single Resolution Fund Directive 59/201/EU, became effective. In the first half of 2016, the Bank paid the contribution for the whole year, amounting to 2,1 million Euro. This amount was recognised under **other administrative expenses** in accordance with the Bank of Italy's Communication of 19 January 2016. At 30 June 2015, since the relevant regulations had not yet become effective, the Bank did not recognise any provision in the income statement.
- Settlement of the tax dispute for the years 2004-2005: in the first half of 2016, the Bank reached a full and final settlement with the Italian Revenue Agency for disputes concerning the years 2004 and 2005. As a result of the agreement, the Bank recognised 1,6 million Euro in interest expense, penalties and taxes. At 30 June 2015, it had estimated the relevant contingent liability to amount to zero.

Interim Directors’ report on the Group

Highlights

KEY DATA ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2016	31.12.2015	ABSOLUTE	%
Available for sale financial assets	1.027.770	3.221.533	(2.193.763)	(68,1)%
Loans to customers	3.355.998	3.437.136	(81.138)	(2,4)%
Total assets	4.743.198	6.957.720	(2.214.522)	(31,8)%
Due to banks	43.587	662.985	(619.398)	(93,4)%
Due to customers	3.928.261	5.487.476	(1.559.215)	(28,4)%
Equity	562.197	573.467	(11.270)	(2,0)%

KEY RECLASSIFIED DATA ON THE CONSOLIDATED INCOME STATEMENT (1) (in thousands of Euro)	1st HALF		CHANGE	
	2016	2015	ABSOLUTE	%
Net banking income	**150.923**	**265.441**	**(114.518)**	**(43,1)%**
Net impairment losses on receivables and other financial assets	(15.761)	(17.669)	1.908	(10,8)%
Net profit (loss) from financial activities	**135.162**	**247.772**	**(112.610)**	**(45,4)%**
Operating costs	(76.797)	(51.810)	(24.987)	48,2%
Pre-tax profit from continuing operations	58.365	195.962	(137.597)	(70,2)%
Group net profit for the period (2)	**39.120**	**130.779**	**(91.659)**	**(70,1)%**

(1) Net impairment losses on DRL receivables, totalling 16,4 million Euro at 30 June 2016 compared to 3,1 million Euro at 30 June 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.

(2) Excluding the gain made in April 2015 on the rebalancing of the government bond portfolio (124,5 million Euro) the profit for the period at 30 June 2015 amounted to 47,5 million Euro (-17,6%).

KEY QUARTERLY RECLASSIFIED DATA ON THE CONSOLIDATED INCOME STATEMENT (1) (in thousands of Euro)	2nd QUARTER		CHANGE	
	2016	2015	ABSOLUTE	%
Net banking income	**74.319**	**192.846**	**(118.527)**	**(61,5)%**
Net impairment losses on receivables and other financial assets	(7.496)	(10.183)	2.687	(26,4)%
Net profit (loss) from financial activities	**66.823**	**182.663**	**(115.840)**	**(63,4)%**
Operating costs	(40.988)	(26.247)	(14.741)	56,2%
Pre-tax profit from continuing operations	25.835	156.416	(130.581)	(83,5)%
Group net profit for the period	**17.075**	**104.550**	**(87.475)**	**(83,7)%**

(1) Net impairment losses on DRL receivables, totalling 16,4 million Euro at 30 June 2016 compared to 3,1 million Euro at 30 June 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.

RECLASSIFIED (1) GROUP KPIs (2)	30.06.2016	30.06.2015	31.12.2015
Cost/Income ratio	50,9%	19,5%	31,7%
Cost of credit quality for trade receivables	0,8%	1,1%	0,9%
Net bad loans trade receivables/Trade receivables loans to customers	1,1%	1,2%	1,1%
Net bad loans trade receivables/Equity	5,5%	6,2%	5,4%
Coverage ratio on gross bad loans Trade receivables	88,4%	87,2%	87,9%
Net trade receivables impaired loans/Trade receivables loans to customers	7,1%	4,6%	4,5%
Net trade receivables non-performing loans /Equity	34,7%	22,9%	22,4%
Total Own Funds Capital Ratio	14,2%	16,1%	14,9%(3)
Common Equity Tier 1 Ratio	13,2%	15,4%	14,2%(3)
Number of company shares (in thousands)	53.811	53.811	53.811
Number of shares outstanding at period end(4) (in thousands)	53.081	53.068	53.072
Book per share	10,59	9,88	10,81
EPS	0,74	2,47	3,05

(1) For the definition of the KPIs in the table, please see the Consolidated Annual Report Glossary.
(2) Net impairment losses on DRL receivables, totalling 16,4 million Euro at 30 June 2016 compared to 3,1 million Euro at 30 June 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.
(3) Total consolidated own funds (amounting to 486.809 million Euro) differ from the amount reported in the consolidated financial statements for the year ended 31 December 2015 (501.809 million Euro) due to the 15 million Euro dividend payout approved by the Shareholders' Meeting of the parent company La Scogliera S.p.A. on 23 March 2016. The consolidated supervisory reports at 31 December 2015, as well as the relevant capital adequacy ratios, had already been adjusted at the end of March 2016 to account for said dividend payout. The data on consolidated Own Funds and capital adequacy ratios account for the impact of said distribution.

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

Reclassified results by business segment

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	TRADE RECEIVABLES	DRLs	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Available for sale financial assets					
Amounts at 30.06.2016	-	-	-	1.027.770	1.027.770
Amounts at 31.12.2015	-	-	-	3.221.533	3.221.533
% Change	-	-	-	(68,1)%	(68,1)%
Due from banks					
Amounts at 30.06.2016	-	-	-	153.877	153.877
Amounts at 31.12.2015	-	-	-	95.352	95.352
% Change	-	-	-	61,4%	61,4%
Loans to customers					
Amounts at 30.06.2016	2.758.793	481.976	109.860	5.369	3.355.998
Amounts at 31.12.2015	2.848.124	354.352	130.663	103.997	3.437.136
% Change	(3,1)%	36,0%	(15,9)%	(94,8)%	(2,4)%
Due to banks					
Amounts at 30.06.2016	-	-	-	43.587	43.587
Amounts at 31.12.2015	-	-	-	662.985	662.985
% Change	-	-	-	(93,4)%	(93,4)%
Due to customers					
Amounts at 30.06.2016	-	-	-	3.928.261	3.928.261
Amounts at 31.12.2015	-	-	-	5.487.476	5.487.476
% Change	-	-	-	(28,4)%	(28,4)%

RECLASSIFIED DATA ON THE INCOME STATEMENT (1) (in thousands of Euro)	TRADE RECEIVABLES	DRLs	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income					
Amounts at 30.06.2016	81.381	61.138	8.026	378	**150.923**
Amounts at 30.06.2015	*77.275*	*20.193*	*7.523*	*160.450*	***265.441***
% Change	*5,3%*	*202,8%*	*6,7%*	*(99,8)%*	***(43,1)%***
Net profit from financial activities					
Amounts at 30.06.2016	69.806	61.138	7.839	(3.621)	**135.162**
Amounts at 30.06.2015	*63.825*	*20.193*	*7.537*	*156.217*	***247.772***
% Change	*9,4%*	*202,8%*	*4,0%*	*(102,3)%*	***(45,4)%***

(1) Net impairment losses on DRL receivables, totalling 16,4 million Euro at 30 June 2016 compared to 3,1 million Euro at 30 June 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.

RECLASSIFIED QUARTERLY DATA ON THE INCOME STATEMENT (1) (in thousands of Euro)	TRADE RECEIVABLES	DRLs	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income					
Second quarter 2016	40.065	35.198	3.873	(4.817)	**74.319**
Second quarter 2015	*37.941*	*11.334*	*3.621*	*139.950*	***192.846***
% Change	*5,6%*	*210,6%*	*7,0%*	*(103,4)%*	***(61,5)%***
Net profit from financial activities					
Second quarter 2016	33.803	35.198	3.686	(5.864)	**66.823**
Second quarter 2015	*30.016*	*11.334*	*3.577*	*137.736*	***182.663***
% Change	*12,6%*	*210,6%*	*3,0%*	*(104,3)%*	***(63,4)%***

(1) Net impairment losses on DRL receivables, totalling 16,4 million Euro at 30 June 2016 compared to 3,1 million Euro at 30 June 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.

SEGMENT KPI (in thousands of Euro)	TRADE RECEIVABLES	DRLs	TAX RECEIVABLES	GOVERNANCE AND SERVICES
Turnover (1)				
Amounts at 30.06.2016	4.992.969	n.a.	n.a.	n.a.
Amounts at 30.06.2015	*4.646.699*	*n.a.*	*n.a.*	*n.a.*
% Change	*7,5%*	-	-	-
Nominal amount of receivables managed				
Amounts at 30.06.2016	3.440.975	10.131.859	163.253	n.a.
Amounts at 31.12.2015	*3.576.982*	*8.161.005*	*190.553*	*n.a.*
% Change	*(3,8)%*	*24,1%*	*(14,3)%*	-
Net bad loans/Loans to customers				
Amounts at 30.06.2016	1,1%	49,9%	0,0%	n.a.
Amounts at 31.12.2015	*1,1%*	*45,0%*	*0,0%*	*n.a.*
% Change	*0,0%*	*5,0%*	*0,0%*	-
RWA (2)				
Amounts at 30.06.2016	*2.009.883*	*481.977*	*45.390*	*31.821*
Amounts at 31.12.2015	*1.970.886*	*354.352*	*41.614*	*25.256* (3)
% Change	*2,0%*	*36,0%*	*9,1%*	*26,0%*

(1) Gross flow of the receivables sold by the customers in a specific period of time.
(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.
(3) Data restated after initial publication.

Reclassified Quarterly Evolution

RECLASSIFIED CONSOLIDATED STATEMENTOF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2016		YEAR 2015			
	30.06	31.03	31.12	30.09	30.06	31.03
ASSETS						
Available for sale financial assets	1.027.770	1.066.413	3.221.533	3.677.850	3.803.216	5.069.781
Due from banks	153.877	114.691	95.352	246.991	114.843	115.697
Loans to customers	3.355.998	3.307.793	3.437.136	3.176.172	3.152.145	2.921.902
Property, plant and equipment	56.729	53.792	52.163	52.137	51.509	51.329
Intangible assets	8.929	7.391	7.170	7.031	6.779	6.772
Other assets	139.895	112.110	144.366	84.507	92.902	77.104
Total assets	**4.743.198**	**4.662.190**	**6.957.720**	**7.244.688**	**7.221.394**	**8.242.585**

RECLASSIFIED CONSOLIDATED STATEMENTOF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2016		YEAR 2015			
	30.06	31.03	31.12	30.09	30.06	31.03
LIABILITIES AND EQUITY						
Due to banks	43.587	182.568	662.985	537.898	457.384	200.953
Due to customers	3.928.261	3.722.501	5.487.476	5.900.458	6.037.552	7.241.379
Post-employment benefits	1.545	1.510	1.453	1.388	1.407	1.641
Tax liabilities	16.180	25.118	25.549	23.904	18.207	67.692
Other liabilities	191.428	180.250	206.790	224.028	182.578	159.042
Equity:	562.197	550.243	573.467	557.012	524.266	571.878
- Share capital, share premiums and reserves	*523.077*	*528.198*	*411.501*	*408.207*	*393.487*	*545.649*
- Net profit for the period	*39.120*	*22.045*	*161.966*	*148.805*	*130.779*	*26.229*
Total liabilities and equity	**4.743.198**	**4.662.190**	**6.957.720**	**7.244.688**	**7.221.394**	**8.242.585**

RECLASSIFIED CONSOLIDATED INCOME STATEMENT (1): QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2016		YEAR 2015			
	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	**55.395**	**57.707**	**45.312**	**48.163**	**53.432**	**58.106**
Net commission income	**13.316**	**13.648**	**14.824**	**14.712**	**14.878**	**14.369**
Net result from trading	(86)	(246)	(55)	(179)	36	120
Gain (loss) on sale or buyback of:	5.694	5.495	16.127	-	124.500	-
Loans and receivables	5.694	-	14.948	-	-	-
Available for sale financial assets	-	5.495	1.179	-	124.500	-
Net banking income	**74.319**	**76.604**	**76.208**	**62.696**	**192.846**	**72.595**
Net impairment losses/reversal on	(7.496)	(8.265)	(7.505)	(5.463)	(10.183)	(7.486)
Loans and receivables	(6.449)	(5.313)	(6.777)	(1.447)	(7.969)	(5.467)
Available for sale financial assets	(1.047)	(2.952)	(728)	(4.016)	(2.214)	(2.019)
Net profit (loss) from financial activities	**66.823**	**68.339**	**68.703**	**57.233**	**182.663**	**65.109**
Personnel expenses	(14.187)	(13.408)	(12.266)	(12.394)	(12.165)	(11.517)
Other administrative expenses	(28.051)	(18.421)	(35.419)	(15.956)	(11.411)	(16.042)
Net allocations to provisions for risks and	2.157	(3.790)	13	(160)	397	(479)
Net impairment losses on property, plant and equipment and intangible assets	(1.069)	(938)	(1.045)	(942)	(927)	(832)
Other operating income/expenses	162	748	1.382	478	(2.141)	3.307
Operating costs	**(40.988)**	**(35.809)**	**(47.335)**	**(28.974)**	**(26.247)**	**(25.563)**
Pre-tax profit from continuing operations	**25.835**	**32.530**	**21.368**	**28.259**	**156.416**	**39.546**
Income tax expense for the period	(8.760)	(10.485)	(8.207)	(10.233)	(51.866)	(13.317)
Net profit for the period	**17.075**	**22.045**	**13.161**	**18.026**	**104.550**	**26.229**

(1) Net impairment losses on DRL receivables, totalling 16,4 million Euro at 30 June 2016 compared to 3,1 million Euro at 30 June 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.

RECLASSIFIED INCOME STATEMENT DATA BY SEGMENT (1): QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2016		YEAR 2015			
	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**74.319**	**76.604**	**76.208**	**62.696**	**192.846**	**72.595**
Trade Receivables	*40.065*	41.316	39.728	41.668	37.941	39.334
Distressed Retail Loans	*35.198*	25.940	21.818	10.676	11.334	8.859
Tax Receivables	*3.873*	4.153	8.828	3.984	3.621	3.902
Governance and Services	*(4.817)*	5.195	5.834	6.368	139.950	20.500
Net profit from financial activities	**66.823**	**68.339**	**68.703**	**57.233**	**182.663**	**65.109**
Trade Receivables	*33.803*	36.003	33.237	40.361	30.016	33.809
Distressed Retail Loans	*35.198*	25.940	21.818	10.676	11.334	8.859
Tax Receivables	*3.686*	4.153	8.542	3.844	3.577	3.960
Governance and Services	*(5.864)*	2.243	5.106	2.352	137.736	18.481

(1) Net impairment losses on DRL receivables, totalling 16,4 million Euro at 30 June 2016 compared to 3,1 million Euro at 30 June 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.

Reclassified Group Historical Data[1]

The following table shows the main indicators and performances recorded by the Group during the last 5 years.

(in thousands of Euro)	30.06.2016	30.06.2015	30.06.2014	30.06.2013	30.06.2012
Available for sale financial assets	1.027.770	3.803.216	1.302.425	2.868.958	1.360.854
Held to maturity financial assets	-	-	5.071.312	4.856.179	2.958.581
Loans to customers	3.355.998	3.152.145	2.538.371	2.239.693	2.165.467
Due to banks	43.587	457.384	1.979.493	601.058	582.778
Due to customers	3.928.261	6.037.552	6.910.171	9.604.606	6.071.698
Equity	562.197	524.266	397.927	331.251	257.733
Net banking income	150.923	265.441	145.763	132.636	107.241
Net profit from financial activities	135.162	247.772	121.822	105.430	92.467
Group net profit for the period	39.120	130.779	50.055	44.040	37.752
Cost/Income ratio	50,9%	19,5%	32,0%	27,9%	32,2%
Cost of credit quality for trade receivables	0,8%	1,1%	2,5%	3,6%	2,8%
Net bad loans trade receivables/ Trade receivables loans to customers	1,1%	1,2%	1,8%	3,5%	3,7%
Net bad loans trade receivables/Equity	5,5%	6,2%	9,9%	18,1%	25,9%
Coverage ratio on gross bad loans Trade receivables	88,4%	87,2%	83,8%	70,7%	61,7%
Net trade receivables non-performing loans/ Trade receivables loans to customers	7,1%	4,6%	7,0%	17,6%	15,9%
Net trade receivables non-performing loans /Equity	34,7%	22,9%	38,3%	91,6%	111,8%
Total own funds Capital Ratio [2]	14,2%	16,1%	14,2%	13,9%	11,9%
Common Equity Tier 1 Ratio[2]	13,2%	15,4%	13,8%	14,2%	12,1%

(1) Net impairment losses on DRL receivables, totalling 16,4 million Euro at 30 June 2016 compared to 3,1 million Euro at 30 June 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.

(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. Data for periods up until 30 June 2013 were recognised according to previous regulations (Basel 2). The Solvency ratio and the Core Tier 1 have been presented under Total Own Funds Ratio and Common Equity Tier 1 Ratio, respectively.

Context

In the first half of 2016, the recovery that started last year in Italy continued at a modest pace, driven by domestic demand, even though exports suffered from the weakness in non-EU markets—especially in the aftermath of the UK referendum held on 23 June 2016. Italian household spending is boosted by job market conditions. Business lending is growing at a moderate pace, and companies plan to increase investment spending during the current year. Italian bank stocks were weighed down by the high level of non-performing loans dating back to the recession—and which will be the focus of the Atlante Fund launched in April 2016—as well as the fear that current market conditions may make it harder to dispose of them or raise capital. Economic activity ticked up slightly in early 2016, boosted by household spending and, to a lesser extent, investments.

In the first half of 2016, GDP rose 0,3% from the end of the previous year, as the recovery in services and construction has consolidated. Confidence surveys covering the period before the Brexit referendum remained high across all the main sectors: more businesses expect to raise investment spending in 2016 than to reduce it, and 60% of industrial companies plan to expand production capacity.

As for the banking industry, despite the volatility in financial markets, there were no tensions in overall funding, which remained essentially stable between February and May 2016. Lending to non-financial corporations grew at a moderate pace (+1%), albeit it appeared stronger in those sectors where the recovery is more advanced (manufacturing). Lending to services companies was up slightly, whereas loans to construction companies continued falling. The level of non-performing loans dating back to the recession remains high, but credit quality continues improving on the back of the gradual cyclical upturn.

On 11 April 2016, several banks, insurers, pension funds and other institutional investors supported the launch of an alternative investment fund named Atlante (Atlas). The fund is managed by Quaestio Capital Management SGR spa and aims to: backstop future capital increases by Italian banks, including those already announced by Banca Popolare di Vicenza and Veneto Banca; and promote the development of a market for non-performing loans. Atlante will invest mainly in the riskier (junior and mezzanine) tranches of securitised bad loans, for which the market is particularly limited. Financial markets reacted positively to Atlante's launch.

The outcome of the referendum held in the UK on 23 June 2016, in which a majority voted to leave the European Union, disrupted the process of European integration, and it is hard to predict all the repercussions of this unprecedented shift. The International Monetary Fund believes the resulting uncertainty represents a risk for the global economy, and the impact was immediately felt on forex and financial markets. The future direct and indirect effects of a slowdown in the UK may turn out to be significant, but nonetheless limited, causing GDP to grow by slightly less than 1% this year and around 1% next year. However, the risks deriving from heightened tensions in the financial and banking industry or a fall in confidence have risen considerably—but their economic impact could be mitigated by fully leveraging monetary policy, even more so than in the recent past.

Group equity and income situation

Banca IFIS share price

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 period. As from 18 June 2012, Banca IFIS joined the Ftse Italia Mid Cap index.

Official share price	30.06. 2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Share price at period-end	18,15	28,83	13,69	12,95	5,53

Banca IFIS share price performance (July 2015 – July 2016)

Price/book value

The following table shows the ratio of the stock market value at period-end to consolidated equity with respect to the shares outstanding.

Price/book value	30.06.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Share price at period-end	18,15	28,83	13,69	12,95	5,53
Consolidated Equity per share	10,59	10,81	8,27	7,21	5,77
Price/book value	**1,71**	**2,67**	**1,65**	**1,80**	**0,96**

Outstanding shares	30.06.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Number of shares outstanding at period end (in thousands)(1)	53.081	53.072	52.924	52.728	53.551

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

Earnings per share and Price/Earnings

Here below is the ratio of the consolidated profit for the year to the weighted average of the ordinary shares outstanding at year-end, net of treasury shares in portfolio, as well as the ratio of the year-end price to consolidated earnings per share.

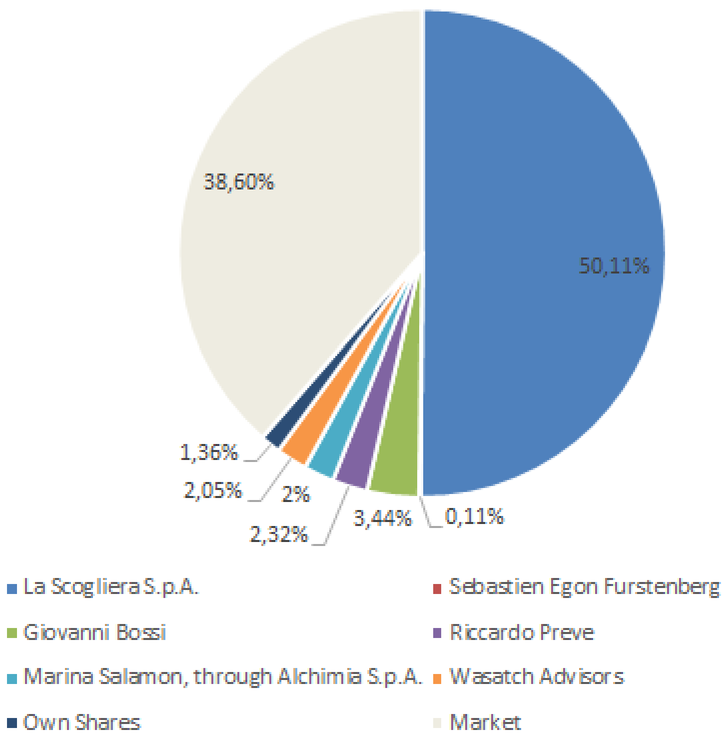
Earnings per share (EPS)	30.06.2016	30.06.2015
Consolidated profit for the period (in thousands of Euro)	39.120	130.779
Consolidated earnings per share	**0,74**	**2,47**

Earnings per share and diluted earnings per share	30.06.2016	30.06.2015
Consolidated profit for the period (in thousands of Euro)	**39.120**	**130.779**
Average number of outstanding shares	53.076.756	52.999.777
Average number of potentially dilutive shares	4.340	8.564
Average number of diluted shares	53.072.416	52.991.213
Consolidated earnings per share for the period (Units of Euro)	**0,74**	**2,47**
Diluted earnings per share for the period (Units of Euro)	**0,74**	**2,47**

Shareholders

The share capital of the Parent Company at 30 June 2016 amounted to 53.811.095 Euro and is broken down into 53.811.095 shares with a par value of 1 Euro each.

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



Results and Strategy

Comment by the CEO

The Banca IFIS Group has been growing for several years now, and continued to grow also in the first half of the year across all segments. Although the comparison with 2015, when the rebalancing of the government bond portfolio resulted in a 124,5 million Euro capital gain, is unfair, the Group performed positively across all business areas in the first six months of 2016, and can thus confirm the targets for the upcoming quarters.

Group financial and income results

Here below are the main factors that contributed to the result for the first half of 2016:

- **Net banking income** totalled 150,9 million Euro, -43,1% from 265,4 million Euro in the first half of 2015. Excluding the gain made in April 2015 as part of the rebalancing of the government bond portfolio (124,5 million Euro), at 30 June 2016 net banking income was up 7,1%. There was a significant increase in the DRL segment (61,1 million Euro, +202,8%). Also Trade Receivables and Tax Receivables were positive (81,4 million Euro, +5,3%, and 8,0 million Euro, +6,7%, respectively). Meanwhile, Governance and Services was down (0,4 million Euro, -99,8%) because of the decrease in interest as a result of the reduction of the government bond portfolio as well as the increase in funding costs due to rising volumes.
- **Net impairment losses** totalled 15,8 million Euro. They referred for 11,8 million Euro to loans to customers (compared to 13,4 million Euro at 30 June 2015, -12,5%), and for 4,0 million Euro to impairment losses on unlisted equity securities.
- **Operating costs** totalled 76,8 million Euro, up 48,2% from 51,8 million Euro in June 2015; this was largely attributable to other administrative expenses as a result of the higher business volumes in the DRL segment—especially as far as pre-collection and collection costs are concerned. As for personnel expenses, amounting to 27,6 million Euro (23,7 million Euro in June 2015, +16,5%), the increase was the result of new hiring in the first half of 2016 (120 staff, +22,4%), consistently with the goal to strengthen some areas and services supporting the business, and especially the DRL segment. At 30 June 2016, the Group's employees numbered 807. The cost/income ratio stood at 50,9% at 30 June 2016, compared to 19,5% at 30 June 2015.

Profit for the period totalled 39,1 million Euro, compared to 130,8 million Euro in June 2015 (down 70,1%).

For a better understanding of the result for the period and the relevant comparative data, the following should be noted:

- **Interest receivable and similar income**: the item included 7,7 million Euro arising from the reclassification to amortised cost of a sizeable portion of the DRL portfolio (over 197 million Euro) following the end of the documentary verification process and the ensuing collection of bills of exchange and settlement plans.
- **Gain on the sale of receivables**: the item included 5,7 million Euro in gains on the sale of several portfolios of DRL receivables. At 30 June 2015, the Bank had not finalised any sales.

- **Gain on the sale of available for sale financial assets**, totalling 5,5 million Euro in the first half of 2016 as a result of the sale of part of the bond portfolio, compared to 124,5 million Euro in the prior-year period arising from the rebalancing of the bond portfolio.
- **Other administrative expenses** included the 2,1 million Euro contribution for the whole of 2016 to the Deposit Guarantee Scheme and Italian Bank Resolution Fund, as required by the Bank of Italy's Communication of 19 January 2016.
- The **income tax expense for the period** and the relevant tax rate included the impact of the settlement of the tax dispute for the years 2004-2005. As a result of the agreement, the Bank recognised 1,6 million Euro in interest expense, penalties and taxes. At 30 June 2015, it had estimated the relevant contingent liability to amount to zero.

As for the contribution of individual segments to the result for the first half of 2016, here below is a description of how the sectors that made a significant or greater-than-expected contribution performed:

- **Trade Receivables**: the net banking income of the trade receivables segment amounted to 81,4 million Euro (+5,3% compared to 77,3 million Euro in the first half of 2015). The segment generated 5,0 billion Euro in turnover (+7,5% from the first half of 2015), with 4.879 corporate customers (up 12,3% compared to the prior-year period) and 2,8 billion Euro in outstanding loans (-3,1% from December 2015).

  As for net impairment losses on receivables, they totalled 11,6 million Euro (13,4 million Euro in the first half of 2015, -13,9%). The ratio of credit risk cost concerning trade receivables to the relevant average loan balance over the last 12 months was down to 78 bps from 112 bps at 30 June 2015 and 90 bps at 31 December 2015.
- **DRL (Distressed Retail Loans)**: net banking income amounted to 61,1 million Euro, compared to 20,2 million Euro in the prior-year period (+202,8%). The results for the first half of 2016 were positively influenced by the reclassification to amortised cost of a sizeable portion of the portfolio following the end of the documentary verification process and the ensuing collection of bills of exchange and settlement plans, adding nearly 7,7 million Euro to net banking income. Another boost came from the closing of 5,7 million Euro worth of sales as well as the acceleration in the activation of the plans collected, ensuring a timelier contribution to net banking income. In the first half 2016, the Bank revised the compensation policy for debt collection networks, aligning the payment of the commission with the accounting activation of the relevant plan.
- **G&S (Governance and Services)**: net banking income was down 99,8%, from 160,5 to 0,4 million Euro, largely because of the rebalancing of the securities portfolio in April 2015, which caused interest income to decline. This was partly offset by the sale of 2,1 billion Euro worth of government bonds in the first half of 2016, resulting in a 5,5 million Euro gain. As for retail funding (3,5 billion Euro, compared to 2,9 billion Euro at 30 June 2015), the relevant cost amounted to 1,28%, compared to 1,30% in June 2015, and it is expected to rise slightly as a result of the new 3-, 4-, and 5-year maturities for rendimax.

Concerning the statement of financial position, here below is the breakdown of **net non-performing exposures** in the **trade receivables segment** alone:

- **Net bad loans** amounted to 31,0 million Euro, essentially unchanged from the end of 2015 (+0,2%); also the segment's net bad-loan ratio was flat on 31 December 2015 at 1,1%. Net bad loans amounted to 5,5% as a proportion of equity, compared to 5,4% at 31 December 2015. The coverage ratio stood at 88,4% (87,9% at 31 December 2015)

- The balance of **net unlikely to pay** was 55,4 million Euro, +40,0% from 39,6 at the end of 2015. The increase was largely attributable to two individually significant positions previously classified under net non-performing and performing past due exposures. The coverage ratio stood at 28,2% (32,1% at 31 December 2015)
- **Net non-performing past due exposures** totalled 108,9 million Euro, compared with 58,2 million Euro in December 2015 (+87,1%). The increase was attributable to past due loans due from the Public Administration that were purchased outright, rising from 1,2 million Euro at the end of 2015 to 46,0 million Euro at 30 June 2016 (with 43,8 million Euro referring to the utility segment). The coverage ratio stood at 1,6% (2,6% at 31 December 2015)

At 30 June 2016, **consolidated Equity** was 562,2 million Euro, compared to 573,5 million Euro at 31 December 2015 (-2,0%). The change was largely attributable to the 39,1 million Euro profit for the period and the 40,3 million Euro dividend payout for 2015.

As for **capital adequacy ratios**, the Total Own Funds Capital Ratio was 14,2% (14,9% at 31 December 2015) and the Common Equity Tier 1 (CET1) 13,2% (14,2% at 31 December 2015).

Consolidated own funds, risk-weighted assets and solvency ratios at 30 June 2016 were determined based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were transposed in the Bank of Italy's Circulars no. 285 and 286 of 17 December 2013. Article 19 of the CRR requires to include the unconsolidated holding of the banking group in prudential consolidation. The capital adequacy ratios of the Banca IFIS Group alone, presented exclusively for information purposes, would be as showed in the following table.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS - BANCA IFIS GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	30.06.2016	31.12.2015
Common equity Tier 1 Capital[(1)] (CET1)	529.286	514.453
Tier 1 Capital	529.286	514.453
Total own funds	**529.322**	**514.453**
Total RWA	**3.431.872**	**3.261.103**
Common Equity Tier 1 Ratio	15,42%	15,78%
Tier 1 Capital Ratio	15,42%	15,78%
Total own funds Capital Ratio	**15,42%**	**15,78%**

(1) Common Equity Tier 1 Capital includes the profit for the period net of estimated dividends

The supervisory authorities have informed the Bank of its new minimum capital requirements, which are the following: Common Equity Tier 1 (CET1) 7%; Tier 1 Ratio 8,5%; Own Funds Capital Ratio 10,5%. In light of the Bank's capital adequacy ratios at 30 June 2016, its position is especially robust.

Significant events occurred in the period

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

Significant subsequent events

On 28 July 2016, Banca IFIS entered into an agreement with GE Capital International Holding Limited for the acquisition of the GE Capital Interbanca Group. Here below are the highlights of the transaction:

- The subject of the transaction is 99,9% of GE Capital Interbanca;
- Purchase price: 160 million Euro (with an adjustment mechanism based on the change in equity between 31 December 2015 and the closing date);
- The acquisition does not involve a capital increase;
- GE Capital Interbanca's debt to GE Capital will be repaid in full;
- The closing of the transaction is subject to the approval of the Supervisory and Antitrust Authorities.

With this acquisition, the Banca IFIS Group will extend its core business to include two new segments, leasing and lending, as well as integrate and further develop its know-how in the factoring segment.

The strategic guidelines of the acquisition include:

- Lending: running off unprofitable positions and capitalising on the expertise of Interbanca's resources to make new loans to SMEs and seize opportunities in market niches (i.e. restructuring and specialty finance), with a special focus on managing credit risk. Defining policies in order to support smaller companies while assuming limited risks, thanks to Banca IFIS's experience in this historical business segment;
- Factoring: integrating the segment, which represents Banca IFIS's core business, with the bank's operations, merging operating processes and sales networks;
- Operating and finance leasing: new offerings and services to strengthen the business as well as boost profitability and the customer base. Activating cross matching services by adopting a single CRM approach.

Thanks to Banca IFIS's already significant liquidity, the acquisition of GE Capital Interbanca—with the customary warranties for the buyer—will be financed by securitising GE Capital Interbanca's assets.

Outlook

The UK's vote to leave the European Union is negatively affecting Europe's economic outlook. The moderate growth projections for the next few years released in early 2016 were lowered, and there is considerable uncertainty about the impact a weaker Europe may have on economic indicators. The robust GDP growth rates registered in other historical periods now appear to be a thing of the past, in Europe as well as maybe all industrialised countries. This is due to several factors, of which only some are economic. This situation has led some experts to argue that advanced economies may be facing a “secular stagnation”, with extremely long periods of weak growth, low or no returns on risk-free investments, and low or zero inflation.

Against this backdrop, investors in Europe have become less sensitive to such risks as the slowdown in China and the challenges facing Emerging Markets—also because oil and commodity prices have stabilised. These countries continue suffering from unfavourable exchange rate movements.

In the reference European markets, the cost of money is still at record lows due to the ECB's monetary policy—which now seeks also to mitigate the expected slowdown resulting from Brexit—and extremely limited price increases. The low or zero inflation rate is the result of the trend in commodity prices (which are expected to moderately rebound over the next few months) and, more generally, the relatively modest use of the factors of production as well as other shifts—chief among them, the growing digitisation of the economy. The market expects monetary policy measures – not welcomed by everyone in Europe – to bring inflation near the central bank's target rates, even though price increases of just below 2% appear a distant prospect.

It does not appear possible to steadily and sustainably grow our way out of the last few years of economic crisis without restarting the flow of credit to the real economy. Against this backdrop, Banca IFIS's ability to provide support to small- and medium-sized businesses – also thanks to strengthening capital adequacy ratios and increasing liquidity – continues representing a competitive advantage, enabling it to acquire new customers. The market is still characterised by the limited and selective supply of credit, and the demand for appropriate solutions — especially for companies that are small in size and have less measurable or low credit standing.

The Bank has been overhauling, and is continuing to overhaul, its distribution network, increasing its headcount and reimagining it to better meet the needs of tomorrow. This is expected to generate results in terms of additional growth in the number of companies served, loans, and overall profitability in the second half of 2016.

The market scenarios for lending to businesses are influenced by the abundant liquidity, which is exerting downward pressure on interest rates for loans. It is hard for banks to pass on this decrease to funding rates, because of the yield curve, which remains near zero, and the European Central Bank's monetary policy. Therefore, margins are declining across the board, and especially on loans to customers with a higher credit standing. Thus, the Bank will continue focusing on smaller entities: given the need to pay close attention during the lending process to mitigate risks, using factoring, the profitability of this segment appears less compromised.

The Bank will continue expanding its presence in the international markets where it operates; in the pharmaceutical industry and pharmacy segments; and in the sector of receivables due from Italy's Public Administration.

Overall, margins on business lending are likely to come under pressure in the near future, and therefore the Bank is going to focus on companies with less resources. Fully implementing this change will take some time, but the Bank expects the growth in the number of smaller-sized customers to compensate for the pressure on margins in the second half of 2016, in line with the trend registered in the first six months of the year.

Banca IFIS will play an increasingly important role in the Distressed Retail Loans segment, providing solutions in demand at lenders and financial institutions across Italy to manage impaired loans. We will continue monitoring and bidding for the portfolios of receivables due from households that originators are expected to place on the market. Banca IFIS is making progress in managing NPLs in terms of organisational and operating solutions, which allows to continue increasing collection rates. As in the previous periods, considering the abundant liquidity of the market; the Bank's ability to turn the quality of the portfolios into a strength in dealings with debtors; and the opportunity to scale up operating volumes, benefiting the bank and the debtors involved in its initiatives, Banca IFIS will consider trading in the secondary market. Specifically, it may sell already processed portfolios with the goal of freeing up resources, using them to further expand the business, or buy portfolios that other players already started processing. The Bank will manage and collect debts using new techniques, including legal actions involving properties and against debtors with lower amounts outstanding; in addition, it will strengthen phone relationships with customers, as these involve lower costs. The Bank will consider acting in the secured micro real estate sector, which shares some similarities with what the Bank is already doing, as well as the retail business segment. During the summer, the new office in Florence will become fully operational, boosting efficiency and functionality. We expect the segment to make a significant and greater-than-expected contribution to the Bank's overall profitability.

As for tax receivables, the Bank maintains its leadership in this segment, given the good medium-term profitability of these investments. Also in this segment, margins are under pressure because of competition, but the Bank enjoys significant competitive advantages because of the recognised quality of its work and its operational skills. Returns will remain decent in an environment of risk-free rates of return stuck at zero.

The Governance and Services sector registered another slight increase in funding costs, attributable to both the bank's policy to extend maturities as well as the planned and achieved increase in funding, following the recent introduction of 3-, 4- and 5-year maturities. The Bank aims to further develop retail funding, as it considers it to be an excellent source of funding. The interest rates at or below zero in the funding market remain available to non-first-tier banks only if they have prime collateral. Alternatively, wholesale funding has and will have costs broadly similar to retail funding, but the latter's stability is more consistent with the profile of the bank's loans.

As for the government bond portfolio, the bank is not planning any significant changes: as it continues to gradually shrink in size, the relevant trading has become immaterial.

In light of the above, the Group can reasonably expect to remain profitable also in the second half of 2016.

The finalisation of the acquisition described in Significant subsequent events is expected to have an accounting impact. The bank will make a thorough estimate after the transaction has closed.

Other information

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

On 21 January 2013, Banca IFIS's Board of Directors resolved, as per art. 3 of Consob Regulation no. 18079 of 20 January 2012, to adopt the opt-out option pursuant to art. 70, paragraph 8 and art. 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, spin-offs, 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 group 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 arts.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 art. 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 arts. 117 et seq. of Presidential Decree 917/86.

Transactions between these companies were regulated by means of a private written agreement between the parties, signed in the month of April 2016. This agreement will lapse 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., which is responsible for calculating the overall group income. As a result, at 30 June 2016 Banca IFIS recognised net receivables due from the parent company amounting to 12,7 million Euro.

Transactions on treasury shares

The Ordinary Shareholders’ Meeting of 8 April 2015 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 30 Euro, for a number of shares up to a fifth of the share capital.

The Meeting also established that the authorisation lapses after 18 months from the date the resolution was passed.

At 31 December 2015, the bank held 739.446 treasury shares recognised at a market value of 5,8 million Euro and a par value of 739.446 Euro.
During the first half of 2016 Banca IFIS made the following transactions on treasury shares:

- As variable pay for the 2015 financial results, it awarded the Top Management 9.295 treasury shares at an average price of 26,92 Euro, for a total of 250 thousand Euro and a par value of 9.295 Euro, making profits of 191 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve.

The remaining balance at the end of the period was 730.151 treasury shares with a market value of 5,7 million Euro and a par value of 730.151 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, as well as the prudential Supervisory provisions for banks in Circular no. 263 of 27 December 2006, Title V, Chapter V (12 December 2011 update) on "Risk activities and conflicts of interest towards related parties" issued by the Bank of Italy, any transactions with related parties and relevant parties are authorised pursuant to the procedure approved by the Board of Directors, which was most recently updated on 17 July 2013.

This document is publicly available on Banca IFIS's website, www.bancaifis.it, in the 'Corporate Governance' Section.

During the first half of 2016 no significant transactions with related parties were undertaken.

For information on individual related-party transactions, please refer to the Notes to the Condensed consolidated interim financial statements.

Atypical or unusual transactions

During the period, the Banca IFIS Group 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, the Group did not implement any research and development programmes during the year.

Venice - Mestre, 28 July 2016

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Giovanni Bossi

Condensed consolidated interim financial statements

Consolidated Financial Statements

Consolidated Statement of Financial Position

	Assets (in thousands of Euro)	30.06.2016	31.12.2015
10.	Cash and cash equivalents	35	34
20.	Financial assets held for trading	366	259
40.	Available for sale financial assets	1.027.770	3.221.533
60.	Due from banks	153.877	95.352
70.	Loans to customers	3.355.998	3.437.136
120.	Property, plant and equipment	56.729	52.163
130.	Intangible assets	8.929	7.170
	of which:		
	- goodwill	*795*	*820*
140.	Tax assets	64.595	61.737
	a) current	25.222	22.315
	b) deferred	39.373	39.422
160.	Other assets	74.899	82.336
	Total assets	**4.743.198**	**6.957.720**

	Liabilities and equity (in thousands of Euro)	30.06.2016	31.12.2015
10.	Due to banks	43.587	662.985
20.	Due to customers	3.928.261	5.487.476
40.	Financial liabilities held for trading	13	21
80.	Tax liabilities	16.180	25.549
	a) current	465	4.153
	b) deferred	15.715	21.396
100.	Other liabilities	187.612	204.598
110.	Post-employment benefits	1.545	1.453
120.	Provisions for risks and charges	3.803	2.171
	b) other reserves	3.803	2.171
140.	Valuation reserves	(4.529)	5.739
170.	Reserves	420.450	298.856
180.	Share premiums	59.090	58.900
190.	Share capital	53.811	53.811
200.	Treasury shares (-)	(5.745)	(5.805)
220.	Profit for the period	39.120	161.966
	Total liabilities and equity	**4.743.198**	**6.957.720**

Consolidated Income Statement

	Items (in thousands of Euro)	30.06.2016	30.06.2015
10.	Interest receivable and similar income	151.465	136.003
20.	Interest due and similar expenses	(21.909)	(21.384)
30.	**Net interest income**[(1)]	**129.556**	**114.619**
40.	Commission income	29.547	31.568
50.	Commission expense	(2.583)	(2.321)
60.	**Net commission income**	**26.964**	**29.247**
80.	Net result from trading	(332)	156
100.	Gain (loss) on sale or buyback of:	11.189	124.500
	a) receivables	5.694	-
	b) available for sale financial assets	5.495	124.500
120.	**Net banking income**[(1)]	**167.377**	**268.522**
130.	Net impairment losses/reversal on	(32.215)	(20.750)
	a) loans and receivables[(1)]	(28.216)	(16.517)
	b) available for sale financial assets	(3.999)	(4.233)
140.	**Net profit (loss) from financial activities**	**135.162**	**247.772**
180.	Administrative expenses:	(74.067)	(51.135)
	a) personnel expenses	(27.595)	(23.682)
	b) other administrative expenses	(46.472)	(27.453)
190.	Net allocations to provisions for risks and charges	(1.633)	(82)
200.	Net impairment losses/Reversal on property, plant and equipment	(846)	(790)
210.	Net impairment losses/Reversal on intangible assets	(1.161)	(969)
220.	Other operating income/expenses	910	1.166
230.	**Operating costs**	**(76.797)**	**(51.810)**
280.	**Pre-tax profit (loss) for the period from continuing operations**	**58.365**	**195.962**
290.	Income taxes for the period relating to continuing operations	(19.245)	(65.183)
340.	**Profit (loss) for the period attributable to the Parent company**	**39.120**	**130.779**

(1) The data for 2015 were restated as described in the Notes - Accounting policies.

Consolidated Statement of Comprehensive Income

Items (in thousands of Euro)		30.06.2016	30.06.2015
10.	**Profit (loss) for the period**	**39.120**	**130.779**
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**(69)**	**93**
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	(69)	93
50.	Non-current assets under disposal	-	-
60.	Share of valuation reserves of equity accounted investments	-	-
	Other comprehensive income, net of taxes, to be reclassified to profit or loss	**(10.199)**	**(12.021)**
70.	Foreign investment hedges	-	-
80.	Exchange differences	(1.260)	600
90.	Cash flow hedges	-	-
100.	Available for sale financial assets	(8.939)	(12.621)
110.	Non-current assets under disposal	-	-
120.	Share of valuation reserves of equity accounted investments	-	-
130.	**Total other comprehensive income, net of taxes**	**(10.268)**	**(11.928)**
140.	**Total comprehensive income (item 10+130)**	**28.852**	**118.851**
150.	Total consolidated comprehensive income attributable to non-controlling interests	-	-
160.	**Total consolidated comprehensive income attributable to the parent company**	**28.852**	**118.851**

BANCA IFIS

Statement of Changes in Consolidated Equity at 30 June 2016

Items (in thousands of Euro)	Balance at 31.12.2015	Change in opening balances	Balance at 1.1.2016	Allocation of profit from previous year		Changes in the period								Equity at 30.06.2016	Equity attributable to non-controlling interests at 30.06.2016
							Equity transactions								
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Comprehensive income at 30.06.2016		
Share capital:															
a) ordinary shares	**53.811**	---	**53.811**	---	---	---	---	---	---	---	---	---	---	**53.811**	---
b) other shares	**---**	---	**---**	---	---	---	---	---	---	---	---	---	---	**---**	---
Share premiums	**58.900**	---	**58.900**	---	---	---	190	---	---	---	---	---	---	**59.090**	---
Reserves:															
a) retained earnings	**256.778**	---	**256.778**	121.624	---	---	---	---	---	---	---	---	---	**378.402**	---
b) other	**42.078**	---	**42.078**	---	---	(30)	---	---	---	---	---	---	---	**42.048**	---
Valuation reserves:	**5.739**	---	**5.739**	---	---	---	---	---	---	---	---	---	(10.268)	**(4.529)**	---
Equity instruments	**---**	---	**---**	---	---	---	---	---	---	---	---	---	---	**---**	---
Treasury shares	**(5.805)**	---	**(5.805)**	---	---	---	60	---	---	---	---	---	---	**(5.745)**	---
Profit (loss) for the period	**161.966**	---	**161.966**	(121.624)	(40.342)	---	---	---	---	---	---	---	39.120	**39.120**	---
Equity attributable to the Group	**573.467**	**---**	**573.467**	**---**	**(40.342)**	**(30)**	**250**	**---**	**---**	**---**	**---**	**---**	**28.852**	**562.197**	**---**
Equity attributable to non-controlling interests	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

Statement of Changes in Consolidated Equity at 30 June 2015

Items (in thousands of Euro)	Balance at 31.12.2014	Change in opening balances	Balance at 1.1.2015	Allocation of profit from previous year		Changes in the period								Equity at 30.06.2015	Equity attributable to non-controlling interests at 30.06.2015
				Reserves	Dividends and other allocations	Changes in reserves	Equity transactions						Comprehensive income at 30.06.2015		
							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	---	53.811	---	---	---	---	---	---	---	---	---	---	**53.811**	---
b) other shares	---	---	---	---	---	---	---	---	---	---	---	---	---	**---**	---
Share premiums	57.113	---	57.113	---	---	---	1.721	---	---	---	---	---	---	**58.834**	---
Reserves:															
a) retained earnings	195.921	---	195.921	60.857	---	---	---	---	---	---	---	---	---	**256.778**	---
b) other	41.953	---	41.953	---	---	(21)	---	---	---	---	---	---	---	**41.932**	---
Valuation reserves:	(109)	---	(109)	---	---	---	---	---	---	---	---	---	(11.928)	**(12.037)**	---
Equity instruments	---	---	---	---	---	---	---	---	---	---	---	---	---	**---**	---
Treasury shares	(6.715)	---	(6.715)	---	---	---	884	---	---	---	---	---	---	**(5.831)**	---
Profit (loss) for the period	95.876	---	95.876	(60.857)	(35.019)	---	---	---	---	---	---	---	130.779	**130.779**	---
Equity attributable to the Group	**437.850**	**---**	**437.850**	**---**	**(35.019)**	**(21)**	**2.605**	**---**	**---**	**---**	**---**	**---**	**118.851**	**524.266**	**---**
Equity attributable to non-controlling interests	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

Consolidated Cash Flow Statement

Indirect method (in thousands of Euro)	30.06.2016	30.06.2015
A. OPERATING ACTIVITIES		
1. Operations	**91.210**	**328.843**
- profit(loss) for the period (+/-)	39.120	130.779
- profit/loss on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	-	-
- net impairment losses/reversal on loans (+/-)	32.215	16.918
- net imp. losses/reversal on property, plant, and equipment and intangible assets (+/-)	2.007	1.759
- net allocations to provisions for risks and charges and other expenses/income (+/-)	1.641	93
- unpaid taxes (+)	19.245	65.183
- other adjustments (+/-)	(3.018)	114.111
2. Cash generated from/used in financial assets	**2.178.335**	**941.996**
- Financial assets held for trading	(107)	(248)
- available for sale financial assets	2.179.390	1.130.393
- due from banks on demand	(60.926)	29.040
- other due from banks	2.404	130.959
- loans to customers	52.922	(350.676)
- other assets	4.652	2.528
3. Cash generated from/used in financial liabilities	**(2.221.048)**	**(1.235.605)**
- due to banks on demand	151	82
- other due to banks	(619.549)	(1.801.665)
- due to customers	(1.559.216)	554.078
- outstanding securities	-	-
- financial liabilities held for trading	(8)	-
- other liabilities	(42.426)	11.900
Net cash generated from/used in operating activities A (+/-)	**48.497**	**35.234**
B. INVESTING ACTIVITIES		
1. Cash generated from:	89	**38**
- sale of held to maturity financial assets	-	-
- sale of property, plant and equipment	89	38
2. Cash used in:	**(8.463)**	**(2.841)**
- purchase of held to maturity financial assets	-	-
- purchase of property, plant and equipment	(5.518)	(1.662)
- purchase of intangible assets	(2.945)	(1.179)
Net cash generated from/used in investing activities B (+/-)	**(8.374)**	**(2.803)**
C. FINANCING ACTIVITIES		
- issue/buyback of treasury shares	250	2.605
- issue/buyback of equity instruments	(31)	(21)
- distribution of dividends and other	(40.341)	(35.019)
Net cash generated from/used in financing activities C (+/-)	**(40.122)**	**(32.435)**
NET CASH GENERATED/USED DURING THE PERIOD D=A+/-B+/-C	**1**	**(4)**
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	**34**	**24**
NET CASH GENERATED /USEDDURING THE PERIOD D	**1**	**(4)**
CASH AND CASH EQUIVALENTS: EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES	**-**	**-**
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	**35**	**20**

Notes
Accounting Policies

A.1 – General part

Section 1 – Statement of compliance with international accounting standards

The Condensed consolidated interim financial statements at 30 June 2016 have been drawn up in accordance with the IASs/IFRSs in force at said date 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 particular, the contents of these Condensed consolidated interim financial statements comply with IAS 34 (Interim Financial Reporting); in addition, on the basis of paragraph 10 of the aforementioned standard, the Group has taken advantage of the option to prepare the consolidated interim financial statements in condensed form.

The Condensed consolidated interim financial statements included in the consolidated interim financial report are audited only to a limited extent by EY S.p.A.

Section 2 – Basis of preparation

The Condensed consolidated interim financial statements consist of:

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

in addition, they contain the Interim Directors' Report on the Group's operations.

The Condensed consolidated interim 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.

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.

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.

The criteria for, recognising, measuring and derecognising assets and liabilities and the methods for recognising revenue and costs adopted in preparing the Condensed consolidated interim financial statements at 30 June 2016 are unchanged from those used to prepare the consolidated financial statements at 31 December 2015, to which reference should be made for further details.

Items in the financial statements were classified as in the previous financial year, except for the following.

Concerning the changes in amortised cost other than impairment related to the bad loans of the DRL segment, in 2015 the Bank started classifying them no longer under item 130 Net impairment losses/reversals on receivables, but rather under item 10 Interest income.

This new classification is due to, above all, the intention to better represent in financial reports the economic substance of these exposures; recognising the changes in amortised cost of the positions classified as bad loans under item 130 simply because of the classification of the financial item that generated them does not fairly represent the segment's credit risk. In addition, the Bank's operating methods do not differentiate between positions classified as bad loans and those classified as unlikely to pay or performing.

This approach is consistent with the relevant regulations (Bank of Italy's Circular and IAS 39), which require that the impact of changes in estimated cash flows on the carrying amount of an asset be recognised in profit or loss (IAS 39 AG 8), under item 10 Interest income (Bank of Italy's Circular). The item 130 Net impairment losses/reversals shall include the changes in amortised cost deriving from the impairment of receivables.

The costs for commissions paid to debt collection agents and companies, which are proportioned to the amounts recovered, continue to be recognised under Other administrative expenses. The classification of items in the statement of financial position has not changed.

To allow the users of the financial report as at 30 June 2016 to compare it with the results as at 30 June 2015, the items of profit or loss related to the changes in the amortised cost of receivables for the prior-year period have been restated as described above.

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 parent company, the Banca IFIS Group can indeed be considered as a going concern, in that it can be reasonably expected to continue to operate in the foreseeable future. Therefore, the Condensed consolidated interim financial statements at 30 June 2016 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 Group has consistently achieved, to the quality of its loans, and to its current access to financial resources.

Section 3 - Consolidation scope and method

The Condensed consolidated interim financial statements have been drawn up on the basis of the accounts at 30 June 2016 prepared by the directors of the companies included in the consolidation scope.

Pursuant to the line-by-line method of consolidation, the Consolidated financial statements include the financial statements of the parent company, Banca IFIS S.p.A. and its Polish subsidiary, IFIS Finance Sp. Z o. o..

The financial statements of the subsidiary expressed in foreign currencies are translated into Euro by applying the rate of exchange at the end of the period to assets and liabilities. As for the income statement, the items are translated using the average exchange rate, which is considered as a valid approximation of the spot exchange rate. Exchange differences arising from the application of different exchange rates for the statement of financial position and the income statement, as well as the exchange differences from the translation of the investee company's equity, are recognised under capital reserves.

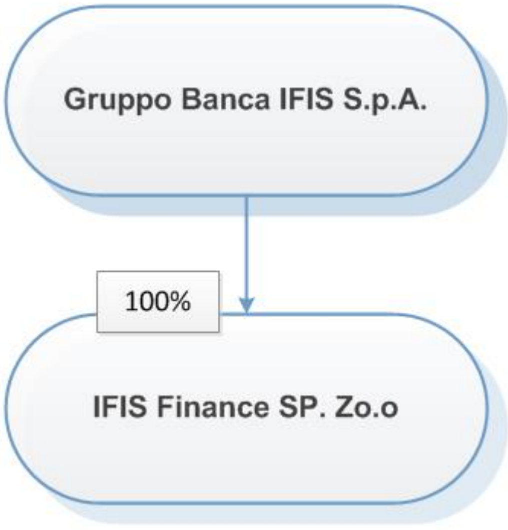
Assets and liabilities, off-balance-sheet transactions, income and expenses, as well as the profits and losses arising from relations between the consolidated companies are all eliminated.

Starting with the financial statements for periods beginning after 1 July 2009, business combinations must be recognised by applying the principles established by IFRS 3; purchases of equity investments in which control is obtained and counting as "business combinations" must be recognised by applying the acquisition method, which requires:

- identification of the acquirer;
- determination of the acquisition date;
- recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
- recognition and measurement of goodwill or a gain from a bargain purchase.

As for the subsidiary IFIS Finance Sp. Z o.o., the consolidation process has brought about goodwill for 795 thousand Euro at the period-end exchange rate, recognised under item 130 'Intangible assets'.

1. Investments in exclusively controlled companies



Name of the company	Registered office	Head office	Type of relationship (1)	Investment		Voting rights % (2)
				Held by	Share %	
IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	1	Banca IFIS S.p.A.	100%	100%

Key
(1) Type of relationship:
1 = majority of voting rights in the Annual Shareholders' Meeting
2 = dominant influence in the Annual Shareholders' Meeting
3 = agreements with other shareholders
4 = other forms of control
5 = exclusive control as per article 26, paragraph 1, of Legislative Decree no. 87/92
6 = exclusive control as per article 26, paragraph 2, of Legislative Decree no. 87/92
(2) Voting rights in the Annual Shareholders' Meeting, distinguishing between effective and potential voting rights.

2. Significant judgements and assumptions in determining the scope of consolidation

In order to determine the scope of consolidation, Banca IFIS assessed whether it meets the requirements of IFRS 10 for controlling investees or other entities with which it has any sort of contractual arrangements.

An entity controls another entity when the former has all the following:

1. power over the investee,
2. exposure to variable returns,
3. and the ability to affect the amount of its returns.

The assessment carried out confirmed the scope of consolidation determined in the previous year and identified a non-consolidated structured entity (for more information, see Information on risks and risk management policies in the Notes).

Section 4 – Subsequent events

No significant events occurred between the end of the reporting period and the preparation of these condensed consolidated interim financial statements other than those already considered in preparing them.

For information on such events, please refer to the Interim Directors' report on the Group.

Section 5 – Other aspects

Risks and uncertainties related to estimates

Using accounting standards often requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. In making the assumptions underlying the estimates, management considers all available information at the reporting date as well as any other factor deemed reasonable for this purpose.

Specifically, it made estimates on the carrying amounts of some items recognised in the Condensed consolidated interim financial statements at 30 June 2016, as per the relevant accounting standards. These estimates are largely based on the expected future recoverability of the amounts recognised and were made on a going concern basis. Such estimates support the carrying amounts reported at 30 June 2016.

Estimates are reviewed at least annually when preparing the financial statements.

The risk of uncertainty in the estimates, considering the materiality of the reported amounts of assets and liabilities and the judgement required of management, substantially concerns the measurement of:

- fair value of financial instruments not quoted in active markets;
- trade receivables and DRL receivables;
- provisions for risks and charges;
- post-employment benefits;
- goodwill and other intangible assets.

For more details, see Information on risks and risk management policies as well as Fair value disclosure.

Concerning the measurement of DRL receivables, in 2015 the Bank reviewed the proprietary model used to estimate the cash flows of the receivables involved in non-judicial debt collection operations, which are used also for the purposes of determining the relevant amortised cost.

The Bank reviewed the assumptions underlying the simulation model by adopting an overall conservative approach to both the breakdown over time and the deterministic simulation.

The risk management, when assessing the Bank's capital adequacy, regularly assesses the so-called model risk by carrying out specific analyses.

Coming into effect of new accounting standards

The new IFRS 9 will be effective for annual periods beginning on or after 1 January 2018. The Group has started an assessment, to be completed by 31 December 2016, together with a leading audit firm to define the road map for the adoption of the new accounting standard.

Deadlines for the approval and publication of the Consolidated interim financial report

Pursuant to art. 154-ter of Legislative Decree no. 58/98 (Consolidated Law on Finance), the Company must publish the Consolidated interim financial report, including the condensed consolidated interim financial statements, the interim directors' report, and the declaration as per article 154-bis, paragraph 5, as soon as possible, and in any case within three months of the end of the first half of the year. Banca IFIS's Consolidated interim financial report was submitted to the approval of the Parent Company's Board of Directors on 28 July 2016.

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

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.

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 term[1]). 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

[1] For short-term receivables, the book value is considered representative of fair value.

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 recovery of positions in the Bank's portfolio, the model projects the relevant cash flows. As for individual managements (judicial operations), the projections of the future cash flows are defined based on an internal algorithm or by the manager according to how the underlying receivable is being processed. 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 centre): it estimates them at an average 13,4% 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.

Measurement processes and sensitivity

In compliance with IFRS 13, for fair value measurements categorised within level 3, the Group tests their sensitivity to changes in one or more unobservable inputs used in the fair value measurements. Specifically, a negligible amount of the Group's financial assets measured at fair value are categorised within level 3, except for DRL receivables.

Fair value hierarchy

Concerning recurring fair value measurements of financial assets and liabilities, the Banca IFIS Group 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

Fair value hierarchy

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

Financial assets/liabilities measured at fair value on a recurring basis (in thousands of Euro)	30.06.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	-	-	366	-	-	259
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	1.026.864	-	906	3.216.832	-	4.701
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**1.026.864**	**-**	**1.272**	**3.216.832**	**-**	**4.960**
1. Financial liabilities held for trading	-	-	13	-	-	21
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**-**	**13**	**-**	**-**	**21**

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.

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

ANNUAL CHANGES IN ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3) (in thousands of Euro)	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	**259**	-	**4.701**	-	**-**	**-**
2. Increases	**366**	**-**	**204**	**-**	**-**	**-**
2.1 Purchases	366	-	10	-	-	-
2.2 Profit taken to:	-	-	-	-	-	-
2.2.1 Income statement	-	-		-	-	-
- of which: Capital gains	-	-		-	-	-
2.2.2 Equity	**X**	**X**	194	**X**	-	-
2.3 Transfers from other levels (1)	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-
3. Decreases	**259**	**-**	**3.999**	**-**	**-**	**-**
3.1 Sales	-	-	-	-	-	-
3.2 Redemptions	259	-	-	-	-	-
3.3 Losses taken to:	-	-	3.999	-	-	-
3.3.1 Income statement	-	-	3.999	-	-	-
- of which capital losses	-	-	3.999	-	-	-
3.3.2 Equity	**X**	**X**	-	**X**	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
4. Closing balance	**366**	-	**906**	-	**-**	**-**

Level 3 available for sale financial assets refer entirely to equity interests.

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	**21**	-	**-**
2. Increases	**13**	-	-
2.1 Issues	13	-	-
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	**21**	-	
3.1 Redemptions	21	-	
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 decreases	-	-	-
4. Closing balance	**13**	**-**	**-**

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	30.06.2016				31.12.2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held to maturity financial assets	-	-	-	-	-	-	-	-
2. Due from banks	153.877	-	-	153.877	95.352	-	-	95.352
3. Loans to customers	3.355.998	-	-	3.548.417	3.437.136	-	-	3.452.700
4. Property, plant and equipment held for investment purpose	720	-	-	926	720	-	-	926
5. Non-current assets and disposal groups	-	-	-	-	-	-	-	-
Total	**3.510.595**	**-**	**-**	**3.703.220**	**3.533.208**	**-**	**-**	**3.548.978**
1. Due to banks	43.587	-	-	43.587	662.985	-	-	662.985
2. Due to customers	3.928.261	-	-	3.941.812	5.487.476	-	-	5.491.311
3. Outstanding securities	-	-	-		-	-	-	
4. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	**3.971.848**	-	-	**3.985.399**	**6.150.461**	-	-	**6.154.296**

Key

BV= book value
L1= Level 1
L2= Level 2
L3= Level 3

Consolidated financial and income results

The main line items are commented on below.

Statement of financial positions items

MAIN STATEMENT OF FINANCIAL POSITION ITEMS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2016	31.12.2015	ABSOLUTE	%
Available for sale financial assets	1.027.770	3.221.533	(2.193.763)	(68,1)%
Due from banks	153.877	95.352	58.525	61,4%
Loans to customers	3.355.998	3.437.136	(81.138)	(2,4)%
Property, plant and equipment and intangible assets	65.658	59.333	6.325	10,7%
Other assets	139.895	144.366	(4.471)	(3,1)%
Total assets	**4.743.198**	**6.957.720**	**(2.214.522)**	**(31,8)%**
Due to banks	43.587	662.985	(619.398)	(93,4)%
Due to customers	3.928.261	5.487.476	(1.559.215)	(28,4)%
Other liabilities	209.153	233.792	(24.639)	(10,5)%
Equity	562.197	573.467	(11.270)	(2,0)%
Total liabilities and equity	**4.743.198**	**6.957.720**	**(2.214.522)**	**(31,8)%**

Available for sale (AFS) financial assets

Available for sale (AFS) financial assets, which include debt and equity securities, stood at 1.027,8 million Euro at 30 June 2016, -68,1% compared to 3.221,5 million Euro at the end of 2015. The valuation reserve, net of taxes, was positive to the tune of 2,7 million Euro at 30 June 2016 (11,7 million Euro at 31 December 2015).

At 30 June 2016, the **debt securities** portfolio amounted to 1.026,9 million Euro, down 68,1% from 31 December 2015 (3.216,8 million Euro)—largely the result of 2,1 billion Euro worth of sales carried out in the first quarter of 2016, which resulted in a 5,5 million Euro gain.

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

Issuer:	4th Q. 2016	2nd H. 2017	1st H. 2020	Overall total
Government bonds	703.434	270.459	52.971	1.026.864
% of total	*68,5%*	*26,3%*	*5,2%*	*100,0%*

Available for sale financial assets include **equity securities** relating to non-controlling interests in unlisted companies, amounting to 0,9 million Euro (-80,7% compared to 31 December 2015). This change was largely attributable to the 4,0 million Euro write-down of the equity interest in one investee after it was tested for impairment.

Loans to customers

Total **loans to customers** amounted to 3.356,0 million Euro, down 2,4% from 3.437,1 million Euro at the end of 2015.

Specifically, DRL receivables increased as a result of new acquisitions as well as the reclassification to amortised cost of a sizeable portion of the portfolio previously recognised at cost pending the completion of the preparations for said reclassification. Loans in the trade receivables sector declined slightly (-3,1%) as the Bank shifted its focus to smaller-sized but more profitable market segments. Tax receivables were down as a result of the significant collections recognised during the period. Receivables in the Governance and Services sector fell because of the decrease in margin lending related to repurchase agreements on the MTS platform with Cassa Compensazione e Garanzia as counterparty—the result of the mentioned reduction of the portfolio of refinanceable securities.

The breakdown of loans to customers was as follows: 29,3% are due from the Public Administration and 70,7% from the private sector (compared to 30,4% and 69,6% at 31 December 2015).

With regard to activities in support of SMEs, the loans duration was confirmed as short-term, in line with the Group's strategy to support working capital. On average, it takes 3.5 months to collect receivables due from private sectors entities and nearly 4.5 months for those due from the Public Administration.

Finally, it should be noted that the item includes 4 positions, for a total amount of 247,0 million Euro, which fall within the category of major risks.

LOANS TO CUSTOMERS: BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2016	31.12.2015	ABSOLUTE	%
Trade receivables	2.758.793	2.848.124	(89.331)	(3,1)%
- *of which non-performing*	*195.299*	*128.715*	*66.584*	*51,7%*
Distressed retail loans	481.976	354.352	127.624	36,0%
- *of which non-performing*	*481.963*	*354.331*	*127.632*	*36,0%*
Tax Receivables	109.860	130.663	(20.803)	(15,9)%
- *of which non-performing*	*1*	*-*	*1*	*n.a.*
Governance and Services	5.369	103.997	(98.628)	(94,8)%
- *of which with Cassa di Compensazione e Garanzia*	*3.533*	*103.636*	*(100.103)*	*(96,6)%*
Total loans to customers	**3.355.998**	**3.437.136**	**(81.138)**	**(2,4)%**
- of which non-performing	***677.263***	***483.046***	***194.217***	***40,2%***

Total net **non-performing exposures**, following the recent acquisitions in the DRL segment finalised in the first half of 2016, amounted to 677,3 million Euro at 30 June 2016, compared to 483,0 million Euro at the end of 2015 (+40,2%).

Here below is the breakdown of forborne exposures by segment.

FORBEARANCE (in thousands of Euro)	TRADE RECEIVABLES	DRLs	TAX RECEIVABLES	CONS. TOTAL
Bad loans				
Amounts at 30.06.2016	2.362	23.868	-	26.230
Amounts at 31.12.2015	*371*	*15.064*	-	*15.435*
% Change	*536,7%*	*58,4%*	-	*69,9%*
Unlikely to pay				-
Amounts at 30.06.2016	14.762	37.335	-	52.097
Amounts at 31.12.2015	*14.414*	*19.309*		*33.723*
% Change	*2,4%*	*93,4%*	-	*54,5%*
Past due loans				-
Amounts at 30.06.2016	-	-	-	-
Amounts at 31.12.2015	*5.300*	-		*5.300*
% Change	*(100,0)%*	-	-	*(100,0)%*
Performing loans				-
Amounts at 30.06.2016	7.404	11	-	7.415
Amounts at 31.12.2015	*2.954*	*5*	-	*2.959*
% Change	*150,6%*	*120,0%*	-	*150,6%*

Here below is the breakdown of net non-performing exposures **in the trade receivables segment** alone:

NON-PERFORMING TRADE RECEIVABLES (in thousands of Euro)	BAD LOANS (1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL
SITUATION AT 30/06/2016				
Nominal amount of non-performing exposures	266.184	77.122	110.657	453.963
As a proportion of total receivables at nominal amount	*8,8%*	*2,5%*	*3,7%*	*15,0%*
Value adjustments	235.179	21.735	1.750	258.664
Coverage %	*88,4%*	*28,2%*	*1,6%*	*57,0%*
Net amount of non-performing exposures	31.005	55.387	108.907	195.299
As a proportion of net total receivables	*1,1%*	*2,0%*	*3,9%*	*7,1%*
SITUATION AT 31/12/2015				
Nominal amount of non-performing exposures	255.404	58.257	59.788	373.449
As a proportion of total receivables at nominal amount	*8,2%*	*1,9%*	*1,9%*	*12,0%*
Value adjustments	224.454	18.706	1.574	244.734
Coverage %	*87,9%*	*32,1%*	*2,6%*	*65,5%*
Net amount of non-performing exposures	30.950	39.551	58.214	128.715
As a proportion of net total receivables	*1,1%*	*1,4%*	*2,0%*	*4,5%*

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

Net bad loans amounted to 31,0 million Euro, essentially unchanged from the end of 2015 (+0,2%); also the segment's net bad-loan ratio was flat on 31 December 2015 at 1,1%. Net bad loans amounted to 5,5% as a proportion of equity, compared to 5,4% at 31 December 2015. The coverage ratio stood at 88,4% (87,9% at 31 December 2015)

The balance of **net unlikely to pay** was 55,4 million Euro, +40,0% from 39,6 at the end of 2015. The increase was largely attributable to two individually significant positions previously classified under net non-performing and performing past due exposures. The coverage ratio stood at 28,2% (32,1% at 31 December 2015)

Net non-performing past due exposures totalled 108,9 million Euro, compared with 58,2 million Euro in December 2015 (+87,1%). The increase was attributable to past due loans due from the Public Administration that were purchased outright, rising from 1,2 million Euro at the end of 2015 to 46,1 million Euro at 30 June 2016 (with 43,8 million Euro referring to the multi-utility segment). The coverage ratio stood at 1,6% (2,6% at 31 December 2015)

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 8,9 million Euro, compared to 7,2 million Euro at 31 December 2015 (+24,5%).
The item refers to software (8,1 million Euro) as well as goodwill (795 thousand Euro) arising from the consolidation of the investment in IFIS Finance Sp.Z o.o.

Property, plant and equipment and investment property amounted to 56,7 million Euro, up +8,8% from 52,2 million Euro at the end of 2015 due to the capitalisation of the costs for the restructuring of the property in Florence that will house the new headquarters of the NPL business area. The property, which had not yet been brought into use at 30 June 2016, was not depreciated.
At the end of the period, the properties recognised under property, plant and equipment and investment property mainly included: 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.
Since these are luxury properties, they are not amortised, but are tested for impairment at least annually. To this end, they are appraised by experts specialising in luxury properties. In the first half of 2016, there were no indications requiring to test the assets for impairment.
There are also two buildings in Florence: the first, worth 3,9 million Euro, was acquired under a finance lease and is the current head office of the NPL business area; the second was measured at 15,5 million Euro—including the restructuring costs incurred to date, as mentioned above.

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.
Deferred tax assets, amounting to 39,4 million Euro at 30 June 2016, referred for 38,0 million Euro to impairment losses on receivables that can be deducted in the following years.
Deferred tax liabilities, amounting to 15,7 million Euro at 30 June 2016, referred for 5,7 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; for 1,3 million Euro to taxes on the valuation reserve for AFS securities held in the portfolio; and for 9,5 million Euro to interest on arrears accrued but not yet received.

Other assets and liabilities

Other assets amounted to 74,9 million Euro at 30 June 2016 (-9,0% from 31 December 2015). This line item included 9,3 million Euro in receivables due from Italian tax authorities for payments on account (stamp duty and withholding taxes) and 7,1 million Euro in an escrow account held with the Italian Revenue Agency concerning a pending appeal in an outstanding tax dispute. 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. The item also included a 12,7 million Euro receivable due from the parent company La Scogliera S.p.A. deriving from the tax consolidation regime. Finally, it also included 11,8 million Euro in receivables due from the buyers of NPL portfolios.

Other liabilities, totalling 187,6 million Euro at the end of the period (-8,3% from the end of 2015), referred largely to amounts due to customers that have not yet been credited. The decrease from the previous year was partly attributable to the settlement of a payable due to one of the buyers of the sales of DRL receivables completed at the end of 2015.s This payable totalled 20,7 million Euro, which is the amount of the receivables transferred.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2016	31.12.2015	ABSOLUTE	%
Due to customers:	**3.928.262**	**5.487.476**	**(1.559.214)**	**(28,4)%**
Repurchase agreements	*270.121*	*2.278.983*	*(2.008.862)*	*(88,1)%*
Rendimax	*3.486.459*	*3.048.357*	*438.102*	*14,4%*
Contomax	*63.971*	*64.912*	*(941)*	*(1,4)%*
Other payables	*107.711*	*95.224*	*12.487*	*13,1%*
Due to banks:	**43.587**	**662.985**	**(619.398)**	**(93,4)%**
Eurosystem	-	*119.792*	*(119.792)*	*(100,0)%*
Repurchase agreements	-	*384.225*	*(384.225)*	*(100,0)%*
Other payables	*43.587*	*158.968*	*(115.381)*	*(72,6)%*
Total funding	**3.971.849**	**6.150.461**	**(2.178.612)**	**(35,4)%**

Total funding, which amounted to 3.971,8 million Euro at 30 June 2016, down 35,4% compared to 31 December 2015, is represented for 98,9% by **Payables due to customers** (compared to 89,2% at 31 December 2015) and for 1,1% by **Payables due to banks** (compared to 10,8% at 31 December 2015).

Payables due to customers at 30 June 2016 totalled 3.928,3 million Euro. The item included the repurchase agreements with underlying government bonds and Cassa di Compensazione e Garanzia as counterparty, amounting to 270,0 million Euro (compared to 2.279,0 million Euro at the end of 2015), following the sale of securities finalised in the first quarter of 2016. Retail funding totalled 3.550,4 million Euro at 30 June 2016, including 3.486,4 from rendimax and 64,0 million Euro from contomax, compared to 3.113,3 million Euro at 31 December 2015 (+14%), also as a result of the newly introduced 3-, 4- and 5-year maturities for rendimax. The Bank still bears proportional stamp duty costs on rendimax and contomax, which amount to 0,20%.

Payables due to banks, totalling 43,6 million Euro (compared to 663,0 million Euro in December 2015), were down 93,4% because of the early repayment of the TLTRO loan received in December 2014. Since market conditions have changed, the Bank can now raise funding on more favourable terms than said loan. The remainder of payables due to banks consists of interbank deposits. The Bank settled the repurchase agreements with underlying government bonds outstanding at the end of 2015, which amounted to 384,2 million Euro.

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2016	31.12.2015	ABSOLUTE	%
Legal disputes	3.145	1.513	1.632	107,9%
Tax dispute	197	197	-	0,0%
Other provisions	461	461	-	0,0%
Total provisions for risks and charges	**3.803**	**2.171**	**1.632**	**75,2%**

Legal disputes

The provision outstanding at 30 June 2016, amounting to 3,1 million Euro, included 2.841 thousand Euro for twelve disputes concerning the Trade Receivables segment (the plaintiffs seek 19,8 million Euro in damages), and 304 thousand Euro for seven disputes concerning the DRL segment.

Overall, the Bank recognises contingent liabilities amounting to 7,1 million Euro in claims, represented by 10 disputes: 5 refer to disputes concerning the Trade Receivables segment, for a total of 6,9 million Euro, and 3 to a labour dispute, for 182 thousand Euro. The Bank, supported by the legal opinion of its lawyers, made no provisions for these positions, as the risk of defeat is considered possible.

Tax dispute

At 30 June 2016, the provision for risks amounted to 197 thousand Euro. This amount refers to the provision set aside for the verification notices received by the Bank, which has filed an appeal against them with the competent Tax Commission. The Bank's tax advisers believe the relevant risk of defeat is probable.

At 30 June 2016, there were no contingent liabilities, since those deriving from the verification notices for the fiscal years 2004 and 2005 were written off after reaching a settlement with the tax authorities on 13 June 2016.

These contingent liabilities arose from a check carried out by the Italian Revenue Agency in 2008, after which the Bank had received two verification notices.

As for 2004, the Office claimed a portion of a write-down was taxable because allegedly non-deductible, assessing a higher corporate income tax liability of 276 thousand Euro, plus interest and penalties.

The Bank promptly challenged the verification notice and, after winning on appeal, the case reached the Court of Cassation.

As for 2015, besides considering another portion of a write-down as non-deductible, the Office also alleged a number of tax avoidance schemes and challenged the calculation of the limits for the deductibility of bad debt and impairment losses. Thus, the tax authorities assessed an additional 8,6 million Euro in income as taxable, resulting in a higher tax liability of 2,8 million Euro, plus interest and penalties.

The Bank promptly challenged also this notice and had been waiting for the Provincial Tax Commission to set the date for the hearing.

Before discussing both cases (before the Court of Cassation and the Provincial Tax Commission, respectively), the Bank, although it denied wrongdoing and argued the findings were baseless, reached a full and final settlement with the Italian Revenue Agency for both disputes.

Specifically, the parties agreed the following:

- the verification notice for 2004 would be cancelled under the appeal process, and the Office would drop the case that had reached the Court of Cassation;
- concerning the verification notice for 2015, the Office would drop the first three claims and reassess the fourth (concerning the tax avoidance schemes), and the Bank would pay 1,8 million Euro (including 1.078 thousand Euro in taxes, 388 thousand Euro in penalties, and 351 thousand Euro in interest).

On 15 June 2016, the Bank paid the above amounts by filing an F24 form, thus performing the settlement agreement entered into with the Agency.

For the sake of completeness, please note that these amounts had already been recognised in profit or loss in the condensed quarterly consolidated financial statements at 31 March 2016, deducting the amount the Bank had already paid in 2013 pending the resolution of the dispute.

Other provisions

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 (in addition to the measures announced on 9 January 2014 and 17 July 2014) to Banca Tercas, placed under Special Administration. The relevant potential obligation for Banca IFIS amounts to 0,5 million Euro. Therefore, in 2014 Banca IFIS allocated said amount to the provisions for risks and charges.

Equity and capital adequacy ratios

At 30 June 2016, **consolidated Equity** was 562,2 million Euro, compared to 573,5 million Euro at 31 December 2015 (-2,0%). 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	
	30.06.2016	31.12.2015	ABSOLUTE	%
Share capital	53.811	53.811	-	*0,0%*
Share premiums	59.090	58.900	190	*0,3%*
Valuation reserves:	(4.529)	5.739	(10.268)	*(178,9)%*
- AFS securities	*2.738*	*11.677*	*(8.939)*	*(76,6)%*
- Post-employment benefits	*(236)*	*(167)*	*(69)*	*41,3%*
- exchange differences	*(7.031)*	*(5.771)*	*(1.260)*	*21,8%*
Reserves	420.450	298.856	121.594	*40,7%*
Treasury shares	(5.745)	(5.805)	60	*(1,0)%*
Net profit for the period	39.120	161.966	(122.846)	*(75,8)%*
Equity	**562.197**	**573.467**	**(11.270)**	**(2,0)%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2015	**573.467**
Increases:	**39.370**
Profit for the period	39.120
Sale/grant of treasury instruments	250
Decreases:	**50.640**
Dividends distributed	40.342
Change in valuation reserve:	10.268
- AFS securities	*8.939*
- Post-employment benefits	*69*
- exchange differences	*1.260*
Other changes	30
Equity at 30.06.2016	**562.197**

The change in the valuation reserve for AFS securities recognised in the period was the result of the sale of part of the portfolio, which caused the Bank to reduce the reserve by 5,5 million Euro.
The change in the valuation reserve for exchange differences refers mainly to exchange differences deriving from the consolidation of the subsidiary IFIS Finance Sp. Z o.o.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS (in thousands of Euro)	AMOUNTS AT	
	30.06.2016	31.12.2015[2]
Common equity Tier 1 Capital[1] (CET1)	452.005	464.316
Tier 1 Capital (AT)	467.177	473.956
Total own funds	**487.415**	**486.809**
Total RWA	**3.432.831**	**3.264.088**
Common Equity Tier 1 Ratio	13,17%	14,22%
Tier 1 Capital Ratio	13,61%	14,52%
Total own funds Capital Ratio	**14,20%**	**14,91%**

(1) Common Equity Tier 1 capital includes the profit for the period net of estimated dividends.
(2) Total consolidated own funds (amounting to 486.809 million Euro) differ from the amount reported in the consolidated financial statements for the year ended 31 December 2015 (501.809 million Euro) due to the 15 million Euro dividend payout approved by the Shareholders' Meeting of the parent company La Scogliera S.p.A. on 23 March 2016. The consolidated supervisory reports at 31 December 2015, as well as the relevant capital adequacy ratios, had already been adjusted at the end of March 2016 to account for said dividend payout. The data on consolidated Own Funds and capital adequacy ratios account for the impact of said distribution.

Consolidated own funds, risk-weighted assets and solvency ratios at 30 June 2016 were determined based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were transposed in the Bank of Italy's Circulars no. 285 and 286 of 17 December 2013.

Article 19 of the CRR requires to include the unconsolidated holding of the banking group in prudential consolidation. The capital adequacy ratios of the Banca IFIS Group alone, presented exclusively for information purposes, would be as showed in the following table.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS: BANCA IFIS GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	30.06.2016	31.12.2015[2]
Common equity Tier 1 Capital[1] (CET1)	529.286	514.453
Tier 1 Capital (AT)	529.286	514.453
Total own funds	**529.322**	**514.453**
Total RWA	**3.431.872**	**3.261.103**
Common Equity Tier 1 Ratio	15,42%	15,78%
Tier 1 Capital Ratio	15,42%	15,78%
Total own funds Capital Ratio	**15,42%**	**15,78%**

The measures concerning own funds provide for the gradual phase-in of a new regulatory framework, with a transitional period lasting until 2017 during which some elements that will be accounted for or deducted in full once the provisions become effective will have only a limited impact.

The Bank IFIS Group, in accordance with the transitional provisions in the Bank of Italy's Circular no. 285 of 17 December 2013 as amended, calculated its own funds at 30 June 2016 by excluding the unrealised gains referring to the exposures to central governments classified under “Available for sale financial assets” as per IAS 39, resulting in a net positive amount of 1,3 million Euro (5,9 million Euro at 31 December 2015).

Income statements items

Formation of net banking income

Net banking income totalled 167,4 million Euro, down 37,7% from 268,5 million Euro in the first half of 2015. The latter amount included the 124,5 million Euro gain from the rebalancing of the government bond portfolio completed in April 2015: excluding this one-off item, net banking income was up 16,2%. This significant result was mainly attributable to the increase in the DRL segment (77,6 million Euro, +233,4%). Also trade receivables and tax receivables were positive (81,4 million Euro, +5,3%, and 8 million Euro, +6,7%, respectively). The only exception to this positive trend was the performance of Governance & Services (378 thousand Euro, compared to 160,4 million Euro in the first half of 2015). This was the result of the sizeable decrease in interest due to the reduction of the stock on the one hand, and on the other hand, of the increase in funding costs because of rising volumes as well as the introduction of 2-, 3-, and 5-year maturities starting in September 2015.

NET BANKING INCOME (in thousands of Euro)	1st HALF		CHANGE	
	2016	2015	ABSOLUTE	%
Net interest income[1]	129.556	114.619	14.937	13,0%
Net commission income	26.964	29.247	(2.283)	(7,8)%
Net result from trading	(332)	156	(488)	(312,8)%
Gains (losses) on sale or buyback of receivables	5.694	-	5.694	n.a.
Gains (losses) on sale or buyback of financial assets	5.495	124.500	(119.005)	(95,6)%
Net banking income[1]	**167.377**	**268.522**	**(101.145)**	**(37,7)%**

(1) The data for 2015 were restated as described in the Notes - Accounting policies.

Net interest income rose from 114,6 million Euro at 30 June 2015 to 129,6 million Euro at 30 June 2016 (+13,0%).

Net commission income totalled 27,0 million Euro, down from 30 June 2015 (-7,8%).

Commission income, totalling 29,6 million Euro (compared to 31,6 million Euro at 30 June 2015), 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 2,6 million Euro (compared to 2,3 million Euro at 30 June 2015), came primarily from approved banks' brokering, the work of other credit brokers, and commissions paid to correspondent banks and factors.

The **gain on the sale of receivables**, totalling 5,7 million Euro, was the result of the sale of a number of portfolios of DRL receivables.

The **gain on the sale of financial assets** arose from the mentioned sale of part of the government bond portfolio completed in the first half of 2016, resulting in a 5,5 million Euro pre-tax gain.

Formation of net profit from financial activities

The Group's **net profit from financial activities** totalled 135,2 million Euro, compared to 247,8 million Euro at 30 June 2015 (-45,4%). Here below are the details.

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	1st HALF		CHANGE	
	2016	2015	ABSOLUTE	%
Net banking income[1]	**167.377**	**268.522**	**(101.145)**	**(37,7)%**
Net impairment losses on:	(32.215)	(20.750)	(11.465)	55,3%
Loans and receivables[1]	(28.216)	(16.517)	(11.699)	70,8%
available for sale financial assets	(3.999)	(4.233)	234	(5,5)%
Net profit (loss) from financial activities	**135.162**	**247.772**	**(112.610)**	**(45,4)%**

(1) The data for 2015 were restated as described in the Notes - Accounting policies.

Net impairment losses on receivables totalled 28,2 million Euro (compared to 16,5 million Euro at 30 June 2015, +70,8%). 11,6 million Euro referred to trade receivables, 16,4 million Euro to the DRL segment, and 187 thousand Euro to tax receivables. Concerning impairment losses on DRL receivables, 2,0 million Euro referred to the write-off of a number of positions for which the debtor was deceased and no heirs were found, and 0,7 million Euro to some positions for which the statute of limitations had expired. The item also included 9,2 million Euro referring to positions for which the net present value of expected cash flows had fallen below the purchase price, partly offset by 3,3 million Euro in interest accrued. In the first half of 2016, the Bank reclassified to amortised cost a number of DRL positions acquired in recent years after completing the verification process to determine whether the new estimating model created at the end of 2015 could apply to positions with an "acceleration clause date" that is recent compared to the acquisition date. Previously, the statistical model did not allow to estimate expected cash flows with sufficient accuracy, and therefore the price allocation was high compared to recoverability estimates. The reclassification to amortised cost gave rise to 4,8 million Euro in value adjustments, partly offset by 2,2 million Euro in additional interest income recognised under Interest receivable and similar income.

These events (NPV of cash flows lower than the purchase price, deceased debtor, and expired statute of limitations), in accordance with the Bank's accounting policy, represented trigger events causing the changes in amortised cost to qualify as impairment losses to be recognised under item

130 - Net impairment losses on receivables. However, the overall net profit from financial activities is more relevant to understanding the segment's performance.

Net impairment losses on available for sale financial assets, totalling 4,0 million Euro at 30 June 2016 (4,2 million Euro in the first half of 2015), referred to impairment losses recognised on the equity interest in an investee that was found to be impaired.

Formation of profit for the period

Profit for the period, which, in the absence of profit attributable to non-controlling interests, refers entirely to the Group, amounted to 39,1 million Euro, compared to 130,8 million Euro in June 2015, down 70,1%. Here below are the details.

FORMATION OF PROFIT FOR THE PERIOD (in thousands of Euro)	1st HALF		CHANGE	
	2016	2015	ABSOLUTE	%
Net profit (loss) from financial activities	**135.162**	**247.772**	**-112.610**	**(45,4)%**
Operating costs	(76.797)	(51.810)	(24.987)	48,2%
Pre-tax profit from continuing operations	**58.365**	**195.962**	**-137.597**	**(70,2)%**
Income tax expense for the period	(19.245)	(65.183)	45.938	(70,5)%
Net profit for the period	**39.120**	**130.779**	**-91.659**	**(70,1)%**

At 30 June 2016, operating costs were up 48,2% from 51,8 million Euro in June 2015 to 76,8 million Euro. As far as day-to-day operations are concerned, the rise was attributable to the DRL segment, which saw a significant increase in master data search costs—especially concerning employment information. These costs are necessary to reclassify the positions being processed as part of judicial operations, which have been given priority over non-judicial operations starting from January 2016. In addition, there was an increase in commission expense due to the acceleration in the activation of the plans collected. In the first half 2016, the Bank reviewed the compensation policy for in-house and external agents, aligning the settlement of the commission with the accounting activation of the relevant plan for the Bank, thus better matching revenues and expenses.

Operating costs also included the costs related to the provisions for contingent liabilities arising from legal disputes, the settlement of a tax dispute, and the contribution to the Italian Bank Resolution Fund (Single Resolution Fund Directive 59/201/EU).

The **cost/income** ratio stood at 45,9% at 30 June 2016, compared to 19,3% at 30 June 2015 (36,0% excluding the gain on the AFS securities sold in the second quarter of 2015 from net banking income).

OPERATING COSTS (in thousands of Euro)	1st HALF		CHANGE	
	2016	2015	ABSOLUTE	%
Personnel expenses	27.595	23.682	3.913	16,5%
Other administrative expenses	46.472	27.453	19.019	69,3%
Net allocations to provisions for risks and charges	1.633	82	1.551	1891,5%
Net impairment losses on property, plant and equipment and intangible assets	2.007	1.759	248	14,1%
Other operating charges (income)	(910)	(1.166)	256	(22,0)%
Total operating costs	**76.797**	**51.810**	**24.987**	**48,2%**

At 27,6 million Euro, **personnel expenses** rose 16,5% (23,7 million Euro in June 2015) due to new hiring: the Bank added 120 new staff in the first six months of 2016, up 22,4% compared to 98 in the first half of 2015. The increase is consistent with the goal to strengthen some areas and services supporting the business—especially in the DRL sector–and the scenario in which the Group operates. At 30 June 2016, the Group's employees numbered 807.

Other administrative expenses totalled 46,5 million Euro, up 69,3% from 27,5 million Euro at 30 June 2015, largely because of higher business volumes in the DRL segment. The relevant costs for collecting debts and gathering information on clients (12,1 and 5,5 million Euro, respectively, compared to 4,1 and 1,6 million Euro in the first half of 2015) are included in this item of the income statement. There was also an increase in the expenses related to the new organisation of business processes and the internal control system.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	1st HALF		CHANGE	
	2016	2015	ABSOLUTE	%
Expenses for professional services	**19.159**	**11.791**	**7.368**	**62,5%**
Legal and consulting services	6.557	6.885	(328)	(4,8)%
Auditing	134	141	(7)	(5,0)%
Outsourced services	12.468	4.765	7.703	161,7%
Direct and indirect taxes	**7.254**	**3.814**	**3.440**	**90,2%**
Expenses for purchasing goods and other services	**20.059**	**11.848**	**8.211**	**69,3%**
Customer information	6.564	2.285	4.279	187,3%
Postage of documents	2.217	1.393	824	59,2%
Property expenses	2.033	2.143	(110)	(5,1)%
Software assistance and hire	1.833	1.522	311	20,4%
Advertising and inserts	1.297	776	521	67,1%
Car fleet management and maintenance	1.099	1.093	6	0,5%
Telephone and data transmission expenses	823	700	123	17,6%
Employee travel	788	541	247	45,7%
Other sundry expenses	3.405	1.395	2.010	144,1%
Total administrative expenses	**46.472**	**27.453**	**19.019**	**69,3%**
Expense recoveries	(1.194)	(1.079)	(115)	10,7%
Total net other administrative expenses	**45.278**	**26.374**	**18.904**	**71,7%**

The subline item direct and indirect taxes included 3,4 million Euro (+13,7% compared to the first half of 2015) in stamp duty costs for retail funding, which the Banks continues bearing.

Other sundry expenses included the contribution to the Resolution Fund for the current year, amounting to 2,1 million Euro.

Net allocations to provisions for risks and charges amounted to 1,6 million Euro (compared to 82 thousand Euro in June 2015). The amount at 30 June 2016 consisted of provisions for disputes concerning Trade Receivables and DRL receivables.

Other net operating income totalled 910 thousand Euro (-22,0% compared to 30 June 2015) and refers mainly to revenue from the recovery of expenses charged to third parties. The relevant cost is included in other administrative expenses, namely under legal expenses and indirect taxes.

Pre-tax profit for the period stood at 58,4 million Euro, compared to 196,0 million Euro at 30 June 2015.

Income tax expense amounted to 19,2 million Euro, compared to 65,2 million Euro at 30 June 2015. The Group's tax rate edged down to 33,0% at 30 June 2016 from 33,3% at 30 June 2015. The tax rate applied at 30 June 2016 is calculated on an annual basis.

Profit for the period totalled 39,1 million Euro, compared to 130,8 million Euro at 30 June 2015 (-70,1%). Excluding the gain made in April 2015 as part of the rebalancing of the government bond portfolio (124,5 million Euro) the profit for the period at 30 June 2015 amounted to 47,5 million Euro (down 17,6%).

Reconciliation between the Parent company's profit for the period and equity and the consolidated profit for the period and equity

(in thousands of Euro)	30.06 2016		31.12.2015	
	EQUITY	OF WHICH PROFIT FORTHE PERIOD	EQUITY	OF WHICH PROFIT FORTHE PERIOD
Parent company balance	556.602	38.223	567.509	160.743
Difference compared to the carrying amounts of the companies consolidated line by line	5.595	897	5.958	1.223
- IFIS Finance Sp. Zo.o.	*5.595*	*897*	5.958	*1.223*
Group consolidated balance	**562.197**	**39.120**	**573.467**	**161.966**

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 Group 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 (banking book interest rate risk, concentration risk, etc.).

In the first half of 2016, the Bank prepared also the first ILAAP (Internal Liquidity Adequacy Assessment Process) report in order to present the internal liquidity governance model of the Banca IFIS Group (hereinafter referred to as the "Group")[2] as well as the findings of the first self-assessment, consisting in:

- an analysis of the liquidity risk (intraday, short-term, and medium/long-term) the Group is exposed to;

[2] The Group consists of the Parent company Banca IFIS and the Polish Subsidiary IFIS Finance, which. based on its size and contribution to overall risk, is immaterial.

- an assessment of whether the Bank has sufficient resources to manage these risks, such as available liquidity reserves, the Group's funding structure, and the liquidity risk governance and management processes;
- a description of the main steps taken during the current self-assessment cycle and the identification of areas for improvements to be addressed over the next few months, based on an assessment of the Bank's processes and policies for managing liquidity risk and accounting for the evolution in the reference regulatory framework.

This examination accompanied the preparation and the forwarding to the Supervisory body of the annual ICAAP and ILAAP report as at 31 December 2015. In April 2016, again with reference to 31 December 2015 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 as amended - Supervisory Instructions for banks - the Banca IFIS Group 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 Group'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 Group.

Audits involve all personnel to varying degrees and constitute an integral part of day-to-day 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;
- Audits on risk management (including compliance risk) aim 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 System. 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, the Internal Audit Function, the Corporate Accounting Reporting Officer, the Risk Management Function, the Compliance Function, and the 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) as amended, approved by the Board of Directors on 02 February 2016 and published on the Bank’s Internet website in the Corporate Governance section.

Credit risk

Qualitative information

General aspects.

The banking group currently operates in the following fields:

- Short-term trade receivable financing (factoring)
- Medium-term financing for retail entrepreneurs
- Purchases of non-performing loan portfolios
- Purchases of tax receivables
- Medium-term financing supporting the trade receivables of pharmacies
- Short-term trade receivable financing, by purchasing and managing receivables due from local administrations.

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 banking Group, 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 Group.

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 of the Group’s companies, credit risk is the most important element to consider as far as the general risks assumed by the Group are concerned. The maintenance of effective credit risk management is a strategic objective for the Banca IFIS Group, 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, the Banca IFIS Group 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.

The Banca IFIS Group 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 carrying out its operations, the Polish subsidiary IFIS Finance can take certain decisions independently within the operational and organisational limits defined by the Parent Company, Banca IFIS.

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, the Banca IFIS Group 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 Group sets the terms and conditions for offering/acquiring the receivables portfolio and how to manage it (individual or collective method), assessing the relevant impact on operating structures.

In order to collect distressed retail loans (DRL), the Banca IFIS Group relies 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.

The Banca IFIS Group pays particular attention to the concentration of credit risk with reference to all the Group's companies, 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 which significantly expose the Group, even if amounting to less than 10% of regulatory capital, are systematically monitored.

Management, measurement and control systems

The operational procedure governing Banca IFIS Group's credit process within traditional factoring operations is audited during the year and expressly requires an 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 Group has 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 non-performing exposures. 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, the network of professionals-agents, and the call centre;

- individual management, characterised by judicial collection operations

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, a short-term bank bond, the Banca IFIS Group 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 Group 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.

Non-performing exposures

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 dedicated units at the Head Office directly supervise 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 as unlikely to pay or bad loan.

Managing non-performing exposures, either unlikely to pay 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 value adjustments, upon proposal by the Disputes Service, are assessed by the Top Management and submitted to the Board of Directors for approval.

A similar process is formally in place also for IFIS Finance Sp. Z o. o.. Nonetheless, it should be noted that the subsidiary has only a marginal amount of non-performing exposures.

A significant portion of Distressed Retail Loans are classified under non-performing exposures. 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 non-performing exposures purchased and not yet collected, the overall outstanding book value of the portfolio was approximately 10.131 million Euro at 30 June 2016. At the time of purchase, the historical book value of these receivables was approximately 10.275 million Euro, and they were acquired for approximately 453 million Euro, i.e. an average price equal to approximately 5,0% of the historical book value. In the first half of 2016, approximately 2.260 million Euro were acquired for approximately 125 million Euro, i.e. an average price equal to 5,6%. The overall portfolio of non-performing exposures purchased and not yet collected has an overall weighted average life of around 21 months compared to their purchase date.

Furthermore, it should be noted that at the end of the first half of 2016, overall there were approximately 104 million Euro in outstanding bills of exchange and nearly 243 million Euro in settlement plans.

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 non-judicial operations are concerned, and the estimates made by the analyst as far as the so-called judicial operations are concerned. During 2015, the Bank introduced reviewed the cash flow simulation model, as debt collection operations have significantly changed over the years. The revised model uses updated historical time series (2000-2015) and ensures that different types of collection instruments with similar characteristics are treated consistently. In addition, it allows to greatly reduce processing times.

On- and off-balance-sheet exposures to customers: gross and net amounts

Types of exposures/amounts	Gross exposure	Specific net value adjustments	Portfolio value adjustments	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad loans	506.897	235.262	-	271.635
b) Unlikely to pay	318.518	21.797	-	296.721
c) Past due exposures	110.657	1.750	-	108.907
d) other assets	3.715.235	-	9.638	3.705.597
TOTAL A	**4.651.307**	**258.809**	**9.638**	**4.382.860**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Non-performing	1.690	-	-	1.690
b) Other	239.011	-	-	239.011
TOTAL B	**240.701**	**-**	**-**	**240.701**

On-balance-sheet exposures include all on-balance-sheet financial assets due from customers, regardless of the portfolio they are included in (available for sale, held to maturity, loans and receivables).

Breakdown of on- and off-balance sheet exposures to customers by category (carrying amounts)

Exposures/counterparties	Governments			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. On-balance-sheet exposures																		
A.1 Bad loans	-	-	-	3.161	52	-	1.488	5.381	-	-	-	-	37.760	219.882	-	229.226	9.947	-
A.2 Unlikely to pay	405	74	-	3.168	684	-	5.029	3.735	-	-	-	-	49.715	16.829	-	238.404	475	-
A.3 Past Due Exposures	8.619	2	-	37.420	10	-	-	-	-	-	-	-	59.861	1.656	-	3.007	82	-
A.4 Other exposures	1.105.566	-	2	806.441	-	109	12.886	-	26	-	-	-	1.757.338	-	9.384	23.366	-	117
Total A	**1.114.590**	**76**	**2**	**850.190**	**746**	**109**	**19.403**	**9.116**	**26**	**-**	**-**	**-**	**1.904.674**	**238.367**	**9.384**	**494.003**	**10.504**	**117**
B. Off-balance-sheet exposures																		
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-	-	-	183	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	15	-	-	-	-	-	611	-	-	-	-	-
B.3 Past Due Exposures	-	-	-	-	-	-	-	-	-	-	-	-	881	-	-	-	-	-
B.4 Other exposures	-	-	-	589	-	-	3.890	-	-	56	-	-	234.269	-	-	207	-	-
Total B	**-**	**-**	**-**	**589**	**-**	**-**	**3.905**	**-**	**-**	**56**	**-**	**-**	**235.944**	**-**	**-**	**207**	**-**	**-**
Total (A+B) 30.06.2016	**1.114.590**	**76**	**2**	**850.779**	**746**	**109**	**23.308**	**9.116**	**26**	**56**	**-**	**-**	**2.140.618**	**238.367**	**9.384**	**494.210**	**10.504**	**117**
Total (A+B) 31.12.2015	**3.321.961**	**84**	**32**	**902.332**	**2.506**	**761**	**137.211**	**3.830**	**47**	**-**	**-**	**-**	**2.261.542**	**228.397**	**10.505**	**359.044**	**9.917**	**97**

Geographical breakdown of on- and off-balance sheet exposures to customers (carrying amounts)

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. On-balance-sheet exposures										
A.1 Bad loans	270.799	232.133	824	3.124	6	5	2	-	4	-
A.2 Unlikely to pay	296.593	20.700	113	1.097	4	-	-	-	11	-
A.3 Past Due Exposures	108.899	1.750	8	-	-	-	-	-	-	-
A.4 Other exposures	3.537.780	9.206	166.813	425	513	5	18	-	473	2
Total A	**4.214.071**	**263.789**	**167.758**	**4.646**	**523**	**10**	**20**	**-**	**488**	**2**
B. Off-balance-sheet exposures										
B.1 Bad loans	183	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	626	-	-	-	-	-	-	-	-	-
B.3 Past Due Exposures	881	-	-	-	-	-	-	-	-	-
B.4 Other exposures	230.609	-	6.912	-	-	-	1.446	-	44	-
Total B	**232.299**	**-**	**6.912**	**-**	**-**	**-**	**1.446**	**-**	**44**	**-**
Total (A+B) 30.06.2016	**4.446.370**	**263.789**	**174.670**	**4.646**	**523**	**10**	**1.466**	**-**	**532**	**2**
Total (A+B) 31.12.2015	**6.796.801**	**250.609**	**177.847**	**5.506**	**795**	**10**	**5.957**	**30**	**690**	**3**

Geographical breakdown of cash and off-balance sheet exposures to banks (carrying amounts)

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. On-balance-sheet exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past Due Exposures	-	-	-	-	-	-	-	-	-	-
A.4 Other exposures	149.047	-	4.829	-	1	-	-	-	-	-
Total A	**149.047**	**-**	**4.829**	**-**	**1**	-	-	-	-	-
B. Off-balance-sheet exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Past Due Exposures	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	-	-	-	-	-	-	-	-	-	-
Total B		-	**-**	-	-	-	-	-	-	-
Total (A+B) 30.06.2016	**149.047**	**-**	**4.829**	**-**	**1**	-	-	-	-	-
Total (A+B) 31.12.2015	**85.062**	**-**	**13.345**	**-**	**619**	**-**	**-**	**-**	**-**	**-**

Major exposures

		30.06.2016	31.12.2015
a)	Carrying amount	1.549.078	3.552.701
b)	Weighted amount	385.064	195.918
c)	Number	9	5

The overall weighted amount of major exposures at 30 June 2016 consisted of 247,0 million Euro in loans to customers, 100,0 million Euro in receivables due from banks, and 38,1 million Euro in tax assets.

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.

In compliance with the provisions of the aforementioned communication, it should be noted that at 30 June 2016 the book value of exposures to sovereign debt(1) represented by debt securities was 1.026,9 million Euro, and consisted entirely of Italian government bonds; these securities, with a par value of 1.015,5 million Euro, are classified under Available for sale (AFS) financial assets and included in the banking book; the weighted residual average life of these securities is approximately eight months.

The fair values used to measure the exposures to sovereign debt at 30 June 2016 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 consolidated 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 30 June 2016 totalled 937,9 million Euro, with 87,7 million Euro due from the "central Government" (of which 64,5 million Euro relating to tax receivables) and 850,2 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 3,8 million Euro (2,6 million Euro net of the tax effect) at the end of first half of 2016 to a positive amount of approximately 0,6 million Euro at 27 July 2016 (0,4 million Euro net of the tax effect).

(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.

Unconsolidated structured entities

Qualitative information

During 2014, Banca IFIS bought a property in Florence to be renovated for 9,6 million Euro. It plans to move the NPL area's offices there. At the same time, the Bank sold a finance lease agreement concerning the property currently housing the NPL Area 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 Group. Pending completion of the renovation works, the Bank entered into a lease agreement with the newco to continue using the current offices. The rent is substantially in line with the lease payments. Following the sale of the lease agreement, Banca IFIS is jointly liable for the settlement of lease payments. To hedge the risk of insolvency on the part of the newco, Banca IFIS obtained that it set up a 1 million Euro security deposit with the Bank as well as a lien on 99% of voting shares in the newco, to be exercised in the event the newco defaults on its obligations.

In 2016, the newco regularly settled the lease payments due using the money raised from the leased property.

Since the sale of 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.

Market risks

Generally, as the Banca IFIS Group does not usually trade in financial instruments, its financial risk profile refers mainly to the banking portfolio. The activity of purchasing bonds, given that these bonds are classified under Available for Sale and Loans and Receivables, is included in the banking book and does not, therefore, constitute new market risks.

At the end of the first half of 2016, the Group recognised currency swaps with a mark-to-market value positive to the tune of 366 thousand Euro and negative to the tune of 13 thousand Euro. The classification of these derivatives under financial assets and liabilities held for trading does not reflect the aim of the transaction, which is to mitigate the impact of potential movements in the reference exchange rates.

Interest rate risk and price risk – supervisory trading book

The Banca IFIS Group does not usually trade in financial instruments.

Interest rate risk and price risk – banking portfolio

General aspects, management procedures and measurement methods concerning the interest rate risk and the price risk

In general, the Banca IFIS Group 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 current account. 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. In the second half of 2015, Banca IFIS expanded its fixed-term offerings for retail customers by introducing new 3-, 4-, and 5-year maturities. 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 Group's overall position, although positive, cannot be considered material.

At 30 June 2016, approximately 73% of the bond portfolio consisted of inflation-indexed bonds. The remainder consisted of fixed-rate short-term bonds. The average duration of the overall portfolio is approximately six months.

The interest rate risk connected to funding operations carried out by the Parent Company's 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 natural 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 and Risk Management System (SIT) provides further tools for assessing and monitoring the main interest rate-sensitive assets and liabilities.

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 the warning threshold of 20% of Own Funds, the resulting risk indicator for the Group was 1,38% as at 31 December 2015.

Considering the extent of the risk assumed, the Banca IFIS Group does not usually hedge interest rate risk.

As for the price risk, the Group 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, virtually all of them are classified under Available for sale financial assets, giving rise to the risk that the Group'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 Group assumes in carrying out its operations. Thanks to the Integrated Treasury System (SIT) and the contribution of the Risk Management Function, the Group 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.

Currency risk

General aspects, management procedures and measurement methods of 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 the Group's policies. The Bank's currency operations basically involve collections and payments associated with 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 natural 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 Parent Company's 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 Group.

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 Group's currency position broken down by currency. 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.

The Group's expanding operations in Poland, through the subsidiary IFIS Finance, are no exception to the above approach: assets denominated in Zloty are financed through funding in the same currency.

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 5.57% interest in India Factoring and Finance Solutions Private Limited, worth 20 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. The net residual amount of the equity investment at 30 June 2016 was 0,9 million Euro.

Breakdown of assets, liabilities and derivatives by currency

Items	Currencies					
	US DOLLAR	POUND STERLING	JAPANESE YEN	CANADIAN DOLLAR	SWISS FRANC	Other currencies
A. Financial assets	**16.806**	**1.168**	**-**	**37**	**-**	**63.648**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	-	-	-
A.3 Loans to banks	320	332	-	37	-	2.708
A.4 Loans to customers	16.486	836	-	-	-	60.940
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**106**
C. Financial liabilities	**12.501**	**380**	**22**	**-**	**107**	**12.422**
C.1 Due to banks	10.809	363	22	-	107	12.348
C.2 Due to customers	1.692	17	-	-	-	74
C.3 Equity securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**2.101**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**20.682**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other	-	-	-	-	-	20.682
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	20.682
Total assets	**16.806**	**1.168**	**-**	**37**	**-**	**63.754**
Total liabilities	**12.501**	**380**	**22**	**-**	**107**	**35.205**
Unbalance (+/-)	**4.305**	**788**	**22**	**37**	**107**	**28.549**

Derivative financial instruments

Financial derivatives

The Banca IFIS Group 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 30 June 2016, the Bank recognised foreign exchange derivatives with a positive fair value of 366 thousand euro and a negative fair value of 13 thousand euro. As for the transactions entered into, it should be noted that the Group never undertakes speculative transactions.

Liquidity risk

General aspects, management procedures and measurement methods of the liquidity risk

The liquidity risk refers to the possibility that the Group 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 Group 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 Group’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, and receivables due from Local Administrations, with average collection periods up to 24 months), the liquidity risk for the Banca IFIS Group, under normal financial market conditions, is not particularly critical.

With reference to the Group’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 the Banca IFIS Group’s total assets, the overall impact on the maturity matching of consolidated 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 Group carefully monitors the trend in collections compared to expected flows.

The Banca IFIS Group 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, 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 Group's operations.

At the moment, the available financial resources are adequate for current and future business volumes. Nonetheless, the Group is constantly striving to improve the state of its financial resources, in terms of both size and cost.

The Parent Company’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 Group.

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 the banking Group 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.

With reference to the Polish subsidiary, treasury operations are co-ordinated by Banca IFIS's Treasury Department, in accordance with the Group's policies. If needed, the Bank may intervene directly in the subsidiary's favour.

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 Group liquidity risk governance and management system.

Self-securitisation transaction Il Giglio

On 25 January 2011, Toscana Finanza's Board of Directors resolved to implement a securitisation programme for non-performing loans pursuant to Italian 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 SPV 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).

Exposure to high risk instruments – disclosure

Considering the goals it pursues and the technical aspects of the securitisation described above, the Banca IFIS Group 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 has not removed any risk from the Group'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 assets involved in the securitisation in the financial statements compared to that already in place. 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.

Operational risks

General aspects, management procedures and measurement methods of 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 Group’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, the Banca IFIS Group is constantly committed to the professional training and growth of its human resources.

During 2015, the Group 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.

Currently, the management of operational risks for the Polish subsidiary is guaranteed by the strong involvement of the Parent Company, which makes decisions in terms of strategies and risk management.

As far as business continuity is concerned, the Banca IFIS Group has adopted a Business Continuity Plan, that is a set of initiatives and counter-measures designed to keep business interruptions 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.

Business Combinations

Please refer to what indicated in the significant events occurred after the end of the period in order to sign with GE Capital International Holding Limited of the contract for the acquisition of GE Capital Interbanca Group, subject to authorization by the Supervisory Authority and Authority Antitrust.

Transactions undertaken in the period

In the first half of 2016, Banca IFIS did not carry out business combinations as per IFRS 3.

Transactions carried out after the end of the period

The Banca IFIS Group did not carry out any business combination between the end of the period and the date of preparation of these Condensed consolidated interim financial statements.

Retrospective adjustments

The Banca IFIS Group did not carry out any business combinations as per IFRS 3 during the period, therefore this section will be left blank.

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 the first half of 2016 no significant transactions with related parties were undertaken.

At 30 June 2016, the Banca IFIS Group S.p.A. was controlled by La Scogliera S.p.A. and consisted 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 the Banca IFIS Group include:

- the parent company;

- key management personnel;

- 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 (4th update of 16 December 2015), key management personnel also include the members of the Board of Statutory Auditors.

Key management personnel

Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
2.484	-	92	49	240

The above information includes fees paid to Directors (1,8 million Euro, gross amount) and Statutory Auditors (171 thousand Euro, gross amount).

2. Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 30 June 2016, broken down by type of related party pursuant to IAS 24.

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Loans to customers	-	-	2.014	**2.014**	0,1%
Other assets	12.695	-	-	**12.695**	16,9%
Total assets	**12.695**	**-**	**2.014**	**14.709**	**0,3%**
Due to customers	2	416	1.207	**1.625**	0,0%
Total liabilities	**2**	**416**	**1.207**	**1.625**	**0,0%**

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	-	27	**27**	0,0%
Interest due	-	(1)	(6)	**(7)**	0,0%
Commission income	-	-	9	**9**	0,0%
Other operating income/expenses	10	-	-	**10**	1,1%

Transactions with the **Parent Company** relate to:

- the current account relationship with the Parent Company, La Scogliera S.p.A. The balance at 30 June 2016 shows a 2 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;
- 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. Transactions between these companies were regulated by means of a private written agreement between the parties, signed in the month of April 2016. This agreement will lapse 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., which is responsible for calculating the overall group income. As a result, at 30 June 2016 Banca IFIS recognised net receivables due from the parent company amounting to 12,7 million 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 1,2 million Euro overall.

During the period, the Bank continued its operations in favour of two companies headed by close relatives of executive members of the Board of Directors: the Banca IFIS Group's exposure at 30 June 2016 amounted to 2 million Euro.

Segment Reporting

The organisational structure

The model for segment reporting is in line with the organisational structure used by the Head Office to analyse Group results and is broken down into the following segments: Trade Receivables, Distressed Retail Loans, Tax Receivables, Governance and Services.
The Governance and Services segment manages the Group's financial resources and allocates funding costs to operating segments and subsidiaries through the Group's internal transfer rate system.
Here below are the results achieved in the first half of 2016 by the various business segments, which will be analysed in the sections dedicated to the individual segments.

INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVABLES	DRLs	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income					
Amounts at 30.06.2016	81.381	77.592	8.026	378	**167.377**
Amounts at 30.06.2015	*77.275*	23.274	*7.523*	*160.450*	***268.522***
% Change	*5,3%*	*233,4%*	*6,7%*	*(99,8)%*	***(37,7)%***
Net profit from financial activities					
Amounts at 30.06.2016	69.806	61.138	7.839	(3.621)	**135.162**
Amounts at 30.06.2015	*63.825*	*20.193*	*7.537*	*156.217*	***247.772***
% Change	*9,4%*	*202,8%*	*4,0%*	*(102,3)%*	***(45,4)%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVABLES	DRLs	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income					
Second quarter 2016	40.065	48.876	3.873	(4.817)	**87.997**
Second quarter 2015	*37.941*	*14.411*	*3.621*	*139.950*	***195.923***
% Change	*5,6%*	*239,2%*	*7,0%*	*(103,4)%*	***(55,1)%***
Net profit from financial activities					
Second quarter 2016	33.803	35.198	3.686	(5.864)	**66.823**
Second quarter 2015	*30.016*	*11.334*	*3.577*	*137.736*	***182.663***
% Change	*12,6%*	*210,5%*	*3,0%*	*(104,3)%*	***(63,4)%***

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	TRADE RECEIVABLES	DRLs	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Available for sale financial assets					
Amounts at 30.06.2016	-	-	-	*1.027.770*	*1.027.770*
Amounts at 31.12.2015	-	-	-	*3.221.533*	*3.221.533*
% Change	-	-	-	*(68,1)%*	*(68,1)%*
Due from banks					
Amounts at 30.06.2016	-	-	-	*153.877*	*153.877*
Amounts at 31.12.2015	-	-	-	*95.352*	*95.352*
% Change	-	-	-	*61,4%*	*61,4%*
Loans to customers					
Amounts at 30.06.2016	*2.758.793*	*481.976*	*109.860*	*5.369*	*3.355.998*
Amounts at 31.12.2015	*2.848.124*	*354.352*	*130.663*	*103.997*	*3.437.136*
% Change	*(3,1)%*	*36,0%*	*(15,9)%*	*(94,8)%*	*(2,4)%*
Due to banks					
Amounts at 30.06.2016	-	-	-	*43.587*	*43.587*
Amounts at 31.12.2015	-	-	-	*662.985*	*662.985*
% Change	-	-	-	*(93,4)%*	*(93,4)%*
Due to customers					
Amounts at 30.06.2016	-	-	-	3.928.261	3.928.261
Amounts at 31.12.2015	-	-	-	*5.487.476*	*5.487.476*
% Change	-	-	-	*(28,4)%*	*(28,4)%*

SEGMENT KPI (in thousands of Euro)	TRADE RECEIVABLES	DRLs	TAX RECEIVABLES	GOVERNANCE AND SERVICES
Turnover (1)				
Amounts at 30.06.2016	4.992.969	n.a.	n.a.	n.a.
Amounts at 30.06.2015	*4.646.699*	*n.a.*	*n.a.*	*n.a.*
% Change	*7,5%*	-	-	-
Nominal amount of receivables managed				
Amounts at 30.06.2016	3.440.975	10.131.859	163.253	n.a.
Amounts at 31.12.2015	*3.576.982*	*8.161.005*	*190.553*	*n.a.*
% Change	*(3,8)%*	*24,1%*	*(14,3)%*	-
Net bad loans/Loans to customers				
Amounts at 30.06.2016	1,1%	49,9%	0,0%	n.a.
Amounts at 31.12.2015	*1,1%*	*45,0%*	*0,0%*	*n.a.*
% Change	*0,0%*	*5,0%*	*0,0%*	-
RWA (2)				
Amounts at 30.06.2016	*2.009.883*	*481.977*	*45.390*	*31.821*
Amounts at 31.12.2015	*1.970.886*	*354.352*	*41.614*	*25.256* (3)
% Change	*2,0%*	*36,0%*	*9,1%*	*26,0%*

(1) Gross flow of the receivables sold by the customers in a specific period of time.
(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.
(3) Data restated after initial publication.

Trade receivables

This segment includes the following business areas:

- Banca IFIS Impresa, dedicated to supporting the trade receivables of SMEs operating in the domestic market;
- International, for companies growing abroad or based abroad and working with Italian customers; this area includes IFIS Finance's operations in Poland; Zo.o.
- Pharma, supporting the trade receivables of local health services' suppliers.

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2016	30.06.2015	CHANGE	
			ABSOLUTE	%
Net interest income	52.956	47.675	5.281	11,1%
Net commission income	28.425	29.600	(1.175)	(4,0)%
Net banking income	**81.381**	**77.275**	**4.106**	**5,3%**
Net impairment losses on receivables	(11.575)	(13.450)	1.875	(13,9)%
Net profit (loss) from financial activities	**69.806**	**63.825**	**5.981**	**9,4%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2016	2nd Q. 2015	CHANGE	
			ABSOLUTE	%
Net interest income	25.984	22.922	3.062	13,4%
Net commission income	14.081	15.019	(938)	(6,2)%
Net banking income	**40.065**	**37.941**	**2.124**	**5,6%**
Net impairment losses on receivables	(6.262)	(7.925)	1.663	(21,0)%
Net profit (loss) from financial activities	**33.803**	**30.016**	**3.787**	**12,6%**

The net banking income of the trade receivables segment, amounting to 81,4 million Euro (+5,3% compared to 77,3 million Euro in the first half of 2015), mainly refers to the Banca IFIS Impresa and Pharma business areas. The segment generated 5,0 billion Euro in turnover (+7,5% from the first half of 2015), with 4.879 corporate customers (up 12,3% compared to the prior-year period) and 2,8 billion Euro in outstanding loans (-3,1% from December 2015).

The growth in net banking income was driven especially by the Pharma business area (+16,4%, from 13,9 million Euro in the prior-year period to 16,1 million Euro). At 30 June 2016 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 44,7 million Euro) as well as non-collected receivables (approximately 47,5 million Euro) due from the Public Administration.

Net impairment losses on receivables amounted to 11,6 million Euro (13,4 million Euro in the first half of 2015, -13,9%) The consistently downward trend is attributable to the monitoring of how the counterparty's risk profile evolves. All along, the Bank has maintained a rigorous and consistent policy for assessing borrowers' creditworthiness. The decrease in impairment losses resulted in a significant improvement in the ratio of credit risk cost concerning trade receivables to the relevant average loan balance over the last 12 months, which was down to 78 bps from 112 bps at 30 June 2015 and 90 bps at 31 December 2015.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Bad loans	31.005	30.950	55	0,2%
Unlikely to pay	55.387	39.551	15.836	40,0%
Past due loans	108.907	58.214	50.693	87,1%
Total net non-performing exposures to customers	**195.299**	**128.715**	**66.584**	**51,7%**
Net performing loans	2.563.494	2.719.409	(155.915)	(5,7)%
Total on-balance-sheet loans to customers	**2.758.793**	**2.848.124**	**(89.331)**	**(3,1)%**

Loans to customers included in this segment are composed as follows: 31,6% are receivables due from the Public Administration (compared to 32,1% at 31 December 2015) and 68,4% due from the private sector (compared to 67,9% at 31 December 2015).

Net non-performing exposures in the trade receivables segment rose 51,7% from 128,7 million Euro at the end of 2015 to 195,3 million Euro, largely because of rising past due exposures to the Public Administration. This was the result of the acquisitions of portfolios of past due loans in late December 2015 under an agreement with a leading market player, which allowed the Bank to enter the multi-utilities business. These portfolios consist of receivables due from local administrations for which the Bank has commenced collection actions by entering into settlement plans.

As for unlikely to pay, the increase was largely attributable to two individually significant positions previously classified under net non-performing and performing past due exposures.

The segment's net bad-loan ratio was flat at 1,1% on 31 December 2015, while the ratio of net unlikely to pay to loans rose to 2,0% from 1,4% at 31 December 2015. The segment's ratio of total net impaired loans to loans edged down from 4,5% at the end of 2015 to 7,1% at 30 June 2016. Net impaired loans amounted to 34,7% as a percentage of equity, compared to 22,4% in the prior year.

NON-PERFORMING TRADE RECEIVABLES (in thousands of Euro)	BAD LOANS (1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL
SITUATION AT 30/06/2016				
Nominal amount of non-performing exposures	266.184	77.122	110.657	453.963
As a proportion of total receivables at nominal amount	*8,8%*	*2,5%*	*3,7%*	*15,0%*
Value adjustments	235.179	21.735	1.750	258.664
Coverage %	*88,4%*	*28,2%*	*1,6%*	*57,0%*
Net amount of non-performing exposures	31.005	55.387	108.907	195.299
As a proportion of net total receivables	*1,1%*	*2,0%*	*3,9%*	*7,1%*
SITUATION AT 31/12/2015				
Nominal amount of non-performing exposures	255.404	58.257	59.788	373.449
As a proportion of total receivables at nominal amount	*8,2%*	*1,9%*	*1,9%*	*12,0%*
Value adjustments	224.454	18.706	1.574	244.734
Coverage %	*87,9%*	*32,1%*	*2,6%*	*65,5%*
Net amount of non-performing exposures	30.950	39.551	58.214	128.715
As a proportion of net total receivables	*1,1%*	*1,4%*	*2,0%*	*4,5%*

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

KPI	30.06.2016	30.06.2015	CHANGE	
			ABSOLUTE	%
Turnover	4.992.969	4.646.699	346.270	7,5%
Net banking income/ Turnover	1,6%	1,7%	-	(0,0)%

KPI	30.06.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Net bad loans/Loans to customers	1,1%	1,1%	-	0,0%
Coverage ratio on gross bad loans	88,4%	87,9%	-	0,5%
Non-performing exposures/Loans to customers	7,1%	4,5%	-	2,6%
Total RWA per segment	2.009.883	1.970.886	38.997	2,0%

The following table shows the nominal amount of receivables purchased (operating data not recognised in the statements) for factoring transactions outstanding at the end of the period (Total Receivables), broken down into receivables with or without recourse and receivables purchased outright. Please note that the breakdown of purchased receivables in the following table is based on the contract form used by the Bank.

TOTAL RECEIVABLES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2016	31.12.2015	ABSOLUTE	%
With recourse	2.125.878	2.128.825	(2.947)	(0,1)%
of which due from the Public Administration	*342.712*	*361.000*	*(18.288)*	*(5,1)%*
Without recourse	223.881	277.159	(53.278)	(19,2)%
of which due from the Public Administration	*9.435*	*4.468*	*4.967*	*111,2%*
Outright purchases	1.091.216	1.170.998	(79.782)	(6,8)%
of which due from the Public Administration	*828.040*	*888.844*	*(60.804)*	*(6,8)%*
Total receivables	**3.440.975**	**3.576.982**	**(136.007)**	**(3,8)%**
of which due from the Public Administration	***1.180.187***	***1.254.312***	***(74.125)***	***(5,9)%***

The breakdown of customers by geographic area in Italy, with a separate indication for those abroad, is as follows:

BREAKDOWN OF CUSTOMERS BY GEOGRAPHIC AREA	COMMITMENTS	TURNOVER
Northern Italy	41,1%	50,7%
Central Italy	26,5%	31,9%
Southern Italy	26,7%	10,9%
Abroad	5,7%	6,5%
Total	**100,0%**	**100,0%**

Distressed Retail Loans

This is the Banca IFIS Group's segment dedicated to non-recourse factoring and managing unsecured distressed retail loans. It serves households under the CrediFamiglia brand.

The business is closely associated with recovering and collecting non-performing exposures.

The Bank manages the portfolio of acquired receivables using two different methods: non-judicial and judicial operations.

As for the portfolio managed through non-judicial operations, to measure them the Bank uses a model based on a simulation of cash flows that projects the “breakdown” of the nominal amount of the receivable “over time” based on the historical recovery profile for similar clusters. As for the positions with funding characteristics (bills of exchange or settlement plans agreed with the debtor), the Bank uses a “deterministic” model based on the measurement of the future instalments of the settlement plan, net of the historical default rate.

Judicial operations consist in collecting debts through legal actions to secure a court order for the garnishment of one fifth of pension benefits or wages. The cash flows from judicial operations are not simulated using the model: the manager individually measures them for each individual position and enters them in the system.

DRL RECEIVABLES PERFORMANCE	(in thousands of Euro)
Receivables portfolio at 31.12.2015	**354.352**
Purchases	125.786
Sales	(28.484)
Gains on sales	5.694
Interest income from amortised cost	13.870
Other components of net interest income from change in cash flow	61.965
Losses/Reversals of impairment losses from change in cash flow	(16.454)
Collections	(34.753)
Receivables portfolio at 30.06.2016	**481.976**

At 30 June 2016, the segment's receivables included 789 thousand Euro (par value of 226,4 million Euro, approximately 20 thousand positions) in loans sold during the first half of the year after the Bank accepted the buyer's binding offer. The sale was finalised on 01 July 2016.

The mentioned binding offer contained all the elements required to determine whether all risks and rewards relating to the receivables sold were substantially transferred (derecognition). However, since the transfer had not been formally completed at the reporting date, the Bank presented the relevant impact without derecognising the assets: instead, it recognised a receivable due from the buyer equal to the consideration, and a payable due to the buyer equal to the amount of the receivables sold. The positive difference, amounting to 5,5 million Euro, was recognised in profit or loss under gains on the sale of receivables.

In the first half of 2016, the Bank finalised another sale, raising 201 thousand Euro.

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2016	30.06.2015	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	13.870	12.353	1.517	12,3%
Other interest income(1)	61.965	12.312	49.653	403,3%
Funding costs	(2.761)	(1.303)	(1.458)	111,9%
Net interest income(1)	**73.074**	**23.362**	**49.712**	**212,8%**
Net commission income	(1.176)	(88)	(1.088)	1.236,4%
Gain on sale of receivables	5.694	-	5.694	n.a.
Net banking income(1)	**77.592**	**23.274**	**54.318**	**233,4%**
Net impairment losses/reversals on receivables(1)	(16.454)	(3.081)	(13.373)	434,1%
Net profit (loss) from financial activities	**61.138**	**20.193**	**40.945**	**202,8%**

(1) The data for 2015 were restated as described in the Notes - Accounting policies.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2016	2nd Q. 2015	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	8.695	6.317	2.378	37,6%
Other interest income(1)	36.568	8.891	27.677	311,3%
Funding costs	(1.456)	(719)	(737)	102,5%
Net interest income(1)	**43.807**	**14.489**	**29.318**	**202,3%**
Net commission income	(625)	(78)	(547)	701,3%
Gain on sale of receivables	5.694	-	5.694	n.a.
Net banking income	**48.876**	**14.411**	**34.465**	**239,2%**
Net impairment losses on receivables(1)	(13.678)	(3.077)	(10.601)	344,5%
Net profit (loss) from financial activities	**35.198**	**11.334**	**23.864**	**210,6%**

(1) The data for 2015 were restated as described in the Notes - Accounting policies.

The results for the first half of 2016 were positively influenced by the continuing debt collection operations—through bills of exchange and expressions of willingness—as well as the reclassification to amortised cost of a sizeable portion of the portfolio (over 197 million Euro) following the end of the documentary verification process and the ensuing collection of bills of exchange and settlement plans, adding nearly 7,7 million Euro to net profit from financial activities.

As for net value adjustments, totalling 16,5 million Euro, they referred to positions for which trigger events occurred, causing the position to become impaired under the adopted measurement model and the relevant accounting policy, as already described.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Bad loans	240.629	159.336	81.293	51,0%
Unlikely to pay	241.334	194.995	46.339	23,8%
Past due loans	-	-	-	-
Total net non-performing exposures to customers	**481.963**	**354.331**	**127.632**	**36,0%**
Net performing loans	13	21	(8)	(38,1)%
Total on-balance-sheet loans to customers	**481.976**	**354.352**	**127.624**	**36,0%**

KPI	30.06.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	10.131.859	8.161.005	1.970.854	24,1%
Total RWA per segment	481.977	354.352	127.625	36,0%

During the period, the counterparties settled their debt mainly according to the following methods:

- in cash (postal orders, bank transfers, etc.);
- by signing bills of exchange;
- settlement plans agreed with the debtors (so-called expressions of willingness).

During the first half, funding increased steadily over the prior-year period, reaching 153,8 million Euro compared to 83,5 million Euro, +84,3%: this was entirely attributable to settlement plans (expressions of willingness). Collections made during the first half amounted to 34,8 million, compared to 14,7 million in the prior-year period.

The purchases made in the period led to the acquisition of portfolios of financial receivables with a par value of approximately 2,3 billion Euro at a price of 125,5 million Euro (i.e. 5,6% of the par value), consisting of 317.394 positions.

At the end of the period, the portfolio managed by the DRL segment includes 1.343.389 positions, for a par value of over 10 billion Euro.

Tax receivables

It is the segment specialised in purchasing tax receivables arising from insolvency proceedings; it operates under the Fast Finance brand and 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. As a complement to its core business, this segment seldom acquires also trade receivables from insolvency proceedings.

Since the Public Administration is the counterparty, tax receivables are classified as performing; trade receivables, on the other hand, may be classified as non-performing exposures, if required.

TAX RECEIVABLES PERFORMANCE	(in thousands of Euro)
Receivables portfolio at 31.12.2015	**130.663**
Purchases	36.150
Interest income from amortised cost	4.800
Other components of net interest income from change in cash flow	3.907
Impairment losses/reversals from change in cash flow	(187)
Collections	(65.473)
Receivables portfolio at 30.06.2016	**109.860**

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2016	30.06.2015	CHANGE	
			ABSOLUTE	%
Net interest income	8.031	7.479	552	7,4%
Net commission income	(5)	44	(49)	(111,3)%
Net banking income	**8.026**	**7.523**	**503**	**6,7%**
Net impairment losses on receivables	(187)	14	(201)	(1.435,5)%
Net profit (loss) from financial activities	**7.839**	**7.537**	**302**	**4,0%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2016	2nd Q. 2015	CHANGE	
			ABSOLUTE	%
Net interest income	3.878	3.621	257	7,1%
Net commission income	(5)	-	(5)	n.a.
Net banking income	**3.873**	**3.621**	**252**	**7,0%**
Net impairment losses on receivables	(187)	(44)	(143)	324,9%
Net profit (loss) from financial activities	**3.686**	**3.577**	**109**	**3,0%**

Net banking income is generated by the interest accrued according to the amortised cost method and funding costs allocated to the segment.
The net banking income of the Tax Receivables segment amounted to 8,0 million Euro (+6,7%, 7,5 million Euro at 30 June 2015).

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Bad loans	1	-	1	n.a.
Unlikely to pay	-	-	-	n.a.
Past due loans	-	-	-	-
Total net non-performing exposures to customers	**1**	**-**	**1**	**n.a.**
Net performing loans	109.859	130.663	(20.804)	(15,9)%
Total on-balance-sheet loans to customers	**109.860**	**130.663**	**(20.803)**	**(15,9)%**

During the period, the Bank collected 65,5 million Euro according to schedule (including from six positions larger than the portfolio's average) and purchased receivables at a price of 34,2 million Euro, i.e. nearly 73,4% of the par value of the tax receivables concerned net of enrolments (totalling 2,4 million Euro).
With these purchases, the segment's portfolio comprises 1.420 positions, for a par value of 163,3 million Euro and a value at amortised cost of 109,9 million Euro at 30 June 2016.

KPI	30.06.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	163.253	190.553	(27.300)	(14,3)%
Total RWA per segment	45.390	41.614	3.776	9,1%

Governance and services

Within the scope of its management and coordination activities, the Governance and Services segment exercises strategic, managerial, and technical-operational control over operating segments and subsidiaries.

Furthermore, it provides the operating segments with the financial resources and services necessary to perform their respective business activities. The segment comprises, among other things, the resources required for the performance of the services of the Audit, Administration-Accounting, Planning, Organisation and ICT functions, as well as the structures responsible for raising, managing and allocating financial resources to the operating segments.

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2016	30.06.2015	CHANGE	
			ABSOLUTE	%
Net interest income	(4.505)	36.103	(40.608)	(112,5)%
Net commission income	(280)	(309)	29	(9,4)%
Dividends and trading	5.163	124.656	(119.493)	(95,9)%
Net banking income	**378**	**160.450**	**(160.072)**	**(99,8)%**
Net impairment losses on available for sale financial assets	(3.999)	(4.233)	234	(5,5)%
Net profit (loss) from financial activities	**(3.621)**	**156.217**	**(159.838)**	**(102,3)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2016	2nd Q. 2015	CHANGE	
			ABSOLUTE	%
Net interest income	(4.596)	15.477	(20.073)	(129,7)%
Net commission income	(135)	(63)	(72)	114,3%
Dividends and trading	(86)	124.536	(124.622)	(100,1)%
Net banking income	**(4.817)**	**139.950**	**(144.767)**	**(103,4)%**
Net impairment losses on available for sale financial assets	(1.047)	(2.214)	1.167	(52,7)%
Net profit (loss) from financial activities	**(5.864)**	**137.736**	**(143.600)**	**(104,3)%**

The segment's **net banking income** included the contribution of the securities portfolio to net interest income for the period, amounting to 7,5 million Euro (compared to 48,1 million Euro in the prior-year period). Besides the maturing and disposal of some bonds, the fall was largely attributable to the rebalancing of the AFS securities portfolio in April 2015—as part of which the Bank also lengthened the portfolio's maturity structure. In the first half of 2016, the Bank disposed of additional securities, making a 5,5 million Euro gain.

As for retail funding (3,5 billion Euro, compared to 2,9 billion Euro at 30 June 2015), the relevant cost amounted to 1,28%, compared to 1,30% in June 2015, and it is expected to rise slightly as a result of the new 3-, 4-, and 5-year maturities for rendimax as well as the promotional campaign for the 2-year maturity.

Net impairment losses on available for sale financial assets, totalling 4,0 million Euro at 30 June 2016 (4,2 million Euro in the prior-year period), referred to impairment losses recognised on unlisted equity instruments that were found to be impaired.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Available for sale financial assets	1.027.770	3.221.533	(2.193.763)	(68,1)%
Due from banks	153.877	95.352	58.525	61,4%
Loans to customers	5.369	103.997	(98.628)	(94,8)%
Due to banks	43.587	662.985	(619.398)	(93,4)%
Due to customers	3.928.261	5.487.476	(1.559.215)	(28,4)%

At 5,4 million Euro, loans to customers in the Governance and Services segment were down from the previous year (-94,8%)—due to the reduction of the portfolio of refinanceable securities—and they essentially reflect the balance of margin lending related to repurchase agreements on the MTS platform with Cassa di Compensazione e Garanzia as counterparty.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Bad loans	-	-	-	-
Unlikely to pay	-	-	-	-
Past due loans	-	-	-	-
Total net non-performing exposures to customers	**-**	**-**	**-**	**-**
Net performing loans	5.369	103.997	(98.628)	(94,8)%
Total on-balance-sheet loans to customers	**5.369**	**103.997**	**(98.628)**	**(94,8)%**

KPI	30.06.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Total RWA per segment	31.821	25.256 (1)	6.565	26,0%

(1) Data restated after initial publication.

Venice - Mestre, 28 July 2016

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Giovanni Bossi

Certification of the consolidated half year simplified financial statements pursuant to the provisions of art. 154-bis, paragraph 5, of the legislative decree 58 of February 24, 1998 and art. 81 ter of Consob Regulation no. 11971 of 14 May 1999 as amended

1. We, the undersigned, Giovanni Bossi – CEO and Mariacristina Taormina – in her capacity as Manager charged with preparing the financial reports of Banca IFIS S.p.A., having also taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree no.58 dated 24 February 1998, hereby certify:
   i. The adequacy in relation to the characteristics of the Company,
   ii. The effective implementation

   of the administrative and accounting procedures for the preparation of Banca IFIS's consolidated half year simplified financial statements, over the course of the period from January 1st, 2016 to June 30th, 2016.

2. The adequacy of the administrative and accounting procedures in place for preparing the consolidated half year simplified financial statements as at June 30th, 2016 has been assessed through a process established by Banca IFIS S.p.A. on the basis of the guidelines set out in the *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission (CoSO)*, an internationally accepted reference framework.

3. The undersigned further confirm that:

   3.1 the consolidated half year simplified financial statements as at June 30th, 2016:
   a) are prepared 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 July 19th, 2002;
   b) correspond to the related books and accounting records;
   c) provide a true and correct representation of the financial position of the issuer and the group of companies included in the scope of consolidation.

   3.2 The consolidated interim management report includes a reliable analysis of the significant events that took place in the first six months of the financial year and their impact on the half year simplified financial statement, together with a description of the main risks and uncertainties for the remaining six months of the financial year.
   The consolidated interim management report also includes a reliable analysis of the disclosure on significant related party transactions.

Venice, July 28th, 2016

CEO

Giovanni Bossi

Manager charged with preparing the Company's financial reports

Mariacristina Taormina

Report of the Independent Auditors limited to the Condensed consolidated interim financial statements at 30 June 2016

The attached report of the independent auditors and the Condensed consolidated interim financial statements at 30 June 2016, to which the report refers, conform to those that will be published on the Bank's website; subsequent to the date of the report, EY S.p.A. did not carry out any audit work aimed at updating its contents.

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Building a better working world

Auditors' review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

To the Shareholders of
Banca IFIS S.p.A.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements, comprising the balance sheet, the statements of income, the statement of comprehensive income, the changes in shareholders' equity, the statement of cash flows and the related explanatory notes, of Banca IFIS S.p.A. and its subsidiaries (the "Banca IFIS Group") as of June 30, 2016. Directors of Banca IFIS S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca IFIS Group as of June 30, 2016 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Verona, July 28, 2016

EY S.p.A.
Signed by: (Marco Bozzola), Partner