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BANCA IFIS

CONSOLIDATED HALF YEARLY REPORT AT 30 JUNE 2017

VALUE TO YOUR BUSINESS

BANCA IFIS

www.bancaifis.com

Banca IFIS S.p.A. - Registered office in Via Terraglio 63, 30174 Mestre, Venice - Registration number in the Companies Register of Venice and Tax Code 02505630109 - VAT number 02992620274 - REA (Administrative Economic Index) number: VE - 0247118 – Share capital Euro 53,811,095 – Registry of Banks no. 5508 - Parent Company of the Banca IFIS Banking Group S.p.A., enrolled in the registry of Banking Groups – Member of the Interbank Deposit Protection Fund, of the Italian Banking Association, of the Italian Factoring Association, of Factors Chain International

Contents

BANCA IFIS

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	E&Y S.p.A.
Corporate Accounting Reporting Officer	Mariacristina Taormina

BANCA IFIS

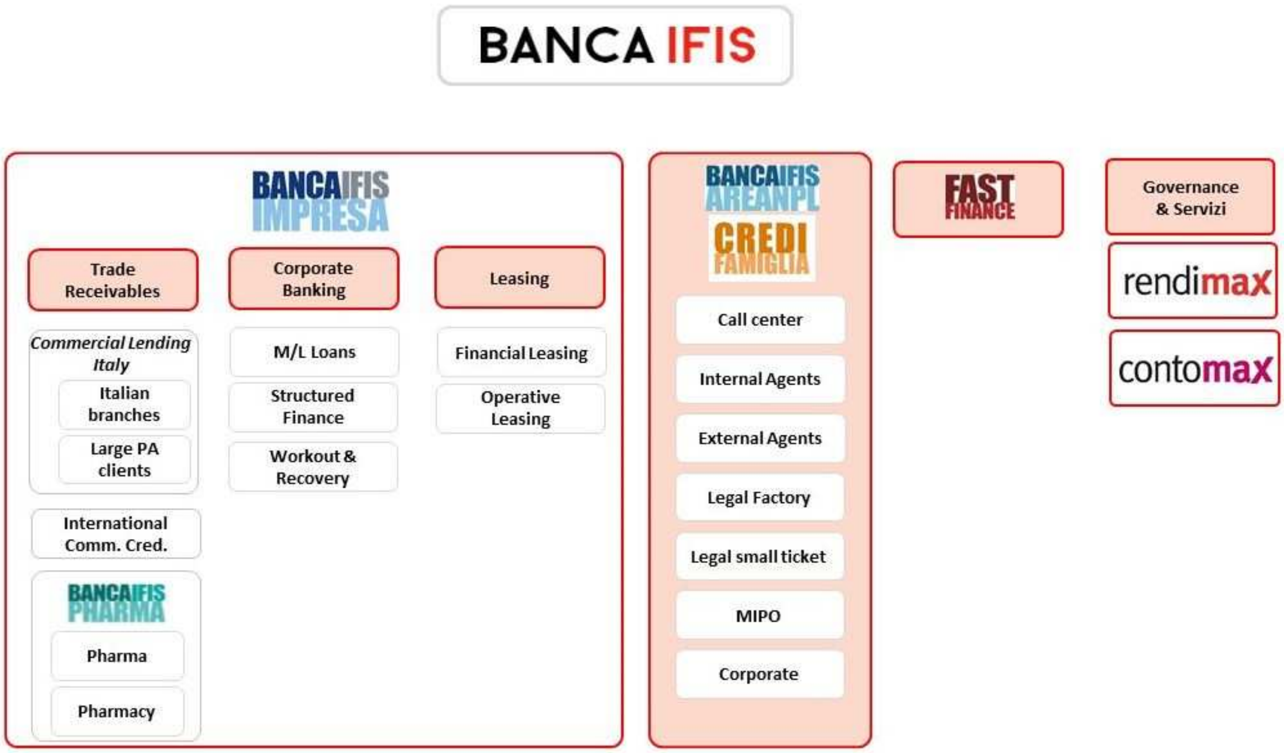
Fully paid-up share capital 53,811,095 Euro
Bank Licence (ABI) No. 3205.2
Tax Code and Venice Companies
Register Number: 02505630109
VAT No.: 02992620274
Enrolment in the Register of Banks No.: 5508
Registered and administrative office
Via Terraglio 63, Mestre, 30174, Venice, Italy
Website: www.bancaifis.it

FCI
Facilitating Open Account – Receivables Finance

Member of FCI

Businesses and brands

With a market capitalisation of approximately 2 billion Euro, currently Banca IFIS is Italy's largest independent specialty finance player, operating in the following sectors: trade receivables, acquiring/selling & managing portfolios of non-performing loans, and tax receivables. In addition, following the acquisition of the Interbanca Group in November 2016, Banca IFIS has further diversified its business model, significantly increased its client base (i.e. Italian small and medium businesses), and expanded its range of products and services. Banca IFIS operates in the retail funding market with two online products (a savings account and a current account).



The brands through which the Banca IFIS Group operates, financing the real economy, are:

• **<u>Banca IFIS Impresa</u>**: short-term factoring, corporate banking (medium/long-term and structured finance), and leases (both operating and finance) for small, medium and micro enterprises. Banca IFIS Impresa operates both in Italy and abroad—especially in Poland, through the subsidiary IFIS Finance, which specialises in factoring services (import/export).

Banca IFIS Impresa targets SMEs that are not benefiting from the liquidity available in the market—including the companies that work with the Italian Public Administration. Banca IFIS Impresa provides several services:

- **Factoring**: with its factoring service, Banca IFIS has a direct presence in business-to-business procurement relationships, allowing the customer to finance its trade receivables and the debtor to enter into customised payment plans.
- **Leasing**: Banca IFIS Impresa's Leasing operations (which include operating and finance leases) consist of:
    - o **Equipment leasing** designed to help businesses and resellers invest in equipment for the IT, Telecoms, Office, Industrial, and Healthcare Equipment sectors;

  - **Vehicle Leasing** financing of company cars and commercial vehicles for independent contractors and firms;
  - **Equipment rental**: this solution for IT, Office, Industrial and Healthcare equipment allows the corporate client to use a piece of equipment for a set period of time for a fee.
- **Corporate Banking**: support to companies in their organic or inorganic growth through extraordinary operations to reposition or expand their business, establish alliances or pursue integrations, promote restructuring processes, or introduce new investors and partners into the company. Corporate Banking consists of:
  - **Medium/long-term financing**: support to the company's operating cycle through services ranging from working capital financing to the support for productive investments;
  - **Structured Finance**: legal and financial structuring and arranging of bilateral or syndicated loans. Controlling market risk through syndicated loans and the placement of units of structured finance arrangements on the market.

• **Banca IFIS Pharma**: support for the trade receivables of local health services' suppliers, i.e. companies seeking to factor receivables due from Italy's National Health Service without recourse thus protecting themselves from the risk of late payments. Banca IFIS Pharma also supports pharmacists with a dedicated Business Unit that provides solutions designed to meet short- and medium-term financing needs;

• **Banca IFIS NPL Area and CrediFamiglia**: they operate in the market for distressed retail loans in the consumer retail and micro-corporate sectors. Banca IFIS NPL Area acquires/sells and manages portfolios of non-performing loans, while CrediFamiglia carries out judicial and non-judicial collection operations through different channels (call centre, in-house network, external network, Legal Factory, Legal Small Ticket);

• **Fast Finance**: it focuses on tax receivables. It collects direct and indirect taxes and tax receivables, either performing or arising from insolvency proceedings.

• **rendimax** and **contomax**: these are the Bank's two retail funding instruments. They are included in "Governance & Services" for segment reporting purposes. Specifically, rendimax is the high-yield online savings account for individuals, companies and insolvency proceedings, while contomax is the free on-line crowd current account.

Interim Directors’ report on the Group

Introductory notes on how to read the data

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

- **Acquisition of the former GE Capital Interbanca Group**: as already mentioned in the financial statements at 31 December 2016, on 30 November 2016, after obtaining the authorisations of the competent Supervisory Authorities, Banca IFIS acquired 99,99% of the former GE Capital Interbanca S.p.A.

  Therefore, the data for the comparative period is limited to the Banca IFIS Group's previous scope of consolidation.

  Following the acquisition of the former GE Capital Interbanca Group, Banca IFIS has identified the new Corporate Banking and Leasing sectors. For more details, see Contribution of business segments in this Interim Directors’ Report on the Group.

  Concerning the cost for the acquisition of the former GE Capital Interbanca Group, provisionally estimated at 119,2 million Euro, in July the Group and the seller agreed to additional adjustments, bringing the final acquisition cost to 109,4 million Euro. For more details, see Significant subsequent events in this Interim Directors’ Report on the Group.
- **Review of business segment funding costs:** external changes, in terms of market rates, as well as internal changes, in terms of composition and funding rates, required revising the method to calculate the internal transfer rates for 2017, and therefore updating them. To facilitate the comparison of segment data for the two reference periods, the 2016 results have been restated according to the 2017 funding approach.

Highlights

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2017	31.12.2016	ABSOLUTE	%
Available for sale financial assets	639.119	374.229	264.890	70,8%
Loans to customers	6.084.125	5.928.212	155.913	2,6%
Total assets	9.444.099	8.699.145	744.954	8,6%
Due to banks	967.285	503.964	463.321	91,9%
Due to customers	5.291.594	5.045.136	246.458	4,9%
Equity	1.283.292	1.218.783	64.509	5,3%

RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (1) (in thousands of Euro)	1st HALF		CHANGE	
	2017	2016	ABSOLUTE	%
Net banking income	**250.031**	**150.923**	**99.108**	**65,7%**
Net impairment losses/reversal on receivables and other financial assets	18.470	(15.761)	34.231	n.s.
Net profit (loss) from financial activities	**268.501**	**135.162**	**133.339**	**98,7%**
Operating costs	(122.625)	(76.797)	(45.828)	59,7%
Pre-tax profit from continuing operations	145.873	58.365	87.508	149,9%
Group net profit for the period	**103.662**	**39.120**	**64.542**	**165,0%**

(1) Net impairment losses on receivables of the NPL Area, totalling 14,8 million Euro at 30 June 2017 compared to 16,4 million Euro at 30 June 2016, 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 CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (1) (in thousands of Euro)	2nd QUARTER		CHANGE	
	2017	2016	ABSOLUTE	%
Net banking income	**147.767**	**74.319**	**73.448**	**98,8%**
Net impairment losses/reversal on receivables and other financial assets	18.614	(7.496)	26.110	n.s.
Net profit (loss) from financial activities	**166.381**	**66.823**	**99.558**	**149,0%**
Operating costs	(66.237)	(40.988)	(25.249)	61,6%
Pre-tax profit from continuing operations	100.142	25.835	74.307	287,6%
Group net profit for the period	**70.970**	**17.075**	**53.895**	**315,6%**

(1) Net impairment losses in the NPL Area, totalling 6,5 million Euro in the 2nd quarter of 2017 and 13,7 million Euro in the 2nd quarter of 2016, 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.

GROUP KPIs	30.06.2017	30.06.2016	31.12.2016
Total Own Funds Capital Ratio	15,6%	14,2%	15,3%
Common Equity Tier 1 Ratio	14,8%	13,2%	14,7%
Number of company shares (in thousands)	53.811	53.811	53.811
Number of shares outstanding at period end(1) (in thousands)	53.431	53.081	53.431
Book value per share	24,02	10,59	22,81
EPS	1,94	0,74	12,94

(1) 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 RECEIV-ABLES	CORPO-RATE BANKING	LEASING	NPL AREA	TAX RECEIV-ABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Available for sale financial assets							
Amounts at 30.06.2017	-	-	-	-	-	639.119	639.119
Amounts at 31.12.2016	-	-	-	-	-	*374.229*	*374.229*
% Change						*70,8%*	*70,8%*
Due from banks							
Amounts at 30.06.2017	-	-	-	-	-	1.667.462	1.667.462
Amounts at 31.12.2016	-	-	-	-	-	*1.393.358*	*1.393.358*
% Change						*19,7%*	*19,7%*
Loans to customers							
Amounts at 30.06.2017	2.970.311	972.490	1.303.102	701.492	133.808	2.922	6.084.125
Amounts at 31.12.2016	*3.092.488*	*905.682*	*1.235.638*	*562.146*	*124.697*	*7.561*	*5.928.212*
% Change	*(4,0)%*	*7,4%*	*5,5%*	*24,8%*	*7,3%*	*(61,4)%*	*2,6%*
Due to banks							
Amounts at 30.06.2017	-	-	-	-	-	967.285	967.285
Amounts at 31.12.2016	-	-	-	-	-	*503.964*	*503.964*
% Change						*91,9%*	*91,9%*
Due to customers							
Amounts at 30.06.2017	-	-	-	-	-	5.291.594	5.291.594
Amounts at 31.12.2016	-	-	-	-	-	*5.045.136*	*5.045.136*
% Change						*4,9%*	*4,9%*

RECLASSIFIED INCOME STATEMENT DATA[(1)] (in thousands of Euro)	TRADE RECEIV-ABLES	CORPO-RATE BANKING	LEASING	NPL AREA	TAX RECEIV-ABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Amounts at 30.06.2017	70.142	65.144	28.985	78.957	8.794	(1.991)	**250.031**
Amounts at 30.06.2016	*67.977*	*n/a*	*n/a*	*58.409*	*7.700*	*16.837*	**150.923**
% Change	*3,2%*	*n/a*	*n/a*	*35,2%*	*14,2%*	*(111,8)%*	***65,7%***
Net profit (loss) from financial activities							
Amounts at 30.06.2017	58.482	96.924	27.910	78.957	8.648	(2.420)	**268.501**
Amounts at 30.06.2016	*56.402*	*n/a*	*n/a*	*58.409*	*7.513*	*12.838*	***135.162***
% Change	*3,7%*	*n/a*	*n/a*	*35,2%*	*15,1%*	*(118,9)%*	***98,7%***

(1) Net impairment losses on receivables of the NPL Area, totalling 14,8 million Euro at 30 June 2017 compared to 16,5 million Euro at 30 June 2016, 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 INCOME STATEMENT DATA [(1)] (in thousands of Euro)	TRADE RECEIV-ABLES	CORPO-RATE BANKING	LEASING	NPL AREA	TAX RECEIV-ABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Second quarter 2017	36.346	41.755	16.478	48.453	5.881	(1.146)	**147.767**
Second quarter 2016	*34.312*	*n/a*	*n/a*	*33.801*	*3.717*	*2.489*	**74.319**
% Change	*5,9%*	*n/a*	*n/a*	*43,3%*	*58,2%*	*(146,0)%*	***98,8%***
Net profit from financial activities							
Second quarter 2017	29.086	69.104	15.506	48.453	5.806	(1.574)	**166.381**
Second quarter 2016	*28.049*	*n/a*	*n/a*	*33.801*	*3.530*	*1.442*	***66.823***
% Change	*3,7%*	*n/a*	*n/a*	*43,3%*	*64,5%*	*(209,1)%*	***149,0%***

(1) Net impairment losses in the NPL Area, totalling 6,5 million Euro in the 2nd quarter of 2017 and 13,7 million Euro in the 2nd quarter of 2016, 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 KPIs (in thousands of Euro)	TRADE RECEIV-ABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIV-ABLES	GOVERNANCE AND SERVICES
Turnover [1]						
Amounts at 30.06.2017	5.615.349	n.a.	n.a.	n.a.	n.a.	n.a.
Amounts at 30.06.2016	*4.992.969*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*12,5%*	-	-	-	-	-
Nominal amount of receivables managed						
Amounts at 30.06.2017	3.703.028	1.711.788	1.336.078	11.025.451	174.029	n.a.
Amounts at 31.12.2016	*3.880.835*	*1.739.175*	*1.273.933*	*9.660.196*	*172.145*	*n.a.*
% Change	*(4,6)%*	*(1,6)%*	*4,9%*	*14,1%*	*1,1%*	-
Cost of credit quality						
Amounts at 30.06.2017	0,8%	(3,3)%	0,3%	n.a.	n.a.	n.a.
Amounts at 31.12.2016	0,8%	0,1%	1,5%	n.a.	n.a.	*n.a.*
% Change	*(0,0)%*	*(3,4)%*	*(1,2)%*	-	-	-
Net bad loans/Loans to customers						
Amounts at 30.06.2017	1,2%	3,1%	0,5%	60,7%	0,0%	0,0%
Amounts at 31.12.2016	*1,0%*	*3,0%*	*0,5%*	*57,0%*	*0,0%*	*0,0%*
% Change	*0,2%*	*0,1%*	*0,0%*	*3,7%*	-	-
Net bad loans/Equity						
Amounts at 30.06.2017	2,7%	2,3%	0,5%	33,2%	0,0%	0,0%
Amounts at 31.12.2016	*2,6%*	*2,2%*	*0,5%*	*26,3%*	*0,0%*	*0,0%*
% Change	*0,1%*	*0,1%*	*0,0%*	*6,9%*	-	-
Coverage ratio on gross bad loans						
Amounts at 30.06.2017	87,7%	93,0%	89,2%	n.a.	n.a.	n.a.
Amounts at 31.12.2016	*88,5%*	*94,0%*	*92,2%*	*n.a.*	*n.a.*	*n.a.*
% Change	*(0,8)%*	*(1,0)%*	*(3,0)%*	-	-	-
Non-performing exposures/Loans to customers						
Amounts at 30.06.2017	8,2%	19,5%	2,9%	99,9%	0,0%	0,0%
Amounts at 31.12.2016	*6,5%*	*19,0%*	*3,0%*	*100,0%*	*0,2%*	*0,0%*
% Change	*1,7%*	*0,5%*	*(0,1)%*	*(0,1)%*	*(0,2)%*	-
Net non-performing loans/Equity						
Amounts at 30.06.2017	19,0%	14,8%	2,9%	54,6%	0,0%	0,0%
Amounts at 31.12.2016	*16,5%*	*14,1%*	*3,0%*	*46,1%*	*0,0%*	*0,0%*
% Change	*2,5%*	*0,7%*	*(0,1)%*	*8,5%*	-	-
RWA [2] [3]						
Amounts at 30.06.2017	2.218.864	938.617	1.055.467	701.492	45.603	203.431
Amounts at 31.12.2016	*2.348.131*	*929.337*	*875.153*	*562.146*	*50.004*	*263.512*
% Change	*(5,5)%*	*1,0%*	*20,6%*	*24,8%*	*(8,8)%*	*(22,8)%*

(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) The Governance and Services sector's RWAs includes the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

Reclassified Quarterly Evolution

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2017		YEAR 2016			
	30.06	31.03	31.12	30.09	30.06	31.03
ASSETS						
Available for sale financial assets	639.119	635.507	374.229	1.026.744	1.027.770	1.066.413
Due from banks	1.667.462	1.411.235	1.393.358	454.170	153.877	114.691
Loans to customers	6.084.125	5.837.870	5.928.212	3.303.322	3.355.998	3.307.793
Property, plant and equipment	109.566	109.675	110.348	62.291	56.729	53.792
Intangible assets	18.003	14.199	14.981	10.816	8.929	7.391
Tax assets	545.724	571.935	581.016	62.254	64.595	61.791
Other assets	380.100	274.960	297.001	76.002	75.300	50.319
Total assets	**9.444.099**	**8.855.381**	**8.699.145**	**4.995.599**	**4.743.198**	**4.662.190**

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2017		YEAR 2016			
	30.06	31.03	31.12	30.09	30.06	31.03
LIABILITIES AND EQUITY						
Due to banks	967.285	1.028.971	503.964	56.788	43.587	182.568
Due to customers	5.291.594	5.055.558	5.045.136	4.138.865	3.928.261	3.722.501
Debt securities issued	1.352.375	1.122.879	1.488.556	-	-	-
Post-employment benefits	7.318	7.682	7.660	1.554	1.545	1.510
Tax liabilities	34.912	32.423	24.925	15.116	16.180	25.118
Other liabilities	507.323	354.230	410.121	196.628	191.428	180.250
Equity:	1.283.292	1.253.638	1.218.783	586.648	562.197	550.243
- share capital, share premiums and reserves	*1.179.635*	*1.220.951*	*530.838*	*520.379*	*523.077*	*528.198*
- net profit for the period	*103.657*	*32.687*	*687.945*	*66.269*	*39.120*	*22.045*
Total liabilities and equity	**9.444.099**	**8.855.381**	**8.699.145**	**4.995.599**	**4.743.198**	**4.662.190**

RECLASSIFIED CONSOLIDATED INCOME STATEMENT: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2017		YEAR 2016			
	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	**108.651**	**89.708**	**69.465**	**52.988**	**55.395**	**57.707**
Net commission income	**20.145**	**14.219**	**1.060**	**13.087**	**13.316**	**13.648**
Dividends and similar income	40	-		-	-	-
Net result from trading	1.306	(1.615)	4	(374)	(86)	(246)
Gain/loss on sale or buyback of:	17.625	(48)	17.753	21.065	5.694	5.495
loans and receivables	17.625	-	17.770	21.065	5.694	-
available for sale financial assets	-	(48)	(17)		-	5.495
Net banking income	**147.767**	**102.264**	**88.282**	**86.766**	**74.319**	**76.604**
Net impairment losses/reversal on	18.614	(144)	(7.113)	(3.731)	(7.496)	(8.265)
loans and receivables	16.846	(874)	(6.761)	(3.731)	(6.449)	(5.313)
available for sale financial assets	(660)	(15)	(357)	-	(1.047)	(2.952)
other financial transactions	2.428	745	5	-	-	-
Net profit (loss) from financial activities	**166.381**	**102.120**	**81.169**	**83.035**	**66.823**	**68.339**
Personnel expenses	(25.411)	(24.073)	(23.959)	(14.324)	(14.187)	(13.408)
Other administrative expenses	(39.736)	(31.134)	(55.775)	(24.029)	(28.051)	(18.421)
Net allocations to provisions for risks and charges	445	(2.342)	1.611	(1.827)	2.157	(3.790)
Net value adjustments on property, plant and equipment and intangible assets	(2.483)	(3.459)	(2.742)	(1.306)	(1.069)	(938)
Other operating income/expenses	948	4.620	620.723	(415)	162	748
Operating costs	**(66.237)**	**(56.388)**	**539.858**	**(41.901)**	**(40.988)**	**(35.809)**
Profit (Loss) from sales of investments	**(2)**	(1)	-	-	-	-
Pre-tax profit from continuing operations	**100.142**	**45.731**	**621.027**	**41.134**	**25.835**	**32.530**
Income tax expense for the period	(29.168)	(13.043)	689	(13.985)	(8.760)	(10.485)
Net profit for the period	**70.974**	**32.688**	**621.716**	**27.149**	**17.075**	**22.045**
Non-controlling interests	4	1	40	-	-	-
Parent Company profit for the year	**70.970**	**32.687**	**621.676**	**27.149**	**17.075**	**22.045**

(1) Net impairment losses on receivables of the NPL Area 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 2017		YEAR 2016			
	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**147.767**	**102.264**	**88.282**	**86.766**	**74.319**	**76.604**
Trade Receivables	36.346	33.796	46.814	33.723	34.312	33.665
Corporate Banking	41.755	23.389	2.952	-	-	-
Leasing	16.478	12.507	(1.172)	-	-	-
NPL Area (1)	48.453	30.504	40.935	48.974	33.801	24.608
Tax Receivables	5.881	2.913	2.967	2.656	3.717	3.983
Governance and Services	(1.145)	(845)	(4.214)	1.413	2.489	14.348
Net profit from financial activities	**166.381**	**102.120**	**81.169**	**83.035**	**66.823**	**68.339**
Trade Receivables	29.086	29.396	41.733	30.074	28.050	28.352
Corporate Banking	69.104	27.820	2.889	-	-	-
Leasing	15.506	12.404	(2.682)	-	-	-
NPL Area	48.453	30.504	40.935	48.974	33.801	24.608
Tax Receivables	5.806	2.841	2.866	2.574	3.530	3.983
Governance and Services	(1.574)	(845)	(4.572)	1.413	1.442	11.396

(1) Net impairment losses on receivables of the NPL Area 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)	30.06.2017	30.06.2016	30.06.2015	30.06.2014	30.06.2013
Available for sale financial assets	639.119	1.027.770	3.803.216	1.302.425	2.868.958
Held to maturity financial assets	-	-	-	5.071.312	4.856.179
Loans to customers	6.084.125	3.355.998	3.152.145	2.538.371	2.239.693
Due to banks	967.285	43.587	457.384	1.979.493	601.058
Due to customers	5.291.594	3.928.261	6.037.552	6.910.171	9.604.606
Equity	1.283.292	562.197	524.266	397.927	331.251
Net banking income (1)	250.031	150.923	265.441	145.763	132.636
Net profit from financial activities	268.501	135.162	247.772	121.822	105.430
Group net profit for the period	103.657	39.120	130.779	50.055	44.040
Cost/Income ratio (1)	49,0%	50,9%	19,5%	32,0%	27,9%
Total own funds Capital Ratio (2)	15,6%	14,2%	16,1%	14,2%	13,9%
Common Equity Tier 1 Ratio(2)	14,8%	13,2%	15,4%	13,8%	14,2%

(1) Net impairment losses on receivables of the NPL Area 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.

Impact of regulatory changes

Here below are the regulatory changes introduced in the first half of 2017 impacting the Banca IFIS Group:

- Tax aspects: among the latest regulations on tax matters, the following impacted the determination of the Banca IFIS Group's income tax expense for the first half of 2017 the most. In particular, Italian Law no 96 of 21 June 2017 reduced the rate of return to be applied to the net change in equity for the calculation of the ACE (Aid for Economic Growth) benefit to 1,6% for 2017 (and 1,5% starting from 2018).

Results and Strategy

Comment by the CEO

The results approved today are in line with the commitments made to shareholders at the time of the Interbanca Group's acquisition as well as the announcement of the 2017-2019 strategic plan. Above all, I want to underscore the consistency of our performance with the business model adopted by Banca IFIS. Our results testify to the success of our efforts to integrate and develop the businesses. We are focusing on the bank's core segments and the technological tools supporting the relationship with customers and our market growth. We have come a long way in the past few months, but have much further still to go: the company has significant potential and tremendous growth opportunities. We have a duty to continue creating value. Our history shows that since 2002 we have always generated returns in capital above 10%: it is this strength and the responsibility that accompanies our every day decisions.

Main dynamics – Reclassified data[1]

- **Net banking income[2]** totalled 250,0 million Euro, +65,7% from 265,4 million Euro in the first half of 2016 (150,9 million Euro at 30 June 2016). The positive performance of all the Bank's core segments was the result of, among other things, a series of factors such as the consolidation of the former GE Capital Interbanca Group, which concerned specifically Corporate Banking and Leasing; the gain on the sale of NPLs; and the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by Interbanca and the leasing subsidiary over time, which largely arose from the positions allocated to Workout & Recovery and Structured Finance. More detailed information for each segment can be found below. At 30 June 2017, net banking income included also the costs associated with the funding for the acquisition, which concerned the increase in rendimax funding volumes and the securitisations carried out in late 2016.
- **Net impairment losses/reversal** amounted to a positive 18,5 million Euro, compared to a negative 15,8 million Euro in the first half of 2016. The adjustments in the Trade Receivables segment alone stood at 11,7 million Euro, compared to 11,6 million Euro at 30 June 2016 (+0,7%). This result testifies to Banca IFIS's relentless ability to lend by carefully assuming credit risk. There were other value adjustments referring to Leasing (1,1 million Euro), Tax Receivables (0,1 million Euro), and Corporate Banking (31,8 million Euro). Concerning specifically net value adjustments on NPL receivables, 14,8 million Euro were reclassified to interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.
- **Operating costs** totalled 122,6 million Euro (76,8 million Euro at 30 June 2016, +59,7%). The **cost/income** ratio stood at 49,0%, compared to 50,9% in the prior-year period. **Personnel expenses** amounted to 49,5 million Euro (27,6 million Euro in June 2016, +79,3%). The increase referred for 16,6 million Euro to the former Interbanca Group. At 30 June 2017, the

[1] Net value adjustments in the NPL Area, totalling 14,8 million Euro at 30 June 2017 compared to 16,5 million Euro at 30 June 2016, were reclassified to interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

[2] To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

Group's employees numbered 1404. **Administrative expenses** amounted to 69,9 million Euro, up 50,3% from 46,5 million Euro in the prior-year period. The item included 14,7 million Euro in costs referring to the Group's new subsidiaries.

At 30 June 2017, the **Group profit for the period** totalled 103,7 million Euro, up 165,0% from 39,1 million Euro at 30 June 2016.

For a better understanding of the results for the period and the comparative data, please note that changes in market interest rates and the bank's funding rates required revising the method to calculate the internal transfer rates for 2017, and therefore updating them. To facilitate the comparison of the two reference periods, the 2016 results have been restated according to the 2017 funding approach across all segments.

As for the contribution of **individual segments**[3] to the operating and financial results at 30 June 2017, here below are the highlights:

- **Loans to businesses** (including the trade receivables, leasing, and corporate banking segments) generated 164,3 million Euro in net banking income**. Total loans to businesses** amounted to 5.245,9 million Euro, compared to 5.233,8 million Euro at 31 December 2016 (+0,2%). This was largely the result of the slight decline in the trade receivables segment (-4,0%) and the increase in the corporate banking and leasing segments (+7,4% and +5,5%, respectively). Specifically, the breakdown of loans to corporate customers was as follows: 15,8 % are due from the public sector and 84,2% from the private sector.

  Trade Receivables generated 70,1 million Euro in net banking income (68,0 million Euro in the first half of 2016, +3,2%); the segment's turnover rose to 5,6 billion Euro (+12,5% from 30 June 2016), with 5.136 corporate customers (+5,3% compared to the prior-year period). Outstanding trade receivables declined by 2.970,3 million Euro (-4,0% from December 2016). The Corporate Banking segment generated 65,1 million Euro in net banking income. This amount included the 53,7 million Euro positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiary Interbanca over time. This largely arose from the positions allocated to Workout & Recovery and Structured Finance. The nominal amount of the segment's receivables was 1.711,8 million Euro (-1,6%). The Leasing segment's net banking income totalled 29,0 million Euro thanks to the positive trend in the number of customers as well as loans, contributing to the rise in market share, and included the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiary over time, which amounted to 4,1 million Euro. The nominal amount of the segment's receivables was 1.336,1 million Euro.

  The NPL Area4 generated 79,0 million Euro in net banking income, compared to 58,4 million Euro in the prior-year period (+35,2%). This amount included 17,6 million Euro in gains on the sale of a portfolio (5,7 million Euro at June 30 2016). In the first six months of

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[3] To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach

[4] Net value adjustments in the NPL Area, totalling 14,8 million Euro at 30 June 2017 compared to 16,5 million Euro at 30 June 2016, were reclassified to interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

2017, the NPL Area acquired portfolios of receivables with a nominal value of 2,3 billion Euro, bringing the total amount of positions to 1.447.090 for an overall nominal value of 11,0 billion Euro.

Tax Receivables generated 8,8 million Euro in net banking income, up 14,2% from 7,7 million Euro at 30 June 2016.

The net banking income of Governance&Services was negative 2 million Euro. This was largely because of the lower overall contribution from the government bond portfolio—which in the first half of 2016 contributed 7,5 million Euro in interest income—as well as the fact that Banca IFIS incurred, and continues incurring in 2017, significant costs associated with the additional funding for the closing of the acquisition of the former Interbanca Group.

Here below is the breakdown of **net non-performing loans** concerning **loans to SMEs**:

- **net bad loans** amounted to 71,6 million Euro, compared to 65,1 million Euro at the end of 2016 (+10%); the net bad-loan ratio was 1,4%, up from 1,3% at 31 December 2016. The coverage ratio stood at 90,7% (92% at 31 December 2016)
- the balance of **net unlikely to pay** was 226,4 million Euro, +9,2% from 207,3 million Euro at the end of 2016; the coverage ratio declined to 43,5% from 45,9% at 31 December 2016.
- **Net non-performing past due exposures** totalled 173,5 million Euro, compared with 137,4 million Euro in December 2016 (+26,2%). The rise in past due exposures was due to the natural increase in such exposures to Italy's Public Administration as well as to new private-sector past due positions concerning individual long-standing clients that had never been classified within this category. The coverage ratio of net non-performing past due exposures was 10,4% (19,4% at 31 December 2016).

Overall, **gross non-performing loans to businesses** (always excluding the non-performing loans of the NPL Area and the Tax Receivables segment) totalled 1.367,3 million Euro, with 895,7 million Euro in impairment losses and a coverage ratio of 65,5%.

At the end of the period, consolidated **equity** totalled 1.283,3 million Euro, compared to 1.218,8 million Euro at 31 December 2016.

The **consolidated CET1 and Total Own Funds Ratios** of the Banca IFIS Group alone, excluding the effect of the consolidation of the Parent Company La Scogliera[5], both amounted to 16,38% at the end of 30 June 2017, compared to 15,71% at the end of 2016.

[5] The reported total own funds refers only to the scope of the Banca IFIS Group, thus excluding the effects of the prudential consolidation in the parent La Scogliera S.p.A. Consolidated own funds, risk-weighted assets and solvency ratios at 30 June 2017 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 CET1 at 30 June 2017 including La Scogliera S.p.A. amounted to 14,8%, compared to 14,7% at 31 December 2016, while the Total Own Funds Ratio totalled 15,6 %, compared to 15,3% at 31 December 2016.

Contribution of business segments

The organisational structure

The model for segment reporting is in line with the new organisational structure used by the Head Office to analyse Group results, which, following the acquisition of the former GE Capital Interbanca Group, now includes two new sectors: Corporate Banking and Leasing. In addition, since the acquisition date, the Trade Receivables sector includes the contribution of IFIS Factoring.

Therefore, the organisational structure consists of the following segments: Trade receivables, Corporate banking, Leasing, NPL Area, Tax receivables, Governance and Services.

The Governance and Services segment manages the Group's financial resources and allocates funding costs to operating segments through the Group's internal transfer rate system.

Here below are the results achieved in the first half of 2017 by the various business sectors, which will be analysed in the sections dedicated to the individual sectors.

External changes, in terms of market rates, as well as internal changes, in terms of composition and funding rates, required revising the method to calculate the internal transfer rates for 2017, and therefore updating them. To facilitate the comparison of the two reference periods, the 2016 results have been restated according to the 2017 funding approach.

INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVABLES	CORPO-RATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Amounts at 30.06.2017	70.142	65.144	28.985	93.722	8.794	(1.991)	**264.796**
Amounts at 30.06. 2016(1)	*67.977*	*n.s.*	*n.s.*	*74.863*	*7.700*	*16.837*	***167.377***
% Change	*3,2%*	*n.s.*	*n.s.*	*25,2%*	*14,2%*	*(111,8)%*	***58,2%***
Net profit (loss) from financial activities							
Amounts at 30.06.2017	58.482	96.924	27.910	78.957	8.648	(2.420)	**268.501**
Amounts at 30.06. 2016(1)	*56.402*	*n.s.*	*n.s.*	*58.409*	*7.513*	*12.838*	***135.162***
% Change	*3,7%*	*n.s.*	*n.s.*	*35,2%*	*15,1%*	*(118,9)%*	***98,7%***

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVABLES	CORPO-RATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Second quarter 2017	36.346	41.755	16.478	54.970	5.881	(1.146)	**154.284**
Second quarter 2016(1)	*34.312*	*n.s.*	*n.s.*	*47.479*	*3.717*	*2.489*	***87.997***
% Change	*5,9%*	*n.s.*	*n.s.*	*15,8%*	*58,2%*	*(146,0)%*	***75,3%***
Net profit (loss) from financial activities							
Second quarter 2017	29.086	69.104	15.506	48.453	5.807	(1.575)	**166.381**
Second quarter 2016(1)	*28.050*	*n.s.*	*n.s.*	*33.801*	*3.530*	*1.442*	***66.823***
% Change	*3,7%*	*n.s.*	*n.s.*	*43,3%*	*64,5%*	*(209,2)%*	***149,0%***

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	TRADE RECEIV-ABLES	CORPO-RATE BANKING	LEASING	NPL AREA	TAX RECEIV-ABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Available for sale financial assets							
Amounts at 30.06.2017	-	-	-	-	-	639.119	639.119
Amounts at 31.12.2016	-	-	-	-	-	*374.229*	*374.229*
% Change						*70,8%*	*70,8%*
Due from banks							
Amounts at 30.06.2017	-	-	-	-	-	1.667.462	1.667.462
Amounts at 31.12.2016	-	-	-	-	-	*1.393.358*	*1.393.358*
% Change						*19,7%*	*19,7%*
Loans to customers							
Amounts at 30.06.2017	2.970.311	972.490	1.303.102	701.492	133.808	2.922	6.084.125
Amounts at 31.12.2016	*3.092.488*	*905.682*	*1.235.638*	*562.146*	*124.697*	*7.561*	*5.928.212*
% Change	*(4,0)%*	*7,4%*	*5,5%*	*24,8%*	*7,3%*	*(61,4)%*	*2,6%*
Due to banks							
Amounts at 30.06.2017	-	-	-	-	-	967.285	967.285
Amounts at 31.12.2016	-	-	-	-	-	*503.964*	*503.964*
% Change						*91,9%*	*91,9%*
Due to customers							
Amounts at 30.06.2017	-	-	-	-	-	5.291.594	5.291.594
Amounts at 31.12.2016	-	-	-	-	-	*5.045.136*	*5.045.136*
% Change						*4,9%*	*4,9%*

SEGMENT KPIs (in thousands of Euro)	TRADE RECEIV-ABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIV-ABLES	GOVERNANCE AND SERVICES
Turnover (1)						
Amounts at 30.06.2017	5.615.349	n.a.	n.a.	n.a.	n.a.	n.a.
Amounts at 30.06.2016	*4.992.969*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*12,5%*	-	-	-	-	-
Nominal amount of receivables managed						
Amounts at 30.06.2017	3.703.028	1.711.788	1.336.078	11.025.451	174.029	
Amounts at 31.12.2016	*3.880.835*	*1.739.175*	*1.273.933*	*9.660.196*	*172.145*	n.a.
% Change	*(4,6)%*	*(1,6)%*	*4,9%*	*14,1%*	*1,1%*	
Cost of credit quality						
Amounts at 30.06.2017	0,8%	(3,3)%	0,3%	n.a.	n.a.	n.a.
Amounts at 31.12.2016	0,8%	0,1%	1,5%	n.a.	n.a.	*n.a.*
Change	*(0,0)%*	*(3,4)%*	*(1,2)%*	-	-	-
Net bad loans/Loans to customers						
Amounts at 30.06.2017	1,2%	3,1%	0,5%	60,7%	0,0%	0,0%
Amounts at 31.12.2016	*1,0%*	*3,0%*	*0,5%*	*57,0%*	*0,0%*	*0,0%*
Change	*0,2%*	*0,1%*	*0,0%*	*3,7%*	-	-
Net bad loans/Equity						
Amounts at 30.06.2017	2,7%	2,3%	0,5%	33,2%	0,0%	0,0%
Amounts at 31.12.2016	*2,6%*	*2,2%*	*0,5%*	*26,3%*	*0,0%*	*0,0%*
Change	*0,1%*	*0,1%*	*0,0%*	*6,9%*	-	-
Coverage ratio on gross bad loans						
Amounts at 30.06.2017	87,7%	93,0%	89,2%	n.a.	n.a.	n.a.
Amounts at 31.12.2016	*88,5%*	*94,0%*	*92,2%*	*n.a.*	*n.a.*	*n.a.*
Change	*(0,8)%*	*(1,0)%*	*(3,0)%*	-	-	-
Non-performing exposures/Loans to customers						
Amounts at 30.06.2017	8,2%	19,5%	2,9%	99,9%	0,0%	0,0%
Amounts at 31.12.2016	*6,5%*	*19,0%*	*3,0%*	*100,0%*	*0,2%*	*0,0%*
Change	*1,7%*	*0,5%*	*(0,1)%*	*(0,1)%*	*(0,2)%*	-
Net non-performing loans/Equity						
Amounts at 30.06.2017	19,0%	14,8%	2,9%	54,6%	0,0%	0,0%
Amounts at 31.12.2016	*16,5%*	*14,1%*	*3,0%*	*46,1%*	*0,0%*	*0,0%*
Change	*2,5%*	*0,7%*	*(0,1)%*	*8,5%*	-	-
RWA(2) (3)						
Amounts at 30.06.2017	2.218.864	938.617	1.055.467	701.492	45.603	203.431
Amounts at 31.12.2016	*2.348.131*	*929.337*	*875.153*	*562.146*	*50.004*	*263.512*
% Change	*(5,5)%*	*1,0%*	*20,6%*	*24,8%*	*(8,8)%*	*(22,8)%*

(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) The Governance and Services sector's RWAs includes the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

Trade receivables

This segment includes the following business areas:

- Crediti Commerciali Italia and Crediti Commerciali International, dedicated to supporting the trade receivables of SMEs operating in the domestic market as well as companies growing abroad or based abroad and working with Italian customers; this area includes the operations carried out in Poland by the investee IFIS Finance's Sp. Z o.o.;
- Banca IFIS Pharma, supporting the trade receivables of local health services' suppliers and pharmacists.

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2017	30.06.2016 (1)	CHANGE	
			ABSOLUTE	%
Net interest income	43.385	39.551	3.834	9,7%
Net commission income	26.757	28.426	(1.669)	(5,9)%
Net banking income	**70.142**	**67.977**	**2.165**	**3,2%**
Net impairment losses on receivables	(11.660)	(11.575)	(85)	0,7%
Net profit (loss) from financial activities	**58.482**	**56.402**	**2.080**	**3,7%**

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2017	2nd Q. 2016 (1)	CHANGE	
			ABSOLUTE	%
Net interest income	22.799	20.230	2.569	12,7%
Net commission income	13.547	14.082	(535)	(3,8)%
Net banking income	**36.346**	34.312	**2.034**	**5,9%**
Net impairment losses on receivables	(7.260)	(6.262)	(998)	15,9%
Net profit (loss) from financial activities	**29.086**	**28.050**	**1.036**	**3,7%**

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

The net banking income of the Trade Receivables segment amounted to 70,1 million Euro, up 3,2% compared to 68 million Euro in the first half of 2016.

The increase compared to the previous year was largely attributable to Banca IFIS Pharma:

in terms of volumes, the segment generated 5,6 billion Euro in turnover (+12,5% from the first half of 2016), with 5.136 active corporate customers, up 5,3% compared to the prior-year period. The continued rise in average volumes did not cause a proportional increase in profitability because the average terms offered to customers declined from the first half of 2016 as a result of the current economic scenario, with market rates stuck at record lows and strong competitive pressures. Despite this largely external impact, the overall profitability of loans remained decent thanks to the focus on small customers with high marginal profitability.

The inclusion of the operations of the subsidiary "IFIS Factoring", not comprised in the previous year, contributed 124,1 million Euro worth of loans (of which 4,0 million Euro non-performing) to volumes and 1,3 million Euro to net banking income.

Net impairment losses on receivables amounted to 11,7 million Euro (11,6 million Euro in the prior-year period, 0,7%), and referred almost entirely to adjustments made by Banca IFIS. Their ratio relative to the increased average loans resulted in an improved credit risk cost, which fell from 79 bps at 31 December 2016 to 73 bps.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Bad loans	35.141	31.692	3.449	10,9%
Unlikely to pay	53.281	50.900	2.381	4,7%
Past due loans	155.860	118.420	37.440	31,6%
Total net non-performing exposures to customers	**244.282**	**201.012**	**43.270**	**21,5%**
Net performing loans	2.726.029	2.891.476	(165.447)	(5,7)%
Total on-balance-sheet loans to customers	**2.970.311**	**3.092.488**	**(122.177)**	**(4,0)%**

Loans to customers included in this segment are composed as follows: 27,8% are receivables due from the Public Administration (compared to 28,3% at 31 December 2016) and 72,2% due from the private sector (compared to 71,7% at 31 December 2016).

Net non-performing exposures in the Trade Receivables segment increased by 21,5% from 201,0 million Euro at the end of 2016 to 244,3 million Euro, largely because of rising past due exposures.

The segment's net bad-loan ratio was 1,2%, up slightly from December 2016 (1,0%), while the ratio of net unlikely to pay to loans rose to 1,8% from 1,6% at 31 December 2016. The segment's ratio of total net non-performing exposures to loans rose from 6,5% at the end of 2016 to 8,2% at 30 June 2017. Net non-performing exposures amounted to 19,0% as a percentage of Group equity, compared to 16,5% in the prior year. The overall coverage ratio of non-performing exposures declined from 57,7% at the end of 2016 to 54,1% at 30 June 2017.

NON-PERFORMING TRADE RECEIVABLES (in thousands of Euro)	BAD LOANS(1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL
BALANCE AT 31.06.2017				
Nominal amount of non-performing exposures	285.252	85.362	161.647	532.261
As a proportion of total gross receivables	*8,7%*	*2,6%*	*4,9%*	*16,3%*
Impairment losses	250.111	32.081	5.787	287.979
As a proportion of gross value	*87,7%*	*37,6%*	*3,6%*	*54,1%*
Carrying amount	35.141	53.281	155.860	244.282
As a proportion of net total receivables	*1,2%*	*1,8%*	*5,2%*	*8,2%*
BALANCE AT 31.12.2016				
Nominal amount of non-performing exposures	276.741	76.551	122.451	475.743
As a proportion of total gross receivables	*8,2%*	*2,3%*	*3,6%*	*14,1%*
Impairment losses	245.049	25.651	4.031	274.731
As a proportion of the nominal amount	*88,5%*	*33,5%*	*3,3%*	*57,7%*
Carrying amount	31.692	50.900	118.420	201.012
As a proportion of net total receivables	*1,0%*	*1,6%*	*3,8%*	*6,5%*

(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 35,1 million Euro, +10,9% from the end of 2016; the coverage ratio was 87,7%, slightly down from 31 December 2016. **Unlikely to pay** rose by 4,7% to 53,3 million Euro.

Net non-performing past due exposures totalled 155,9 million Euro, compared with 118,4 million Euro in December 2016 (+31,6%). In particular, the rise in past due exposures was due to the natural increase in such exposures to Italy's Public Administration as well as to new private-sector past due positions concerning individual long-standing clients that had never been classified within this category.

KPIs	30.06.2017	30.06.2016	CHANGE	
			ABSOLUTE	%
Turnover	5.615.349	4.992.969	622.380	12,5%
Net banking income/ Turnover	1,2%	1,4%	(0,2)%	-

KPI y/y	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Cost of credit quality	0,8%	0,8%	(0,0)%	-
Net bad loans/Loans to customers	1,2%	1,0%	0,2%	-
Net bad loans/Equity	2,7%	2,6%	0,1%	-
Coverage ratio on gross bad loans	87,7%	88,5%	(0,8)%	-
Non-performing exposures/Loans to customers	8,2%	6,5%	1,7%	-
Net non-performing loans/Equity	19,0%	16,5%	2,5%	-
Total RWA per segment	2.218.864	2.348.131	(129.267)	(5,5)%

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 Group.

TOTAL RECEIVABLES (in thousands of Euro)	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
With recourse	2.115.709	2.150.929	(35.220)	(1,6)%
of which due from the Public Administration	*339.488*	*332.735*	*6.753*	*2,0%*
Without recourse	372.841	464.957	(92.116)	(19,8)%
of which due from the Public Administration	*8.090*	*8.949*	*(859)*	*(9,6)%*
Outright purchases	1.214.478	1.264.950	(50.472)	(4,0)%
of which due from the Public Administration	*733.316*	*812.384*	*(79.068)*	*(9,7)%*
Total receivables	**3.703.028**	**3.880.836**	**(177.808)**	**(4,6)%**
of which due from the Public Administration	***1.080.894***	***1.154.068***	***(73.174)***	***(6,3)%***

Corporate Banking

This segment includes the following business areas:

- Medium/long-term financing, supporting the company's operating cycle through services ranging from working capital financing to the support for productive investments;
- Structured Finance, supporting companies and private equity funds in the legal, organisational and financial arrangement of bilateral or syndicated loans;
- Workout & Recovery, which manages the UTPs and Bad Loans of all the portfolios of the sector's other two business areas, as well as the runoff of project finance, shipping and real estate portfolios.

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2017	30.06.2016	CHANGE	
			ABSOLUTE	%
Net interest income	58.817	-	58.817	n.a.
Net commission income	4.082	-	4.082	n.a.
Dividends and trading	2.245	-	2.245	n.a.
Net banking income	**65.144**	-	**65.144**	n.a.
Net impairment losses/reversal on receivables, AFS and other financial assets	31.780	-	31.780	n.a.
Net profit (loss) from financial activities	**96.924**	-	**96.924**	n.a.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2017	2nd Q. 2016	CHANGE	
			ABSOLUTE	%
Net interest income	37.362	-	37.362	n.a.
Net commission income	1.962	-	1.962	n.a.
Dividends and trading	2.431	-	2.431	n.a.
Net banking income	**41.755**	-	**41.755**	n.a.
Net impairment losses/reversal on receivables, AFS and other financial assets	27.349	-	27.349	n.a.
Net profit (loss) from financial activities	**69.104**	-	**69.104**	n.a.

The net banking income of the Corporate Banking segment amounted to 65,1 million Euro and started reflecting the positive results of refocusing on growing the medium/long-term financing and Structured Finance business areas.

This amount included the 53,7 million Euro positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiary Interbanca S.p.A. over time. This was influenced by the pre-settlements largely related to the Structured Finance portfolio as well as the positions allocated to Workout & Recovery, which resulted from the debt collection and restructuring actions taken in the first half of 2017.

The positive 31,8 million Euro balance of net impairment losses/reversal arose from the reversal of impairment losses as a result of both debt collection and successful restructuring transactions. These reversal give a positive value of credit quality cost.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Bad loans	29.877	27.260	2.617	9,6%
Unlikely to pay	158.584	142.741	15.843	11,1%
Past due loans	928	1.669	(741)	(44,4)%
Total net non-performing exposures to customers	**189.389**	**171.670**	**17.719**	**10,3%**
Net performing loans	783.101	734.012	49.089	6,7%
Total on-balance-sheet loans to customers	**972.490**	**905.682**	**66.808**	**7,4%**

The overall coverage ratio of non-performing and bad loans amounted to 73,1% and 93,0%, respectively. The ratios were slightly down from 31 December 2016 largely because of the settlement of some major positions that had seen material adjustments, as a result of both debt collection and restructuring operations, classified as bad loans and unlikely to pay.

NON-PERFORMING CORPORATE BANKING LOANS (in thousands of Euro)	BAD LOANS[(1)]	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL
BALANCE AT 30.06.2017				
Nominal amount of non-performing exposures	427.098	275.292	937	703.327
As a proportion of total gross receivables	*28,4%*	*18,3%*	*0,1%*	*46,7%*
Impairment losses	397.221	116.708	9	513.938
As a proportion of gross value	*93,0%*	*42,4%*	*1,0%*	*73,1%*
Carrying amount	29.877	158.584	928	189.389
As a proportion of net total receivables	*3,1%*	*16,3%*	*0,1%*	*19,5%*
BALANCE AT 31.12.2016				
Nominal amount of non-performing exposures	456.184	265.412	1.685	723.281
As a proportion of total gross receivables	*30,9%*	*18,0%*	*0,1%*	*49,0%*
Impairment losses	428.924	122.671	16	551.611
As a proportion of the nominal amount	*94,0%*	*46,2%*	*0,9%*	*76,3%*
Carrying amount	27.260	142.741	1.669	171.670
As a proportion of net total receivables	*3,0%*	*15,8%*	*0,2%*	*19,0%*

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

KPIs	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	1.711.788	1.739.175	(27.387)	(1,6)%
Cost of credit quality	(3,3)%	0,1%	(3,4)%	-
Net bad loans/Loans to customers	3,1%	3,0%	0,1%	-
Net bad loans/Equity	2,3%	2,2%	0,1%	-
Coverage ratio on gross bad loans	93,0%	94,0%	(1,0)%	-
Non-performing exposures/Loans to customers	19,5%	19,0%	0,5%	-
Net non-performing loans/Equity	14,8%	14,1%	0,7%	-
Total RWA per segment	938.617	929.337	9.280	1,0%

Leasing

This sector provides finance and operating leases to small businesses and SMEs.

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2017	30.06.2016	CHANGE	
			ABSOLUTE	%
Net interest income	22.961	-	22.961	n.a.
Net commission income	6.029	-	6.029	n.a.
Dividends and trading	(5)	-	(5)	n.a.
Net banking income	**28.985**	**-**	**28.985**	**n.a.**
Net impairment losses on loans and receivables	(1.075)	-	(1.075)	n.a.
Net profit (loss) from financial activities	**27.910**	**-**	**27.910**	**n.a.**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2017	2nd Q. 2016	CHANGE	
			ABSOLUTE	%
Net interest income	10.995	-	10.995	n.a.
Net commission income	5.486	-	5.486	n.a.
Dividends and trading	(3)	-	(3)	n.a.
Net banking income	**16.478**	**-**	**16.478**	**n.a.**
Net impairment losses on receivables, AFS and other financial assets	(972)	-	(972)	n.a.
Net profit (loss) from financial activities	**15.506**	**-**	**15.506**	**n.a.**

The Leasing segment's net banking income totalled 29,0 million Euro thanks to the growth in the number of customers as well as loans, contributing to the rise in market share, and included the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiary over time, which amounted to 4,1 million Euro. Specifically, finance and operating leases contributed 20,8 and 8,2 million Euro, respectively, to net banking income.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Bad loans	6.603	6.177	426	6,9%
Unlikely to pay	14.555	13.622	933	6,8%
Past due loans	16.689	17.351	(662)	(3,8)%
Total net non-performing exposures to customers	**37.847**	**37.150**	**697**	**1,9%**
Net performing loans	1.265.255	1.198.488	66.767	5,6%
Total on-balance-sheet loans to customers	**1.303.102**	**1.235.638**	**67.464**	**5,5%**

The coverage ratio of non-performing loans declined from 77,7% at 31 December 2016 to 71,3% at 30 June 2017, specifically because a number of loans were written off during the period.

NON-PERFORMING LEASING LOANS (in thousands of Euro)	BAD LOANS(1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL
BALANCE AT 30.06.2017				
Nominal amount of non-performing exposures	60.927	39.782	30.970	131.679
As a proportion of total gross receivables	*4,3%*	*2,8%*	*2,2%*	*9,3%*
Impairment losses	54.324	25.227	14.281	93.832
As a proportion of gross value	*89,2%*	*63,4%*	*46,1%*	*71,3%*
Carrying amount	6.603	14.555	16.689	37.847
As a proportion of net total receivables	*0,5%*	*1,1%*	*1,3%*	*2,9%*
BALANCE AT 31.12.2016				
Nominal amount of non-performing exposures	78.997	41.440	46.450	166.887
As a proportion of total gross receivables	*5,7%*	*3,0%*	*3,4%*	*12,1%*
Impairment losses	72.820	27.818	29.099	129.737
As a proportion of the nominal amount	*92,2%*	*67,1%*	*62,6%*	*77,7%*
Carrying amount	6.177	13.622	17.351	37.150
As a proportion of net total receivables	*0,5%*	*1,1%*	*1,4%*	*3,0%*

KPI	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	1.336.078	1.273.933	62.145	4,9%
Cost of credit quality	0,3%	1,5%	(1,2)%	-
Net bad loans/Loans to customers	0,5%	0,5%	0,0%	-
Net bad loans/Equity	0,5%	0,5%	0,0%	-
Coverage ratio on gross bad loans	89,2%	92,2%	(3,0)%	-
Non-performing exposures/Loans to customers	2,9%	3,0%	(0,1)%	-
Net non-performing loans/Equity	2,9%	3,0%	(0,1)%	-
Total RWA per segment	1.055.467	875.153	180.314	20,6%

NPL Area

This is the Banca IFIS Group's business area dedicated to non-recourse factoring and managing mostly unsecured distressed retail loans.

The business is closely associated with converting 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.

In addition, net profit from financial activities included 17,6 million Euro in gains on the sale of receivables arising from the disposal of two portfolios.

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2017	30.06.2016(1)	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	27.096	13.670	13.426	98,2%
Other interest income	58.944	61.965	(3.021)	(4,9)%
Funding costs	(8.642)	(5.290)	(3.352)	63,4%
Net interest income	**77.398**	**70.345**	**7.053**	10,0%
Net commission income	(1.301)	(1.176)	(125)	10,6%
Gain on sale of receivables	17.625	5.694	11.931	209,5%
Net banking income	**93.722**	**74.863**	**18.859**	25,2%
Net impairment losses/reversals on receivables	(14.765)	(16.454)	1.689	(10,3)%
Net profit (loss) from financial activities	**78.957**	**58.409**	**20.548**	35,2%

(1) To facilitate the comparison of the operating results of the two reference periods, the 2016 results have been restated according to the 2017 funding approach.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2017	2nd Q. 2016 (1)	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	13.971	8.695	5.276	60,7%
Other interest income	28.447	36.568	(8.121)	(22,2)%
Funding costs	(4.601)	(2.853)	(1.748)	61,3%
Net interest income	**37.817**	**42.410**	**(4.593)**	**(10,8)%**
Net commission income	(472)	(625)	153	(24,5)%
Gain on sale of receivables	17.625	5.694	11.931	209,5%
Net banking income	**54.970**	**47.479**	**7.491**	**15,8%**
Net impairment losses/reversals on receivables	(6.517)	(13.678)	7.161	(52,4)%
Net profit (loss) from financial activities	**48.453**	**33.801**	**14.652**	**43,3%**

(1) To facilitate the comparison of the operating results of the two reference periods, the 2016 results have been restated according to the 2017 funding approach.

Concerning net impairment losses/reversals, totalling 14,8 million Euro, 554 thousand Euro referred to the write-off of a number of positions for which the debtor was deceased and no heirs were found, and 510 thousand Euro to some positions for which the statute of limitations had expired. The item also included 17,6 million Euro in impairment losses referring to positions for which the net present value of expected cash flows had fallen below the purchase price, partly offset by 5 million Euro in interest accrued.

In addition, there were 4 million Euro in reversals of impairment losses consisting in additional interest income recognised under value adjustments up to the amount of the previously recognised impairment loss, as the reasons for impairment no longer apply.

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/reversal on receivables. However, the overall net profit from financial activities is more relevant to understanding the segment's performance.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Bad loans	425.659	320.612	105.047	32,8%
Unlikely to pay	275.455	241.518	33.937	14,1%
Past due loans	11	-	11	n.a.
Total net non-performing exposures to customers	**701.125**	**562.130**	**138.995**	**24,7%**
Net performing loans	367	*16*	351	2193,8%
Total on-balance-sheet loans to customers	**701.492**	**562.146**	**139.346**	**24,8%**

KPI	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	11.025.451	9.660.196	1.365.255	14,1%
Total RWA per segment	701.492	562.146	139.346	24,8%

NPL PERFORMANCE	(in thousands of Euro)
Receivables portfolio at 31.12.2016	**562.146**
Purchases	132.752
Sales	(28.324)
Gains on sales	17.625
Interest income from amortised cost	27.095
Other components of net interest income from change in cash flow	58.944
Impairment losses/reversals from change in cash flow	(14.765)
Collections	(53.981)
Receivables portfolio at 30.06.2017	**701.492**

The segment's receivables included 25,5 million Euro (carrying amount) in loans involved in a sale completed at the end of the period, when the Bank accepted the buyer's binding offer. Concerning this transaction, since at 30 June 2017 it had not yet been finalised, based on the binding offer accepted by the Bank, we reported the relevant impact without derecognising the loans: instead, we recognised a receivable equal to the price and a payable equal to the value of the receivables being sold. The positive difference was recognised in profit or loss under gains on the sale of receivables.

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

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

During the period, funding declined slightly compared to 2016, as it fell to 136.4 million Euro from 153.8 million Euro in the previous year. Collections made during the period amounted to 54.0 million, compared to 34.8 million in the first half of 2016.

At the end of the period, the portfolio managed by the NPL Area included 1.447.090 positions, for a par value of 11 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.

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2017	30.06.2016 (1)	CHANGE	
			ABSOLUTE	%
Net interest income	8.802	7.705	1.097	14,2%
Net commission income	(8)	(5)	(3)	60,0%
Net banking income	**8.794**	**7.700**	**1.094**	14,2%
Net impairment losses/reversals on receivables	(146)	(187)	41	(21,9)%
Net profit (loss) from financial activities	**8.648**	**7.513**	**1.135**	15,1%

(1) To facilitate the comparison of the operating results of the two reference periods, the 2016 results have been restated according to the 2017 funding approach.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2017	2nd Q. 2016 (1)	CHANGE	
			ABSOLUTE	%
Net interest income	5.887	3.722	2.165	58,2%
Net commission income	(6)	(5)	(1)	20,0%
Net banking income	**5.881**	**3.717**	**2.164**	**58,2%**
Net impairment losses/reversals on receivables	(74)	(187)	113	(60,4)%
Net profit (loss) from financial activities	**5.807**	**3.530**	**2.277**	**64,5%**

(1) To facilitate the comparison of the operating results of the two reference periods, the 2016 results have been restated according to the 2017 funding approach.

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 8,8 million Euro, up 14% from 7,7 million Euro at 30 June 2016.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Bad loans	-	5	(5)	(100,0)%
Unlikely to pay	-	194	(194)	(100,0)%
Past due loans	-	-	-	-
Total net non-performing exposures to customers	**-**	**199**	**(199)**	**(100,0)%**
Net performing loans	133.808	124.498	9.310	7,5%
Total on-balance-sheet loans to customers	**133.808**	**124.697**	**9.111**	**7,3%**

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

KPI	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	174.029	172.145	1.884	1,1%
Total RWA per segment	45.603	50.004	(4.401)	(8,8)%

TAX RECEIVABLES PERFORMANCE	(in thousands of Euro)
Receivables portfolio at 31.12.2016	**124.697**
Purchases	32.359
Interest income from amortised cost	4.327
Other components of net interest income from change in cash flow	5.566
Impairment losses/reversals from change in cash flow	(146)
Collections	(32.995)
Receivables portfolio at 30.06.2017	**133.808**

During the period, the sector collected 33 million Euro and purchased 32,4 million Euro worth of receivables.
With these purchases, the segment's portfolio comprises 1.462 positions, for a par value of 174,0 million Euro and a value at amortised cost of 133,8 million Euro at 30 June 2017.

Governance and services

Governance and Services provides the segments operating in the Bank's core businesses with the financial resources and services necessary to perform their respective 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. The data also include the entries to eliminate Intercompany transactions.

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2017	30.06.2016(1)	CHANGE	
			ABSOLUTE	%
Net interest income	1.762	11.954	(10.192)	(85,3)%
Net commission income	(1.196)	(280)	(916)	327,1%
Dividends and trading	(2.557)	5.163	(7.720)	(149,5)%
Net banking income	**(1.991)**	**16.837**	**(18.828)**	(111,8)%
Net impairment losses/reversal on receivables and other financial assets	(429)	(3.999)	3.570	(89,3)%
Net profit (loss) from financial activities	**(2.420)**	**12.838**	**(15.258)**	(118,9)%

(1) To facilitate the comparison of the operating results of the two reference periods, the 2016 results have been restated according to the 2017 funding approach.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2017	2nd Q. 2016 (1)	CHANGE	
			ABSOLUTE	%
Net interest income	309	2.710	(2.401)	(88,6)%
Net commission income	(373)	(135)	(238)	176,3%
Dividends and trading	(1.082)	(86)	(996)	1.158,1%
Net banking income	**(1.146)**	**2.489**	**(3.635)**	**(146,0)%**
Net impairment losses/reversal on receivables and other financial assets	(429)	(1.047)	618	(59,0)%
Net profit (loss) from financial activities	**(1.575)**	**1.442**	**(3.017)**	**(209,2)%**

(1) To facilitate the comparison of the operating results of the two reference periods, the 2016 results have been restated according to the 2017 funding approach.

The segment's **net banking income** was negative 2,0 million Euro, sharply down from the first half of 2016 largely because of the lower overall contribution from the securities portfolio. This generated 11,9 million Euro in interest income in the first half of 2016, compared to 0,9 million Euro in 2017, because of the steady decline in investments in securities. In addition, in the prior-year period there were also 5,5 million Euro in gains on the sale of part of the portfolio.

The Group's main source of funding is the Rendimax savings account, which gave rise to 35,2 million Euro in interest expense in the first half of 2017 (funding totalled 4,9 billion Euro in June 2017 compared to 3,5 billion Euro in the first half of 2016, and its cost rose from 1,28% in the prior-year period to 1,51%). The steady increase over the previous year was the result of promotional campaigns aiming to boost funding levels for the acquisition of the former GE Capital Interbanca Group. The remaining main source of funding, whose actual cost of approximately 4,8 million Euro is borne by Governance and Services, derives from the securitisations of factoring receivables.

As previously mentioned, in 2017 the Group had to revise the method to calculate the internal transfer rates to account for the changes in funding conditions, therefore also the 2016 segment results have been restated according to the new 2017 funding approach.

This allowed to charge virtually the entire funding cost for the first half of 2017 to "Trade Receivables", "Corporate Banking", "Leasing", the "NPL Area", and "Tax Receivables", while the chargeback to the core business segments in the restated 2016 results of "Governance and Services" exceeded the actual funding cost for the period by approximately 5 million Euro.

Net impairment losses on available for sale financial assets referred to impairment losses recognised on unlisted equity instruments that were found to be impaired.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Available for sale financial assets	639.119	374.229	264.890	70,8%
Due from banks	1.667.462	1.393.358	274.104	19,7%
Loans to customers	2.922	7.561	(4.639)	(61,4)%
Due to banks	967.285	503.964	463.321	91,9%
Due to customers	5.291.594	5.045.136	246.458	4,9%

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Bad loans	-	-	-	-
Unlikely to pay	-	-	-	-
Past due loans	-	-	-	-
Total net non-performing exposures to customers	-	-	-	-
Net performing loans	2.922	7.561	(4.639)	(61,4)%
Total on-balance-sheet loans to customers	**2.922**	**7.561**	**(4.639)**	**(61,4)%**

KPIs	30.06.2017	31.12.2016	CHANGE	
			ABSOLUTE	%
Total RWA per segment (1)	203.431	263.512	(60.081)	(22,8)%

(1) The Governance and Services sector's RWAs includes the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

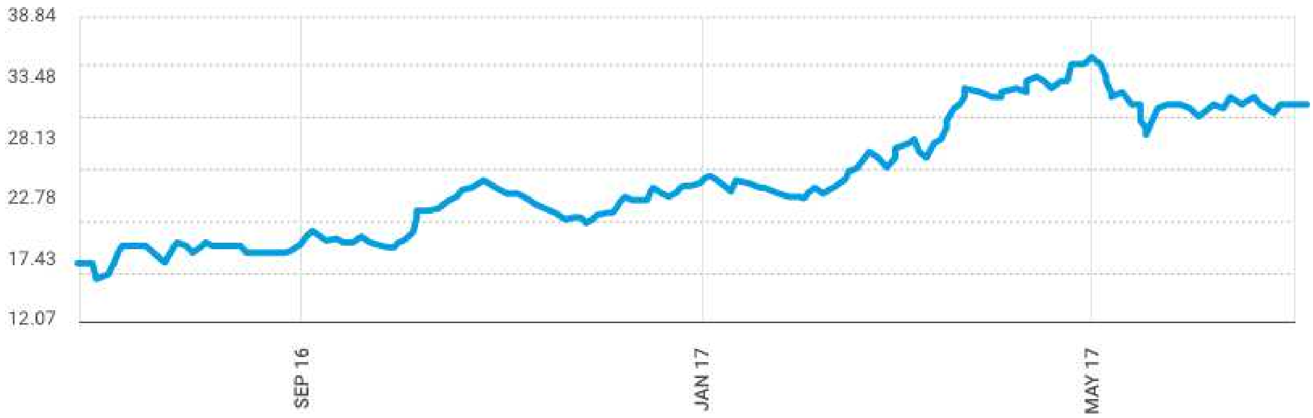
Banca IFIS shares

The share price

As from 29 November 2004, Banca IFIS S.p.A.'s ordinary shares have been listed on 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 market for unlisted securities) of Borsa Italiana. The following table shows the share prices at the end of the year. As from 18 June 2012, Banca IFIS joined the Ftse Italia Mid Cap index.

Official share price	30.06. 2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Share price at period-end	35,57	26,00	28,83	13,69	12,95

SHARE PRICE AT 06.30.2017



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	30.06.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Share price at period-end	35,57	26,00	28,83	13,69	12,95
Consolidated Equity per share	24,02	22,81	10,81	8,27	7,21
Price/book value	**1,48**	**1,14**	**2,67**	**1,65**	**1,80**

Outstanding shares	30.06.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Number of shares outstanding at period end (in thousands)(1)	53.431	53.431	53.072	52.924	52.728

(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)	30.06.2017	30.06.2016
Consolidated profit for the period (in thousands of Euro)	103.657	39.120
Consolidated earnings per share	**1,94**	**0,74**

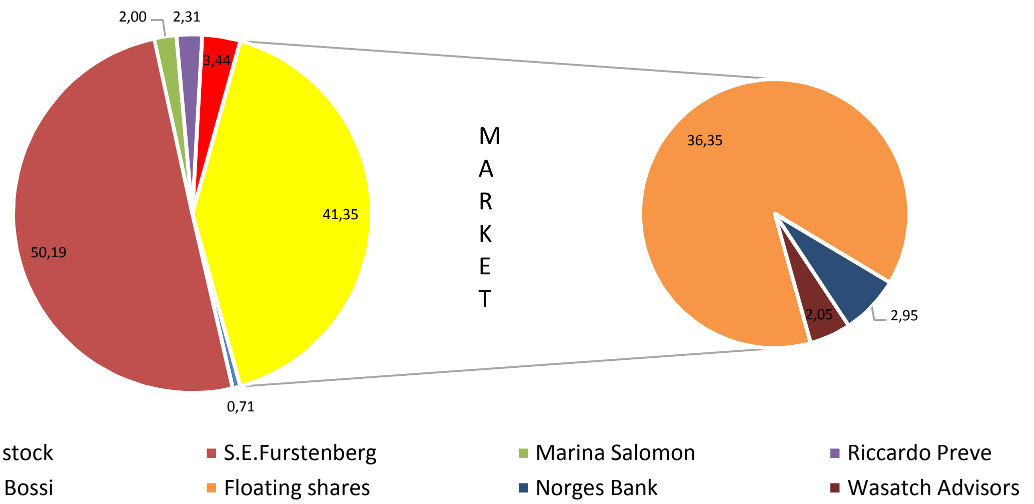
Earnings per share and diluted earnings per share	30.06.2017	30.06.2016
Consolidated profit for the period (in thousands of Euro)	**103.657**	**39.120**
Average number of outstanding shares	53.153.178	53.076.756
Average number of potentially dilutive shares	3.624	4.340
Average number of diluted shares	53.149.554	53.072.416
Consolidated earnings per share for the period (Units of Euro)	**1,95**	**0,74**
Consolidated diluted earnings per share for the period (Units of Euro)	**1,95**	**0,74**

Price/earnings ratio (P/E)	30.06.2017	2016	2015	2014	2013
Share price at period-end	35,57	26,00	28,83	13,69	12,95
Consolidated earnings per share	1,94	12,94	3,05	1,81	1,61
P/E	**18,3**	**2,0**	**9,4**	**7,6**	**8,0**

Shareholders

The share capital of the Parent Company at 30 June 2017 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:



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

Here below is a summary of the most significant events.

Senior bond issue

On 18 May 2017, Banca IFIS successfully completed its first senior bond issue, which amounted to 300 million Euro and was reserved for qualified investors.

This is a 3-year fixed-rate unsecured senior bond issue, and the bonds are to be listed on the regulated EU market of the Irish Stock Exchange as well as ExtraMot Pro. The Company and the bonds are unrated.

The issue price was 99,711%, and the 1,75% coupon rate is payable on an annual basis. The settlement date was 26 May 2017 and the maturity date is 26 May 2020.

The issue attracted bids from approximately 70 institutional investors across the world, a high proportion of which were Italian, and several bids came from Continental Europe and the UK. The bonds were placed with investors such as asset managers, banks, private banks, and insurance companies.

Significant subsequent events

The final acquisition cost for the former GE Capital Interbanca Group was determined

As mentioned in the financial statements at 31 December 2016 regarding the acquisition of the former GE Capital Interbanca Group, the cost had been provisionally estimated at 119,2 million Euro (gross of potential further adjustments to the initial price of 160 million Euro) in accordance with the schedule contractually agreed with the seller.

In July 2017, the Group and the seller reached an agreement on the final price adjustment, bringing the acquisition cost to 109,4 million Euro.

Pursuant to IFRS 3, the accounting impact of the final representation of the acquisition in light of the above agreement reached in July 2017 will be recognised in the third quarter of 2017.

Mergers of IFIS Factoring and Interbanca approved

On 10 July 2017, the Board of Directors of Banca IFIS approved the merger of IFIS Factoring S.r.l. and Interbanca S.p.A. into Banca IFIS S.p.A.

The Board of Directors of IFIS Factoring S.r.l. approved the proposed merger of IFIS Factoring on 10 July 2017. The merger is effective from 1 August 2017.

The proposed merger of Interbanca S.p.A. will be approved by the company's Extraordinary General Meeting, scheduled for the first week of September 2017.

BANCA IFIS

Merger of IFIS Factoring into Banca IFIS finalised

The deed of merger of IFIS Factoring S.r.l. into Banca IFIS S.p.A. effective 1 August 2017 was finalised on 27 July 2017. The merger, which comes one year after the finalisation of the agreements concerning the acquisition of the Interbanca Group, marks the end of the first step in the process to simplify and streamline the acquired group, as announced at the closing of the transaction.

The next step will be completing the merger of Interbanca S.p.A. into Banca Ifis S.p.A., scheduled for October 2017. IFIS Leasing S.p.A. will be merged into Banca IFIS during 2018.

5 billion Euro EMTN Programme approved

On 20 July 2017, the Board of Directors of Banca IFIS approved to set up in the coming months the "EMTN – European Medium Term Notes Programme", with an overall issue limit of 5 billion Euro.

The EMTN Programme represents a flexible instrument that will allow Banca IFIS to promptly take advantage of favourable market conditions for bond issues as well as issue different classes of debt securities.

The EMTN Programme will last one year and, as usual, it can be extended for another year. The individual issues will be reserved for institutional investors in Italy and abroad except for the United States of America, in accordance with *Regulation S of the United Securities Act* of 1933.

No significant events occurred between the end of the reporting period and the approval of the Consolidated Interim Financial Report by the Board of Directors.

Outlook

The moderate improvement apparently under way in the global economic scenario is benefiting also Italy's prospects. The lack of significant external or political shocks reduces uncertainty, and therefore allows to look at the macroeconomic outlook for Europe—and specifically Italy—with renewed optimism. However, there are still considerable risk factors—chief among them geopolitical ones, and their potential consequences could rapidly upend the current situation. This is especially true for Italy, which is the most exposed European country. There are also significant risks associated with domestic political stability as well as the trends in the real economy and financial markets—and these are particularly delicate for a country such as Italy, which has a heavy debt burden.

The growth forecasts for the next few years—which were recently revised upwards—cannot thus be expected to be completely accurate, and there is considerable uncertainty about the impact that the permanent election cycle as well as the new international scenario and Britain's exit from the EU could have on economic indicators.

In the reference European markets, the cost of money remains at record lows—although it is expected to rise moderately in the not-so-distant future—because of two factors: the ECB's monetary policy and still limited price increases. Core inflation remains largely unchanged because of the relatively modest use of the factors of production as well as other shifts—chief among them, the growing **digitisation of the economy**, which is driving down the cost of goods while disrupting traditional economic sectors. Monetary policy measures—not welcomed by everyone in Europe—should bring inflation near the central bank's target rates, even though a core inflation of just below 2% (excluding oil prices) remains a distant prospect in Europe.

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—especially in Italy.

Against this backdrop, the Banca IFIS Group'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—also with the new scope following the acquisition of the former Interbanca Group. 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.

In the second half of 2017, the Banca IFIS Group will continue its restructuring following the acquisition of the former Interbanca Group. Following the merger of IFIS Factoring S.r.l. into Banca IFIS, also Interbanca S.p.A. will be merged into the latter in the fourth quarter of 2017. Then, consistently with the intention to streamline the Group's organisational structure, IFIS Leasing S.r.l. will be merged into the Parent Company during 2018.

In commercial terms, the former Interbanca Group's operations are proceeding as planned. The **leasing** segment—which includes both finance and operating leases—continues boosting its profitability by developing new business opportunities in a market scenario where some areas are facing margin pressures. To mitigate them, the segment is undertaking targeted collection actions. The expectations are for a steady increase in volumes and a strong overall profitability. As for **corporate banking**—the segment in which Interbanca S.p.A. operates through three different business units dedicated to medium-term financing to businesses; structured finance; and managing the non-performing and run-off portfolio—it will continue restoring and maximising the profitability of impaired positions that are no longer of interest as well as looking for good opportunities to make medium-term loans to small and medium businesses, boosting profitability while carefully monitoring risk.

Concerning the scope of the former Interbanca Group—which will be mostly merged into Banca IFIS by the end of this year, and will therefore not report its results separately—we expect a steady increase in profitability, and the first half of 2017 has already seen a return to break-even after several years of structural losses.

The Bank has been overhauling, and relentlessly continues to overhaul, its distribution network, increasing its headcount and reimagining it to better meet the needs of tomorrow. The merger with the former Interbanca Group strengthens our ability to engage with the market as well as leads to an immediate and significant increase in the number of corporate customers, which will be gradually targeted by cross-selling initiatives. We expect to increase the number of corporate customers and loans during the year, and throughout 2017 we will see whether these measures can boost overall profitability based on market trends.

At the macroeconomic level, the scenario for **short-term business lending** sees on the one hand a large amount of liquidity available, which puts downward pressure on lending interest rates; on the other hand, several institutions are reluctant to increase their exposure to avoid repercussions in terms of regulatory capital absorption. However, margins are limited across the board, and especially on loans to customers with a higher credit standing. If the recovery drives up demand for credit in the face of supply constraints, we can reasonably expect this situation to gradually reverse, at least in the medium term.

The Group will therefore continue focusing on smaller entities: given the need to pay close attention during the lending process to mitigate risks by using factoring and leasing, the profitability of this segment currently 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 remain stable and gradually improve in the near future; in any case, the Bank will continue focusing on companies with less resources. This approach, which we have been pursuing for several quarters now, will increase the number of smaller-sized customers—and could compensate for the pressure on margins.

In the **non-performing loan** sector (*NPL Area*), 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 it has done recently, the Bank will consider trading in the secondary market. Specifically, it may also continue selling 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. Banca IFIS will relentlessly improve how it manages and collects debts using new techniques, including legal actions involving properties and against debtors with lower amounts outstanding; in addition, it will further strengthen phone relationships with customers, as these involve lower operating costs and are considerably more effective. The Bank will continue considering targeted actions in the secured sector, which shares some similarities with what the Bank is already doing, as well as the retail business segment. We expect this segment, which is proving capable of generating steady returns, to make an additional significant contribution to overall profitability.

As for **tax receivables**, the Bank will maintain 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.

As for the profitability of the **Governance and Services** sector, funding retail costs are expected to remain stable or decline slightly in the face of the current and projected moderate increase in assets under management. The Bank aims to further develop retail funding, as it considers it to be an excellent source of funding. The extremely low interest rates in the funding market remain available to banks that are not first-tier or rated investment grade by ratings agencies 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. That said, following the transaction successfully finalised in May, we will operate cautiously in the wholesale market as part of the EMTN programme that the Bank is currently setting up. In addition, the Group continues monetising its assets through the securitisations finalised in late 2016, which, based on the quality of the underlying assets, will be financed on the Eurosystem (leasing assets) or the wholesale market (factoring assets)—as well as through procedures such as ABACO (the Bank of Italy's collateral management system).

As for the government bond portfolio, the bank is not planning any significant changes.

As usual, the Bank will thoroughly examine inorganic growth opportunities in sectors of interest should these be consistent with its strategy, present highly controllable risks—also considering the management structure—and be technologically easy to integrate as well as economically convenient.

* * *

In light of the above, the Group can reasonably expect to remain profitable also in the second half of 2017.

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.

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 Italian 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 2017 Banca IFIS recognised net receivables due from the parent company amounting to 31,5 million Euro.

As a result of the new organisational structure, the current tax consolidation scope of La Scogliera S.p.A. will be extended to include the companies acquired from the former GE Capital Interbanca Group starting from this year.

Transactions on treasury shares

At 31 December 2016, the bank held 380.151 treasury shares recognised at a market value of 3,2 million Euro and a par value of 380.151 Euro.

During the first half of 2017, Banca IFIS did not trade in treasury shares.

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 10 November 2016.

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

During the first half of 2017, no significant transactions with related parties were undertaken.

For information on individual related-party transactions, please refer to the Notes to this Consolidated Interim Financial Report.

Atypical or unusual transactions

During the first half of 2017, 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

During the period, the Group launched a number of technological innovation projects that could give it a competitive advantage in the future.

Venice - Mestre, 8 August 2017

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Giovanni Bossi

Condensed consolidated interim financial statements at 30 June 2017

Consolidated Financial Statements

Consolidated Statement of Financial Position

	Assets (in thousands of Euro)	30.06.2017	31.12.2016
10.	Cash and cash equivalents	23	34
20.	Financial assets held for trading	47.547	47.393
40.	Available for sale financial assets	639.119	374.229
60.	Due from banks	1.667.462	1.393.358
70.	Loans to customers	6.084.125	5.928.212
120.	Property, plant and equipment	109.566	110.348
130.	Intangible assets	18.003	14.981
	of which:		
	- goodwill	*826*	*799*
140.	Tax assets	545.724	581.016
	a) current	81.601	87.836
	b) deferred	464.123	493.180
	of which as per Italian law 214/2011	*183.067*	*191.417*
160.	Other assets	332.530	249.574
	Total assets	**9.444.099**	**8.699.145**

	Liabilities and equity (in thousands of Euro)	30.06.2017	31.12.2016
10.	Due to banks	967.285	503.964
20.	Due to customers	5.291.594	5.045.136
30	Debt securities issued	1.352.375	1.488.556
40.	Financial liabilities held for trading	41.711	48.478
80.	Tax liabilities	34.912	24.925
	a) current	9.549	491
	b) deferred	25.363	24.434
100.	Other liabilities	446.049	337.325
110.	Post-employment benefits	7.318	7.660
120.	Provisions for risks and charges	19.563	24.318
	b) other provisions	19.563	24.318
140.	Valuation reserves	(1.002)	(5.445)
170.	Reserves	1.028.184	383.835
180.	Share premiums	101.776	101.776
190.	Share capital	53.811	53.811
200.	Treasury shares (-)	(3.187)	(3.187)
210	Non-controlling interests (+ / -)	53	48
220.	Profit for the period	103.657	687.945
	Total liabilities and equity	**9.444.099**	**8.699.145**

Consolidated Income Statement

	Items (in thousands of Euro)	30.06.2017	30.06.2016
10.	Interest receivable and similar income	262.619	151.465
20.	Interest due and similar expenses	(49.495)	(21.909)
30.	**Net interest income**	**213.124**	**129.556**
40.	Commission income	41.241	29.547
50.	Commission expense	(6.877)	(2.583)
60.	**Net commission income**	**34.364**	**26.964**
70	Dividends and similar income	40	-
80.	Net result from trading	(309)	(332)
100.	Gain (loss) on sale or buyback of:	17.577	11.189
	a) loans and receivables	17.625	5.694
	b) available for sale financial assets	(48)	5.495
120.	**Net banking income**	**264.796**	**167.377**
130.	Net impairment losses/reversal on	3.705	(32.215)
	a) loans and receivables	1.207	(28.216)
	b) available for sale financial assets	(675)	(3.999)
	d) other financial transactions	3.173	-
140.	**Net profit (loss) from financial activities**	**268.501**	**135.162**
180.	Administrative expenses:	(119.336)	(74.067)
	a) personnel expenses	(49.484)	(27.595)
	b) other administrative expenses	(69.852)	(46.472)
190.	Net allocations to provisions for risks and charges	(1.897)	(1.633)
200.	Net impairment losses/Reversal on property, plant and equipment	(2.048)	(846)
210.	Net impairment losses/Reversal on intangible assets	(3.894)	(1.161)
220.	Other operating income/expenses	4.550	910
230.	**Operating costs**	**(122.625)**	**(76.797)**
270.	Profit (Loss) from sales of investments	(3)	-
280.	**Pre-tax profit (loss) for the period from continuing operations**	**145.873**	**58.365**
290.	Income taxes relating to current operations	(42.211)	(19.245)
320	**Profit (Loss) for the period**	**103.662**	**39.120**
330	Profit (Loss) for the period attributable to non-controlling interests	5	-
340.	**Profit (loss) for the period attributable to the Parent company**	**103.657**	**39.120**

Consolidated Statement of Comprehensive Income

Items (in thousands of Euro)		30.06.2017	30.06.2016
10.	**Profit (Loss) for the period**	**103.662**	**39.120**
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**172**	**(69)**
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	172	(69)
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	**4.271**	**(10.199)**
70.	Foreign investment hedges	-	-
80.	Exchange differences	1.437	(1.260)
90.	Cash flow hedges	-	-
100.	Available for sale financial assets	2.834	(8.939)
110.	Non-current assets under disposal	-	-
120.	Share of valuation reserves of equity accounted investments	-	-
130.	**Total other comprehensive income, net of taxes**	**4.443**	**(10.268)**
140.	**Total comprehensive income (Item 10+130)**	**108.105**	**28.852**
150.	Total consolidated comprehensive income attributable to non-controlling interests	5	-
160.	**Total consolidated comprehensive income attributable to the parent company**	**108.100**	**28.852**

Statement of Changes in Consolidated Equity at 30 June 2017

Items (in thousands of Euro)	Balance at 31.12.2016	Change in opening balances	Balance at 01.01.2017	Allocation of profit from previous year		Changes in the period								Equity at 30.06.2017	Equity attributable to non-controlling interests at 30.06.2017
							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 30.06.2017		
Share capital:															
a) ordinary shares	53.811	-	53.811	-	-	-	-	-	-	-	-	-	-	**53.811**	**-**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Share premiums	101.776	-	101.776	-	-	-	-	-	-	-	-	-	-	**101.776**	**-**
Reserves:															
a) retained earnings	378.402	-	378.402	644.131	-	-	-	-	-	-	-	-	-	**1.022.533**	**-**
b) other	5.433	-	5.433	-	-	218	-	-	-	-	-	-	-	**5.651**	**48**
Valuation reserves:	(5.445)	-	(5.445)	-	-	-	-	-	-	-	-	-	4.443	**(1.002)**	**-**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Treasury shares	(3.187)	-	(3.187)	-	-	-	-	-	-	-	-	-	-	**(3.187)**	**-**
Profit (loss) for the period	687.945	-	687.945	(644.131)	(43.814)	-	-	-	-	-	-	-	103.657	**103.657**	**5**
Equity attributable to the Group	**1.218.735**	**-**	**1.218.735**	**-**	**(43.814)**	**218**	-	-	-	-	-	-	**108.100**	**1.283.239**	**-**
Equity attributable to non-controlling interests	**48**	**-**	**48**	-	-	-	-	-	-	-	-	-	**5**	**-**	**53**

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 01.01.2016	Allocation of profit from previous year: Reserves	Allocation of profit from previous year: Dividends and other allocations	Changes in the period: Changes in reserves	Changes in the period – Equity transactions: Issue of new shares	Changes in the period – Equity transactions: Buyback of treasury shares	Changes in the period – Equity transactions: Extraordinary distribution of dividends	Changes in the period – Equity transactions: Changes in equity instruments	Changes in the period – Equity transactions: Derivatives on treasury shares	Changes in the period – Equity transactions: Stock Options	Changes in the period: Comprehensive income at 30.06.2016	Equity at 30.06.2016	Equity attributable to non-controlling interests 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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Consolidated Cash Flow Statement

Indirect method (in thousands of Euro)	30.06.2017	30.06.2016
A. OPERATING ACTIVITIES		
1. Operations	**131.701**	**91.210**
- profit(loss) for the period (+/-)	103.657	39.120
- profit/loss on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	309	-
- net impairment losses/reversal on loans (+/-)	(3.705)	32.215
- net imp. losses/reversal on property, plant, and equipment and intangible assets (+/-)	5.942	2.007
- net allocations to provisions for risks and charges and other expenses/income (+/-)	1.897	1.641
- unpaid taxes (+)	42.210	19.245
- other adjustments (+/-)	(18.608)	(3.018)
2. Cash flows generated/absorbed by financial assets	**(753.122)**	**2.178.335**
- Financial assets held for trading	(463)	(107)
- available for sale financial assets	(262.120)	2.179.390
- due from banks on demand	(306.324)	(60.926)
- other due from banks	32.223	2.404
- loans to customers	(136.056)	52.922
- other assets	(80.382)	4.652
3. Cash flows generated/absorbed by financial liabilities	**673.233**	**(2.221.048)**
- due to banks on demand	112.228	151
- other due to banks	351.093	(619.549)
- due to customers	245.383	(1.559.216)
- debt securities issued	(136.181)	-
- financial liabilities held for trading	(6.767)	(8)
- other liabilities	107.477	(42.426)
Net cash flows generated/absorbed by operating activities A (+/-)	**51.813**	**48.497**
B. INVESTING ACTIVITIES		
1. Cash flows generated by:	-	89
- sale of held to maturity financial assets	-	-
- sale of property, plant and equipment	-	89
2. Cash flows absorbed by:	**(8.230)**	**(8.463)**
- purchase of held to maturity financial assets	-	-
- purchase of property, plant and equipment	(1.266)	(5.518)
- purchase of intangible assets	(6.964)	(2.945)
Net cash flows generated/absorbed by investment activities B (+/-)	**(8.230)**	**(8.374)**
C. FINANCING ACTIVITIES		
- issue/buyback of treasury shares	-	250
- issue/buyback of equity instruments	219	(31)
- distribution of dividends and other	(43.813)	(40.341)
Net cash flows generated/absorbed by financing activities C (+/-)	**(43.594)**	**(40.122)**
NET CASH FLOWS GENERATED /ABSORBED DURING THE PERIOD D=A+/-B+/-C	**(11)**	**1**
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	**34**	**34**
NET CASH FLOWS GENERATED /ABSORBED DURING THE PERIOD D	**(11)**	**1**
CASH AND CASH EQUIVALENTS: EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES F	**-**	**-**
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	**23**	**35**

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 2017 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, based on 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 at 30 June 2017 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 2017 are unchanged from those used to prepare the consolidated financial statements at 31 December 2016, to which reference should be made for further details.

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

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 operating in the foreseeable future. Therefore, the Condensed consolidated interim financial statements at 30 June 2017 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 2017 prepared by the directors of the companies included in the consolidation scope, which was unchanged from the end of last year.

At 30 June 2017, the Group was composed of the parent company, Banca IFIS S.p.A., the wholly-owned subsidiaries IFIS Finance Sp. Z o. o. e IFIS Factoring S.r.l. (Banca IFIS directly acquired the equity interest from the subsidiaries in the first half of 2017), the 99,99%-owned subsidiary Interbanca S.p.A., and its subsidiaries IFIS Leasing S.p.A. and IFIS Rental Services S.r.l., in which Interbanca owns directly all voting rights.

All the companies are consolidated using the line-by-line method.

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 826 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 (1)	Investment		Voting rights % (2)
				Held by	Share %	
IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	1	Banca IFIS S.p.A.	100%	100%
Interbanca S.p.A.	Milan	Milan	1	Banca IFIS S.p.A.	99,99%	99,99%
IFIS Factoring S.r.l.	Milan	Milan	1	Banca IFIS S.p.A.	100%	100%
IFIS Leasing S.p.A.	Mondovì - Province of Cuneo	Mondovì - Province of Cuneo	1	Interbanca S.p.A.	100%	100%
IFIS Rental Services S.r.l.	Milan	Milan	1	Interbanca S.p.A.	100%	100%
IFIS ABCP Programme S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%
Indigo Lease S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%
Indigo Loan S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%

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 led the Bank to include the subsidiaries listed in the previous paragraph, as well as the SPVs (Special Purpose Vehicles) set up for securitisation purposes, in the scope of consolidation at 30 June 2017. These SPVs are not legally part of the Banca IFIS Group.

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 2017, 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 2017.

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;
- receivables of the NPL Area;
- receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable;
- non-performing exposures related to the Trade Receivables, Corporate Banking and Leasing sectors;
- provisions for risks and charges;
- post-employment benefits;
- goodwill and other intangible assets.

As for the receivables of the Pharma BU, during 2016 the Group implemented a new model to estimate the cash flows from receivables due from Italy's National Health Service acquired and managed by the Pharma BU. Specifically, the Group estimates the interest on arrears considered recoverable from the acquisition date based on historical evidence and differentiating according to the type of collection actions taken by the Pharma BU (settlement or judicial action). Overall, the assumptions underlying the estimate of their recoverability were conservative. Banca IFIS estimates cash flows in accordance with the provisions of the joint Bank of Italy/Consob/Ivass document no. 7 of 9 November 2016 "Accounting of interest on arrears as per Italian Legislative Decree 231/2002 on performing loans purchased outright".

Concerning specifically the measurement of NPL Area receivables, 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 Condensed consolidated interim financial statements at 30 June 2017 have been drawn up in accordance with the IASs/IFRSs in force at the reporting date. See the paragraph *Statement of compliance with international accounting standards.*

The Group has adopted for the first time some accounting standards and amendments effective for annual periods beginning on or after 1 January 2017. Here below are the new accounting standards and the amendments to existing accounting standards endorsed by the EU, which have not materially affected the Group's consolidated financial statements.

- Amendments to IAS 7 Statement of Cash Flows: improvement in the disclosure of changes in the company's debt
- Amendments to IAS 12 Income Taxes: clarification of the accounting for Deferred Tax Assets for unrealised losses on debt instruments measured at fair value.
- Annual Improvements to IFRSs - 2014-2016 Cycle, which concerned the international accounting standard IFRS 12 Disclosure of Interests in Other Entities: clarification of the scope of the disclosure requirements in the standard.

The Group has not adopted early any other standard, interpretation or amendment issued but not endorsed by the European Union.

Concerning the new IFRS 9 that will become effective for annual periods beginning on or after 1 January 2018, here below are the highlights of the new classification, measurement, and impairment requirements.

The Entity must classify a financial asset based on its contractual cash flow characteristics—i.e. whether the financial asset is within a Held To Collect (HTC) or Held To Collect and Sell (HTC&S) Business Model—unless it is held within an “Other” Business Model or the Entity elects the option to designate financial assets at Fair Value through Profit or Loss.

Specifically, a financial asset is measured at Amortised Cost if both the following conditions are met:

- the financial asset is part of a business model whose objective is to hold assets in order to collect contractual cash flows (HTC); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (so-called “SPPI Test”).

a financial asset is measured at Fair Value through OCI if both the following conditions are met:

- the financial asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets (HTC&S); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

As for the new measurement model for financial assets, the new standard requires to measure the impairment allowance for financial assets (including receivables) based on the concept of expected credit loss (ECL) by using a three-stage impairment model.

The new measurement of the expected credit loss for financial assets depends on the borrower's credit risk as well as the increase in credit risk between initial recognition and the reporting date, as explained below:

- "12-month expected credit loss" (Stage 1), which applies to all exposures (since initial recognition) that have not had a significant increase in credit risk; and
- "Lifetime expected credit loss" (Stage 2 and Stage 3), which applies when there has been a significant increase in credit risk on either an individual or collective basis.

The transition to the ECL method will require significant changes in the Group's data, IT systems and processes.

The detailed development of IFRS 9 requires adopting long-term inputs, as well as replacing "through-the-cycle" and "downturn" models with a "point-in-time" approach for the probability of default and loss given default. The long-term inputs will take into account historical data, should there be trends and correlations with credit risk, as well as forward-looking indicators and macroeconomic forecasts at an individual portfolio level.

During 2016, the Group conducted an assessment together with a leading audit firm to define the road map for the adoption of the new accounting standard.

In addition, the first half of 2017 saw the start of the implementation and design process that will allow the Group to put into place the instruments and procedures to adopt the new standard in the required timeframe.

To date, since the accounting and modelling requirements introduce significant innovations, and based on the guidelines issued by the Basel Committee as well as the ongoing discussions within the banking industry, it is currently not possible to estimate reliably the impact of the application of the new standard. In addition, the bank, based on the state-of-the-art of the above project, does not expect a significant impact based on the characteristics of the business and the type of financial assets recognised in the financial statements. That said, it will have to accurately measure the impact on the financial assets outstanding at the effective date, i.e. 1 January 2018.

Finally, as far as the new IFRS 15 is concerned, the Group recently started analysing its impact. This process is expected to fully unfold in the second half of 2017. Based on the preliminary analyses and considering the Group's different businesses, the first application of this standard is not expected to have a significant impact.

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

Deadlines for the approval and publication of the Consolidated Interim Financial Report

Pursuant to art. 154-ter of Italian 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 8 August 2017.

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 in 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 in 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 in 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 in active markets, it is necessary to use valuation models assuming the use of inputs that are not directly observable in 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 in active markets: for the purposes of estimating them, information acquired from prices and spreads observed in 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” in 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[6]). 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 trade receivables[7] at fair value, given the absence of prices directly observable in 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.

Following Banca IFIS's acquisition of the former GE Capital Interbanca group, the application of IFRS 3 required measuring the acquired entities’ portfolios of loans to customers at fair value. The Purchase Price Allocation (PPA) process and the relevant adjustments made to the portfolios (if required) are categorised in level 2 of the fair value hierarchy.

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

7 Including factoring receivables acquired from the former GE Interbanca Group

As for the receivables portfolio of the NPL 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 market rate. The market rate is calculated without considering a credit spread, since the credit risk of the individual counterparties is already incorporated in the statistical model used to estimate future cash flows with regard to collective management (non-judicial operations). The model projects the relevant cash flows based on historical evidence concerning the recovery of positions in the Bank's portfolio. As for individual management (judicial operations), the projections of future cash flows are based on an internal algorithm or defined by the manager according to how the underlying receivable is being processed. As for acquired 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 the Level 3 fair value measurement of assets and liabilities, reference is made to:

- market rates calculated, according to market practice, using either money market rates for maturities less than one year, and swap rates for greater maturities, or the rates quoted in the market for similar transactions;
- 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)	30.06.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	-	37.717	9.830	-	39.893	7.500
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	468.138	168.786	2.195	355.626	16.586	2.017
4. Hedging derivatives				-	-	-
5. Property, plant and equipment				-	-	-
6. Intangible assets				-	-	-
Total	**468.138**	**206.503**	**12.025**	**355.626**	**56.479**	**9.517**
1. Financial liabilities held for trading	-	41.620	91	-	46.447	2.031
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**41.620**	**91**	**-**	**46.447**	**2.031**

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	**7.500**	**-**	**2.017**	**-**	**-**	**-**
2. Increases	**3.630**	-	**607**	**-**	**-**	**-**
2.1 Purchases	3.630	-	-	-	-	-
2.2 Profit taken to:	-	-	607	-	-	-
2.2.1 Profit or loss	-	-	-	-	-	-
- of which: Capital gains	-	-	-	-	-	-
2.2.2 Equity	X	X	*607*	X	-	-
2.3 Transfers from other levels [1]	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-
3. Decreases	**1.300**	**-**	**429**	**-**	**-**	**-**
3.1 Sales	-	-	-	-	-	-
3.2 Redemptions	1.297	-	-	-	-	-
3.3 Losses taken to:	-	-	429	-	-	-
3.3.1 Profit or loss	-	-	*429*	-	-	-
- of which capital losses	-	-	429	-	-	-
3.3.2 Equity	X	X	-	X	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	3	-	-	-	-	-
4. Closing balance	**9.830**	**-**	**2.195**	**-**	**-**	**-**

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	**2.031**	**-**	**-**
2. Increases	**91**	-	**-**
2.1 Issues	91	-	-
2.2 Losses taken to:	-	-	-
2.2.1 Profit or loss	-	-	-
- *of which: capital losses*	-	-	-
2.2.2 Equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	
3. Decreases	**2.031**	**-**	**-**
3.1 Redemptions	2.031	-	-
3.2 Repurchases	-	-	-
3.3 Profit taken to:	-	-	-
3.3.1 Profit or loss	-	-	-
- *of which capital gains*	-	-	-
3.3.2 Equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases		-	-
4. Closing balance	**91**	**-**	**-**

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	30.06.2017				31.12.2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held to maturity financial assets	-			-	-	-	-	-
2. Due from banks	1.667.462			1.667.462	1.393.358	-	-	1.393.358
3. Loans to customers	6.084.125			6.126.053	5.928.212	-	-	5.957.897
4. Property, plant and equipment held for investment purpose	720			926	719	-	-	926
5. Non-current assets and disposal groups	-			-	-	-	-	-
Total	**7.752.307**			**7.794.441**	**7.322.289**	**-**	**-**	**7.352.181**
1. Due to banks	967.285			967.285	503.964	-	-	503.964
2. Due to customers	5.291.594			5.304.626	5.045.136	-	-	5.065.578
3. Debt securities issued	1.352.375				1.488.556	83.173	-	1.405.334
4. Liabilities associated with non-current assets	-			-	-	-	-	-
Total	**7.611.254**			**6.271.911**	**7.037.656**	**83.173**	**-**	**6.974.876**

Key

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

Group equity and income situation

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	
	30.06.2017	31.12.2016	ABSOLUTE	%
Available for sale financial assets	639.119	374.229	264.890	70,8%
Loans to customers	6.084.125	5.928.212	155.913	2,6%
Due from banks	1.667.462	1.393.358	274.104	19,7%
Property, plant and equipment and intangible assets	127.569	125.329	2.240	1,8%
Tax assets	545.724	581.016	(35.292)	(6,1)%
Other assets	380.100	297.001	83.099	28,0%
Total assets	**9.444.099**	**8.699.145**	**744.954**	**8,6%**
Due to customers	5.291.594	5.045.136	246.458	4,9%
Due to banks	967.285	503.964	463.321	91,9%
Debt securities issued	1.352.375	1.488.556	(136.181)	(9,1)%
Provisions for risks and charges	19.563	24.318	(4.755)	(19,6)%
Tax liabilities	34.912	24.925	9.987	40,1%
Other liabilities	495.078	393.463	101.615	25,8%
Equity	1.283.292	1.218.783	64.509	5,3%
Total liabilities and equity	**9.444.099**	**8.699.145**	**744.954**	**8,6%**

Available for sale (AFS) financial assets

Available for sale (AFS) financial assets, which include debt and equity securities, stood at 639,1 million Euro at 30 June 2017, +70,8% compared to 374,2 million Euro at the end of 2016. The valuation reserve, net of taxes, was positive to the tune of 4,3 million Euro at 30 June 2017 (1,5 million Euro at 31 December 2016).

The amount of **debt securities** in the portfolio at 30 June 2017 was 617,0 million Euro, up 74,7% from 31 December 2016 (353,2 million Euro) largely because of the acquisitions made in early 2017. These referred entirely to instruments issued by banks.

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

Issuer/Maturity	2nd half 2017	1st half 2019	1st half 2020	Overall total
Government bonds	270.281	30.131	52.771	353.183
% of total	*43,8%*	*4,9%*	*8,5%*	*57,2%*
Banks	-	-	263.852	263.852
% of total	*0,0%*	*0,0%*	*42,8%*	*42,8%*
Total	**270.281**	**30.131**	**316.623**	**617.035**

Available for sale financial assets include **equity securities** relating to non-controlling interests in unlisted companies, amounting to 17,7 million Euro (+3,0% compared to 31 December 2016). The increase was largely attributable to the fair value adjustment of the securities in the portfolio.
Available for sale financial assets included also 4,4 million Euro in UCITS units, compared to 3,9 million Euro at 31 December 2016: the increase largely referred to UCITS units obtained after the restructuring of an impaired position.

Receivables due from banks

At 30 June 2017, **receivables due from banks** totalled 1.667,5 million Euro, compared to 1.393,4 million Euro at 31 December 2016. This excess liquidity ensures the margin required to carry out banking operations as well as the funds necessary to seize potential market opportunities.

Loans to customers

Total **loans to customers** amounted to 6.084,1 million Euro, up 2,6% from 5.928,2 million Euro at the end of 2016.

Specifically, the loans of the NPL Area rose by +24,8%, mainly because of new acquisitions. Also the loans of the tax receivables segment were up (+7,3%). Corporate Banking and Leasing, the new sectors born from the acquisition of the former GE Capital Interbanca Group, contributed 972,5 (+7,4%) and 1.303,5 (+5,5%) million Euro, respectively. Compared to the end of 2016, Trade receivables fell by 4,0%, and the receivables of the Governance and Services segment by 61,4%.

Total net loans to businesses, including the Trade Receivables, Corporate Banking and Leasing sectors, amounted to 5.245,9 million Euro, rising slightly from December 2016 (+0,2%).

The breakdown of loans to customers was as follows: 15,8% are due from the Public Administration and 84,2% from the private sector (compared to 16,9% and 83,1% at 31 December 2016).

There are no major risks concerning this item.

LOANS TO CUSTOMERS: BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2017	31.12.2016	ABSOLUTE	%
Trade receivables	2.970.311	3.092.488	(122.177)	(4,0)%
- *of which non-performing*	*244.282*	*201.012*	*43.270*	*21,5%*
Corporate Banking	972.490	905.682	66.808	7,4%
- *of which non-performing*	*189.389*	*171.670*	*17.719*	*10,3%*
Leasing	1.303.102	1.235.638	67.464	5,5%
- *of which non-performing*	*37.847*	*37.150*	*697*	*1,9%*
NPL Area	701.492	562.146	139.346	24,8%
- *of which non-performing*	*701.125*	*562.130*	*138.995*	*24,7%*
Tax Receivables	133.808	124.697	9.111	7,3%
- *of which non-performing*	-	*199*	*(199)*	*(100,0)%*
Governance and Services	2.922	7.561	(4.639)	(61,4)%
- *of which with Cassa di Compensazione e Garanzia*	*660*	*4.748*	*(4.088)*	*(86,1)%*
Total loans to customers	**6.084.125**	**5.928.212**	**155.913**	**2,6%**
- of which non-performing	***1.172.643***	***972.161***	***200.482***	***20,6%***

Total net **non-performing exposures**, which are significantly affected by the receivables of the NPL Area, amounted to 1.172,6 million Euro at 30 June 2017, compared to 972,2 million Euro at the end of 2016 (+20,6%).

Net non-performing loans due exclusively from business customers amounted to 471,5 million Euro at the end of the first half of the year, +15,1% from the end of 2016. The following table shows the gross and net amounts as well as the relevant coverage ratios for each category of non-performing exposure.

LOANS TO BUSINESSES (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL
BALANCE AT 30.06.2017				
Nominal amount of non-performing exposures	773.277	400.436	193.554	1.367.267
As a proportion of total receivables at nominal amount	*12,5%*	*6,5%*	*3,1%*	*22,1%*
Impairment losses	701.656	174.016	20.077	895.749
As a proportion of the nominal amount	*90,7%*	*43,5%*	*10,4%*	*65,5%*
Carrying amount	71.621	226.420	173.477	471.518
As a proportion of net total receivables	*1,4%*	*4,3%*	*3,3%*	*9,0%*
BALANCE AT 31.12.2016				
Nominal amount of non-performing exposures	811.922	383.403	170.586	1.365.911
As a proportion of total receivables at nominal amount	*13,4%*	*6,3%*	*2,8%*	*22,5%*
Impairment losses	746.793	176.140	33.146	956.079
As a proportion of the nominal amount	*92,0%*	*45,9%*	*19,4%*	*70,0%*
Carrying amount	65.129	207.263	137.440	409.832
As a proportion of net total receivables	*1,3%*	*4,1%*	*2,7%*	*8,1%*

Here below is the breakdown of forborne exposures by segment.

FORBEARANCE (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	CONS. TOTAL
Bad loans						
Amounts at 30.06.2017	2.671	6.967	1.162	43.698	-	54.498
Amounts at 31.12.2016	*2.439*	*5.587*	*730*	*33.550*	-	*42.306*
% Change	*9,5%*	*24,7%*	*59,2%*	*30,2%*	-	*28,8%*
Unlikely to pay						-
Amounts at 30.06.2017	14.080	109.948	6.211	58.651	-	188.890
Amounts at 31.12.2016	*19.312*	*98.575*	*6.258*	*53.368*	-	*177.513*
% Change	*(27,1)%*	*11,5%*	*(0,8)%*	*9,9%*	-	*6,4%*
Past due loans						-
Amounts at 30.06.2017	-	659	1.698	11	-	2.368
Amounts at 31.12.2016	-	*1.457*	*2.302*	-	-	*3.759*
% Change	-	*(54,8)%*	*(26,2)%*	*n.a.*	-	*(37,0)%*
Performing loans						-
Amounts at 30.06.2017	17.305	29.537	26.526	2	-	73.370
Amounts at 31.12.2016	*6.955*	*35.882*	-	*15*	-	*42.852*
% Change	*148,8%*	*(17,7)%*	*n.a.*	*(86,7)%*	-	*71,2%*

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 18,0 million Euro, compared to 15,0 million Euro at 31 December 2016 (+20,2%); the increase was largely the result of the systems for the integration with the new Core Banking system.

The item refers to software (17,2 million Euro) as well as goodwill (826 thousand Euro) arising from the consolidation of the investment in IFIS Finance Sp.Z o.o..

Property, plant and equipment and investment property totalled 109,6 million Euro, down from 110,3 million Euro at 31 December 2016 essentially because of the depreciation expense for the period.

At the end of the period, the properties recognised under property, plant and equipment and investment property included the important historical building “Villa Marocco”, located in Mestre – Venice and housing Banca IFIS's registered office, as well as two buildings in Milan, housing the registered offices of Interbanca S.p.A. and some Group companies.

Since Villa Marocco is a luxury property, it is not amortised, but it is tested for impairment at least annually. To this end, they are appraised by experts specialising in luxury properties. During the period, there were no indications requiring to test the assets for impairment.

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.
Current tax assets, totalling 81,6 million Euro (-7,1% from the end of 2016), included 36,9 million Euro in tax credits from the conversion of deferred tax assets (DTAs) in accordance with Italian Law no. 214/2011, 23,5 million Euro in IRES/IRAP credits claimed in the tax return, and 21,2 million Euro in credits acquired from third parties.
Deferred tax assets, amounting to 464,1 million Euro (-5,9% from the end of 2016), included 219,3 million Euro in value adjustments on receivables that can be deducted in the following years, and the rest largely referred to misalignments between the fair value and the carrying amount found during the purchase price allocation (PPA) for the former GE Capital Interbanca Group. These were reclassified to profit or loss during the period, causing the change in deferred tax assets.

Tax assets are included in the calculation of “capital requirements for credit risk” in accordance with Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which was transposed in the Bank of Italy's Circulars no. 285 and 286 of 17 December 2013.

Here below is the breakdown of the different treatments by type and the relevant impact on CET1 and risk-weighted assets at 30 June 2017:

- the “deferred tax assets that rely on future profitability and do not arise from temporary differences” are deducted from CET1; at 30 June 2017, the 80% deduction amounted to 79,6 million Euro, in accordance with the new regulatory framework of the measures concerning own funds that will be gradually phased in with a transitional period lasting until 2017; in this regard, please note that this deduction, which is to become fully effective in 2018, will be gradually absorbed by the future use of such deferred tax assets;
- the “deferred tax assets that rely on future profitability and arise from temporary differences” are not deducted from CET1 and receive instead a 250% risk weight: at 30 June 2017, there were approximately 274,6 million Euro in assets at risk corresponding to these assets, net of 109,9 million Euro in deferred tax liabilities;

- the “deferred tax assets pursuant to Italian Law 214/2011”, concerning value adjustments on receivables that can be converted into tax credits, receive a 100% risk weight; at 30 June 2017, the corresponding weight totalled 219,4 million Euro;
- “current tax assets”, amounting to approximately 81,6 million Euro, receive a 0% weight as they are exposures to the Central Government.

Other assets and liabilities

Other assets amounted to 332,5 million Euro at 30 June 2017 (+33,2% from 31 December 2016).

This line item included a 31,5 million Euro receivable due from the parent company La Scogliera S.p.A. deriving from the tax consolidation regime; 7,6 million Euro in receivables due from Italian tax authorities for payments on account (stamp duty and withholding taxes), 32,2 million Euro in funds placed in an escrow account pending the resolution of a dispute, and 32,9 million Euro in VAT credits claimed. Finally, it also included 43,8 million Euro in receivables due from the buyers of NPL portfolios as well as 29,9 million Euro in deferred costs associated with Legal Factory proceedings pending a garnishment order from the judge.

At the end of the period, other liabilities totalled 446,0 million Euro (+32,2% from the end of 2016). The most significant items referred largely to amounts due to customers that have not yet been credited.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2017	31.12.2016	ABSOLUTE	%
Due to customers:	**5.291.594**	**5.045.136**	**246.458**	**4,9%**
Repurchase agreements	-	*270.314*	*(270.314)*	*(100,0)%*
Rendimax and Contomax	*5.007.967*	*4.519.260*	*488.707*	*10,8%*
Other term deposits	*62.599*	*101.500*	*(38.901)*	*(38,3)%*
Other payables	*221.028*	*154.062*	*66.966*	*43,5%*
Due to banks:	**967.285**	**503.964**	**463.321**	**91,9%**
Eurosystem	*700.289*	-	*700.289*	*n.a.*
Repurchase agreements	-	*50.886*	*(50.886)*	*(100,0)%*
Other payables	*266.996*	*453.078*	*(186.082)*	*(41,1)%*
Debt securities issued	**1.352.375**	**1.488.556**	**(136.181)**	**(9,1)%**
Total funding	**7.611.254**	**7.037.656**	**573.598**	**8,2%**

Total funding, which amounted to 7.611,3 million Euro at 30 June 2017, up 8,2% compared to 31 December 2016, is represented for 69,5% by **Payables due to customers** (compared to 71,7% at 31 December 2016), for 12,7% by **Payables due to banks** (compared to 7,2% at 31 December 2016), and for 17,8% by **Debt securities issued** (21,1% at 31 December 2016).

Payables due to customers at 30 June 2017 totalled 5.291,6 million Euro (+4,9% compared to 31 December 2016). The settlement of 270,3 million Euro in repurchase agreements was more than offset by the rise in retail funding: this totalled 5.008,0 million Euro at 30 June 2017, compared to 4.519,3 million Euro at 31 December 2016 (+10,8%). The Bank still bears proportional stamp duty costs on rendimax and contomax, which amount to 0,20%.

Payables due to banks, totalling 967,3 million Euro (compared to 504,0 million Euro in December 2016), increased by 91,9%, largely because of the new 700,0 million Euro TLTRO loan received in March 2017.

In addition, term deposits at other banks declined to 267,0 million Euro from 453,1 million Euro at the end of the previous year (-41,1%).

Debt securities issued amounted to 1.352,4 million Euro. The item included 968,9 million Euro (1.404,6 million Euro at 31 December 2016) in notes issued by the special purpose vehicles as part of the securitisations launched at the end of 2016. The decline compared to 31 December 2016 was largely attributable to the repurchase of all securities concerning the securitisation of leasing loans (Indigo Lease) by Banca IFIS.

The item also included the 297,8 million Euro senior bond issued by Banca IFIS in the first half of 2017, as detailed in Significant events occurred in the period in the Interim Directors' Report on the Group.

The rest of debt securities issued at 30 June 2017 included 85,1 million Euro in bond loans and 612 thousand Euro in certificates of deposits issued by Interbanca S.p.A.,

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2017	31.12.2016	ABSOLUTE	%
Legal disputes	11.991	9.577	2.414	25,2%
Other provisions	7.572	14.741	(7.169)	(48,6)%
Total provisions for risks and charges	**19.563**	**24.318**	**(4.755)**	**(19,6)%**

Here below is the breakdown of the provision for risks and charges at the end of the period by type of dispute compared with the prior year. For the sake of clarity, the provisions deriving from the acquisition of the former GE Capital Interbanca Group are reported separately.

Legal disputes

Banca IFIS legal disputes

The provision outstanding at 30 June 2017, amounting to 3,6 million Euro, included 3,4 million Euro for 19 disputes concerning the Trade Receivables segment (the plaintiffs seek 9,5 million Euro in damages), 48 thousand Euro for 7 disputes concerning the DRL segment (the plaintiffs seek 97 thousand Euro in damages), and 150 thousand Euro for a labour dispute.

Former GE Capital Interbanca Group legal disputes

The provision outstanding at 30 June 2017, amounting to 8,4 million Euro, included 80 thousand Euro for a dispute involving IFIS Factoring, 2,0 million Euro for 29 disputes concerning IFIS Leasing (the plaintiffs seek 4,4 million Euro in damages), and 5,4 million Euro for 11 disputes involving Interbanca (the plaintiffs seek 50,5 million Euro in damages).

Other provisions

Other Banca IFIS provisions

The provision at 31 December 2016, totalling 2,5 million Euro, referred to the amount set aside for commissions paid in early 2017 in order to buy back the senior tranche of the leasing securitisation (eligible securities). At 30 June 2017, there were no other provisions concerning Banca IFIS.

Other former GE Capital Interbanca Group provisions

The provision outstanding at 30 June 2017, amounting to 7,6 million Euro, included 3,2 million Euro in personnel-related expenses and 4,4 million Euro in other provisions, including 3,2 million Euro for customer allowances and 0,7 million Euro as provision for risks on unfunded commitments.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 30 June 2017. Based on the opinion of the legal advisers assisting the subsidiaries, they are considered possible, and therefore they are only disclosed.

For the sake of clarity, the contingent liabilities deriving from the acquisition of the former GE Capital Interbanca Group are reported separately.

Legal disputes

Banca IFIS legal disputes

Banca IFIS recognises contingent liabilities amounting to 1,6 million Euro in claims, represented by 17 disputes: 12 refer to the Trade Receivables segment, for a total of 1,6 million Euro, 1 to labour disputes, for 54 thousand Euro, and 4 to the DRL segment, for 71 thousand Euro. Banca IFIS, supported by the legal opinion of its lawyers, made no provisions for these positions, as the risk of defeat is considered possible.

Former GE Capital Interbanca Group legal disputes

Here below are the most significant contingent liabilities of the former GE Capital Interbanca Group.

Lawsuit against Interbanca to cancel a settlement

A lawsuit was filed against Interbanca in 2010 concerning a position for which the company had entered into a settlement agreement with the Receiver appointed at the time for the extraordinary administration proceedings involving a debtor of Interbanca. The new Receiver questioned the validity of the agreement, seeking 168 million Euro in damages from Interbanca, among others.

During the dispute, some defendants made various demands to Interbanca, asking that the company indemnifies them against the claims made by the plaintiff or to benefit from the settlement agreement entered into between Interbanca and the then Receiver.

The Court deemed the settlement agreement valid and enforceable, dismissing all claims of the Plaintiffs and the request the other defendants made to Interbanca.

The Court did not rule on the requests submitted by two defendants that Interbanca indemnifies them, and therefore not even on the objections raised by the company, separately ordering the proceeding involving also Interbanca to continue. As part of the first-instance trial, which is still pending, the court-appointed expert witness recently filed his report, concluding that the three debtors have no right to seek damages from the defendants. The plaintiffs objected to the decision and asked for another expert witness to prepare a new report or complement the one already filed. The Court has adjourned the case. The plaintiffs have appealed against the part of the first-instance ruling considering the settlement agreement valid and enforceable, reducing the damages they claim to approximately 149 million Euro. In the ruling issued on 10 March 2017, the Appeals Court dismissed the appeal, upholding the first-instance ruling and awarding costs against the plaintiffs.

The ruling is now final.

As mentioned, the risk assessment also accounts for the opinions of external lawyers as well as the positive indications from the first- and second-instance rulings.

Legal proceedings concerning a lawsuit for damages resulting from an extraordinary operation involving an industrial company as well as environmental damage

In early 2017, the officials of an extraordinary administration proceeding involving a chemical company in which Interbanca indirectly held a stake between 1999 and 2004 filed a lawsuit for damages.

The lawsuit was filed against Interbanca and 60 other defendants—corporations and individuals, including two former employees and one former director of Interbanca, which were held harmless by the latter—to ascertain their alleged joint responsibility and sentence them to pay for the damages allegedly caused to the company in extraordinary administration, initially estimated to be at least 388 million Euro.

The plaintiff alleged that the direct and indirect owners of the company in extraordinary administration, including Interbanca as well the former directors and statutory auditors of the company in extraordinary administration, had engaged in unlawful conduct. According to the plaintiff, the damages were caused by a spin-off launched by the company after it was placed into extraordinary administration, to the detriment of the company itself and its creditors.

In 2013, the receiver sought approximately 3,5 billion Euro in damages from the defendants, including Interbanca, for alleged environmental damage caused by the operation of chemical production plants owned by the company in extraordinary administration and its subsidiaries. Italy’s Ministry of the Environment and the Protection of the Territory and the Sea as well as the Ministry of Economy and Finance voluntarily joined the proceedings to support the plaintiff's claims.

The dispute was resolved—at least as far as most defendants, including Interbanca and its two former employees and its former director, are concerned—with the ruling issued on 10 February 2016, The Court dismissed the request to join the proceedings filed by Italy’s Ministry of the Environment and the Protection of the Territory and the Sea as well as the Ministry of Economy and Finance as inadmissible, dismissed all claims for damages filed by the plaintiff against, among others, Interbanca, its former employees and its former director, and awarded costs against the plaintiff and the Ministries.

In March 2016, both the Ministries and the plaintiff filed an appeal against the ruling, and the hearings were scheduled for 19 July 2016 and 4 October 2016, respectively. At the first hearing on the appeal filed by the Ministries, the Court adjourned the case to the 4 October 2016 hearing on the appeal filed by the plaintiff, combining the two proceedings.

In November 2016, Interbanca, the two former employees and the managing director involved entered into separate settlement agreements with the plaintiff, which withdrew the claims against Interbanca and the three individuals. In turn, these waived the costs awarded to them in the first-instance ruling.

To settle the pending appeal proceedings, the parties formally exchanged their waivers, and at the hearing on 21 February 2017, the plaintiff's attorney announced the finalisation of the settlement agreement with the Bank and the three mentioned individuals, filing the respective waivers. The plaintiff also acknowledged it has entered into other transactions and to be negotiating the finalisation of other settlement agreements.

The proceeding with the Ministries continues.

At the hearing on 16 June 2017, the Judge, after a formal review of the transactions entered into, adjourned the case to the 20 June 2018 hearing to allow the Plaintiff to settle potential additional positions and clarify its conclusions.

On 28 July 2015, the Ministry of the Environment and the Protection of the Territory and the Sea served Interbanca with an order requiring it and the other recipients effective immediately to take all actions necessary to control, limit, remove or otherwise manage any factor that could potentially cause damage at the three industrial plants operated by the company in extraordinary administration that had filed the lawsuit described above. Interbanca appealed against the order with the competent Administrative Court, asking for its suspension.

On 21 March 2016, the Regional Administrative Court issued its ruling, upholding Interbanca's appeal and cancelling the order. On 15 July 2016, the Ministry of the Environment and the Protection of the Territory and the Sea appealed against the decision. A hearing has not yet been scheduled.

Arbitration concerning an equity interest in an industrial company

In early August 2016, Interbanca was served with a notice of arbitration at the National and International Arbitration Chamber of Milan by a company owning a controlling interest in a IT services company in which Interbanca owns a non-controlling interest.

The dispute specifically concerns the validity and enforceability of Interbanca's exit from the investment, as previously agreed under the shareholders' agreement between the plaintiff and the Bank.

To date, the plaintiff has not yet estimated the alleged damages, asking the Arbitration Board to assess or liquidate them during the proceeding—including through an equitable remedy.

The investee intervened in support of the plaintiff during the arbitration. As recorded in the minutes of the first hearing, Interbanca contested the investee's involvement as inadmissible on the ground of lack of legal interest.

After the first hearing, the Arbitration Board set the terms for filing briefs and replies. Then, at the hearing held on 4 July 2017, believing that a decision is now overdue, it set the terms for filing closing briefs and replies, adjourning the case to 6 November 2017.

The deadline for the filing of the Arbitration Award, originally scheduled for December 2017, has been extended to 29 February 2018.

Tax dispute

Banca IFIS tax dispute

On 23 December 2016, Banca IFIS received a VAT verification notice totalling 105 thousand Euro, without assessing any penalties and interest. Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: therefore, it did not allocate funds to the provision for risks and charges.

Former GE Capital Interbanca Group tax disputes

Dispute concerning withholding taxes on interest paid in Hungary Companies involved: Interbanca Spa and IFIS Leasing Spa (including the merged GE Leasing Italia Spa)

The Italian Revenue Agency contested the failure to pay the 27% withholding tax on the interest paid to the Hungarian company GE Hungary Kft without any withholding tax pursuant to the International Convention between Italy and Hungary for the avoidance of double taxation. The Italian Revenue Agency determined that the Hungarian entity GE Hungary Kft was not the actual beneficiary of the interest paid by the Italian firms, but only a conduit company.

According to the Italian Revenue Agency, the beneficiary is a company allegedly incorporated in Bermuda, therefore the International Convention between Italy and Hungary for the avoidance of double taxation does not apply. Entities in tax havens are subject to a 27% withholding tax.

Therefore, for the years between 2007 and 2011, the Italian Revenue Agency assessed approximately 68 and 42 million Euro in additional withholding taxes against Interbanca Spa and IFIS Leasing Spa, respectively,

as well as administrative penalties amounting to 150/250%.

The Companies involved filed an appeal against the verification notices pursuant to the law with the competent Tax Commissions, paying 1/3 of the tax, i.e. nearly 31 million Euro, as provisional enrolment on the tax register.

Following the exchange of information pursuant to Council Directive EU/2011/16, Hungary's tax authority concluded that the company GE Hungary Kft must be legitimately considered the beneficiary of the interest received from the Italian counterparties”.

So far, all rulings issued by the competent Provincial Tax Commissions (Turin and Milan) have fully upheld the appeals. As expected, the Italian Revenue Agency has appealed against these decisions.

Dispute concerning the write-off of receivables

Company involved IFIS Leasing Spa

The Italian Revenue Agency has reclassified the write-off of receivables made by the Company in 2004, 2005, 2006 and 2007 and added in the years between 2005 and 2011 to losses on receivables—without any actual evidence.

For the years 2004/2011, the Agency assessed 755 thousand Euro in additional taxes and administrative penalties amounting to 100%.

Dispute concerning the VAT treatment of insurance mediation activities

Company involved IFIS Leasing Spa

The Italian Revenue Agency challenged the failure to apply the pro-rata mechanism in the years between 2007 and 2010 concerning the VAT deduction for passive transactions in exchange for VAT-exempt commissions received from insurance companies for insurance brokerage operations considered as independent, and not ancillary to the core vehicle leasing business (which is subject to VAT).

For the years 2007/2010, the Agency assessed 3 million Euro in additional VAT and administrative penalties amounting to 125%.

Legal disputes

Lawsuit against Interbanca to cancel a settlement

A lawsuit was filed against Interbanca in 2010 concerning a position for which the company had entered into a settlement agreement with the Receiver appointed at the time for the extraordinary administration proceedings involving a debtor of Interbanca. The new Receiver questioned the validity of the agreement, seeking 168 million Euro in damages from Interbanca, among others.

During the dispute, some defendants made various demands to Interbanca, asking that the company indemnifies them against the claims made by the plaintiff or to benefit from the settlement agreement entered into between Interbanca and the then Receiver.

The Court deemed the settlement agreement valid and enforceable, dismissing all claims of the Plaintiffs and the request the other defendants made to Interbanca.

The Court did not rule on the requests submitted by two defendants that Interbanca indemnifies them, and therefore not even on the objections raised by the company, separately ordering the proceeding involving also Interbanca to continue. As part of the first-instance trial, which is still pending, the court-appointed expert witness recently filed his report, concluding that the three debtors have no right to seek damages from the defendants. The plaintiffs objected to the decision and asked for another expert witness to prepare a new report or complement the one already filed. The Court has adjourned the case. The plaintiffs have appealed against the part of the first-instance ruling considering the settlement agreement valid and enforceable, reducing the damages they claim to approximately 149 million Euro. In the ruling issued on 10 March 2017, the Appeals Court dismissed the appeal, upholding the first-instance ruling and awarding costs against the plaintiffs. As mentioned, the risk assessment also accounts for the opinions of external lawyers as well as the positive indications from the first- and second-instance rulings.

Legal proceedings concerning a lawsuit for damages resulting from an extraordinary operation involving an industrial company as well as environmental damage

In early 2012, the officials of an extraordinary administration proceeding involving a chemical company in which Interbanca indirectly held a stake between 1999 and 2004 filed a lawsuit for damages.

The lawsuit was filed against Interbanca and 60 other defendants—corporations and individuals, including two former employees and one former director of Interbanca, which were held harmless by the latter—to ascertain their alleged joint responsibility and sentence them to pay for the damages allegedly caused to the company in extraordinary administration, initially estimated to be at least 388 million Euro.

The plaintiff alleged that the direct and indirect owners of the company in extraordinary administration, including Interbanca as well the former directors and statutory auditors of the company in extraordinary administration, had engaged in unlawful conduct. According to the plaintiff, the damages were caused by a spin-off launched by the company after it was placed into extraordinary administration, to the detriment of the company itself and its creditors.

In 2013, the receiver sought approximately 3,5 billion Euro in damages from the defendants, including Interbanca, for alleged environmental damage caused by the operation of chemical production plants owned by the company in extraordinary administration and its subsidiaries. Italy’s Ministry of the Environment and the Protection of the Territory and the Sea as well as the Ministry of Economy and Finance voluntarily joined the proceedings to support the plaintiff's claims.

The dispute was resolved—at least as far as most defendants, including Interbanca and its two former employees and its former director, are concerned—with the ruling issued on 10 February 2016, The

Court dismissed the request to join the proceedings filed by Italy’s Ministry of the Environment and the Protection of the Territory and the Sea as well as the Ministry of Economy and Finance as inadmissible, dismissed all claims for damages filed by the plaintiff against, among others, Interbanca, its former employees and its former director, and awarded costs against the plaintiff and the Ministries.

In March 2016, both the Ministries and the plaintiff filed an appeal against the ruling, and the hearings were scheduled for 19 July 2016 and 4 October 2016, respectively. At the first hearing on the appeal filed by the Ministries, the Court adjourned the case to the 4 October 2016 hearing on the appeal filed by the plaintiff, combining the two proceedings.

In November 2016, Interbanca, the two former employees and the managing director involved entered into separate settlement agreements with the plaintiff, which withdrew the claims against Interbanca and the three individuals. In turn, these waived the costs awarded to them in the first-instance ruling.

To settle the pending appeal proceedings, the parties formally exchanged their waivers, and at the hearing on 21 February 2017, the plaintiff's attorney announced the finalisation of the settlement agreement with the Bank and the three mentioned individuals, filing the respective waivers. The Court adjourned the case to 16 June 2017 to ascertain the performance of all settlement agreements between the plaintiff and the defendants. Meanwhile, the appeal filed by the Ministries is still pending.

On 28 July 2015, the Ministry of the Environment and the Protection of the Territory and the Sea served Interbanca with an order requiring it and the other recipients effective immediately to take all actions necessary to control, limit, remove or otherwise manage any factor that could potentially cause damage at the three industrial plants operated by the company in extraordinary administration that had filed the lawsuit described above. Interbanca appealed against the order with the competent Administrative Court, asking for its suspension.

On 21 March 2016, the Regional Administrative Court issued its ruling, upholding Interbanca's appeal and cancelling the order. On 15 July 2016, the Ministry of the Environment and the Protection of the Territory and the Sea appealed against the decision. The Ministry also filed an appeal with the Italian Council of State against the rulings issued in the proceedings brought by all the other recipients of the order of the Ministry of the Environment and the Protection of the Territory and the Sea dated 24 July 2015. A hearing has not yet been scheduled.

Arbitration concerning an equity interest in an industrial company

In early August 2016, Interbanca was served with a notice of arbitration at the National and International Arbitration Chamber of Milan by a company owning a controlling interest in a IT services company in which Interbanca owns a non-controlling interest.

The dispute specifically concerns the validity and enforceability of Interbanca's exit from the investment, especially with reference to the put option the plaintiff granted to Interbanca under the agreements between the parties. Interbanca exercised the put option in accordance with the provisions of the agreements in force before the commencement of the arbitration. To date, the plaintiff has not yet estimated the alleged damages, asking the Arbitration Board to assess or liquidate them during the proceeding—including through an equitable remedy.

Reimbursements

In line with market practice, under the purchase agreement for the former GE Capital Interbanca Group, the seller (GE Capital International Limited) made a series of representations and warranties related to Interbanca and other Investees. Similarly, the agreement also contains a limited series of representations and warranties made by Banca IFIS, which concern mostly its ability to finalise the acquisition.

In addition, the agreement includes a series of special reimbursements paid by the seller related to the main legal and tax disputes involving the former GE Capital Interbanca Group companies.

Consolidated equity

At 30 June 2017, consolidated Equity was 1.283,3 million Euro, compared to 1.218,8 million Euro at 31 December 2016 (+5,3%). 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	
	30.06.2017	31.12.2016	ABSOLUTE	%
Share capital	53.811	53.811	-	*0,0%*
Share premiums	101.776	101.776	-	*0,0%*
Valuation reserves:	(1.002)	(5.445)	4.443	*(81,6)%*
- AFS securities	*4.368*	*1.534*	*2.834*	*184,7%*
- Post-employment benefits	*49*	*(123)*	*172*	*(139,8)%*
- exchange differences	*(5.419)*	*(6.856)*	*1.437*	*(21,0)%*
Reserves	1.028.184	383.835	644.349	*167,9%*
Treasury shares	(3.187)	(3.187)	-	*0,0%*
Non-controlling interests	53	48	5	*10,4%*
Profit for the period	103.657	687.945	(584.288)	*(84,9)%*
Equity	**1.283.292**	**1.218.783**	**64.509**	**5,3%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2016	**1.218.783**
Increases:	**108.324**
Profit for the period	103.657
Change in valuation reserve:	4.443
- AFS securities	*2.834*
- Post-employment benefits	*172*
- exchange differences	*1.437*
Other changes	219
Equity attributable to non-controlling interests	5
Decreases:	**43.815**
Dividends distributed	43.814
Other changes	1
Equity at 30.06.2017	**1.283.292**

The change in the valuation reserve for AFS securities recognised in the period resulted from the fair value adjustment of the financial instruments in the portfolio.

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

OWN FUNDS AND CAPITAL ADEQUACY RATIOS (in thousands of Euro)	AMOUNTS AT	
	30.06.2017	31.12.2016
Common equity Tier 1 Capital(1) (CET1)	1.049.996	1.031.163
Tier 1 Capital (AT1)	1.075.597	1.048.606
Total own funds	**1.109.804**	**1.071.929**
Total RWA	**7.098.048**	**7.003.305**
Common Equity Tier 1 Ratio	14,79%	14,72%
Tier 1 Capital Ratio	15,15%	14,97%
Total Own Funds Capital Ratio	**15.64%**	**15,31%**

(1) At 30 June 2017, the Common Equity Tier 1 capital includes the profit for the period net of estimated dividends.

Consolidated own funds, risk-weighted assets and capital ratios at 30 June 2017 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 37,9 million Euro increase in Own Funds compared to 31 December 2016 was largely attributable to:

- 38,1 million Euro arising from the inclusion of the profit for the period (excluding the profit attributable to the Holding), net of the estimated dividend;
- 79,6 million Euro arising from the deduction of “Deferred tax assets that rely on future profitability and do not arise from temporary differences” (net of the relevant deferred tax liabilities) from CET1, up from 59,7 million Euro (i.e. the 60% deducted at 31 December 2016), in accordance with the new regulatory framework of the measures concerning own funds that will be gradually phased in with a transitional period lasting until 2017. In this regard, please note that this deduction, which is to become fully effective in 2018, will be gradually absorbed by the future use of such deferred tax assets.
- 17,9 million Euro arising from the higher amount of minority interests included in the calculation, in accordance with art. 84 of the CRR.

The nearly 95 million Euro increase in total risk-weighted assets is the result of the growth in loans to customers; the other relevant changes in assets did not affect the assets at risk because these are exposures to the Central Bank and Issuers of debt securities backed by the Italian Government.

At 30 June 2017, the growth in Own Funds and the relevant increase in risk-weighted assets caused capital ratios to improve compared to 31 December 2016:

- *Common Equity Tier 1 ratio* at 14,8%,
- *Tier 1 ratio* at 15,2%, and
- *Total Capital ratio* at 15,6%.

When comparing the results, please note that the Bank of Italy, following the Supervisory Review and Evaluation Process (SREP) conducted in 2016 to review the capitalisation targets of the system's largest intermediaries, required the Banca IFIS Group to meet the following consolidated capital requirements in 2017, including a 1,25% capital conservation buffer:

- common equity tier 1 (CET 1) capital ratio of 6,6%, with a required minimum of 5,3%;
- Tier 1 capital ratio of 8,4%, with a required minimum of 7,1%;

- Total Capital ratio of 10,7%, with a required minimum of 9,5%.

The Banca 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 2017 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 433 thousand Euro (positive 391 thousand Euro at 31 December 2016).

As previously mentioned, 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	
	30.06.2017	31.12.2016
Common equity Tier 1 Capital(1) (CET1)	1.161.532	1.099.249
Tier 1 Capital (AT1)	1.161.532	1.099.249
Total own funds	**1.161.883**	**1.099.401**
Total RWA	**7.092.627**	**6.999.061**
Common Equity Tier 1 Ratio	16,38%	15,71%
Tier 1 Capital Ratio	16,38%	15,71%
Total Own Funds Capital Ratio	**16,38%**	**15,71%**

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

Income statements items

Formation of net banking income

Net banking income totalled 264,8 million Euro, up 58,2% from 167,4 million Euro in the prior year Euro.

Specifically, this was the result of the contribution from the new Corporate Banking and Leasing segments, born from the acquisition of the former GE Capital Interbanca Group: they contributed 65,1 and 29,0 million Euro, respectively.

These amounts included the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiaries over time, totalling 53,7 million Euro for the Corporate Banking segment and 4,1 million Euro for the Leasing segment.

Compared to the prior-year period, at 30 June 2017 net banking income included also the costs associated with the funding for the mentioned acquisition, which concerned the increase in Rendimax funding volumes and the securitisations carried out in late 2016.

NET BANKING INCOME (in thousands of Euro)	1st HALF		CHANGE	
	2017	2016	ABSOLUTE	%
Net interest income	213.124	129.556	83.568	64,5%
Net commission income	34.364	26.964	7.400	27,4%
Net result from trading	(309)	(332)	23	(6,9)%
Profit (loss) from sale or buyback of receivables	17.625	5.694	11.931	209,5%
Profit from sale or buyback of financial assets	(48)	5.495	(5.543)	(100,9)%
Net banking income	**264.796**	**167.377**	**97.419**	**58,2%**

Net interest income rose from 129,6 million Euro at 30 June 2016 to 213,1 million Euro at 30 June 2017 (+64,5%).

Net commission income totalled 34,4 million Euro, up 27,4% from 30 June 2016.

Commission income, totalling 41,2 million Euro (compared to 29,5 million Euro at 30 June 2016), came primarily from factoring commissions on the turnover generated by individual customers (with or without recourse, in a flat or monthly scheme), arrangement fees for structured finance transactions, as well as from other fees usually charged to customers for services.

Commission expense, totalling 6,9 million Euro (compared to 2,6 million Euro in the prior-year period), came primarily from approved banks' brokering, the work of other credit brokers, and management fees paid to banks and other financial intermediaries.

The **gain on the sale of receivables**, totalling 17,6 million Euro (+209,5% from 5,7 million Euro in the first half of 2016), arose from the sale of a number of portfolios of receivables of the NPL Area.

The **gain on the sale financial assets** recognised in the prior-year period arose from the disposal of 5,5 million Euro worth of government bonds included in the portfolio.

Formation of net profit from financial activities

The Group's **net profit from financial activities** totalled 268,5 million Euro, compared to 135,2 million Euro at 30 June 2016 (+98,7%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	1st HALF		CHANGE	
	2017	2016	ABSOLUTE	%
Net banking income	**264.796**	**167.377**	**97.419**	**58,2%**
Net impairment losses on:	3.705	(32.215)	35.920	(111,5)%
Loans and receivables	1.207	(28.216)	29.423	(104,3)%
available for sale financial assets	(675)	(3.999)	3.324	(83,1)%
other financial transactions	3.173	-	3.173	n.a.
Net profit (loss) from financial activities	**268.501**	**135.162**	**133.339**	**98,7%**

Net impairment losses/reversal on receivables totalled a positive 1,2 million Euro (compared to a negative 28,2 million Euro at 30 June 2016, -104,3%). 11,7 million Euro referred to Trade Receivables, 14,8 million Euro to the NPL Area, 1,1 million Euro to the Leasing sector, and 0,1 million Euro to Tax Receivables; meanwhile, the Corporate Banking segment reported 28,9 million Euro in net reversals of impairment losses on receivables deriving specifically from one individually significant position.

As for net impairment losses on NPL receivables, 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 detailed in Contribution of business segments.

Net impairment losses on available for sale financial assets, totalling 0,7 million Euro (4,0 million Euro in the prior-year period), referred to impairment losses recognised on unlisted equity instruments that were found to be impaired.

Net impairment losses on other financial transactions, totalling 3,2 million Euro, represented the impact of the breakdown of the difference between the fair value of unfunded commitments as measured in the business combination and their carrying amount recognised by the subsidiaries.

Formation of profit for the period

Profit for the period, including 5 thousand Euro attributable to non-controlling interests, amounted to 103,7 million Euro, compared to 39,1 million Euro in the same period in 2016, up 165,0%.

FORMATION OF PROFIT FOR THE PERIOD (in thousands of Euro)	1st HALF		CHANGE	
	2017	2016	ABSOLUTE	%
Net profit (loss) from financial activities	**268.501**	**135.162**	**133.339**	**98,7%**
Operating costs	(122.625)	(76.797)	(45.828)	59,7%
Profit (Loss) from sales of investments	(3)	-	(3)	n.a.
Pre-tax profit from continuing operations	**145.873**	**58.365**	**87.508**	**149,9%**
Income tax expense for the period	(42.211)	(19.245)	(22.966)	119,3%
Profit for the period attributable to non-controlling interests	5	-	5	n.a.
Profit for the period	**103.657**	**39.120**	**64.537**	**165,0%**

The cost/income ratio based on the income statement totalled 46,3%, essentially in line with 45,9% at 30 June 2016.

OPERATING COSTS (in thousands of Euro)	1st HALF		CHANGE	
	2017	2016	ABSOLUTE	%
Personnel expenses	49.484	27.595	21.889	79,3%
Other administrative expenses	69.852	46.472	23.380	50,3%
Allocations to provisions for risks and charges	1.897	1.633	264	16,2%
Net value adjustments on property, plant and equipment and intangible assets	5.942	2.007	3.935	196,1%
Other operating charges (income)	(4.550)	(910)	(3.640)	400,0%
Total operating costs	**122.625**	**76.797**	**45.828**	**59,7%**

At 49,5 million Euro, **personnel expenses** rose 79,3% (27,6 million Euro in June 2016). The increase referred for 16,6 million Euro to the former Capital Interbanca Group. At the end of June 2017, the Group had 1.404 employees, of which 458 from the former GE Capital Interbanca Group.

Other administrative expenses totalled 69,9 million Euro, up 50,3% from 46,5 million Euro in the prior-year period. At 30 June 2017, the item included 14,7 million Euro referring to the Group's new subsidiaries.

There was an increase in the expenses related to the new organisation of business processes and IT systems. In this regard, in the first half of 2017 the Group recognised 5,1 million Euro in administrative expenses and 1,6 million Euro in value adjustments on intangible assets referring to the operations undertaken for the migration of some of the Bank's core IT systems.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	1st HALF		CHANGE	
	2017	2016		
Expenses for professional services	**27.154**	**19.159**	**7.995**	**41,7%**
Legal and consulting services	12.094	6.557	5.537	84,4%
Auditing	325	134	191	142,5%
Outsourced services	14.735	12.468	2.267	18,2%
Direct and indirect taxes	**11.314**	**7.254**	**4.060**	**56,0%**
Expenses for purchasing goods and other services	**31.384**	**20.059**	**11.325**	**56,5%**
Customer information	6.276	6.564	(288)	(4,4)%
Software assistance and hire	5.955	1.833	4.122	224,9%
Property expenses	3.598	2.033	1.565	77,0%
Postage of documents	2.373	2.217	156	7,0%
Car fleet management and maintenance	1.823	1.099	724	65,9%
Employee travel	1.507	788	719	91,2%
Advertising and inserts	1.494	1.297	197	15,2%
Telephone and data transmission expenses	1.347	823	524	63,7%
Securitisation costs	639	-	639	n.a.
Other sundry expenses	6.372	3.405	2.967	87,1%
Total administrative expenses	**69.852**	**46.472**	**23.380**	**50,3%**
Expense recoveries	(1.473)	(1.194)	**(279)**	23,4%
Total net other administrative expenses	**68.379**	**45.278**	**23.101**	51,0%

The subline item direct and indirect taxes included 5,1 million Euro (+48,4% compared to 30 June 2016) in stamp duty costs for retail funding, which the Banks continues bearing.

Net allocations to provisions for risks and charges totalled 1,9 million Euro (compared to 1,6 million Euro in June 2016). This amount largely referred to the 1,7 million Euro provision for a legal dispute concerning the trade receivables segment.

Other net operating income totalled 4,5 million Euro (0,9 million Euro at 30 June 2016) and refers mainly to the revenues from the recovery of expenses charged to third parties. The relevant cost item is included in other administrative expenses, namely under legal expenses and indirect taxes.

Pre-tax profit for the period stood at 145,9 million Euro, compared to 58,4 million Euro at 30 June 2016.

Income tax expense amounted to 42,2 million Euro, compared to 19,2 million Euro at 30 June 2016. The Group's tax rate declined from 33,0% at 30 June 2016 to 28,9% at 30 June 2017.

Profit for the period totalled 103,7 million Euro, compared to 39,1 million Euro in June 2016 (up 165,0%).

Excluding 5 thousand Euro in profit attributable to non-controlling interests, the **profit for the period attributable to the Parent Company** totalled 103,7 million Euro.

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 2017		31.12.2016	
	EQUITY:	OF WHICH PROFIT FORTHE PERIOD	EQUITY:	OF WHICH PROFIT FORTHE PERIOD
Parent company balance	590.929	34.954	596.975	71.722
Difference compared to the carrying amounts of the companies consolidated line by line	692.363	68.703	621.808	616.223
- IFIS Finance Sp. Zo.o.	*8.390*	*309*	*6.645*	*1.772*
- Interbanca S.p.a.	*685.153*	*69.570*	*615.163*	*614.451*
- IFIS Factoring S.r.l.	*(1.180)*	*(1.176)*	-	-
Group consolidated balance	**1.283.292**	**103.657**	**1.218.783**	**687.945**

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 Group 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.).

This examination accompanied the preparation and submission to the Supervisory body of the annual ICAAP report as at 31 December 2016.

Concerning liquidity, in 2016 Banca IFIS prepared the first ILAAP (Internal Liquidity Adequacy Assessment Process) report, and in 2017 it prepared the same document by considering the scope of the new banking Group. Liquidity is managed at consolidated level starting from the day following the closing of the acquisition of the former Interbanca Group.

In May 2017, again with reference to 31 December 2016 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 to identify, measure and manage these risks. This document has been published on Banca IFIS's website www.bancaifis.it in the 'Investor relations' section.

With reference to the above, and as per Circular 285 of 17 December 2013 as amended - Supervisory Provisions 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. This document has been updated also to include the newly acquired business scope. 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;
- Second line of defence audits 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. They are assigned to second line of defence functions;

- 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 Italian 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 and acquisition of receivables due from the Public Administration (Factoring operations)
- Corporate lending and structured finance (Lending operations)
- Finance and operating leases[8] (Leasing operations)
- Unsecured loans to retail entrepreneurs
- Purchasing and managing non-performing loan portfolios
- Purchasing and managing tax receivables

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. As part of its operations, the factoring segment purchases receivables due from public health service and local authorities outright.

The clients of the corporate lending and structured finance segments are usually corporations.

Concerning the acquisition of distressed financial (Distressed Retail Loans, i.e. non-performing loans), trade and tax receivables, the sellers are usually 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. Maintaining an effective credit risk management is a strategic objective for the Banca IFIS Group, pursued by adopting integrated tools and processes that ensure proper credit risk management at all stages (preparation, lending, monitoring and management, and interventions on troubled loans).

At 30 June 2017, the overall portfolio of Italian government bonds had a par value of 350 million Euro.

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[8] Operating leases are made through a company that is not part of the banking group—as defined by supervisory regulations—IFIS rental services.

The Banca IFIS Group does not carry out any operation involving credit derivatives.

Credit risk management policies.

Organisational aspects

Credit risks in financing operations through Factoring, Lending and Leasing directly arise from financing the business customers and guaranteeing them, when requested, against 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 customers. 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 their operations, the Italian subsidiaries, as well as the Polish subsidiary IFIS Finance, can independently take certain decisions within the operational and organisational limits defined by the Parent Company Banca IFIS.

The first stage of the risk management process involves an organisational structure responsible for assessing the creditworthiness of borrowers. 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 Area or Business Unit managers. As for higher amounts, powers are attributed solely to the Committee or bodies with management or strategic supervision functions.

Banca IFIS spa'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 central structures.

At the Group's various companies, qualified and specialised staff follow all stages of a relationship: 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.

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 (NPL Area receivables), 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. In addition, the single-name concentration risk is monitored at the Group level through the Granularity Adjustment (GA). The algorithm used to calculate the Granularity Adjustment is the one defined in Annex B, Title III of Circular no. 285 of 17 December 2013.

Management, measurement and control systems

As part of financing operations through Factoring, Lending and Leasing, credit risk is constantly monitored by means of procedures and instruments allowing to rapidly identify particular anomalies.

Banca IFIS has instruments and procedures in place allowing to specifically evaluate and monitor risks for each credit facility. In particular:

- it assesses the creditworthiness of the counterparties involved in the financing transaction;
- it identifies the risk in each individual financing transaction;
- it sets an adequate pricing for each class of risk right from the initial commercial analysis of the feasibility of the transaction.

Following a positive assessment and after starting to work with the customer, the bank continues to monitor the relevant credit risk using selected databases. The lending decision always takes into account the overall exposure to the counterparty (or related groups, if any).

As for Lending operations, loans to customers are monitored by the relevant areas, which are responsible for constantly and pro-actively monitoring borrowers based on:

- the review of credit positions
- the assessment of compliance with contractual covenants
- the overall monitoring of risk factors that could affect the borrower's ability to repay the loan.

As for Leasing operations, in 2011 the sector activated an automated universal data (AUD) system that can propose an outcome to the credit analyst, supporting him or her in making a decision. Concerning the Auto Leasing portfolio, the sector also analyses the quality of sales channels in order to divide the network of agents into clusters and adequately price future volumes.

As for the operations of the NPL Area and the purchases 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 IT systems dedicated to monitoring those portfolios.

Purchases of distressed retail loans are particularly significant. Those loans are classified as from their acquisition 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, the Banca IFIS Group constantly monitors the credit quality. 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 3 principles for calculating capital requirements against first-pillar credit risks, Banca IFIS chose to adopt the Standardised Approach.

Credit risk mitigation techniques

As part of factoring operations, 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 the Lending sector, based on the peculiarities of its products, it demands adequate collateral according to the counterparty's standing as well as the term and type of the facility. Said collateral includes mortgage guarantees, liens on plant and equipment, pledges, surety bonds, credit insurance, and collateral deposits.

As for Finance Leases, the credit risk is mitigated by the leased asset. The lessor maintains the ownership until the purchase option is exercised, ensuring a higher recovery rate in the event the client defaults.

As for operations concerning distressed loans (NPL Area receivables 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

Non-performing loans are classified essentially according to the Bank of Italy's criteria.

Concerning factoring operations, the relevant Head Office units constantly monitor clients. If the situation deteriorates or problems emerge, the Troubled Loans Area takes over the management of the exposures. 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, which takes the most appropriate actions to hedge and recover debts, periodically reporting to the Top Management and the Board of Directors. Individual value adjustments, upon proposal by the Troubled Loans Area, 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.

Concerning Lending, Workout & Credit Recovery, this ensures that the classifications of distressed receivables in the risk categories established by supervisory provisions and recognised as non-performing exposures are regularly updated. The Bank manages non-performing loans by:

- taking any action considered necessary to collect debts, hiring independent attorneys together with the *Legal & Regulatory* function if required.
- taking any non-judicial action considered necessary to collect the debt, including selling and restructuring the loans.

In this regard, the Bank performs the impairment test using the DCF (Discounted cash flow) method in the case of distressed borrowers that are still operational, or the LV (Liquidation value) method when the value of collateral represents a certain source of recovery. The Bank regularly updates the value of the mortgage based on independent appraisals adjusted to account for any losses arising from the realisation.

Concerning Leasing operations, the debt collection process is handled by the Collection office, which, after consulting with the Banking Group's various Business Units in the case of common clients, identifies the positions to be classified as bad loans among the entities with one of the contractual statuses established by internal policies.

Virtually all of NPL area receivables are classified under non-performing exposures. Purchasing receivables at amounts well below their par value and the fact that cash flows are 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 is approximately 11.025 million Euro, considering the sales completed at the end of the period. At the time of purchase, the historical book value of these receivables was approximately 11.229 million Euro, and they were acquired for approximately 564 million Euro, i.e. an average price equal to approximately 5,07% of the historical book value. In the first half of 2017, approximately 2.344 million Euro were acquired for approximately 133 million Euro, i.e. an average price equal to 5,65%. The overall portfolio of non-performing exposures purchased and not yet collected has an overall weighted average life of around 24 months compared to their acquisition date.

Furthermore, it should be noted that at the end of the first half of 2017 there were approximately 99 million Euro in outstanding bills of exchange (the amount does not include, for instance, nearly 427 million Euro in outstanding settlement plans).

In January and June 2017, the bank completed three sales of portfolios to leading players whose business is purchasing NPLs. Overall, Banca IFIS sold receivables with an outstanding book value of nearly 896 million Euro, consisting of approximately 85 thousand positions, for an overall consideration of about 37 million Euro.

The figures at 30 June 2017 do not include the receivables involved in a sale completed at the end of June, when the Bank accepted the buyer's binding offer, with an outstanding par value of approximately 98 million Euro. The sale will be finalised by September 2017.

Concerning the changes in amortised cost other than impairment related to the bad loans of the NPL 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.

Future cash flows from non-judicial operations are simulated using a statistical model, based on the proprietary portfolio's historical evidence, segmented by different drivers (the model is based on curves of breakdown over time calculated using proprietary historical technical bases).

As for individual operations, the cash flows are partly the result of the collection estimated by the manager and, only for the positions for which a court has issued a garnishment order, are calculated using a statistical model based on the data gathered from the proceedings. As in the case of collective operations, these estimates account for credit risk.

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

Types of loans/amounts	Gross exposure					Specific net value adjustments	Portfolio value adjustments	Net exposure
	Non-performing loans				Performing loans			
	up to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 year				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad loans	425.911	16.729	14.786	733.310	x	693.641	x	497.095
- of which: forborne exposures	*57.591*	-	-	*43.649*	*x*	*46.742*	*x*	*54.498*
b) Unlikely to pay	209.270	34.766	43.953	396.129	x	182.532	x	501.586
- of which: forborne exposures	*102.684*	*697*	*36.708*	*163.325*	*x*	*114.524*	*x*	*188.890*
) Non-performing past due exposures	46.598	51.454	3.592	84.154	x	13.766	x	172.032
- of which: forborne exposures	*652*	*746*	*523*	*2.084*	*x*	*1.637*	*x*	*2.368*
d) Performing past due exposures	x	x	x	x	264.049	x	4.918	259.131
- of which: forborne exposures	*x*	*x*	*x*	*x*	*8.696*	*x*	*1.710*	*6.986*
e) Other performing exposures	x	x	x	x	5.063.932	x	37.581	5.026.351
- of which: forborne exposures	*x*	*x*	*x*	*x*	*68.629*	*x*	*2.245*	*66.384*
Total A	**681.779**	**102.949**	**62.331**	**1.213.593**	**5.327.981**	**889.939**	**42.499**	**6.456.195**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	66.989	-	-	-	x	17.633	x	49.356
b) Performing	x	x	x	x	343.489	x	249	343.240
Total B	**66.989**	**-**	**-**	**-**	**343.489**	**17.633**	**249**	**392.596**
TOTAL A+B	**748.768**	**102.949**	**62.331**	**1.213.593**	**5.671.470**	**907.572**	**42.748**	**6.848.791**

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

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	Portfolio impairment	Net exposure	Specific impairment	Portfolio impairment	Net exposure	Specific impairment losses/reversal	Portfolio impairment	Net exposure	Specific impairment	Portfolio impairment	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	46	131	x	3.914	2.387	x	1.539	49.830	x	-	-	x	90.991	591.243	x	400.605	50.050	x
- of which forborne exposures	-	-		-	-		*1.305*	*7.975*		-	-		*9.367*	*32.241*		*43.826*	*6.526*	
A.2 Unlikely to pay	340	138	x	6.986	495	x	33.367	7.189	x	-	-	x	189.970	158.915	x	270.923	15.795	x
- of which forborne exposures	-	-		*1.892*	*493*		*1.878*	*2.893*		-	-		*120.920*	*105.067*		*64.200*	*6.071*	
A.3 Non-performing past due exposures	17.483	4	x	39.359	10	x	43	1	x	-	-	x	102.905	6.979	x	12.242	6.772	x
- of which forborne exposures	-	-		-	-		*15*	-		-	-		*1.123*	*173*		*1.230*	*1.464*	
A.4 Performing exposures	450.375	x	16	746.685	x	124	316.958	x	977	192	x	-	3.384.720	x	31.219	386.552	x	10.163
- of which forborne exposures	-		-	*51*		-	*16*		-	-		-	*60.084*		*1.599*	*13.219*		*2.356*
Total A	**468.244**	**273**	**16**	**796.944**	**2.892**	**124**	**351.907**	**57.020**	**977**	**192**	**-**	**-**	**3.768.586**	**757.137**	**31.219**	**1.070.322**	**72.617**	**10.163**
B. Off-balance-sheet exposures																		
B.1 Bad loans	-	-	x	-	-	x	-	-	x	-	-	x	10.284	-	x	12.527	-	x
B.2 Unlikely to pay	-	-	x	-	-	x	3.400	13.292	x	-	-	x	20.208	4.341	x	-	-	x
B.3 Other non-performing exposures	-	-	x	-	-	x	-	-	x	-	-	x	2.937	-	x	-	-	x
A.4 Performing exposures	-	x	-	-	x	-	29.216	x	110	95	x	-	313.910	x	139	19	x	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**	**32.616**	**13.292**	**110**	**-**	**-**	**-**	**347.339**	**4.341**	**139**	**12.546**	**-**	**-**
Total (A+B) 31.12.2016	**468.244**	**273**	**16**	**796.944**	**2.892**	**124**	**384.523**	**70.312**	**1.087**	**192**	**-**	**-**	**4.115.925**	**761.478**	**31.358**	**1.082.868**	**72.617**	**10.163**
Total (A+B) 31.12.2016	**459.646**	**149**	**33**	**842.737**	**2.799**	**121**	**144.623**	**70.221**	**927**	**56**	**-**	**-**	**4.309.144**	**796.565**	**32.623**	**948.266**	**93.298**	**11.242**

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	496.049	688.266	857	4.048	12	-	1	-	176	1.327
A.2 Unlikely to pay	497.961	174.596	3.518	5.813	106	2.123	-	-	1	-
A.3 Past Due Exposures	166.561	13.585	1.856	181	3.615	-	-	-	-	-
A.4 Other exposures	4.934.241	39.949	272.646	729	56.090	1.617	21.661	204	844	-
Total A	**6.094.812**	**916.396**	**278.877**	**10.771**	**59.823**	**3.740**	**21.662**	**204**	**1.021**	**1.327**
B. Off-balance-sheet exposures										
B.1 Bad loans	22.811	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	23.608	4.341	-	13.292	-	-	-	-	-	-
B.3 Past Due Exposures	2.937	-	-	-	-	-	-	-	-	-
B.4 Other exposures	291.282	249	51.958	-	-	-	-	-	-	-
Total B	**317.827**	**4.590**	**51.958**	**13.292**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 30.06.2017	**6.412.639**	**920.986**	**330.835**	**24.063**	**59.823**	**3.740**	**21.662**	**204**	**1.021**	**1.327**
Total (A+B) 31.12.2016	**6.276.324**	**978.326**	**268.242**	**23.345**	**60.068**	**4.852**	**14.678**	**123**	**860**	**1.332**

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	Impairmen t	Net exposure	Impairmen t losses/rev	Net exposure	Impairmen t losses/rev	Net exposure	Impairmen t losses/rev	Net exposure	Impairmen t
A. On-balance-sheet exposures										
A.1 Bad loans										
A.2 Unlikely to pay										
A.3 Past Due Exposures										
A.4 Other exposures	1.885.483	4	22.186	-	18.903	-	-	-	-	-
Total A	**1.885.483**	**4**	**22.186**	**-**	**18.903**	**-**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Past Due Exposures	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	59.026	-	1.208	-	-	-	-	-	-	-
Total B	**59.026**	**-**	**1.208**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 30.06.2017	**1.944.509**	**4**	**23.394**	**-**	**18.903**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2016	**2.091.160**	**-**	**26.310**	**-**	**15.983**	**-**	**-**	**-**	**-**	**-**

Major exposures

		30.06.2017	31.12.2016
a)	Carrying amount	2.588.333	2.391.848
b)	Weighted amount	486.115	660.238
c)	Number	5	4

The overall weighted amount of major exposures at 30 June 2017 consisted of 329,2 million Euro in tax assets and 152,3 million Euro in loans to customers.

Disclosure regarding Sovereign Debt

On 5 August 2011, CONSOB (drawing on ESMA document no. 2011/266 of 28 July 2011) issued Communication no. DEM/11070007 on disclosures by listed companies of their exposures to sovereign debt and market performance, the management of exposures to sovereign debt, and their operating and financial impact.

In compliance with the provisions of the aforementioned communication, it should be noted that at 30 June 2017 the book value of exposures to sovereign debt(1) represented by debt securities was 353,2 million Euro, and consisted entirely of Italian government bonds; these securities, with a par value of 350 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 2017 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 2017 totalled 912,0 million Euro, with 796,9 million Euro due from “other public bodies” and 115,1 million Euro due from the “central government” (of which 84,6 million Euro relating to tax receivables).

The valuation reserve, gross of the tax effect related to the overall position in Italian government bonds, declined from 1,3 million Euro (0,9 million Euro net of the tax effect) at the end of the first half of 2016 to approximately 1,2 million Euro at 8 August 2017 (0,8 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.

Securitisation transactions

Qualitative information

IFIS ABCP Programme securitisation

On 7 October 2016, Banca IFIS launched a three-year revolving securitisation of trade receivables due from account debtors. After Banca IFIS (originator) initially reassigned the receivables for 1.254,3 million Euro, the vehicle named IFIS ABCP Programme S.r.l. issued 850 million Euro worth of senior notes subscribed for by the investment vehicles owned by the banks that co-arranged the transaction. An additional tranche of senior notes, with a maximum par value of 150 million Euro—of which investors initially subscribed for 19,2 million Euro, and that was subsequently adjusted based on the composition of the assigned portfolio—was subscribed for by Banca IFIS, which will use them as collateral in refinancing operations with third parties. The difference between the value of the receivables portfolios and the senior notes issued represents the credit granted to the notes’ bearers, which consists in a deferred purchase price.

The transaction was arranged in order to raise part of the funding for the acquisition of the former GE Capital Interbanca Group.

Banca IFIS acts as servicer, performing the following tasks:

- following collection operations and monitoring cash flows on a daily basis;
- reconciling the closing balance at every cut off date;
- verifying, completing and submitting the service report with the information on the securitised portfolio requested by the vehicle and the banks at every cut off date.

As part of the securitisation programme, the Bank sends the amount it collects to the vehicle on a daily basis, while the new portfolio is assigned approximately four times each month; this ensures a short time lapse between the outflows from the Bank and the inflows associated with the payment of the new assignments.

Only part of the securitised receivables due from account debtors are recognised as assets—especially for the portion that the Bank has purchased outright, resulting in the transfer of all risks and rewards to the buyer. Therefore, the tables in the quantitative disclosure show only this portion of the portfolio.

In compliance with IASs/IFRSs, currently the securitisation process does not involve the substantial transfer of all risks and rewards, as it does not meet the derecognition requirements set by IAS 39. In addition, the vehicles were consolidated in order to provide a comprehensive view of the transaction.

The maximum theoretical loss for Banca IFIS is represented by the losses that could potentially arise within the portfolio of assigned receivables, and the impact would be the same as if the securitisation programme did not exist; therefore, the securitisation has been accounted for as follows:

- the securitised receivables purchased outright were recognised under “loans to customers”, subline item “factoring”;
- the funds raised from the issue of senior notes subscribed for by third parties were recognised under “outstanding securities”;
- the interest on the receivables was recognised under “interest on loans to customers”;
- the interest on the notes was recognised under “interest due and similar expenses”, subline item “outstanding securities”;
- the arrangement fees were fully recognised in profit or loss in the current year.

Indigo Lease securitisation

In December 2016, IFIS Leasing S.p.A. (originator) finalised a securitisation that involved selling a portfolio of performing loans totalling 489 million Euro to the special purpose vehicle Indigo Lease S.r.l.

The transaction was arranged in order to raise part of the funding for the acquisition of the former GE Capital Interbanca Group.

The securitisation was rated by Moody's and DBRS, which will also perform the annual monitoring throughout the term of the transaction.

The initial purchase price of the assigned receivables portfolio, equal to 489 million Euro, was paid by the vehicle to IFIS Leasing S.p.A. using funds raised from the issue of senior notes for an amount of 366 million Euro. These received an AA3 (sf) rating from Moody's and an AA (sf) rating from DBRS, and their redemption is connected to the collections realised on the receivables portfolio. In addition, the vehicle issued 138 million Euro in junior notes that were acquired by IFIS Leasing S.p.A. and did not receive a rating.

IFIS Leasing S.p.A. acts as servicer, performing the following tasks:

- following collection operations and monitoring cash flows on a daily basis;
- reconciling the closing balance every month;
- preparing the monthly report with the information about the financial position and performance of the securitised portfolio for the vehicle;
- verifying, completing and submitting the service report with the information on the securitised portfolio requested by the vehicle and the banks on a monthly and quarterly basis.

In compliance with IASs/IFRSs, currently the securitisation process does not involve the substantial transfer of all risks and rewards, as it does not meet the derecognition requirements set by IAS 39. In addition, the vehicles were consolidated in order to provide a comprehensive view of the transaction.

The maximum theoretical loss for IFIS Leasing S.p.A. is represented by the losses that could potentially arise within the portfolio of assigned receivables, and the impact would be the same as if the securitisation programme did not exist; therefore, the securitisation has been accounted for as follows:

- the securitised lease agreements were recognised under “loans to customers”, subline item “finance leases”

- the funds raised from the issue of senior notes subscribed for by third parties were recognised under “outstanding securities”;
- the interest on lease agreements was recognised under “interest on loans to customers”
- the interest on the notes was recognised under “interest due and similar expenses”, subline item “outstanding securities”;
- the arrangement fees were fully recognised in profit or loss in the current year.

In February 2017, based on contractual provisions, Banca IFIS decided to repurchase all senior notes because these have become eligible as collateral for borrowing from the European Central Bank.

Indigo Loan securitisation

In December 2016, Interbanca (originator) finalised a securitisation that involved selling a portfolio of performing loans totalling 406 million Euro to the special purpose vehicle Indigo Lease S.r.l.

The transaction was arranged in order to raise part of the funding for the acquisition of the former GE Capital Interbanca Group.

The initial purchase price of the assigned receivables portfolio, equal to 406 million Euro, was paid by the vehicle to Interbanca using funds raised from the issue of senior notes for an amount of 188 million Euro. Their redemption is connected to the collections realised on the receivables portfolio. In addition, the vehicle issued 227 million Euro in junior notes that were acquired by Interbanca.

Interbanca acts as servicer, performing the following tasks:

- following collection operations and monitoring cash flows on a daily basis;
- reconciling the closing balance every month;
- preparing the monthly report with the information about the financial position and performance of the securitised portfolio for the vehicle;
- verifying, completing and submitting the service report with the information on the securitised portfolio requested by the vehicle and the banks on a monthly and quarterly basis.

In compliance with IASs/IFRSs, currently the securitisation process does not involve the substantial transfer of all risks and rewards, as it does not meet the derecognition requirements set by IAS 39. In addition, the vehicles were consolidated in order to provide a comprehensive view of the transaction.

The maximum theoretical loss for Interbanca is represented by the losses that could potentially arise within the portfolio of assigned receivables, and the impact would be the same as if the securitisation programme did not exist; therefore, the securitisation has been accounted for as follows:

- the securitised mortgages were recognised under “loans to customers”, subline item “mortgages”;
- the funds raised from the issue of senior notes subscribed for by third parties were recognised under “outstanding securities”;
- the interest on the mortgages was recognised under “interest on loans to customers”;
- the interest on the notes was recognised under “interest due and similar expenses”, subline item “outstanding securities”;
- the arrangement fees were fully recognised in profit or loss in the current year.

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.

Following the sale of the lease agreement, Banca IFIS is jointly liable for the settlement of the relevant 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.

Pending completion of the renovation works, the Bank had entered into a lease agreement with the newco to continue using the offices for a rent essentially aligned with lease payments.

Following the completion of the renovation works, the lease agreement was terminated in October 2016.

Since the sale of the lease agreement does not meet the requirements of IAS 39 for derecognising the financial liability, Banca IFIS continues to recognise the building under property, plant and equipment, and the relevant financial liability under payables due to customers.

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 are classified under Available for Sale, falls within the scope of the banking book and does not, therefore, constitute new market risks.

At the end of the first half of 2017, the Bank recognised currency swaps with a mark-to-market value positive to the tune of 3.630 thousand Euro and negative to the tune of 91 thousand Euro. The classification of these derivatives under financial assets or 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. It should be noted that the difference between the spot price and the forward price, although this was recognised in profit or loss under item 80 Net result from trading as an exchange difference, includes also a component of interest.

In the first half of 2017, in line with internal policies forbidding any kind of trading for speculative purposes, the trading book consisted entirely of residual transactions from Corporate Desk operations (discontinued in 2009), in which clients were offered derivative contracts hedging the financial risks they assumed. In order to remove market risk, all outstanding transactions are hedged with “back to back” trades, in which the subsidiary Interbanca S.p.A. assumes a position opposite to the one sold to corporate clients with independent market counterparties.

Interest rate risk and price risk – supervisory trading book

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

The Group manages the trading book to mitigate the risk position, as it does not engage in speculative purposes.

As previously mentioned, the trading book consists entirely of residual transactions from the former Interbanca's Corporate Desk operations, and all outstanding transactions are hedged with “back to back” trades.

Interest rate risk and price risk – banking portfolio

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

Quantitative information

As a general principle, the Group does not assume significant interest rate risks. The main funding source is still the online savings account rendimax. Customer deposits on the rendimax and contomax products 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. This source of funding is complemented by collateralised or non-collateralised interbank funding. In addition, in the first half of 2017 the Group launched a 4-year institutional TLTRO (*Targeted longer-term refinancing operations*) funding programme. At the end of the period, there were three securitisation programmes launched in late 2016: one with underlying the factoring portfolio, one with underlying the leasing portfolio, and one with underlying the corporate portfolio. The first is a three-year revolving programme, and the other two are amortizing programmes. Loans to customers are still largely at floating rate.

As for the operations concerning distressed retail loans (carried out by the NPL Area), for which the business model focuses on acquiring receivables at prices lower than their book value, there is a potential interest rate risk associated with 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 transaction during the initial acquisition stage. At 30 June 2017, approximately 8% 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 sixteen months.

The interest rate risk associated with 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 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—which monitors interest rate risk trends with reference to the natural mismatching between assets and liabilities—with guidelines on the use of available credit lines.

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 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 285 of 17 December 2013 – Title III, Chapter 1, Annex C), the Interest Rate Risk has been specifically measured in terms of capital absorption.

In order to ensure Group-level monitoring and reporting, Banca IFIS has implemented an integration process to include Interbanca, IFIS Factoring Srl, IFIS Leasing Spa, and IFIS Rental Services Srl in the scope of analysis.

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 associated with price fluctuations on financial instruments, as its business focuses on financing SMEs' working capital.

Classifying the bonds held under Available for sale financial assets gives 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, since the securities portfolio is now limited in size and 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 while conducting its business.

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. Banca IFIS's foreign currency operations largely 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 associated with exchange rate fluctuations. In some cases, synthetic instruments are used as hedging instruments.

Concerning the foreign currency transactions carried out by the subsidiary Interbanca, they consist in medium/long-term loans (mostly in USD) for which the currency risk is neutralised right from their inception by securing funding denominated in the same currency. This funding is currently provided by the Parent Company Banca IFIS, which manages the consolidated net mismatching of the exposure related to said risk.

A residual currency risk arises as a natural consequence of the mismatch between the borrowers' drawdowns 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 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.

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. As already mentioned, in 2015 the Bank tested said interest for impairment, recognising a 2,4 million Euro charge in profit or loss. In 2016 and the first half of 2017, the fair value was revalued by 193,4 and 607,5 thousand Euro, respectively, through equity, bringing the value of the equity interest to 1.472,2 million Euro.

Considering the size of this investment, the Bank did not deem it necessary to hedge the ensuing currency risk.

Derivative financial instruments

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 2017, the Bank recognised foreign exchange derivatives with a positive fair value of 3,630 thousand euro and a negative fair value of 91 thousand euro. As for the transactions entered into, it should be noted that the Group never undertakes speculative transactions.

Concerning Interbanca alone, in line with internal policies forbidding any kind of trading for speculative purposes, the trading book—totalling 43,9 million Euro—consisted entirely of residual transactions from Corporate Desk operations (discontinued in 2009), in which clients were offered derivative contracts hedging the financial risks they assumed. In order to remove market risk, all outstanding transactions are hedged with “back to back” trades, in which the subsidiary assumes a position opposite to the one sold to corporate clients with independent market counterparties, resulting in 41,6 million Euro in liabilities held for trading.

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 on the domestic and international interbank market as well as with the Eurosystem. Factoring operations concern short- or very short-term trade receivables (normally not exceeding 6 months, excluding receivables due from the Public Administration, with average collection periods usually up to 12 months).

With reference to the Group’s operations concerning the NPL Area 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. To ensure expected cash flows are correctly assessed, also with a view to correctly pricing the transactions 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 presence of a portfolio of bonds 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 negatively affects the economic efficiency of cash management operations, 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, aided by the Financial Office, 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.

As for its own direct operations, the Bank has 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 order to ensure Group-level monitoring and reporting, Banca IFIS has implemented an integration process to include Interbanca, IFIS Factoring, IFIS Leasing, and IFIS Rental Services in the scope of analysis—even though IFIS Rental Services is not included in the supervisory scope.

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 regulations, the Bank has implemented a Group liquidity risk governance and management system.

Self-securitisation transaction

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).

Securitisation transactions

As for the securitisations conducted in late 2016 and their purpose, see the comments in the section on credit risks.

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 the past. 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 processes, human resources, internal systems or external events. This definition does not include strategic risk and reputational risk, but it does include legal risk (i.e. the risk of losses deriving from failure to comply with laws or regulations, contractual or extra-contractual liability, or other disputes), IT risk, risk of non-compliance, risk of money laundering and terrorist financing, and the risk of financial misrepresentation.

The main sources of operational risk are operational errors, inefficient or inadequate operational processes and controls, internal and external frauds, the outsourcing of business functions, the quality of physical and logical security, inadequate or unavailable hardware or software systems, the growing reliance on automation, staff below strength relative to the size of the business, and inadequate human resources management and training policies.

The Banca IFIS Group has adopted for a while now—consistently with the relevant regulatory provisions and industry best practices—an operational risk management framework. This consists in a set of rules, procedures, resources (human, technological and organisational), and controls aiming to identify, assess, monitor, prevent or mitigate all existing or potential operational risks in the various organisational units, as well as to communicate them to the competent levels. The key processes for properly managing operational risks are the Loss Data Collection and Risk Self Assessment.

The Risk Management continues consolidating the Loss Data Collection process through constant efforts to disseminate a culture of pro-actively managing operational risks among the various structures, and therefore to raise awareness about the Loss Data Collection process. In the first half of 2017, the Group organised and provided specific training to all structures on operational risks and the use of the loss data collection software.

In addition, the Group defines and launches specific mitigating measures to bolster operational risk controls. These measures are based on the evidence gathered from the Loss Data Collection process as well as the Risk Self Assessment conducted in 2016, which allowed to identify the main operational problems and therefore establish the most appropriate mitigating measures.

As for the Companies of the Banca IFIS Group:

- concerning the Polish subsidiary IFIS Finance, currently the management of operational risks is guaranteed by the strong involvement of the Parent Company, which makes decisions in terms of strategies and risk management;
- concerning the subsidiaries Capital Interbanca, IFIS Factoring, IFIS Leasing, and IFIS Rental Services (deriving from the acquisition of the former GE Capital Interbanca Group in late 2016), the Bank is gradually integrating the operational risk management framework in order to establish a single approach at Group level.

To calculate capital requirements against operational risks, the Group adopted the Basic Indicator Approach.

Business Combinations

Transactions undertaken in the period

In the first half of 2017, the Banca IFIS Group 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

In the first half of 2017, the Group did not make any retrospective adjustment to business combinations carried out in previous periods.

Please refer to Significant subsequent events for more information on the determination of the final cost for the acquisition of the former GE Capital Interbanca Group.

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 10 November 2016. This document is publicly available on Banca IFIS’s website, www.bancaifis.it, in the ‘Corporate Governance' Section.

During the first half of 2017, no significant transactions with related parties were undertaken.

At 30 June 2017, the Banca IFIS Group S.p.A. was owned by La Scogliera S.p.A. and consisted of the parent company Banca IFIS S.p.A., the wholly-owned subsidiary IFIS Finance Sp. Z o. o. and IFIS Factoring S.r.l., the 99,99%-owned subsidiary Interbanca S.p.A., and its subsidiaries IFIS Leasing S.p.A. and IFIS Rental Services S.r.l., in which Interbanca directly owns all voting rights.

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
2.544	-	119	60	265

The above information includes fees paid to Directors (1,7 million Euro, gross amount) and Statutory Auditors (149 thousand Euro, gross amount).

2. Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 30 June 2017, 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	-	-	1.733	**1.733**	0,0%
Other assets	31.545	-	-	**31.545**	9,5%
Total assets	**31.545**	**-**	**1.733**	**33.278**	**0,4%**
Due to customers	-	541	1.014	**1.556**	0,0%
Total liabilities	**-**	**541**	**1.014**	**1.556**	**0,0%**

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	-	7	**7**	0,0%
Interest due	-	(1)	(5)	**(6)**	0,0%
Commission income	-	-	6	**6**	0,0%
Other administrative expenses	-	-	(30)	**(30)**	0,0%

The transactions with the **parent company** concern the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree 917/86. Transactions between Banca IFIS and La Scogliera 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 2017 Banca IFIS recognised net receivables due from the parent company amounting to 31,5 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 1,0 million Euro overall.

During the period, the Bank continued its factoring operations in favour of one company headed by close relatives of executive members of the Board of Directors: the Banca IFIS Group's exposure at 30 June 2017 amounted to 0,5 million Euro.

In addition, there was a net 1,2 million Euro exposure classified under bad loans towards a company backed by close relatives of members of the Board of Directors. At 30 June 2017, the Bank recognised a 165 thousand euro impairment loss on this exposure.

Venice - Mestre, 8 August 2017

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Giovanni Bossi

Declaration of Manager charged with preparing the Company's financial reports

Certification of the consolidated half year simplified financial statements at June 30th, 2017 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, 2017 to June 30th, 2017.

2. The adequacy of the administrative and accounting procedures in place for preparing the consolidated half year simplified financial statements 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, 2017:
   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 Group 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 Group consolidated interim management report also includes a reliable analysis of the disclosure on significant related party transactions.

Venice, August 8th, 2017

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 2017

The attached report of the independent auditors and the Condensed consolidated interim financial statements at 30 June 2017, 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

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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 interim condensed consolidated financial statements, comprising the balance sheet as of June 30, 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows for the period then ended and the related explanatory notes, of Banca IFIS S.p.A. and its subsidiaries (the "Banca IFIS Group"). The 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, 2017 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, August 8, 2017

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