BANCA IFIS
VALUE TO YOUR BUSINESS

BANCA IFIS S.P.A.
2017
ANNUAL REPORTS

www.bancaifis.it

Banca IFIS S.p.A - Registered office in Via Terraglio 63, 30174 Mestre, Venice - Registration number in the Companies Registered of Venice and Tax Code 02505630109 - VAT number 02992620274 - REA (Administrative Economic Index) number: VE - 0247118 - Fully paid-up 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. Member of the National Compensation Fund.

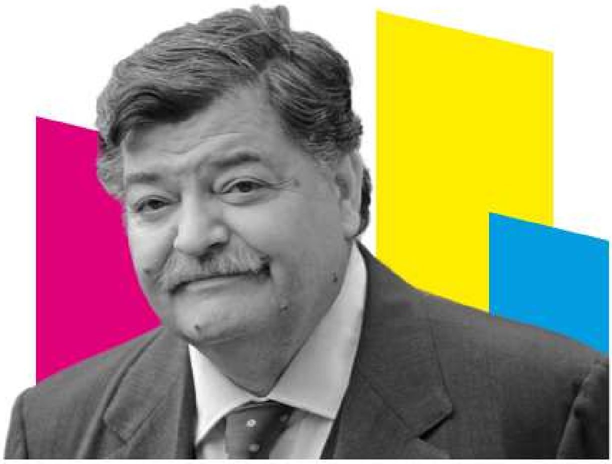
Contents

Introduction

Letter from the Chairman and the CEO to Shareholders

Dear Shareholders,

we will remember 2017 as the year of many “first times”—some of which will make an impact also on the current year. The first bond issue, intended to broaden the Bank's funding structure; the move into the market for salary-backed loans, an instrument Banca IFIS is betting big on; the first acquisition in the market for pharmacies, which will lead Credifarma to join the Group in 2018 after securing approval from regulators; and finally, the first time the Bank set two changes in motion that will allow it to continue building its future, that is the spin-off of the NPL Area and the reverse merger of the holding company La Scogliera into the Parent Banca IFIS.



Chairman SEBASTIEN EGON FÜRSTENBERG

In addition, the Bank has continued growing in the sectors it operates in: specialised corporate lending, which is increasingly key for Italy's growth and the health of its economic fabric; the sustainable management of non-performing loans; and the collection of savings. The drivers that guide us in our day-to-day business are profitability, the control of risk-adjusted profitability, and liquidity. We want to provide our customers with the solutions they need quickly, clearly and transparently: this is why digital services are crucial and we are investing in them.

Another point to consider is that the Bank will continue growing in size in the medium/long term. Its plans go hand in hand with a proportionate increase in regulatory ratios. Once again, we raised our dividend—a sign of strength and a token of gratitude for our Shareholders, who continue appreciating our work and the projects the Bank is working on.

Before handing over to the CEO, I would like to thank all Shareholders, Customers, Suppliers, Collaborators, and Management for a year filled with challenges and projects, wishing the Banca IFIS Group a 2018 full of hard work, strong results, and increasingly ambitious goals.

Sebastien Egon Fürstenberg, Banca IFIS Chairman

2017 was a year in which relevant attention was addressed towards internal integration processes and efficiency improvements within the individual business units as well as through the streamlining of the corporate structure. The change in the core banking system, the adoption of a new CRM system at the Group level, and the launch of new web platforms—leveraging digital innovation to improve the relationship with the customer—had a significant impact on the Group's operations throughout the year. To make all this possible, we had to make considerable investments in human resources, providing training as well as looking for new skilled talents to join the Group.


CEO GIOVANNI BOSSI

The current market scenario and the search for new growth opportunities led the Bank to consider expanding into new business areas. The recent acquisition of Cap.Ital.Fin—which specialises in salary-backed loans—and the binding agreements entered into for the acquisition of Credifarma are aimed at providing the best possible service to more and more customers, be they individuals or SMEs.

During the year a lot of work was done to diversify funding sources and rationalise their cost, resulting in greater flexibility, easier access to funding, and stronger liquidity and capital ratios. Also the issuer rating received from Fitch contributed to this end.

The Group's goals for 2018 are consistent with those set for 2017: we will relentlessly seek to promote synergies, streamline operations, create value, and innovate.

Giovanni Bossi, Banca IFIS CEO

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

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

Member of Factors Chain International

Directors' report

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 Banca IFIS acquired 99,99% of the former GE Capital Interbanca S.p.A..

  Concerning the cost for the acquisition of the former GE Capital Interbanca Group, provisionally estimated at 119,2 million Euro, in July 2017 the Group and the seller agreed to additional adjustments, bringing the final acquisition cost to 109,4 million Euro. The impact of this price adjustment was applied retrospectively to the reporting period ended 31 December 2016. Therefore, at 1 January 2017 the statement of financial position was restated (column 31 December 2016 restated), adding 9,8 million Euro to item 150 "Other assets" and deducting 9,8 million Euro from item 100 "Equity investments" This restatement did not affect the income statement at 31 December 2016.

  The line item Other assets, which consisted of the receivable due from the seller for the excess consideration paid up front at the transaction date, was settled on 31 July 2017 with the receipt of the relevant exposure.

  This restatement was also reflected in the Financial Statements, which present both the amounts of the financial statements for the year ended 31 December 2016 and the corresponding restated amounts at 1 January 2017 (column 31 December 2016 Restated) as comparative data.

  The tables in this Directors' Report and the Notes to the Financial Statements present only the corresponding restated amounts as comparative information.

- **New model to estimate the cash flows of the acquired receivables due from Italy's NHS**: with reference to the comparative data, please note that during 2016 the Bank implemented a new model to estimate the cash flows of the acquired receivables due from Italy's National Health Service. Specifically, the Bank estimates the interest on arrears considered recoverable from the acquisition date based on historical evidence. Banca IFIS estimates cash flows in accordance with the provisions of the joint Bank of Italy/Consob/Ivass document no.7 of 09 November 2016 "Accounting of interest on arrears as per Italian Legislative Decree 231/2002 on performing loans purchased outright". In 2016, the change in estimated cash flows, discounted using the original IRR of the positions, resulted in a 15,8 million Euro change in amortised cost recognised in profit or loss under interest income.

Highlights

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	2017	2016 RESTATED	ABSOLUTE	%
Available for sale financial assets	833.833	325.050	508.783	156,5%
Due from banks	1.546.776	1.798.767	(251.991)	(14,0)%
Loans to customers	5.784.059	4.464.566	1.319.493	29,6%
Total assets	9.302.537	7.037.838	2.264.699	32,2%
Due to banks	774.475	533.385	241.090	45,2%
Due to customers	5.966.901	5.662.176	304.725	5,4%
Equity	1.337.294	596.975	740.319	124%

RECLASSIFIED INCOME STATEMENT HIGHLIGHTS (1) (in thousands of Euro)	YEAR		CHANGE	
	2017	2016	ABSOLUTE	%
Net banking income (1)	**454.703**	**320.654**	**134.049**	**41,8%**
Net impairment losses/reversal on receivables and other financial assets(1)	(7.082)	(24.936)	17.854	(71,6)%
Net profit (loss) from financial activities	**447.621**	**295.718**	**151.903**	**51,4%**
Operating costs	(232.241)	(187.647)	(44.594)	19,2%
Gross profit	215.416	108.071	107.345	49,8%
Net profit for the year	**154.906**	**71.722**	**83.184**	**53,7%**

(1) Net impairment losses on NPL Area receivables, totalling 33,5 million Euro at 31 December 2017 compared to 32,6 million Euro at 31 December 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 HIGHLIGHTS (1) (in thousands of Euro)	4th QUARTER		CHANGE	
	2017	2016	ABSOLUTE	%
Net banking income (1)	**83.389**	**85.234**	**(1.845)**	**(2,2)%**
Net impairment losses/reversals on receivables and other financial assets (1)	(27.509)	(5.458)	(22.051)	404,0%
Net profit (loss) from financial activities	**55.880**	**79.776**	**(23.896)**	**(30,0)%**
Operating costs	(46.054)	(69.678)	23.624	(33,9)%
Gross profit	9.865	10.098	(233)	(2,3)%
Net profit for the year	**5.776**	**6.665**	**(7.101)**	**(55,1)%**

(1) Net impairment losses in the NPL Area, totalling 10,4 million Euro in the 4th quarter of 2017 and 9,0 million Euro in the 4th 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.

KPIs

KPIs	YEAR 2017	YEAR 2016 RESTATED	CHANGE %
ROE	12,0%	12,6%	(0,6)%
ROA	2,3%	1,5%	0,8%
Reclassified cost/income ratio [1]	51,1%	58,5%	(7,4)%
Ratio - Total Own Funds	23,66%	14,00%	9,66%
Ratio - Common Equity Tier 1	17,46%	14,00%	3,46%
Number of company shares (in thousands)	53.811	53.811	0,0%
Number of shares outstanding at period end[2] (in thousands)	53.433	53.431	0,0%
Book per share	25,03	11,17	124,1%
EPS	2,90	1,35	114,8%
Dividend per share	1,00[3]	0,82	22,0%
Payout ratio	34,5%	61,1%	(26,6)%

(1) Net impairment losses on NPL Area receivables, totalling 33,5 million Euro at 31 December 2017 compared to 32,6 million Euro at 31 December 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.
(2) Outstanding shares are net of treasury shares held in the portfolio.
(3) Dividend proposed by the Board of Directors

Impact of regulatory changes

Here below are the regulatory changes introduced in 2017 impacting Banca IFIS:

- Tax aspects: among the latest regulations on tax matters, the following impacted the determination of Banca IFIS's income tax expense for 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 (4,75% in 2016).

Financial and income results

The main line items are commented on below.

Statement of financial positions items

MAIN STATEMENT OF FINANCIAL POSITION ITEMS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	2017	2016 RESTATED	ABSOLUTE	%
Available for sale financial assets	833.834	325.050	508.784	156,5%
Loans to customers	5.784.059	4.464.566	1.319.493	29,6%
Due from banks	1.546.776	1.798.767	(251.991)	(14,0)%
Property, plant and equipment and intangible assets	131.580	77.112	54.468	70,6%
Tax assets	372.820	69.496	303.324	436,5%
Other assets	633.468	302.847	330.621	109,2%
Total assets	**9.302.537**	**7.037.838**	**2.264.699**	**32,2%**
Due to customers	5.966.901	5.662.176	304.725	5,4%
Due to banks	774.475	533.385	241.090	45,2%
Debt securities issued	789.994	-	789.994	-
Provisions for risks and charges	13.163	4.331	8.832	203,9%
Tax liabilities	38.503	14.320	24.183	168,9%
Other liabilities	382.207	226.651	155.556	68,6%
Equity	1.337.294	596.975	740.319	124,0%
Total liabilities and equity	**9.302.537**	**7.037.838**	**2.264.699**	**32,2%**

Available for sale (AFS) financial assets

Available for sale (AFS) financial assets, which include debt and equity securities, stood at 833,8 million Euro at 31 December 2017, +156,5% compared to 325,1 million Euro at the end of 2016. The valuation reserve, net of taxes, was positive to the tune of 2,3 million Euro at 31 December 2017 (1,0 million Euro at 31 December 2016).

Debt securities held in the portfolio at 31 December 2017 amounted to 805,4 million Euro, up 149,3% from 31 December 2016 (323,1 million Euro). The amount included 377,3 million Euro in notes deriving from the “Indigo Lease” securitisation that Banca IFIS purchased in early 2017. This securitisation concerns the receivables of the subsidiary IFIS Leasing.

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

Issuer:	2 years	3 years	Over 5 years	Total
Government bonds	30.138	-	397.694	427.832
% of total	7,0%	-	92,9%	99,9%
Other issuers	-	44	201	245
% of total	-	0,0%	0,1%	0,1%
Total	**30.138**	**44**	**397.895**	**428.077**
% of total	***7,0%***	***0,0%***	***93,0%***	***100%***

Available for sale financial assets include **equity securities** relating to non-controlling interests in unlisted companies, amounting to 11,7 million Euro (2 million Euro at 31 December 2016). The increase

referred almost entirely to the portfolio derived from the merger of the subsidiary Interbanca S.p.A. into Banca IFIS, finalised on 23 October 2017.
Available for sale financial assets included also 13,7 million Euro in UCITS units obtained in part through the merger of Interbanca S.p.A. and in part after the restructuring of an impaired position.

Receivables due from banks

At 31 December 2017, **receivables due from banks** totalled 1.546,8 million Euro, compared to 1.798,8 million Euro at 31 December 2016. This surplus liquidity is partly intended to ensure the margin necessary to perform day-to-day banking operations and is partly in excess of structural and operational requirements. The liquidity held with central banks, including the reserve requirement, amounted to 1,3 billion Euro.

Loans to customers

Total **loans to customers** amounted to 5.784,1 million Euro, up 29,6% from 4.464,6 million Euro at the end of 2016. Here below is the breakdown by segment.

The loans of the NPL Area rose by +42,2%, mainly because of new acquisitions. Also the loans of the tax receivables and Governance and Services segments were up (+4,7% and +135,3%, respectively) following the acquisition of a performing retail portfolio. Corporate Banking contributed 1.059,7 million Euro (+17,0%). Trade receivables declined slightly by 0,3% from the end of 2016.
The breakdown of loans to customers was as follows: 13,8% are due from the Public Administration and 86,2% from the private sector (compared to 22,4% and 77,6% at 31 December 2016).
Please note that this line item does not include exposures qualifying as “major exposures”, i.e. individual exposures amounting to more than 10% of own funds.

Here below is the breakdown of forborne exposures by segment.

FORBEARANCE (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	NPL AREA	TAX RECEIVA-BLES	GOVERNANCE AND SERVICES	TOTAL
Bad loans						
Amounts at 31.12.2017	1.687	3.248	54.801	-	2	59.738
Amounts at 31.12.2016	*2.439*	-	*33.550*	-	-	*35.989*
% Change	*(30,8)%*	*n.a.*	*63,3%*	-	*n.a.*	*66,0%*
Unlikely to pay						-
Amounts at 31.12.2017	16.417	66.995	55.506	-	-	138.918
Amounts at 31.12.2016	*19.312*	-	*53.368*	-	-	*72.680*
% Change	*(15,0)%*	*n.a.*	*4,0%*	-	-	*91,1%*
Past due loans						-
Amounts at 31.12.2017	-	634	-	-	12	646
Amounts at 31.12.2016	-	-	-	-	-	-
% Change	-	*n.a.*	-	-	*n.a.*	*n.a.*
Performing loans						-
Amounts at 31.12.2017	5.122	38.850	-	-	12	43.984
Amounts at 31.12.2016	*6.955*	-	*15*	-	-	*6.970*
% Change	*(26,4)%*	*n.a.*	*(100,0)%*	-	*n.a.*	*531,0%*

Total net **non-performing exposures** amounted to 1.188,0 million Euro, up 59,1% from 746,8 million Euro in December 2016 as a result of both the acquisitions the NPL Area finalised during 2017 and the contribution from the merger of the subsidiary Interbanca S.p.A.. The net non-performing exposures of the Corporate Banking segment amounted to 168,8 million Euro, with a coverage ratio of 75,6%.

Net non-performing exposures in the Trade Receivables segment increased by 18,3% from 184,5 million Euro at the end of 2016 to 218,2 million Euro, largely because of the rise in unlikely to pay associated with the deterioration of an individually significant position. As a proportion of equity, non-performing exposures amounted to 16,3% (30,9% in December 2016).

TRADE RECEIVABLES (in thousands of Euro)	BAD LOANS(1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING	PERFORMING
SITUATION AT 31/12/2017					
Nominal amount of non-performing exposures	288.212	129.402	108.619	526.233	3.553.592
As a proportion of total receivables at nominal amount	*7,1%*	*3,2%*	*2,7%*	*12,9%*	*87,1%*
Impairment losses/reversals	256.844	47.041	4.126	308.011	12.841
As a proportion of the nominal amount	*89,1%*	*36,4%*	*3,8%*	*58,5%*	*0,4%*
Carrying amount	31.368	82.361	104.493	218.222	3.540.751
As a proportion of net total receivables	*0,8%*	*2,2%*	*2,8%*	*5,8%*	*94,2%*
SITUATION AT 31/12/2016					
Nominal amount of non-performing exposures	272.952	76.528	103.211	452.691	3.595.053
As a proportion of total receivables at nominal amount	*6,7%*	*1,9%*	*2,5%*	*11,2%*	*88,8%*
Impairment losses/reversals	241.260	25.641	1.326	268.227	9.355
As a proportion of the nominal amount	*88,4%*	*33,5%*	*1,3%*	*59,3%*	*0,3%*
Carrying amount	31.692	50.887	101.885	184.464	3.585.698
As a proportion of net total receivables	*0,8%*	*1,3%*	*2,7%*	*4,9%*	*95,1%*

(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 among trade receivables amounted to 31,4 million Euro, -1,0% from the end of 2016; the segment's net bad-loan ratio was 0,8%, in line with the previous year. Net bad loans amounted to 2,3% as a proportion of equity, compared to 5,3% at 31 December 2016. The coverage ratio stood at 89,1% (88,4% at 31 December 2016).

The balance of **net unlikely to pay** was 82,4 million Euro, up 61,9% from 50,9 million Euro at the end of 2016. As already mentioned, this was mainly because of the impairment loss recognised on an individually significant position. The coverage ratio stood at 36,4% (33,5% at 31 December 2016)

Net non-performing past due exposures totalled 104,5 million Euro, compared with 101,9 million Euro in December 2016 (+2,6%). The coverage ratio stood at 3,8% (1,3% at 31 December 2016)

Net non-performing exposures among corporate banking receivables totalled 168,8 million Euro following the merger of Interbanca S.p.A., with an overall coverage ratio of 75,6%. The coverage ratio for bad loans, unlikely to pay, and past due exposures was 93,5%, 43,4%, and 2,8%, respectively.

CORPORATE BANKING LOANS (in thousands of Euro)	BAD LOANS[1]	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING	PERFORMING
SITUATION AT 31/12/2017					
Nominal amount of non-performing exposures	445.381	245.720	945	692.046	926.856
As a proportion of total receivables at nominal amount	*27,5%*	*15,2%*	*0,1%*	*42,7%*	*57,3%*
Impairment losses/reversals	416.473	106.706	26	523.205	18.407
As a proportion of the nominal amount	*93,5%*	*43,4%*	*2,8%*	*75,6%*	*2,0%*
Carrying amount	28.908	139.014	919	168.841	908.449
As a proportion of net total receivables	*2,7%*	*12,9%*	*0,1%*	*15,7%*	*84,3%*
SITUATION AT 31/12/2016					
Nominal amount of non-performing exposures	-	-	-	-	-
As a proportion of total receivables at nominal amount	-	-	-	-	-
Impairment losses/reversals	-	-	-	-	-
As a proportion of the nominal amount	-	-	-	-	-
Carrying amount	-	-	-	-	-
As a proportion of net total receivables	-	-	-	-	-

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

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 21,3 million Euro, compared to 13,1 million Euro at 31 December 2016 (+62,2%), and referred entirely to software; the increase was largely attributable to the systems for the integration with the new Core Banking system as well as the reorganisation of some IT systems.

Property, plant and equipment and investment property totalled 110,3 million Euro, up from 64,0 million Euro at 31 December 2016 largely because of the merger with Interbanca S.p.A..

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 deriving from the mentioned merger of the subsidiary Interbanca.

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.
The following table shows the breakdown of current tax assets by type.

CURRENT TAX ASSETS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	2017	2016	ABSOLUTE	%
Irap (regional tax on productive activities)	10.102	8.922	1.180	13,2%
Ires (corporate income tax)	12.211	755	11.200	1.517,4%
Ires on sale of receivables	21.278	21.278	-	0,0%
Credits from DTA Conversion	25.867	-	25.867	-
Others	1.427	258	1.425	453,1%
Total	**70.885**	**31.213**	**39.672**	**127,1%**

The change in current tax assets was closely associated with the recognition of the tax receivables of the merged entity Interbanca S.p.A., including 25,9 million Euro in tax credits from the conversion of deferred tax assets in accordance with Italian law 214/11 that can be set off in unlimited amounts against tax liabilities

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

DEFERRED TAX ASSETS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	2017	2016	ABSOLUTE	%
Loans to customers	176.214	36.184	140.030	387,0%
Past tax losses that can be carried forward	91.395	-	91.395	-
Aid for economic growth that can be carried forward	24.599	-	24.599	-
Provisions for risks and charges	7.484	1.209	6.275	519,0%
Others	2.243	890	1.353	152,0%
Total	**301.935**	**38.283**	**263.652**	**688,7%**

The change in deferred tax assets was closely associated with the recognition of the deferred tax assets of the merged entities Interbanca S.p.A. and, to a lesser extent, IFIS Factoring S.r.l..

Deferred tax assets totalled 301,9 million Euro and can be classified as follows: 176,2 million Euro in impairment losses on receivables that can be deducted in the following years, 91,4 million Euro in tax losses that can be carried forward, and 24,6 million Euro in ACE (Aid for Economic Growth) benefits that can be carried forward. The item Other includes temporary differences on various costs with deferred deductibility.

Finally, please note that, pursuant to the current Tax Consolidation arrangements, the deferred tax asset receivable related to the taxable profit for the period was included in Other Assets as an approximately 51,4 million Euro Receivable due from La Scogliera.

The main types of deferred tax liabilities are shown below:

Deferred tax liabilities	AMOUNT AT		CHANGE	
	2017	2016	ABSOLUTE	%
Property, plant and equipment – operating assets	9.001	325	8.676	2.669,5%
Receivables for interest on arrears	23.661	13.292	10.369	78,0%
Loans to customers	3.460	-	-	-
Personnel expenses	185	-	-	-
AFS securities	1.798	394	1.404	356,3%
Others	398	309	89	28,8%
Total	**38.503**	**14.320**	**24.183**	**168,9%**

The change in deferred tax liabilities was attributable to the recognition of the deferred tax liabilities of the merged entity Interbanca S.p.A. on the revaluation of property as well as the increase in receivables for interest on arrears that will be taxed upon receipt.

Other assets and liabilities

Other assets amounted to 231,6 million Euro at 31 December 2017 (+39,0% compared to the restated amount at 1 January 2017).

The restated balances at 1 January 2017 reflect the 9,8 million Euro price adjustment for the acquisition of the former Interbanca Group, which consists of the receivable due from the seller for the excess consideration paid up front at the transaction date. This receivable was settled on 31 July 2017 with the receipt of the relevant exposure.

This line item included a 105,0 million Euro receivable due from the parent company La Scogliera S.p.A., including 51,4 million Euro deriving from the tax consolidation regime and 53,6 million Euro for the tax credits claimed by the latter for excess tax payments from prior years; in addition, this line item included 5,7 million Euro in receivables due from Italian tax authorities for payments on account (stamp duty), 4,4 million Euro in funds placed in an escrow account pending the resolution of a dispute, and 24,5 million Euro in VAT credits claimed. Finally, the line item included also 38,3 million Euro in deferred costs associated with the NPL Area's judicial debt collection proceedings pending a garnishment order from the judge.

At the end of the period, other liabilities totalled 338,5 million Euro (+0,3% 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	
	31.12.2017	31.12.2016	ABSOLUTE	%
Due to customers:	**5.966.901**	**5.662.176**	**304.725**	**5,4%**
Repurchase agreements	-	*270.314*	*(270.314)*	*(100,0)%*
Rendimax and Contomax	*4.948.386*	*4.519.260*	*429.126*	*9,5%*
Other term deposits	*104.675*	*101.500*	*3.175*	*3,1%*
Other payables	*913.840*	*771.102*	*142.738*	*18,5%*
Due to banks	**774.475**	**533.385**	**241.090**	**45,2%**
Eurosystem	*699.585*	-	*699.585*	-
Repurchase agreements	-	*50.886*	*(50.886)*	*(100,0)%*
Other payables	*74.890*	*482.499*	*(407.609)*	*(84,5)%*
Debt securities issued	**789.994**	**-**	**789.994**	**-**
Total funding	**7.531.370**	**6.195.561**	**1.335.809**	**21,6%**

Total funding, which amounted to 7.531,4 million Euro at 31 December 2017, up 21,6% compared to 31 December 2016, is represented for 79,2% by **Payables due to customers** (compared to 91,4% at 31 December 2016), for 10,3% by **Payables due to banks** (compared to 8,6% at 31 December 2016), and for 10,5% by **Debt securities issued** (0,0% at 31 December 2016).

Payables due to customers at 31 December 2017 totalled 5.966,9 million Euro (+5,4% compared to 31 December 2016). The settlement of 270,3 million Euro in repurchase agreements outstanding at 31 December 2016 was more than offset by the rise in retail funding (Rendimax and Contomax): this totalled 4.948,4 million Euro at 31 December 2017, compared to 4.519,3 million Euro at 31 December 2016 (+9,5%). The Bank continued bearing proportional stamp duty costs on rendimax and contomax, which amounted to 0,20%, until the end of the year.

On 31 October 2017, it changed interest rates on the Rendimax savings account and the Contomax current account as well as announced that, as far as retail funding is concerned, effective 1 January 2018 clients will be responsible for stamp duty costs for both the Rendimax savings account and the Contomax current account.

Payables due to banks, totalling 774,5 million Euro (compared to 533,4 million Euro in December 2016), increased by 45,2%, largely because of the 700,0 million Euro (par value) TLTRO tranche obtained in March 2017.

Deposits at other banks declined to 38,1 million Euro from 296,4 million Euro at the end of the previous year (-87,2%).

Debt securities issued amounted to 790,0 million Euro. The line item included the 300,9 million Euro (including interest) senior bond that Banca IFIS issued in the first half of 2017 as well as the 401,5 million Euro (including interest) Tier 2 bond issued in mid-October 2017. The rest of debt securities issued at 31 December 2017 included 87,0 million Euro in bond loans and 0,6 million 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)	YEAR		CHANGE	
	2017	2016	ABSOLUTE	%
Legal disputes	10.727	1.855	8.872	478,3%
Other provisions	2.436	2.476	(40)	(1,6)%
Total provisions for risks and charges	**13.163**	**4.331**	**8.832**	**203,9%**

Legal disputes

The provision outstanding at 31 December 2017, amounting to 10,7 million Euro, included 7,1 million Euro for 22 disputes concerning the Trade Receivables segment (the plaintiffs seek 25,8 million Euro in damages), 74 thousand Euro for 7 disputes concerning the NPL Area (the plaintiffs seek 147 thousand Euro in damages), and 3,5 million Euro for 9 disputes concerning the former Interbanca (the plaintiffs seek 50,5 million Euro in damages).

Other provisions

The provision outstanding at 31 December 2017, amounting to 2,4 million Euro, included 1,6 million Euro in personnel-related expenses and 0,8 million Euro in other provisions, including 0,6 million Euro as provision for risks on unfunded commitments.
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).

Equity, own funds, and capital adequacy ratios

At 31 December 2017, **Equity** totalled 1.337,3 million Euro, up 124,0% from 597,0 million Euro.
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	
	2017	2016	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	101.864	101.776	88	0,1%
Valuation reserves:	2.133	747	3.264	436,9%
- *AFS securities*	2.275	955	3.198	334,9%
- *Post-employment benefits*	(142)	(208)	66	(31,7)%
Reserves	1.027.748	372.106	653.764	175,7%
Treasury shares	(3.168)	(3.187)	19	(0,6)%
Net profit for the year	154.906	71.722	83.184	116,0%
Equity	**1.337.294**	**596.975**	**740.319**	**124,0%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2016	**596.975**
Increases:	**784.133**
Profit for the year	154.906
Sale/grant of treasury instruments	88
Change in valuation reserve:	1.386
- AFS securities	*1.320*
- Post-employment benefits	*66*
Other changes	627.753
Decreases:	**43.814**
Dividends distributed	43.814
Equity at 31.12.2017	**1.337.294**

The line item "other changes" was closely associated with the merger of the subsidiary Interbanca S.p.A. into Banca IFIS, finalised on 23 October 2017. The merger was carried out using the pooling of interest method based on the Group's Consolidated Financial Statements, resulting in a 627,3 million Euro merger surplus.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS (in thousands of Euro)	AMOUNTS AT	
	31.12.2017	31.12.2016 RESTATED
Common equity Tier 1 Capital[1] (CET1)	1.126.044	549.091
Tier 1 Capital (T1)	1.126.044	549.091
Total own funds	**1.526.233**	**549.127**
Total RWA	**6.450.215**	**3.922.844**
Common Equity Tier 1 Ratio	17,46%	14,00%
Tier 1 Capital Ratio	17,46%	14,00%
Total Own Funds Capital Ratio	**23,66%**	**14,00%**

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

The individual own funds, risk-weighted assets and capital ratios at 31 December 2017 were calculated based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), which were transposed in the Bank of Italy's Circulars no. 285 and 286 of 17.

For more details on Own Funds, please see Part F – Section 2 of the Notes to these Financial Statements.

Income statements items

Formation of net banking income

Net banking income totalled 488,2 million Euro, up 38,2% from 353,3 million Euro in the prior year.

The positive performance was the result of a series of factors such as the merger of the subsidiary Interbanca S.p.A., which became effective for accounting purposes as of 1 January 2017 and contributed 146,1 million Euro—including 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 recognised receivables, amounting to 109,9 million Euro. Another positive contribution came from the performance of Tax Receivables, while the Trade Receivables segment saw some pressures on margins—especially with medium- and large-sized business customers. For comparative purposes, please note that the amount for the previous year included the 15,8 million Euro positive impact from the implementation of the new model to estimate the cash flows of health service receivables.

As for the NPL Area, it achieved remarkably positive results by effectively managing existing portfolios as well as improving the quality of payment arrangements. The Area grew by 9,4% even though it sold less portfolios than in the previous year, which resulted in lower capital gains.

Net banking income was also affected by funding costs (at the end of 2017, interest expense totalled 103,9 million Euro, compared to 55,7 million Euro in 2016), which the Group sought to rationalise throughout the year.

Specifically, Banca IFIS:

- at the end of May, finalised a 300 million Euro stand-alone unrated senior bond issue on the Irish Stock Exchange with a 3-year maturity, a 1,75% coupon rate, and a yield to maturity at issue of 1,85%;
- halfway through October, finalised a 400 million Euro Tier 2 bond issue with a 10-year maturity and callable after 5 years on the Irish Stock Exchange, with a 4,5% coupon rate;
- on 31 October 2017, changed interest rates on the Rendimax savings account and the Contomax current account—whose average cost for the year amounted to 1,55%, including stamp duty costs borne by Banca IFIS—as well as announced that, as far as retail funding is concerned, effective 1 January 2018 customers will be responsible for stamp duty costs for both the Rendimax savings account and the Contomax current account;
- optimised the costs of the securitisation transactions launched for the acquisition of the former GE Capital Interbanca Group, winding some of them down;
- optimised the management of excess liquidity by making short/medium-term investments to mitigate the impact of negative interest rates on deposits with the Bank of Italy;
- participated in the ECB's last TLTRO auction in March 2017, borrowing 700 million Euro. Considering the outlook for loans, the cost of the TLTRO is estimated at -0,40% over 4 years.

NET BANKING INCOME (in thousands of Euro)	YEAR		CHANGE	
	31.12.2017	31.12.2016	ABSOLUTE	%
Net interest income	389.782	252.976	136.806	54,1%
Net commission income	60.716	50.790	9.926	19,5%
Dividends and similar income	48	-	48	n.a.
Net result from trading	12.027	(508)	12.535	(2.467,5)%
Profit (loss) from sale or buyback of receivables	19.016	44.529	(25.513)	(57,3)%
Profit from sale or buyback of financial assets	6.579	5.495	1.084	19,7%
Net banking income	**488.168**	**353.282**	**134.886**	**38,2%**

Net interest income rose from 253,0 million Euro at 31 December 2016 to 389,8 million Euro at 31 December 2017 (+54,1%).

Net commission income totalled 60,7 million Euro, up 19,5% from 31 December 2016.
Commission income, totalling 67,9 million Euro (compared to 56,2 million Euro at 31 December 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 7,2 million Euro (compared to 5,5 million Euro in the prior-year period), largely referred to fees paid to approved banks and financial intermediaries, the work of credit brokers, and commissions paid to correspondent banks and factors.

The Bank reported an 12,0 million Euro **profit from trading**, compared to a 0,5 million Euro loss at 31 December 2016, thanks to the settlement of a dispute concerning the exit of the merged entity Interbanca from the investment in a technology company: in August 2017, the shares were transferred to the majority shareholder.

The **gain on the sale of receivables**, totalling 19,0 million Euro (-57,3% from 44,5 million Euro in 2016), arose from the sale of a number of portfolios of receivables of the NPL Area.

The Group reported a 6,6 million Euro **gain on the sale of financial assets**, up 19,7% from 31 December 2016, resulting from the sale of government and bank bonds carried out in the fourth quarter of 2017.

Formation of net profit from financial activities

Net profit from financial activities totalled 447,6 million Euro, compared to 295,7 million Euro at 31 December 2016 (+51,4%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	YEAR		CHANGE	
	31.12.2017	31.12.2016	ABSOLUTE	%
Net banking income	**488.168**	**353.282**	**134.886**	**38,2%**
Net impairment losses on:	(40.547)	(57.564)	17.017	(29,6)%
loans and receivables	(44.111)	(53.208)	9.097	(17,1)%
available for sale financial assets	(2.041)	(4.356)	2.315	(53,1)%
other financial transactions	5.605	-	5.605	n.a.
Net profit (loss) from financial activities	**447.621**	**295.718**	**151.903**	**51,4%**

Net impairment losses on receivables totalled 44,1 million Euro (compared to 53,2 million Euro at 31 December 2016, -17,1%). The decline was largely attributable to two opposite impacts: on the one hand, the impairment losses recognised in the fourth quarter of 2017 on an individually significant position of the Trade Receivables segment; on the other hand, the reversals of impairment losses as a result of debt collection operations and the successful restructuring of individually significant positions of the Corporate Banking segment.

This line item included 33,5 million Euro in impairment losses in the NPL Area (32,6 million Euro at 31 December 2016) that referred to positions for which trigger events occurred, causing the position to become impaired under the adopted measurement model and the relevant accounting policy.

Net impairment losses on available for sale financial assets, totalling 2,0 million Euro (4,4 million Euro at 31 December 2016), referred to impairment losses recognised on unlisted instruments that were found to be impaired.

The Bank recognised 5,6 million Euro in **reversals of impairment losses on other financial transactions**, with 3,3 million Euro referring to 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. The remainder referred to the reversal of a liability for guarantees following a successful debt restructuring.

Formation of profit for the year

FORMATION OF NET PROFIT FOR THE YEAR (in thousands of Euro)	YEAR		CHANGE	
	31.12.2017	31.12.2016	ABSOLUTE	%
Net profit (loss) from financial activities	**447.621**	**295.718**	**151.903**	**51,4%**
Operating costs	(232.241)	(187.647)	(44.594)	23,8%
Profit (Loss) from sales of investments	36	-	36	n.a.
Pre-tax profit from continuing operations	**215.416**	**108.071**	**107.345**	**99,3%**
Income tax expense	(60.510)	(36.349)	(24.161)	66,5%
Net profit for the year	**154.906**	**71.722**	**83.184**	**116,0%**

The cost/income ratio totalled 47,6%, compared to 53,1% at 31 December 2016.

OPERATING COSTS (in thousands of Euro)	YEAR		CHANGE	
	31.12.2017	31.12.2016	ABSOLUTE	%
Personnel expenses	83.266	56.189	27.077	48,2%
Other administrative expenses	142.901	120.039	22.862	19,0%
Allocations to provisions for risks and charges	3.145	2.225	920	41,3%
Net impairment losses/reversal on property, plant and equipment and intangible assets	10.482	5.851	4.631	79,1%
Other operating charges (income)	(7.553)	3.343	(10.896)	(325,9)%
Total operating costs	**232.241**	**187.647**	**44.594**	**23,8%**

At 83,3 million Euro, **personnel expenses** rose 48,2% (56,2 million Euro in December 2016). The Bank's employees numbered 1.218, rising +46,4% from 832 at 31 December 2016.

Other administrative expenses totalled 142,9 million Euro, up 19,0% from 120,0 million Euro in the prior-year period largely because of the merger of the subsidiary Interbanca. The most significant increase concerned software licensing and support costs.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	YEAR		CHANGE	
	31.12.2017	31.12.2016	ABSOLUTE	%
Expenses for professional services	**43.887**	**54.777**	**(10.890)**	**(19,9)%**
Legal and consulting services	26.831	23.773	3.058	12,9%
Auditing	346	234	112	47,9%
Outsourced services	16.710	30.770	(14.060)	(45,7)%
Direct and indirect taxes	**26.565**	**14.339**	**12.226**	**85,3%**
Expenses for purchasing goods and other services	**72.449**	**50.923**	**21.526**	**42,3%**
Software assistance and hire	19.589	4.790	14.799	309,0%
Customer information	12.422	11.282	1.140	10,1%
FITD and Resolution fund	8.753	9.561	(808)	(8,5)%
Postage and archiving of documents	6.988	5.203	1.785	34,3%
Property expenses	5.459	4.284	1.175	27,4%
Transitional services agreement	3.373	-	3.373	n.a.
Car fleet management and maintenance	2.960	2.275	685	30,1%
Advertising and inserts	2.694	3.671	(977)	(26,6)%
Telephone and data transmission expenses	2.519	1.834	685	37,4%
Employee travel	2.215	1.611	604	37,5%
Securitisation costs	1.669	3.335	(1.666)	(50,0)%
External business trips and transfers	1.070	425	645	151,8%
Other sundry expenses	2.738	2.652	86	3,2%
Total administrative expenses	**142.901**	**120.039**	**22.862**	**19,0%**

Legal and consulting expenses were up compared to the previous year because of the increase in costs associated with the rationalisation of the Bank's IT systems as well as expenses related to non-judicial collection actions for the NPL Area's receivables, only partially offset by the decrease in costs for the acquisition of the former GE Capital Interbanca Group.

The line item **Outsourced services** was down from the previous year largely because the NPL Area scaled down non-judicial debt collection operations in favour of judicial debt collection operations.

The line item **Direct and indirect taxes** included 9,9 million Euro (+30,3% compared to 31 December 2016) in stamp duty costs for retail funding, which the Bank continued bearing until 31 December 2017. In addition, the line item rose compared to 2016 because of the registration fees paid for the expanded judicial debt collection operations of the NPL Area.

The rise in **software licensing and support costs** was closely related to the implementation of the new IT systems.

The line item **Transitional services agreement** concerns the costs incurred during the merger of the former GE Capital Interbanca Group for the use of IT networks and services owned by the seller. Said agreement ended in 2017.

Net allocations to provisions for risks and charges totalled 3,1 million Euro (compared to 2,2 million Euro in December 2016), and were specifically related to legal disputes referring to the Trade Receivables segment.

Other net operating income totalled 7,6 million Euro (-3,3 million Euro in net expenses at 31 December 2016) and referred mainly to revenue from the recovery of expenses charged to third parties. The relevant cost item is included in other administrative expenses. The 2016 result had been negatively affected by the 2,8 million Euro loss from a lawsuit as well as 1,5 million Euro in early termination penalties.

Pre-tax profit for the year totalled 215,4 million Euro, compared to 108,1 million Euro at 31 December 2016.

Income tax expense amounted to 60,5 million Euro, compared to 36,3 million Euro at 31 December 2016. The tax rate edged down from 33,6% at 31 December 2016 to 28,1% at 31 December 2017.

At 31 December 2017, **net profit for the year** totalled 154,9 million Euro, compared to 71,7 million Euro at 31 December 2016.

Main risks and uncertainties

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

Please refer to section E of the Notes to the Financial Statements for the disclosure of the Bank's risks.

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	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Share price at period-end	40,77	26,00	28,83	13,69	12,95

Outstanding shares	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Number of shares outstanding at period end (in thousands)[1]	53.443	53.431	53.431	52.924	52.728

[1] Outstanding shares are net of treasury shares held in the portfolio.

Payout ratio

For 2017, the Board of Directors proposed to the Shareholders' Meeting to distribute a dividend of 1 Euro per share.

Payout ratio (in thousands of Euro)	2017	2016	2015	2014	2013
Net profit for the year	154.906	71.722	160.743	94.396	83.404
Dividends	53,433[1]	43.813	40.334	34.930	30.055
Payout ratio	**34,5%**	**61,1%**	**25,1%**	**37,0%**	**36,0%**

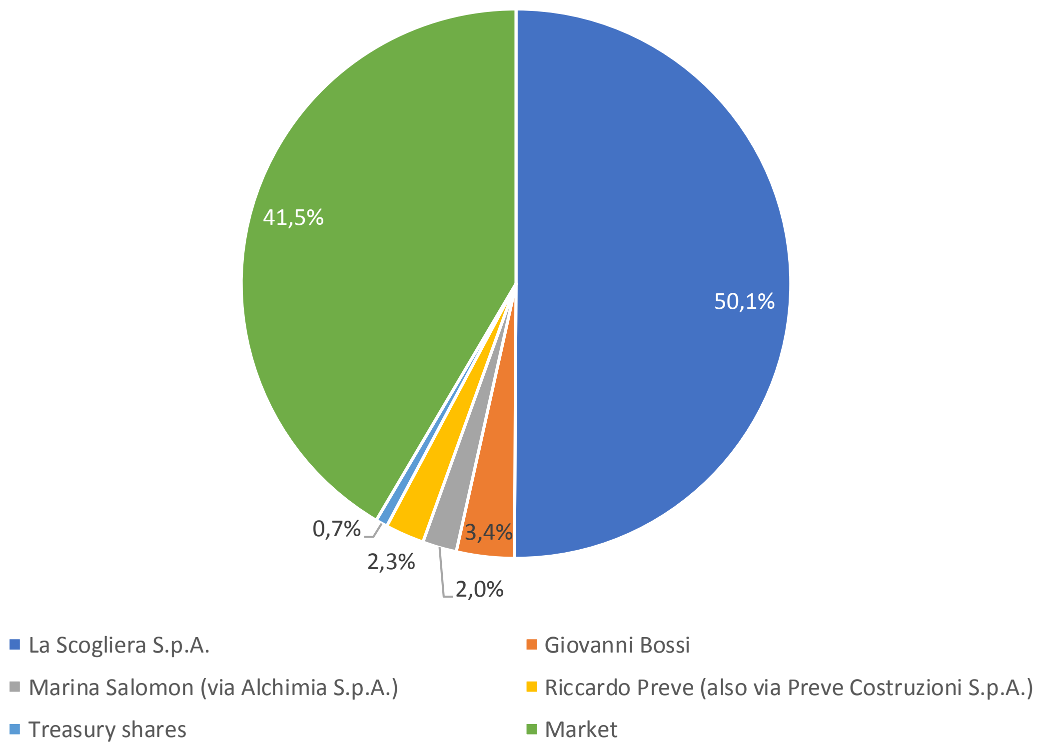
[1] Dividend proposed by the Board of Directors

Shareholders

The share capital of the Bank at 31 December 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 3% of Banca IFIS's share capital or over 2% for shareholders which are also members of the Bank's Board of Directors:

Banca IFIS – Shareholders at 31 December 2017



Corporate governance rules

Banca IFIS has adopted the Corporate Governance Code for listed companies.

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

Internal dealing rules

Banca IFIS updated its internal dealing rules to bring them into line with the relevant EU legislation (Regulation (EU) No 596/2014, known as Market Abuse Regulation).

The Policy currently in force governs the requirements placed on the Bank concerning trading by the Relevant Persons as well as the Persons Closely Associated with them in shares or other debt instruments issued by Banca IFIS as well as financial instruments linked to them. This is to ensure the utmost transparency in the Bank's disclosures to the market.

Specifically, this Policy governs:

- the requirements related to identifying the Relevant Persons and the so-called "Closely Associated Persons";
- the handling of information concerning the Transactions that the Relevant Persons submitted to the Bank;
- the handling of the so-called "closed periods", i.e. those periods during which the Relevant Persons must refrain from trading in shares or other debt instruments issued by Banca IFIS as well as financial instruments linked to them.

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

List of Insiders

Banca IFIS updated its internal procedures for handling corporate information and the list of individuals who have access to inside information, bringing them into line with the mentioned Market Abuse Regulation.

In compliance with article 115-bis of Italian Legislative Decree no. 58/1998, Banca IFIS has created a list of individuals who, in performing their professional and work duties or in carrying out their activity, have access to inside information (the list of insiders). Banca IFIS constantly updates this list.

In addition, it adopted a corporate information handling policy that governs:

- the identification, internal handling, and public disclosure of inside information;
- the internal handling and public disclosure of all Corporate Information other than inside information.

In addition, it establishes the duties and responsibilities of the Bank's representatives in the context of the meetings with the financial community.

Significant events occurred during the year

Banca IFIS transparently and timely discloses information to the market, constantly publishing information on significant events through press releases. Please visit the "Institutional Investor Relations" and "Media Press" sections of the institutional website www.bancaifis.it to view all press releases.

Here below is a summary of the most significant events occurred during the period and before the approval of this document:

Issuer rating assignment

On 28 September 2017, Banca IFIS received a 'BB+ outlook stable' rating from Fitch Rating Inc. This testifies to the Bank's robust position in the market and the soundness of its growth and development project.

5 billion Euro EMTN Programme approved

On 20 July 2017, the Board of Directors of Banca IFIS approved to set up the "EMTN – European Medium Term Notes Programme", with an overall issue limit of 5 billion Euro. This programme was signed on 29 September 2017.

Subordinated Tier 2 bond

In early October 2017, Banca IFIS successfully completed its first Tier 2 bond issue. The 400 million Euro bond has a 10-year maturity and is callable after 5 years. The coupon rate is 4,5%. The bond, reserved for institutional investors except for those in the United States, was issued under Banca IFIS S.p.A.'s EMTN Programme and will be listed on the Irish Stock Exchange. The bond received a 'BB' rating from Fitch.

Mergers of IFIS Factoring and Interbanca into Banca IFIS

After the merger of IFIS Factoring was completed in August 2017, on 23 October 2017 Interbanca S.p.A. was merged into Banca IFIS.

Agreement to acquire Cap.Ital.Fin S.p.A.

In late November 2017, Banca IFIS finalised a binding offer to acquire control of Cap.Ital.Fin S.p.A., a company operating across in Italy and specialising in salary-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees.

IFIS NPL

In December 2017, Banca IFIS announced the creation of IFIS NPL S.p.a., the Banca IFIS company into which it will spin off the NPL Area.

Significant subsequent events

Acquisition of control of Cap.Ital.Fin S.p.A.

Concerning the binding offer to acquire control of Cap.Ital.Fin S.p.A. submitted on 24 November 2017, after obtaining the necessary authorisations, on 2 February 2018 the Bank finalised the acquisition of 100% of Cap.Ital.Fin S.p.A., a company operating across Italy and specialising in salary-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees.

Binding agreements to acquire Credifarma S.p.A.

In January 2018, the Group entered into binding agreements with Federfarma, Unicredit and BNL – BNP Paribas Group to acquire a controlling interest in Credifarma S.p.A.. Under the deal, which will bring Credifarma S.p.A. into the Banca IFIS Group's scope, the Group will enter into a multi-year strategic partnership with Federfarma to promote Credifarma's role in supporting Federfarma's member as well as Italy's pharmacy market. The acquisition is subject to the approval of the Bank of Italy and is expected to close in the summer of 2018.

Reverse merger

On 8 February 2018, after approving the 2017 preliminary results, the Board of Directors of Banca IFIS formally launched the reverse merger of La Scogliera S.p.A. into Banca IFIS S.p.A.. As part of the transaction, the owners of La Scogliera S.p.A. will receive the Banca IFIS S.p.A. shares directly owned by La Scogliera, thus avoiding the need to carry out a capital increase. The CET1 ratio of the Banking Group following the reverse merger with the holding company La Scogliera, which could be finalised by 30 June 2018, will amount to 15,64% (applying the rules for calculating prudential capital ratios to the preliminary results at 31 December 2017 on a proforma basis). Under the same assumption, the Total Capital Ratio will amount to 21,07%.

Authorisation for the Merger of IFIS Leasing

On 12 February 2018, the Bank of Italy authorised the merger of IFIS Leasing S.p.A. into Banca IFIS S.p.A. in accordance with articles 57 and 71 of the Consolidated Law on Banking. The merger is expected to close in the first half of 2018.

No significant events occurred between the end of the period and the approval of the draft financial statements by the Board of Directors.

Outlook

The improved growth outlook for 2018 is cause for optimism for all advanced economies. The expansionary policies pursued in Europe (and elsewhere) for years now—injecting massive amounts of liquidity with the main goal of controlling inflation—have indirectly boosted GDP growth. The US has adopted policies more focused on supporting growth and the domestic economy. Time will tell what effect this will have, but the risk of currency wars and setbacks to global trade in the name of defending domestic production has become immediately clear. In Europe, Britain's exit from the European Union will continue to be a focus of discussion, but the expected economic impact for the EU will be minimum. The instability (including political) induced by the inadequate answers to the demands that voters still put to the EU pose more significant risks— and the gradual wind-down of the Eurosystem's liquidity support to the financial system will complicate matters further. The ability to reconcile a moderate and gradual contraction in liquidity with an equally moderate and gradual rise in interest rates while remaining on a sustainable growth path will be key to successfully exiting the crisis that started ten years ago.

Banca IFIS will pursue a series of non-recurring restructuring and growth initiatives.

The first step will be the merger of IFIS Leasing into Banca IFIS in the first half of the current year. This will be preceded by the launch of the new leasing ERP system, whose replacement had been planned since the acquisition closed in late 2016. The merger of IFIS Leasing marks the end of the integration of the acquired Interbanca Group, which took approximately 18 months.

Special emphasis will be placed on integrating salary-backed lending operations, which became part of the Group's scope in February 2018.

The Group will step up its growth efforts in the pharmacy segment. The agreement to acquire control of Credifarma S.p.a., which provides financial support to retail distributors of drugs and related products, will be tentatively finalised in the first half of the year.

The establishment of IFIS NPL S.p.a. in late 2017 stems from the need to spin off all operations of Banca IFIS's current NPL Area into the new entity, which has applied to join the register of non-banking Financial Intermediaries pursuant to Article 106 of the Consolidated Law on Banking. IFIS NPL will allow the Banking Group to continue growing in the market for acquiring and managing non-performing loans, also by expanding into new segments or areas where the Group currently has no or little presence, creating value by improving the management of non-performing portfolios and acting as a systemically important Italian private Asset Management Company open to partnerships and integrations.

Finally, the Group's governing bodies will decide on the streamlining of the corporate structure through the reverse merger of the parent La Scogliera S.p.A. into Banca IFIS. The goal is to prevent the significant proportion of minority interests in the Group, which is headed by La Scogliera S.p.A., from negatively affecting regulatory capital ratios. Under the deal, shareholders in La Scogliera S.p.A. will essentially receive the Banca IFIS shares currently held by La Scogliera.

Despite the encouraging GDP growth figures, it does not appear possible to grow our way out of the last few years of economic crisis in a steady and, most importantly, sustainable manner without restarting the flow of credit to the real economy. Against this backdrop, Banca IFIS's ability to provide support to small- and medium-sized businesses, also thanks to strengthening capital adequacy ratios and increasing liquidity, continues representing a competitive advantage, enabling it to acquire new customers—also with the new scope following the acquisition of the former Interbanca Group as well as the restructuring initiatives and acquisitions already completed or currently underway. 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.

Demand for lending is projected to grow across all products, in line with GDP growth estimates and the expected rebound in consumer confidence—which is driven in turn by rising employment. Expectations are for an end to interest rate cuts and, in some cases, a reversal—albeit moderate—of this trend.

The market for non-performing loans seems to have matured: after the disposal of massive amounts of gross non-performing exposures in 2017, sales are likely to continue at a steady pace. Notably, it appears that portfolios are selling at higher prices and that the quality of the documentation has improved sharply, as banks and originators are now aware of the importance of correctly managing information to negotiate the best possible price. The market is gradually becoming less focused exclusively on sales and turning into a servicing industry. In this sense, only the best-structured players will be able to achieve strong results, and we will likely see further concentration in the medium term.

As for funding, the Bank expects retail funding costs to decline as a result of the actions taken in late 2017. Concerning wholesale funding, the extremely low interest rates in the funding market remain available to banks only if they have prime collateral. Alternatively, wholesale funding has and will have costs broadly similar to retail funding, but the latter's stability is more consistent with the profile of the Bank's loans. That said, following the transactions successfully carried out in May and October, the Bank will operate in the wholesale market as part of its EMTN programme. In addition, the Bank continues monetising its assets through the securitisations finalised in late 2016, which are still being optimised.

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

In line with the recently implemented changes and strategies that put the digital transformation at the centre of the Bank's growth plans, special emphasis will be placed on investments in technologies and human resources to support these efforts. The Bank recognises the importance of applying technological improvement to both processes, which must become as efficient as possible, and the relationships with its customers.

As usual, the Bank will carefully consider potential inorganic growth opportunities in sectors of interest should these be consistent with its strategy, present highly controllable risks—taking also the management structure into account—and be technologically easy to integrate as well as economically expedient.

In light of the above, the Bank can reasonably expect to remain profitable also in 2018.

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.

Report on Corporate Governance and Shareholding Structure

Pursuant to article 123 bis, paragraph three, of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Law on Banking), a report, separate from this Directors' report, was prepared. It was approved by the Board of Directors and published together with the draft financial statements at 31 December 2017. Furthermore, this document is available on Banca IFIS's website, www.bancaifis.com, in the 'Corporate Governance' Section.

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

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

Privacy measures

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

Parent Company management and coordination

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

National consolidated tax regime

Banca IFIS, together with the parent company, La Scogliera S.p.A., opted for the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of 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 transferred its tax loss to La Scogliera S.p.A., recognising a 51,4 million Euro net receivable due from the parent at 31 December 2017.

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 2017 Banca IFIS made the following transactions on treasury shares:

- granted a former employee 862 treasury shares with a market value of 40 thousand Euro and a par value of 862 Euro, making profits of 32 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve;
- gave 1,460 treasury shares with a market value of 49 thousand Euro and a par value of 1.460 Euro to the minority shareholders of the merged entity Interbanca Spa as part of a stock swap, making profits of 37 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve.

The remaining balance at the end of the year was 377.829 treasury shares with a market value of 3,2 million Euro and a par value of 377.829 Euro.

Related-party transactions

In compliance with the provisions of Consob resolution 17221 of 12 March 2010 and subsequently amended by means of Resolution 17389 dated 23 June 2010, as well as the prudential Supervisory provisions for banks in Circular no. 263 of 27 December 2006, Title V, Chapter V (12 December 2011 update) on "Risk activities and conflicts of interest towards related parties" issued by the Bank of Italy, any transactions with related parties and relevant parties are authorised pursuant to the procedure approved by the Board of Directors.

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

In 2017, Banca IFIS carried out a major transaction with the subsidiary IFIS Finance Sp. Z o.o., as disclosed on the Bank's website under the section "Institutional Investors", subsection "Information documents".

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

Atypical or unusual transactions

During 2017, Banca IFIS did not carry out atypical or unusual transactions as defined by Consob Communication no. 6064293 of 28 July 2006.

Research and development activities

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

BANCA IFIS

Annual profit distribution proposal

Dear Shareholders,

The Board of Directors proposes to:

A. allocate the profit for the year, amounting to 154.906.079 Euro, as follows:
   a) distributing to shareholders a cash dividend (before tax withholdings required by law) of Euro 1,00 per ordinary share with coupon detachment (coupon no. 21) on 23 April 2018. This dividend includes the portion attributable to the company's treasury shares. As per article 83-terdecies of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), eligibility for the dividend is determined based on the shareholders recorded in the intermediary's books as per article 83-quater, paragraph 3 of the Consolidated Law on Finance at the end of 24 April 2018 (so-called record date);
   b) allocating the remainder to other reserves.

B. set aside a 633.404.000 Euro capital reserve, which shall remain unavailable until the approval of the financial statements for the year ended 31 December 2021, equal to the gain on bargain purchase derived from the acquisition of the former GE Capital Interbanca Group as per the amounts at 31 December 2016 that were restated in the Consolidated Financial Statements for the year ended 31 December 2017.

Venice - Mestre, 6 March 2018

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

Financial Statements

Statement of financial position

	Assets (in units of Euro)	31.12.2017	31.12.2016 RESTATED	31.12.2016
10.	Cash and cash equivalents	47.124	32.248	32.248
20.	Financial assets held for trading	37.555.931	486.826	486.826
40.	Available for sale financial assets	833.833.219	325.049.649	325.049.649
60.	Due from banks	1.546.776.326	1.798.767.479	1.798.767.479
70.	Loans to customers	5.784.058.963	4.464.565.404	4.464.565.404
100.	Equity investments	364.312.198	135.789.254	145.558.254
110.	Property, plant and equipment	110.306.130	63.994.603	63.994.603
120.	Intangible assets	21.273.951	13.117.214	13.117.214
130.	Tax assets	372.820.538	69.496.078	69.496.078
	a) current	*70.885.433*	*31.212.891*	*31.212.891*
	b) deferred	*301.935.105*	*38.283.187*	*38.283.187*
	of which as per Italian law 214/2011	*176.214.146*	-	-
150.	Other assets	231.552.558	166.539.172	156.770.172
	Total assets	**9.302.536.938**	**7.037.837.927**	**7.037.837.927**

	Liabilities and equity (in units of Euro)	31.12.2017	31.12.2016 RESTATED	31.12.2016
10.	Due to banks	774.474.603	533.384.903	533.384.903
20.	Due to customers	5.966.900.815	5.662.176.245	5.662.176.245
30.	Debt securities issued	789.994.151	-	-
40.	Financial liabilities held for trading	38.239.201	2.498.385	2.498.385
80.	Tax liabilities	38.502.573	14.319.727	14.319.727
	a) current	-	-	-
	b) deferred	*38.502.573*	*14.319.727*	*14.319.727*
100.	Other liabilities	338.492.419	222.646.257	222.646.257
110.	Post-employment benefits	5.476.274	1.506.747	1.506.747
120.	Provisions for risks and charges	13.162.934	4.331.389	4.331.389
	a) pensions and similar obligations	-	-	-
	b) other provisions	*13.162.934*	*4.331.389*	*4.331.389*
130.	Valuation reserves	2.132.973	747.127	747.127
160.	Reserves	1.027.747.385	372.105.867	372.105.867
170.	Share premiums	101.864.338	101.775.463	101.775.463
180.	Share capital	53.811.095	53.811.095	53.811.095
190.	Treasury shares (-)	(3.167.902)	(3.187.208)	(3.187.208)
200.	Profit (loss) for the year (+/-)	154.906.079	71.721.930	71.721.930
	Total liabilities and equity	**9.302.536.938**	**7.037.837.927**	**7.037.837.927**

Income Statement

	Items (in units of Euro)	31.12.2017	31.12.2016
10.	Interest receivable and similar income	493.696.041	308.709.324
20.	Interest due and similar expenses	(103.913.674)	(55.733.063)
30.	**Net interest income**	**389.782.367**	**252.976.261**
40.	Commission income	67.885.194	56.253.083
50.	Commission expense	(7.169.305)	(5.462.938)
60.	**Net commission income**	**60.715.889**	**50.790.145**
70.	Dividends and similar income	48.379	250
80.	Net result from trading	12.027.119	(508.978)
100.	Gain (loss) on sale or buyback of:	25.594.075	50.024.191
	a) loans and receivables	*19.015.446*	*44.529.427*
	b) available for sale financial assets	*6.578.629*	*5.494.764*
120.	**Net banking income**	**488.167.829**	**353.281.869**
130.	Net impairment losses/reversal on:	(40.546.744)	(57.563.893)
	a) loans and receivables	*(44.110.808)*	*(53.207.865)*
	b) available for sale financial assets	*(2.040.503)*	*(4.356.028)*
	d) other financial transactions	*5.604.567*	-
140.	**Net profit (loss) from financial activities**	**447.621.085**	**295.717.976**
150.	Administrative expenses:	(226.166.882)	(176.227.357)
	a) personnel expenses	*(83.265.835)*	*(56.188.631)*
	b) other administrative expenses	*(142.901.047)*	*(120.038.726)*
160.	Net allocations to provisions for risks and charges	(3.145.170)	(2.225.192)
170.	Net impairment losses/reversal on property, plant and equipment	(3.759.588)	(2.349.485)
180.	Net impairment losses/reversal on intangible assets	(6.721.610)	(3.501.215)
190.	Other operating income/expenses	7.551.917	(3.343.475)
200.	**Operating costs**	**(232.241.333)**	**(187.646.724)**
210.	Profit (Loss) from investments	(24)	-
240.	Profit (Loss) from sale of investments	36.111	-
250.	**Pre-tax profit (loss) for the period from continuing operations**	**215.415.839**	**108.071.252**
260.	Income taxes for the year relating to continuing operations	(60.509.760)	(36.349.322)
290.	**Profit (loss) for the period**	**154.906.079**	**71.721.930**

Statement of Comprehensive Income

	Items (in units of Euro)	31.12.2017	31.12.2016
10.	**Profit (loss) for the period**	**154.906.079**	**71.721.930**
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**65.969**	**(41.381)**
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	65.969	(41.381)
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	**1.319.878**	**(10.722.013)**
70.	Foreign investment hedges	-	-
80.	Exchange differences	-	-
90.	Cash flow hedges	-	-
100.	Available for sale financial assets	1.319.878	(10.722.013)
110.	Non-current assets under disposal	-	-
120.	Share of valuation reserves of equity accounted investments	-	-
130.	**Total other comprehensive income, net of taxes**	**1.385.846**	**(10.763.394)**
140.	**Total comprehensive income (Item 10+130)**	**156.291.925**	**60.958.536**

Statement of Changes in Equity at 31 December 2017

	Balance at 31/12/2016	Change in opening balances	Balance at 1/1/2017	Allocation of profit from previous year		Changes occurred during the year								Equity at 31/12/2017
							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 for the year 2017	
Share capital:														
a) ordinary shares	53.811.095	-	53.811.095	-	-	-	-	-	-	-	-	-	-	**53.811.095**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premiums	101.775.463	-	101.775.463	-	-	-	-	88.875	-	-	-	-	-	**101.864.338**
Reserves:														
a) retained earnings	366.640.991	-	366.640.991	27.908.556	-	438.284	627.313.983	-	-	-	-	-	-	**1.022.301.814**
b) other	5.464.876	-	5.464.876	-	-	-	-	(19.306)	-	-	-	-	-	**5.445.570**
Valuation reserves:	747.127	-	747.127	-	-	-	-	-	-	-	-	-	1.385.846	**2.132.973**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	(3.187.208)	-	(3.187.208)	-	-	-	-	19.306	-	-	-	-	-	**(3.167.902)**
Profit (loss) for the period	71.721.930	-	71.721.930	(27.908.556)	(43.813.374)	-	-	-	-	-	-	-	154.906.079	**154.906.079**
Equity	**596.974.274**	**-**	**596.974.274**	**-**	**(43.813.374)**	**438.284**	**627.313.983**	**88.875**	**-**	**-**	**-**	**-**	**156.291.925**	**1.337.293.967**

Statement of Changes in Equity at 31 December 2016

	Balance at 31/12/2015	Change in opening balances	Balance at 01/01/2016	Allocation of profit from previous year		Changes occurred during the year								Equity at 31/12/2016
							Equity transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Comprehensive income for the year 2016	
Share capital:														
a) ordinary shares	53.811.095	-	53.811.095	-	-	-	-	-	-	-	-	-	-	53.811.095
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	58.899.756	-	58.899.756	-	-	36.812.793	6.062.914	-	-	-	-	-	-	101.775.463
Reserves:														
a) retained earnings	246.239.255	-	246.239.255	12.401.736	-	-	-	-	-	-	-	-	-	366.640.991
b) other	42.110.660	-	42.110.660	-	-	(36.645.784)	-	-	-	-	-	-	-	5.464.876
Valuation reserves:	11.510.521	-	11.510.521	-	-	-	-	-	-	-	-	-	(10.763.394)	747.127
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(5.805.027)	-	(5.805.027)	-	-	-	2.617.819	-	-	-	-	-	-	(3.187.208)
Profit (loss) for the period	160.743.253	-	160.743.253	(12.401.736)	(40.341.517)	-	-	-	-	-	-	-	71.721.930	71.721.930
Equity	**567.509.313**	**-**	**567.509.313**	**-**	**(40.341.517)**	**167.009**	**8.680.733**	**-**	**-**	**-**	**-**	**-**	**60.958.536**	**596.974.274**

Cash Flow Statement

Indirect method (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	31.12.2016
A. OPERATING ACTIVITIES			
1. Operations	**(54.326.398)**	**176.375.966**	**176.375.966**
- profit(loss) for the year (+/-)	154.906.079	71.721.930	71.721.930
- profit/loss on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	(16.307.403)	-	-
- profit/loss on hedging activities	-	-	-
- net impairment losses/reversal on loans (+/-)	40.546.744	57.563.893	57.563.893
- net imp. losses/reversal on property, plant, and equipment and intangible assets (+/-)	10.481.199	5.850.700	5.850.700
- net allocations to provisions for risks and charges and other expenses/income (+/-)	3.164.856	2.244.878	2.244.878
- unpaid taxes (+)	60.509.760	36.349.322	36.349.322
- other adjustments (+/-)	(307.627.632)	2.645.243	2.645.243
2. Cash flows generated/absorbed by financial assets	**(192.704.946)**	**(36.702.794)**	**(36.702.794)**
- Financial assets held for trading	18.631.009	(226.658)	(226.658)
- financial assets at fair value	-	-	-
- available for sale financial assets	(498.944.893)	2.873.422.884	2.873.422.884
- due from banks on demand	(69.620.753)	39.295.247	39.295.247
- other due from banks	570.345.927	(1.753.084.392)	(1.753.084.392)
- loans to customers	(37.599.098)	(1.102.965.831)	(1.102.965.831)
- other assets	(175.517.137)	(93.144.044)	(83.375.044)
3. Cash flows generated/absorbed by financial liabilities	**310.350.947**	**25.800.810**	**25.800.810**
- due to banks on demand	(65.254.374)	60.819.855	60.819.855
- other due to banks	(600.356.801)	(190.439.373)	(190.439.373)
- due to customers	220.518.208	174.898.011	174.898.011
- debt securities issued	706.192.186	-	-
- financial liabilities held for trading	(11.342.428)	2.160.478	2.160.478
- financial liabilities at fair value	-	-	-
- other liabilities	60.594.157	(21.638.161)	(21.638.161)
Net cash flows generated/absorbed by operating activities A (+/-)	**63.319.604**	**165.473.982**	**165.473.982**
B. INVESTING ACTIVITIES			
1. Cash flows generated by:	**36.110**	**128.965**	**128.965**
- sale of investments	-	-	-
- dividends collected on equity investments	-	-	-
- sale of held to maturity financial assets	-	-	-
- sale of property, plant and equipment	36.110	128.965	128.965
- sale of intangible assets	-	-	-
- sale of business branches	-	-	-
2. Cash flows absorbed by:	**(20.073.928)**	**(134.111.059)**	**(134.111.059)**
- purchase of investments	(2.000.000)	(109.433.000)	(119.202.000)
- purchase of held to maturity financial assets	-	-	-
- purchase of property, plant and equipment	(3.611.328)	(14.409.908)	(14.409.908)
- purchase of intangible assets	(14.462.600)	(10.268.151)	(10.268.151)
- purchase of business branches	-	-	-
Net cash flows generated/absorbed by investing activities B (+/-)	**(20.037.818)**	**(133.982.094)**	**(133.982.094)**
C. FINANCING ACTIVITIES			
- issue/buyback of treasury shares	108.181	8.680.734	8.680.734
- issue/buyback of equity instruments	438.284	167.009	167.009
- distribution of dividends and other	(43.813.374)	(40.341.517)	(40.341.517)
Net cash flows generated/absorbed by financing activities C (+/-)	**(43.266.909)**	**(31.493.774)**	**(31.493.774)**
NET CASH FLOWS GENERATED /ABSORBED DURING THE YEAR D=A+/-B+/-C	**14.877**	**(1.886)**	**(1.886)**
RECONCILIATION			
OPENING CASH AND CASH EQUIVALENTS E	**32.248**	**34.134**	**34.134**
NET CASH FLOWS GENERATED /ABSORBED DURING THE YEAR D	**14.877**	**(1.886)**	**(1.886)**
CASH AND CASH EQUIVALENTS: EFFECTS OF CHANGES IN FOREIGN EXCHANGE			
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	**47.125**	**32.248**	**32.248**

Notes to the Financial Statements

The Notes to the Financial Statements are divided into the following parts:

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

Part A – Accounting policies

A.1 – General part

Section 1 – Statement of compliance with international accounting standards

The Financial Statements at 31 December 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 transposed into Italian law with Legislative Decree no. 38 of 28 February 2005.

Concerning the interpretation and implementation of international accounting standards, the Banca IFIS Group referred to the “Framework for the Preparation and Presentation and Financial Statements”, even though it has not been endorsed by the European Commission, as well as the Implementation Guidance, Basis for Conclusions, and any other documents prepared by the IASB or the IFRIC complementing the accounting standards issued.

The accounting standards adopted in preparing these financial statements are those in force at 31 December 2017 (including SIC and IFRIC interpretations).

The Group also considered the communications from Supervisory Authorities (Bank of Italy, Consob, and ESMA), which provide recommendations on the disclosures to include in the financial statements concerning the most material aspects or the accounting treatment of specific transactions.

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

The Financial Statements are audited by EY S.p.A..

Section 2 – Basis of preparation

The financial statements consist of:

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

In addition, they contain the Directors’ Report.

Finally, as per article 123-bis of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), the Report on Corporate Governance and Shareholding Structure is available in the “Corporate Governance” Section of the Bank’s website www.bancaifis.it.

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

For the preparation of these Financial Statements, reference was made to the format set out by Bank of Italy’s Circular no. 262 of 22 December 2005, 4th update of 15 December 2015.

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

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

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

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

Following the restatement of the acquisition cost for the former GE Capital Interbanca Group, as described in the paragraph "Introductory notes on how to read the data" of the Directors' Report, this restatement has been reported in the Financial Statements, which present both the amounts of the financial statements for the year ended 31 December 2016 and the corresponding restated amounts at 1 January 2017 (column "31 December 2016 Restated") as comparative data. The tables in these Notes to the Financial Statements present only the restated amounts as comparative information.

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", as well as 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.

In this regard, having examined the risks and uncertainties associated with the present macro-economic context, and considering the financial and economic plans drawn up by the Bank, Banca IFIS can indeed be considered a going concern, in that it can be reasonably expected to continue to operate in the foreseeable future. Therefore, the 2017 Financial Statements have been prepared in accordance with this fact.

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

Section 3 – Subsequent events

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

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

Section 4 – Other aspects

Risks and uncertainties related to estimates

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 Financial Statements at 31 December 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 31 December 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 and Corporate Banking segments;
- provisions for risks and charges;
- post-employment benefits;
- goodwill and other intangible assets.

As for the receivables of the Pharma BU, during 2016 Banca IFIS 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 Bank 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, since the characteristics of the business model imply a high level of variability concerning both the amount collected and the date of actual collection. The proprietary model estimates cash flows by projecting the “breakdown” of the nominal amount of the receivable “over time” based on the historical recovery profile for similar clusters. In addition, for the positions with funding characteristics, the Bank uses a “deterministic” model based on the measurement of the future instalments of the settlement plan, net of the historical default rate. 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.

For more details, please see the description of the measurement basis used for the segment's receivables.

Coming into effect of new accounting standards

Standards issued, effective and applicable to these financial statements

The Financial Statements at 31 December 2017 have been drawn up in accordance with the IASs/IFRSs in force at 31 December 2017. See the paragraph *Statement of compliance with international accounting standards.*

Banca IFIS has adopted for the first time some accounting standards and amendments effective for annual periods beginning on or after 1 January 2017. Below are the new accounting standards and the amendments to existing accounting standards endorsed by the EU, which have not materially affected the amounts reported in Banca IFIS's Separate 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.

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

Standards issued but not yet effective

IFRS 9 - Financial Instrument applicable from 1 January 2018

In accordance with IAS 8, paragraphs 30 and 31, and the guidelines issued by ESMA (European Securities and Markets Authority), below are the disclosures of the implementation of IFRS 9 – Financial Instrument for Banca IFIS.

Regulatory requirements

Effective 1 January 2018, the new IFRS 9 accounting standard, issued by the IASB in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016, supersedes IAS 39 in governing the classification and measurement of financial instruments. It is divided into three different areas: classification and measurement of financial instruments, impairment, and hedge accounting.

As for classification, under IFRS 9 it is based on both the relevant contractual cash flow characteristics and the entity's business model for managing the financial assets.

Under IFRS 9, financial assets can be classified into three categories according to the two mentioned drivers:

- Financial assets measured at amortised cost,
- Financial assets at fair value through other comprehensive income (for debt instruments, the reserve is recognised through profit or loss in the event the instrument is sold), and, finally,
- Financial assets at fair value through profit or loss.

Financial assets can be classified in the first two categories and measured at amortised cost or fair value through equity if, and only if, they are shown to give rise to cash flows that are solely payments of principal and interest (so-called “SPPI test”). Equity instruments are always classified in the third category and measured at fair value through profit or loss, unless the entity makes an irrevocable election at initial recognition to present changes in the fair value of equity instruments not held for trading in a component of equity that will never be transferred to profit or loss, not even in the case the financial instrument is sold (Financial assets at fair value through other comprehensive income without “recycling”).

Concerning impairment, for the instruments measured at amortised cost and fair value through equity (other than equity instruments), IFRS 9 replaces the existing incurred loss model with an expected loss model, so as to recognise impairment losses in a more timely manner. Under IFRS 9, entities must recognise 12-month expected credit losses (stage 1) since the initial recognition of the financial instrument. If the credit quality of the financial instrument has deteriorated “significantly” since initial recognition (stage 2) or become “impaired” (stage 3), entities must recognise the lifetime expected credit loss.

The introduction of the new impairment rules requires:

- allocating performing financial assets to different credit risk stages (staging), resulting in the recognition of 12-month expected credit losses (so-called “Stage 1”) or lifetime expected credit losses (so-called “Stage 2”), based on a significant increase in credit risk («SICR») calculated by comparing the Probability of Default as at the date of initial recognition and as at the reporting date, or by early warning signs or payments more than 30 days past due;

- allocating non-performing financial assets to “Stage 3”, recognising impairment losses on an individual basis, or “fixed” percentages based on historical observed default rates related to the status of the position.

Implementation project

Considering the impact of the changes introduced by IFRS 9 on both the business and for organisational and reporting purposes, Banca IFIS launched a project as soon as in 2016 to study the different areas affected by the standard, define its qualitative and quantitative impacts, and identify and implement enforcement and organisational actions to adopt it in a consistent, organic and effective manner.

Moving on to the analysis of the IFRS 9 project, below is a brief description of the activities carried out and nearing completion concerning the previously identified main impact areas.

Classification and Measurement

In order to comply with IFRS 9—under which financial assets are classified based on both their contractual cash flow characteristics and the entity's business model for managing them—the Bank decided how to conduct the so-called SPPI test and formalised the business models adopted by the various business areas.

As for the SPPI test on financial assets, the Bank established the method it will use and finalised the analysis of the composition of outstanding securities and loan portfolios, so as to properly classify them upon the first-time adoption of the new standard.

Concerning debt securities, the Bank carefully examined the cash flow characteristics of the instruments measured at amortised cost and as Available for sale financial assets under IAS 39 to identify the assets that, having failed the SPPI test, must be measured at fair value through profit or loss under IFRS 9.

Based on the analyses carried out, relative to the Bank's overall portfolio, only an immaterial proportion of debt securities fails the SPPI test. These are mainly contractually linked instruments that give rise to greater concentrations of credit risk for the subscriber than if the latter had subscribed for the portfolio of underlying financial instruments.

Investment funds—classified as Available for sale financial assets under IAS 39—are excluded from the scope of the SPPI tests as, based on the analyses carried out and the clarification from the IFRS Interpretation Committee, it emerged that these funds (including open-end and closed-end funds) must be measured at fair value through profit or loss, giving rise to additional volatility in profit or loss in the future.

As for the receivables segment, the project involved carrying out modular analyses that accounted for the size of the portfolios, their consistency, and the business. In this regard, the Bank adopted different approaches for retail and corporate loan portfolios, and found that the receivables would fail the SPPI test only in a few cases because of specific contractual clauses or their nature. Therefore, the Bank found that the first-time adoption of the new standard did not have a material impact on the receivables segment.

Concerning the second driver of the classification of financial assets (business model), the Bank has defined the business model it will adopt under IFRS 9. In the case of "Held to Collect" portfolios, it established the thresholds for considering frequent sales that are not significant in value (individually and in aggregate), or that are infrequent but significant in value, consistent with the adopted business model; in addition, it set the parameters for identifying the sales consistent with said business model as attributable to an increase in credit risk. Based on the analyses carried out:

- in general, trading volumes for the securities portfolios currently measured at amortised cost are low, consistently with a "Held to Collect" business model. Furthermore, in principle the current management of receivables, due either from retail or corporate counterparties, is essentially consistent with a Held to Collect business model;

- in the case of the debt securities currently classified as Available for sale financial assets, the Bank has adopted a "Held to Collect and Sell" business model for most portfolios with the exception of investment funds, which, in accordance with the clarification of the IFRS Interpretation Committee, will be reclassified as "Financial assets at fair value through profit or loss". In any case, the impact of these reclassifications is modest, given Banca IFIS's limited exposure to this type of investments;

- concerning equity securities, for all the equity instruments recognised at the reporting date as Available for sale financial assets under IAS 39, the Bank made an irrevocable election to present subsequent changes in their fair value in a component of equity that will never be transferred to profit or loss, not even in the case the financial instrument is sold (Financial assets at fair value through other comprehensive income without "recycling"). In addition, the Bank defined the general criteria for making decisions concerning equity instrument not held for trading acquired after 1 January 2018 and formalised the relevant organisational process.

Concerning the business model for managing financial assets, the Bank has finalised a document that has been approved by the competent governance levels to define and describe the main components of its business model, specifying their role in the context of the classification model as per IFRS 9.

In addition, after due consideration, the Bank decided not to exercise the Fair Value Option (separately recognising in equity the changes in fair value attributable to the change in its own credit risk) for the stock of financial liabilities outstanding at 1 January 2018.

Concerning the receivables included in the category "POCI – Purchased or Originated Credit Impaired", they are recognised at amortised cost by discounting the estimated cash flows net of lifetime expected credit losses: therefore, the first-time adoption of the new standard does not have any impact.

Impairment

Concerning impairment, the Bank:

- defined the method for tracking the credit quality of the positions included in portfolios of financial assets measured at amortised cost and at fair value through equity;

- defined the parameters for determining the significant increase in credit risk so as to correctly allocate performing exposures to either stage 1 or stage 2. As for impaired exposures, the alignment of the definitions of accounting and regulatory default—which is already effective—allows to consider the current basis of classification for "non-performing" exposures identical to the one for the exposures included within stage 3;

- developed the models to be used for the purposes of the stage allocation as well as the calculation of 12-month expected credit losses (ECL) (for stage 1 exposures) and lifetime expected credit losses (for stage 2 and stage 3 exposures).

Concerning the tracking of credit quality, the Bank thoroughly analysed the credit quality of each relationship in order to identify any “significant deterioration” since the date of initial recognition—which would require classifying the relationship in stage 2—as well as the requirements for transferring them to stage 1 from stage 2. The election made requires comparing, in each individual case and at each reporting date, the credit quality of the financial instrument at the measurement date and the issue or acquisition date for staging purposes. Therefore, the elements that will be key for the purposes of evaluating potential “transfers” between different stages are:

- the change in the probability of default since the initial recognition of the financial instrument. Therefore, this assessment is based on a “relative” criteria that acts as the main “driver”;

- any past due exposure that—without prejudice to the materiality thresholds laid down in the regulation—is at least 30 days past due. In other words, in this case the credit risk of the exposure is considered to have “significantly increased”, which requires “transferring” it to stage 2 (if the exposure was previously included in stage 1);

- any “forbearance” measures and/or classifications within “watchlists” that, prima facie, require classifying the exposure among those whose credit risk has “significantly increased” since initial recognition.

Finally, concerning only the first-time adoption of the standard, for some categories of exposures (duly identified and largely concerning securities quoted in active markets), the Bank will use the so-called “low credit risk exemption” as per IFRS 9, identifying the exposures that, at the date of the transition to the new standard, have a rating of at least “investment grade” (or similar) as exposures with a low credit risk, and therefore to be included in stage 1. The Bank will take a similar approach to intra-group exposures, be they receivables or securities, both upon the first-time adoption of the standard and also in subsequent periods, since these exposures essentially share the same risk of “last resort” represented by the Parent and the relevant rating (among those classified as “investment grade”).

As in the case of the business model, the Bank has prepared a specific document in compliance with IFRS 9 and approved by the competent governance levels also for impairment.

The impact of first-time adoption

Based on the foregoing, below is an estimate of the impact of the first-time adoption of IFRS 9 on Banca IFIS's equity at 1 January 2018. This analysis was based on currently available information and is subject to change as additional information becomes available to Banca IFIS in 2018, when it will adopt IFRS 9. These impacts, which concern both the amount and the composition of equity, mainly derive from the following:

- the requirement to restate impairment losses on financial assets (both performing and non-performing) using the “expected credit loss” model instead of the existing “incurred credit loss” model. Specifically, as far as performing exposures are concerned, the increase/decrease in impairment losses is attributable to:

    - the classification of part of the portfolio within stage 2, requiring a “lifetime” credit loss;

- the recognition of impairment losses also on portfolios previously not subject to impairment (receivables due from banks, government bonds, guarantees received);

- the need to reclassify some financial assets based on the combined result of the two classification drivers laid down in the standard: the business model for managing these instruments, and the relevant contractual cash flow characteristics (SPPI test).

The above resulted in a positive impact totalling approximately 1,9 million Euro before taxes on Banca IFIS's equity.

IFRS 15 Revenue from Contracts with Customers applicable from 1 January 2018

IFRS 15 requires recognising revenues in an amount that reflect the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to the customer. The new standard will supersede all existing revenue recognition requirements in IFRSs. The Bank conducted a careful analysis in 2017 and determined that the standard will not have a material impact based on the type of products it offers.

IFRS 16 - Leases applicable from 01 January 2019

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It requires lessees to recognise all leases based on a single model similar to the one used for finance leases under IAS 17. The standard includes two exemptions for lessees—leases of "low value" assets (e.g. personal computers) and short-term leases (e.g. leases with a lease term of 12 months or less). At the commencement date, the lessee shall recognise a liability for the lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset for the lease term (i.e. the right-of-use of the asset) Lessees shall separately recognise interest expense on the lease liability and the amortisation of the right-of-use asset.

"Improvements" to IFRS (2014-2016 issued by the IASB on 8 December 2016) applicable from 1 January 2018

These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters: the IASB deleted the short-term exemptions in paragraph E3-E7 of IFRS 1, because they have now served their intended purpose. The amendment is effective for annual periods beginning on or after 1 January 2018. This amendment is not applicable to the Bank.
- IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice. The amendments clarify that:
  - An entity that is a venture capital organisation, or other qualifying entity, may elect upon initial recognition and on an investment-by-investment basis to measure its investments in associates or joint ventures at fair value through profit or loss.
  - If an entity does not qualify as an investment entity and has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity (be it an associ-

ate or joint venture) to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each associate or joint venture qualifying as an investment entity at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

An entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2018; earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. These amendments are not applicable to Banca IFIS.

Deadlines for the approval and publication of the separate financial statements

Pursuant to art. 154-ter of Italian Legislative Decree no. 58/98 (Consolidated Law on Finance), the Bank must approve the separate financial statements and publish the Annual Financial Report, including the draft separate financial statements, the directors' report, and the declaration as per article 154-bis, paragraph 5, within 120 days of the end of the financial year. The Board of Directors approved the draft separate financial statements and the consolidated financial statements on 06 March 2018; the separate financial statements will be submitted to the Shareholders' Meeting to be held on 19 April 2018 on first call for approval.

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

A.2 – Main items of the financial statements

1 – Financial assets held for trading

Classification criteria

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

This category includes debt and equity securities and the positive fair value of derivative contracts held for trading. Derivative contracts include those embedded in complex financial instruments that are accounted for separately if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not recognised under financial assets or liabilities held for trading.

Recognition criteria

Financial assets are initially recognised at the date of settlement in the case of debt and equity securities, and at inception in the case of derivative contracts. At initial recognition, financial assets held for trading are measured at cost, that is the instrument's fair value, excluding the expenses and income directly attributable to the instrument, which are recognised in profit or loss. The implied derivative component in structured instruments that is not closely related to the host contract and meets the definition of a derivative instrument is separated from the host contract and measured at fair value, while the host contract is recognised using the relevant accounting policy.

Measurement criteria

Also subsequent to initial recognition, financial assets held for trading are measured at fair value.

The fair value of the financial instruments included in this portfolio is calculated based on quoted prices in active markets, prices provided by market participants, or internal valuation models generally used for pricing financial instruments that take into account all relevant risk factors and are based on observable market data.

Specifically, the instruments included in this item are unquoted derivative instruments measured using generally accepted valuation models based on market inputs. As for the counterparty risk associated with derivatives outstanding with Corporate counterparties, the performing portfolio is measured using PD and LGD inputs on which the collective assessment of receivables is based, while the non-performing portfolio is assessed individually.

Derecognition criteria

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

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

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

2 – Available for sale financial assets

Classification criteria

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

Recognition criteria

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

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

Measurement criteria

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

Changes in fair value recognised in the item “valuation reserve” are also included in the statement of comprehensive income under item 100 “Available for sale financial assets”.

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

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

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

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

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

Derecognition criteria

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

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

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

4 - Loans and receivables

Classification criteria

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

Receivables due from customers largely consist of:

- demand advances to customers as part of factoring operations vis-à-vis a receivables portfolio factored with recourse and still recognised in the seller’s statement of financial position, or vis-à-vis receivables factored without recourse, providing no contractual clauses that eliminate the conditions for their recognition exist.
- loans to customers granted as part of corporate banking operations;

- distressed retail loans acquired from banks and retail lenders;
- tax receivables resulting from insolvency proceedings;
- repurchase agreements;
- securities acquired through subscription or private placement, with fixed or determinable payments, not quoted in active markets.

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

Recognition criteria

Receivables are initially recognised at the date they are granted and/or acquired at fair value, or, in the case of a debt security, the date of settlement, based on the fair value of the financial instrument, which is equal to the amount granted or the subscription price, including transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition or granting of loans and determinable right from the beginning of the transaction, even if settled at a later date. Incremental costs are those costs that the company would not have incurred had it not acquired or granted the loan. Costs meeting these characteristics, but to be reimbursed by the debtor or falling under normal internal administrative costs, are excluded.

When the net amount granted does not correspond to the asset's fair value because the interest rate applied was lower than the market rate or the rate usually applied to loans with similar characteristics, loans and receivables are initially recognised at an amount equal to the discounting of future cash flows using a market rate. The difference compared to the amount granted or the subscription price is recognised directly in profit or loss.

Contango contracts and repurchase agreements are recognised as funding or lending transactions. Specifically, repurchase agreements are recognised as payables for the amount received, while reverse repurchase agreements are recognised as receivables for the amount paid.

Measurement criteria

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

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

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

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

As for the **non-performing exposures included in the trade receivables sector**, they were measured according to the following criteria.

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

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

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

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

Unlikely to pay loans amounting to more than 100 thousand Euro are evaluated individually; the write-down to each loan is equal to the difference between the amount recognised in the balance sheet at the time of recognition (amortised cost) and the current value of expected future cash flows, calculated using the original effective interest rate or, in case of indexed rates, the last contractually applied rate. If the individual evaluation does not indicate any impairment, they are collectively tested for impairment.

Unlikely to pay loans amounting to less than 100 thousand Euro are collectively tested for impairment.

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

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

Non-performing exposures included in the NPL Area sector are recognised and assessed through the following steps:

1. at the time of purchase, receivables are recognised by allocating the portfolio's purchase price among the individual receivables it consists of through the following steps:
   - recognition of the individual receivables at a value equal to the contract price, which is used for the purposes of reporting to the Central Credit Register;
   - after verifying the documentation, if provided in the contract, the Bank returns the loans lacking documentation or beyond the statute of limitations to the seller, and measures the fair value of receivables which actually exist and can be collected; finally, after sending a notice of assignment to the debtor, the Bank can start taking action to collect the receivable;
2. once the collection process begins, receivables are measured at amortised cost using the effective interest rate method;
3. the effective interest rate is calculated on the basis of the price paid, the transaction costs, if any, and the estimated cash flows and collection time calculated using either a proprietary model (point 5), or analytical estimates made by managers;
4. the effective interest rate as set out in the previous point is unchanged over time;
5. The proprietary model estimates cash flows by projecting the “breakdown” of the nominal amount of the receivable “over time” based on the historical recovery profile for similar clusters. In addition, for the positions with funding characteristics, the Bank uses a “deterministic” model based on the measurement of the future instalments of the settlement plan, net of the historical default rate;
6. at the end of each reporting period, interest income accrued on the basis of the original effective interest rate is recognised under Interest Income. Said interest is calculated as follows: Amortised Cost at the beginning of the period x IRR/365 x days in the period;
7. in addition, at the end of each reporting period, the expected cash flows for each position are re-estimated;
8. should events occur (higher or lower revenues realised or expected compared to forecasts and/or a change in collection times) which cause a change in the amortised cost (calculated by discounting the new cash flows at the original effective rate compared to the amortised cost in the period), this change is also recognised under Interest Income;
9. in case of impairment events, the changes in the amortised cost (calculated by discounting the new cash flows at the original effective interest rate compared to the period's amortised cost) are recognised under item 130 Net impairment losses/reversals on receivables; if an impairment loss had already been recognised, reversals can be recognised up to the amount of said impairment loss, recognising the surplus under Interest Income.

Tax receivables are classified under performing loans, since they are due from the Public Administration.

As for the **exposures included in the Corporate Banking segment**, they were measured according to the following criteria.

Non-performing loans are individually evaluated, and the total amount of the impairment loss on each loan is equal to the difference between the carrying amount at measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the original effective interest rate. Expected cash flows are calculated taking into account the expected recovery times, the estimated realisable value of guarantees, if any, and the costs expected to be incurred to recover the exposure.

The original effective interest rate of each loan does not change over time even if a restructuring involved changing the contractual rate or the loan no longer bears contractual interest in practice. Any impairment loss is recognised in profit or loss. The impairment loss is reversed in the following years to the extent that the reason for the impairment no longer exists, provided this assessment can be related objectively to an event occurring after the impairment was recognised. The reversal is recognised in profit or loss and shall not exceed the amortised cost that the loan would have had if the impairment had not been recognised.

The restructuring of non-performing exposures by converting them in full or in part into shares in the borrowing firms is measured based on the fair value of the shares received in exchange for the receivable, in accordance with IFRIC 19; such shares are measured at fair value using the methods for equity investments based on their classification for accounting purposes.

For other renegotiations, the Bank derecognises the receivable and recognises a new financial asset if the changes in contractual terms are material.

Restructuring procedures concern loans to customers in financial distress for which the renegotiation resulted in a financial loss for the Bank; in this case, the specific write-down is calculated based on the original interest rate.

The loans for which there is no individual objective evidence that an impairment loss has been incurred, i.e. **performing loans**, including those to counterparties in high-risk countries, are collectively tested for impairment. Such measurement applies to categories of loans with a homogeneous credit risk. The relevant losses are estimated as a percentage of the original loan amount by taking into account historical time series based on observable market data existing at the time of measurement and allowing to calculate the latent losses for each category. Collective impairment losses are recognised in profit or loss.

At each reporting date, any additional impairment losses or reversals are calculated on a differential basis relative to the entire portfolio of performing receivables at the same date.

Derecognition criteria

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

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

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

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

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

7 - Equity investments

Classification criteria

An Entity obtains control when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, an Entity controls an investee if, and only if, the Entity has:

- power over the investee (i.e. it has existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of its returns.

Generally, there is a presumption that a majority of voting rights gives control over the investee. In support of this presumption, when the Entity holds less than a majority of the voting rights (or similar rights), the Bank shall consider all relevant facts and circumstances when assessing whether it controls the investee, including:

- Contractual arrangements with other vote holders;
- Rights arising from contractual arrangements;
- Voting rights and potential voting rights.

The Entity shall reassess whether it controls an investee if facts and circumstances indicate there are changes to one or more of the three elements of control.

Recognition criteria

The cost of the acquisition is calculated as the sum of:

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

Measurement criteria

If there is objective evidence that an equity investment may be impaired, the entity shall estimate its recoverable amount, taking into account the present value of the future cash flows that it could generate, including from its ultimate disposal. If the recoverable amount is less than the carrying amount, the difference is recognised in profit or loss.

If the reasons for the impairment no longer exist as a result of an event that occurred after the recognition of the impairment loss, this is reversed through profit or loss.

Derecognition criteria

Equity investments are derecognised when the contractual rights to the cash flows from the assets expire or when the equity investment is sold by transferring substantially all the risks and rewards incidental to ownership.

8 - Property, plant and equipment and investment property

Classification criteria

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

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

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

Property, plant and equipment for functional use include:

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

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

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

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

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

Recognition criteria

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

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

Measurement criteria

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

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

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

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

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

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

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

The usually estimated useful lives are the following:

- buildings: not exceeding 34 years
- furniture: not exceeding 7 years.
- Electronic systems: not exceeding 3 years
- photovoltaic plants: not exceeding 25 years
- other: not exceeding 5 years.
- Improvements on third party property/leasehold improvements: not exceeding 5 years

Derecognition criteria

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

9 - Intangible assets

Classification criteria

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

Recognition criteria

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

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

Measurement criteria

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

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

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

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

Goodwill is recognised in the statement of financial position at cost, net of any accrued losses, and is not subject to amortisation. Goodwill is tested for impairment at least annually by comparing its carrying amount to its recoverable amount. To this end, goodwill must be allocated to cash-generating units (CGUs) in compliance with the maximum combination limit that cannot exceed the "operating segment" identified for internal management purposes.

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

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

Derecognition criteria

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

11 – Current and deferred taxes

Classification criteria

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

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

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

Under the existing tax consolidation arrangements between the Group companies, the current tax expense for the year is included in either Other Assets or Other Liabilities as Receivables due from/Payables due to the Consolidating/Parent Company La Scogliera S.p.A..

Recognition and measurement criteria

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

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

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

12 – Provisions for risks and charges

These provisions consist of liabilities arising when:

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

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

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

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

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

13 – Payables and debt securities issued

Classification criteria

Payables due to banks and customers and debt securities issued include the various forms of interbank funding, as well as funding from customers and through outstanding bonds, net of any buybacks.

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

Recognition criteria

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

Measurement criteria

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

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

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

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

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

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

Derecognition criteria

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

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

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

14 – Financial liabilities held for trading

Classification criteria

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

Recognition criteria

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

Measurement criteria

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

Derecognition criteria

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

16 – Foreign currency transactions

Initial recognition

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

Subsequent recognitions

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

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

17 - Other information

Post-employment benefits

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

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

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

In particular:

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

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

Share-based payments

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

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

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

Treasury shares

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

Recognition of income and costs

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

Costs are recognised on an accrual basis. Concerning the costs of the DRL segment, the costs incurred upfront for non-judicial debt collection operations through settlement plans, as well as legal expenses and registration fees for judicial debt collection operations, are recognised in profit or loss under “Other administrative expenses” in the period in which the positive impact of the relevant receivables deriving from the change in the underlying cash flows associated with the plans entered into or the court orders obtained is recognised in profit or loss.

Dividends

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

Repurchase agreements

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

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

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

Amortised cost

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

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

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

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

A.4 – Fair value disclosure

Qualitative disclosure

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

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

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

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

The choice among the valuation techniques is not optional, since these shall be applied in a hierarchical order: indeed, the fair value hierarchy gives the highest priority to (unadjusted) quoted prices available 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.

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

In the absence of quoted prices in 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 receivables portfolio at fair value consists of the on-balance-sheet exposures classified as performing with a residual life exceeding one year (medium-long term[1]). Therefore, all exposures classified as in Default, the ones with a residual life less than one year, and unsecured loans are excluded from the valuation.

For the purposes of measuring performing loans at fair value, given the absence of prices directly observable on active and liquid markets, entities shall use valuation techniques based on a theoretical model meeting the requirements of IASs/IFRSs (Level 3). The approach used to determine the fair value of receivables is the Discounted Cash Flow Model, i.e. the discounting of expected future cash flows at a risk free rate for the same maturity, increased by a spread representative of the counterparty’s risk of default plus a liquidity premium.

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 in-

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

corporated 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.

A.4.2 Measurement processes and sensitivity

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

A.4.3. Fair value hierarchy

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

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

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

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

Quantitative disclosure

A.4.5 - Fair value hierarchy

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

FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (in thousands of Euro)	31.12.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	-	37.367	189	-		487
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	430.908	14.339	388.587	323.033	-	2.017
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**430.908**	**51.706**	**388.776**	**323.033**	**-**	**2.504**
1. Financial liabilities held for trading	-	38.239	-	-	-	2.498
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**38.239**	**-**	**-**	**-**	**2.498**

Key

L1= Level1: fair value of a financial instrument quoted in an active market;
L2= Level 2: fair value measured using valuation techniques based on observable market inputs other than the financial instrument's price;
L3= Level 3: fair value calculated using valuation techniques based on inputs not observable in the market.

A.4.5.2 Annual changes in 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	**487**	**-**	**2.017**	**-**	**-**	**-**
2. Increases	**7.289**	**-**	**387.683**	**-**	**-**	**-**
2.1 Purchases	-		387.142			
2.2 Profit taken to:						
2.2.1 Profit or loss	-	-	-	-	-	-
- of which: Capital gains	-	-	-	-	-	-
2.2.2 Equity	X	X	541	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	7.289	-	-	-	-	-
3. Decreases	**7.587**	**-**	**1.113**	**-**	**-**	**-**
3.1 Sales	-	-	1.111	-	-	-
3.2 Redemptions	1.587	-	-	-	-	-
3.3 Losses taken to:						
3.3.1 Profit or loss	-	-	-	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2 Equity	X	X	1	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	6.000	-	1	-	-	-
4. Closing balance	**189**	**-**	**388.587**	**-**	**-**	**-**

Other increases in available for sale financial assets referred to the contribution from the merger of Interbanca S.p.A. into Banca IFIS, while other decreases were related to the settlement of a position as part of a broader transaction with a third party.

Level 3 available for sale financial assets included 377,3 million Euro in senior notes from third-party securitisations; the remainder referred to equity interests and units of UCITS funds.

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

	Financial liabilities held for trading	Financial liabilities at fair value	Hedging derivatives
1. Opening balance	**2.498**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1 Issues	-	-	-
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	**2.498**	**-**	**-**
3.1 Redemptions	2.498	-	-
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	**-**	**-**	**-**

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2017				31.12.2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held to maturity financial assets	-	-	-	-	-	-	-	-
2. Due from banks	1.546.776	-	-	1.546.776	1.798.767	-	-	1.798.767
3. Loans to customers	5.784.059	-	-	5.918.835	4.464.565	-	-	4.494.250
4. Property, plant and equipment held for investment purpose	720	-	-	880	720	-	-	926
5. Non-current assets and disposal groups	-	-	-	-	-	-	-	-
Total	**7.331.555**		**-**	**7.465.611**	**6.264.052**	**-**	**-**	**6.293.943**
1. Due to banks	774.475	-	-	774.475	533.385	-	-	533.385
2. Due to customers	5.966.901	-	-	5.968.107	5.662.176	-	-	5.682.618
3. Debt securities issued	789.994	88.768	712.400	580	-	-	-	-
4. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	**7.531.370**	**88.768**	**712.400**	**6.743.162**	**6.195.561**	**-**	**-**	**6.216.003**

Key

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

Part B - Statement of financial position

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	31.12.2017	31.12.2016
a) Cash	47	32
b) On demand deposits at Central banks	-	-
Total	**47**	**32**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: breakdown by type

Type/Amounts	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives						
1. Financial derivatives	-	37.367	189	-	-	487
1.1 For trading	-	37.367	189	-	-	487
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 For trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**37.367**	**189**	**-**	**-**	**487**
Total (A+B)	**-**	**37.367**	**189**	**-**	**-**	**487**

The financial assets and liabilities held for trading outstanding at 31 December 2017 referred to interest rate derivatives that the merged entity Interbanca S.p.A. negotiated with its Corporate clients up to 2009 to provide them with instruments to hedge risks such as fluctuations in interest rates. In order to remove market risk, all outstanding transactions are hedged with “back to back” trades, in which Interbanca assumed a position opposite to the one sold to corporate clients with independent market counterparties.

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

Type/Amounts	31.12.2017	31.12.2016
A. On-balance-sheet assets		
1. Debt securities	**-**	**-**
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCITS units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total A	**-**	**-**
B. Derivatives		
a) Banks		
- fair value	17.368	397
b) Customers		
- fair value	20.188	90
Total B	**37.556**	**487**
Total (A+B)	**37.556**	**487**

Section 4 - Available for sale financial assets – Item 40

4.1 Available for sale financial assets: breakdown by type

Type/Amounts	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	427.833	-	377.328	323.033	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	427.833	-	377.328	323.033	-	-
2. Equity securities	3.075	10.223	1.646	-	-	2.017
2.1 At fair value	3.075	10.223	1.646	-	-	2.017
2.2 At cost	-	-	-	-	-	-
3. UCITS units	-	4.116	9.613	-	-	-
4. Loans	-	-	-	-	-	-
Total	**430.908**	**14.339**	**388.587**	**323.033**	**-**	**2.017**

Level 1 “other debt securities” refer to Italian government bonds, either fixed-rate and very short-term bonds or floating-rate and medium-term ones. The increase compared to the previous year was mainly the result of the purchases made during the period.

Level 3 “other debt securities” referred to notes from third-party securitisations.

“Equity securities” referred to minority interests; the increase compared to the previous year was largely attributable to the portfolio of the merged entity Interbanca S.p.A..
UCITS units, amounting to 13,7 million Euro, were obtained in part through the merger of Interbanca S.p.A. and in part after the restructuring of an impaired position.

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

Type/Amounts	31.12.2017	31.12.2016
1. Debt securities	**805.161**	**323.033**
a) Governments and Central banks	427.833	323.033
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	377.328	-
2. Equity securities	**14.944**	**2.017**
a) Banks	22	1.134
b) Other issuers:	14.922	883
- insurance companies	-	-
- financial companies	10.203	866
- non-financial companies	4.719	17
- other	-	-
3. UCITS units	**13.729**	**-**
4. Loans	**-**	-
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	**833.834**	**325.050**

Section 6 – Due from banks – Item 60

6.1 Due from banks: breakdown by type

Type / Amounts	31.12.2017				31.12.2016			
	BV	FV Level 1	FV Level 2	FV Level 3	BV	FV Level 1	FV Level 2	FV Level 3
A. Due from Central banks	**1.347.384**	**-**	**-**	**1.347.384**	**1.016.569**	**-**	**-**	**1.016.569**
1. Term deposits	-	X	X	X	-	X	X	X
2. Legal reserve	37.370	X	X	X	1.016.569	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Others	1.310.014	X	X	X	-	X	X	X
B. Due from banks	**199.392**	**-**	**-**	**199.392**	**782.198**	**-**	**-**	**782.198**
1. Loans	199.392	-	-	199.392	782.198	-	-	782.198
1.1 Current accounts and on demand deposits	95.857	X	X	X	26.237	X	X	X
1.2 Term deposits	102.836	X	X	X	755.961	X	X	X
1.3 Other loans:	699	X	X	X	-	X	X	X
- Reverse repurchase agreements	-	X	X	X	-	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	699	X	X	X	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured	-	X	X	X	-	X	X	X
2.2 Other	-	X	X	X	-	X	X	X
Total	**1.546.776**	**-**	**-**	**1.546.776**	**1.798.767**	**-**	**-**	**1.798.767**

Key
FV= fair value
BV= book value

Lending to other banks is not part of the Bank's core business: the excess liquidity ensures the margin required to carry out banking operations as well as the funds necessary to seize potential market opportunities.

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

Section 7 – Loans to customers – Item 70

7.1 Loans to customers: breakdown by type

Type/Amounts	31.12.2017						31.12.2016					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Acquired	Others					Acquired	Others			
Loans	**4.549.681**	**798.276**	**389.603**	**X**	**X**	**X**	**3.717.773**	**562.329**	**184.464**	**X**	**X**	**X**
1. Current accounts	133.925	51.303	29.575	X	X	X	104.282	25.112	12.072	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Loans/mortgages	885.370	64.103	167.630	X	X	X	410.901	3.466	947	X	X	X
4. Credit cards, personal loans and salary-backed loans	70	387.727	37	X	X	X	-	305.697	-	X	X	X
5. Finance leases	11	259	-	X	X	X	-	240	-	X	X	X
6. Factoring	2.562.265	-	170.838	X	X	X	2.485.720	-	163.696	X	X	X
7. Other loans	968.040	294.884	21.523	X	X	X	716.870	227.814	7.749	X	X	X
Debt securities	**46.499**	**-**	**-**	**X**	**X**	**X**	**-**	**-**	**-**	**X**	**X**	**X**
8 Structured	-	-	-	X	X	X	-	-	-	X	X	X
9 Other	46.499	-	-	X	X	X	-	-	-	X	X	X
Total	**4.596.180**	**798.276**	**389.603**	**-**	**-**	**5.918.835**	**3.717.773**	**562.329**	**184.464**	**-**	**-**	**4.494.250**

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

Finally, the line item included 792,2 million Euro (891,0 million Euro at 31 December 2016) in loans granted to the subsidiaries of the former GE Capital Interbanca Group, divided between "loans/mortgages" and "other loans".

7.2 Loans to customers: breakdown by debtor/issuer

Type/Amounts	31.12.2017			31.12.2016		
	Performing	Non-performing		Performing	Non-performing	
		Acquired	Others		Acquired	Others
1. Debt securities:	**46.499**	**-**	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	46.499	-	-	-	-	-
- non-financial companies	5.009	-	-	-	-	-
- financial companies	41.490	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**4.549.681**	**798.276**	**389.603**	**3.717.773**	**562.329**	**184.464**
a) Governments	122.276	-	14.522	92.844	-	11.484
b) Other public entities	621.344	6	39.721	799.904	1	42.229
c) Other parties	3.806.061	798.270	335.360	2.825.025	562.328	130.751
- non-financial companies	2.923.694	70.529	289.973	1.997.443	27.595	119.393
- financial companies	820.161	578	36.867	789.254	99	5.124
- insurance companies	16	1	-	-	-	-
- other	62.190	727.162	8.520	38.328	534.634	6.234
Total	**4.596.180**	**798.276**	**389.603**	**3.717.773**	**562.329**	**184.464**

Section 10 – Equity investments – Item 100

10.1 Equity investments: information on investments

Company Name	Registered Office	Head Office	Equity %	Voting rights %
A. Subsidiaries				
1. IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	100%	100%
2. IFIS Leasing S.p.A.	Mondovì - Province of Cuneo	Mondovì -	100%	100%
3. IFIS Rental Services S.r.l.	Milan	Milan	100%	100%
4. IFIS NPL S.p.A.	Mestre	Florence, Milan and Mestre	100%	100%
5. Two Solar Park 2008 S.r.l.	Milan	Milan	100%	100%
B. Joint ventures	-	-	-	-
C. Companies under significant influence	-	-	-	-

10.5 Equity investments: annual changes

	31.12.2017	31.12.2016 RESTATED
A. Opening balance	**135.789**	**26.356**
B. Increases	**582.625**	**109.433**
B.1 Purchases	108.880	109.433
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	337.956	-
C. Reductions	**218.313**	**-**
C.1 Sales	-	-
C.2 Impairment losses and amortisation:	-	-
C.3 Other changes	218.313	-
D. Closing balance	**364.312**	**135.789**
E. Total revaluations	**-**	**-**
F. Total adjustments	**-**	**-**

Purchases referred to the acquisition of IFIS Factoring S.r.l., which was subsequently merged into the Bank, from the subsidiaries Interbanca S.p.A. and IFIS Leasing S.p.A..

“Other increases” referred to the equity investments owned by the merged entity Interbanca S.p.A., IFIS Leasing S.p.A., IFIS Rental Services S.r.l., and Two Solar Park 2008 S.r.l., as well as the share capital paid up to establish IFIS NPL S.p.A..

“Other decreases” referred to the carrying amounts of the merged entities Interbanca S.p.A. and IFIS Factoring S.r.l..

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

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

Assets/Amounts	31.12.2017	31.12.2016
1. Owned	**105.989**	**59.647**
a) Land	35.892	6.738
b) Buildings	61.495	46.944
c) Furnishings	1.887	1.217
d) Electronic systems	4.893	3.655
e) Others	1.822	1.003
2. 2.2 Acquired under finance leases	**3.597**	**3.718**
a) Land	-	-
b) Buildings	3.597	3.718
c) Furnishings	-	-
d) Electronic systems	-	-
e) Others	-	-
Total	**109.586**	**63.275**

The buildings and land recognised under property, plant and equipment for functional use at the end of the year mainly include: the important historical building Villa Marocco, located in Mestre (Venice) and housing Banca IFIS's registered office, and two buildings in Milan derived from the merger of Interbanca S.p.A. that the Bank uses as offices.

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

There were also two buildings in Florence housing the head office of the NPL Area, one of which acquired under a finance lease and recognised at 3,6 million Euro.

11.2 Investment property: breakdown of assets measured at cost

Assets/Amounts	31.12.2017				31.12.2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned	**720**	**-**	**-**	**880**	**720**	**-**	**-**	**926**
a) Land	-	-	-	-	-	-	-	-
b) Buildings	720	-	-	880	720	-	-	926
2. 2.2 Acquired under finance leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Land	-	-	-	-	-	-	-	-
b) Buildings	-	-	-	-	-	-	-	-
Total	**720**	**-**	**-**	**880**	**720**	**-**	**-**	**926**

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

	Land	Buildings	Furnish-ings	Electronic systems	Others	Total 31.12.2017
A. Gross opening balance	**6.738**	**53.239**	**5.411**	**9.933**	**1.953**	**77.274**
A.1 Total net depreciation and impairment	-	(2.577)	(4.194)	(6.278)	(950)	(13.999)
A.2 Net opening balance	**6.738**	**50.662**	**1.217**	**3.655**	**1.003**	**63.275**
B. Increases	**29.154**	**33.511**	**5.920**	**16.362**	**1.348**	**86.295**
B.1 Purchases	-	477	488	2.099	1.348	4.412
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	29.154	33.034	5.432	14.263	-	81.883
C. Reductions	**-**	**(19.081)**	**(5.250)**	**(15.124)**	**(529)**	**(39.984)**
C.1 Sales	-	-	(3)	(21)	(169)	(193)
C.2 Depreciation	-	(1.779)	(326)	(1.294)	(360)	(3.759)
C.3 Impairment losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to	-	-	-	-	-	-
a) Investment property	-	-	-	-	-	-
b) Assets under disposal	-	-	-	-	-	-
C.7 Other changes	-	(17.302)	(4.921)	(13.809)	-	(36.032)
D. Net closing balance	**35.892**	**65.092**	**1.887**	**4.893**	**1.822**	**109.586**
D.1 Total net depreciation and impairment	-	21.656	9.441	21.381	1.310	53.788
D.2 Gross closing balance	**35.892**	**86.748**	**11.328**	**26.274**	**3.132**	**163.374**
E. Measurement at cost	-	-	-	-	-	-

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

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

11.6 Investment property: annual changes

	31.12.2017	
	Land	Buildings
A. Opening balance	**-**	**720**
B. Increases	**-**	**-**
B.1 Purchases	-	-
B.2 Capitalised improvement expenses	-	-
B.3 Fair value gains:	-	-
B.4 Reversals of impairment losses	-	-
B.5 Exchange gains	-	-
B.6 Transfers from property for functional use	-	-
B.7 Other changes	-	-
C. Reductions	**-**	**-**
C.1 Sales	-	-
C.2 Depreciation	-	-
C.3 Fair value losses	-	-
C.4 Impairment losses	-	-
C.5 Exchange losses	-	-
C.6 Transfers to other asset portfolios	-	-
a) assets for functional use	-	-
b) non-current assets under disposal	-	-
C.7 Other changes	-	-
D. Closing balance	**-**	**720**
E. Measurement at fair value	-	880

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

Section 12 – Intangible assets – Item 120

12.1 Intangible assets: breakdown by asset type

Assets/Amounts	31.12.2017		31.12.2016	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill:	X	**-**	X	**-**
A.1.2 Non-controlling interests	X	-	X	-
A.2 Other intangible assets	**21.274**	**-**	**13.117**	**-**
A.2.1 Assets measured at cost:	21.274	-	13.117	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	21.274	-	13.117	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**21.274**	**-**	**13.117**	**-**

Other intangible assets at 31 December 2017 refer exclusively to software purchase and development, amortised on a straight-line basis over the estimated useful life, which is 5 years from deployment.

12.2 Intangible assets: annual changes

	Goo dwill	Other intangible assets: internally generated		Other intangible assets: other		Total 31.12.2017
		FINITE	INDEF	FINITE	INDEF	
A. Opening balance	**-**	**-**	**-**	**13.117**	**-**	**13.117**
A.1 Total net depreciation and impairment losses	-	-	-	-	-	-
A.2 Net opening balance	**-**	**-**	**-**	**13.117**	**-**	**13.117**
B. Increases	**-**	**-**	**-**	**16.356**	**-**	**16.356**
B.1 Purchases	-	-	-	13.857	-	13.857
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Reversals of impairment losses	X	-	-	-	-	-
B.4 Fair value gains:	-	-	-	-	-	-
- to equity	X	-	-	-	-	-
- to profit or loss	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	2.499	-	2.499
C. Reductions	**-**	**-**	**-**	**8.200**	**-**	**8.200**
C.1 Sales	-	-	-	2.016	-	2.016
C.2 Impairment losses and amortisation:	-	-	-	4.101	-	4.101
- Amortisation expense	X	-	-	4.101	-	4.101
- Impairment losses	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses:	-	-	-	-	-	-
- to equity	X	-	-	-	-	-
- to profit or loss	X	-	-	-	-	-
C.4 Transfer to non-current assets under disposal	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	2.083	-	2.083
D. Net closing balance	**-**	**-**	**-**	**21.274**	**-**	**21.274**
D.1 Total net amortisation, impairment losses and reversals of impairment losses	-	-	-	-	-	-
E. Gross closing balance	**-**	**-**	**-**	**21.274**	**-**	**21.274**
F. Measurement at cost	-	-	-	-	-	-

Key
Fin: finite useful life
Indef: indefinite useful life

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

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

13.1 Deferred tax assets: breakdown

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

Deferred tax assets	31.12.2017	31.12.2016
Loans to customers (Law 214/2011)	176.214	36.184
Past tax losses that can be carried forward	91.395	-
ACE – Aid for economic growth that can be carried forward	24.599	-
Provisions for risks and charges	7.484	1.209
Others	2.243	890
Total	**301.935**	**38.283**

The change in deferred tax assets was closely associated with the recognition of the deferred tax assets of the merged entities Interbanca S.p.A. and, to a lesser extent, IFIS Factoring S.r.l..
Deferred tax assets totalled 301,9 million Euro and can be classified as follows: 176,2 million Euro in impairment losses on receivables that can be deducted in the following years, 91,4 million Euro in tax losses that can be carried forward, 24,6 million Euro in ACE (Aid for Economic Growth) benefits that can be carried forward, and the remainder referred to mismatch arrangements. The subline item Other includes temporary differences on various costs with deferred deductibility.

Finally, please note that, pursuant to the current Tax Consolidation arrangements, deferred tax assets related to the taxable profit for the period were included in Other Assets as an approximately 51,4 million Euro Receivable due from La Scogliera.

13.2 Deferred tax liabilities: breakdown

The main types of deferred tax liabilities are shown below.

Deferred tax liabilities	31.12.2017	31.12.2016
Loans to customers	27.121	13.292
Property, plant and equipment	9.001	325
Available for sale securities	1.798	394
Others	583	309
Total	**38.503**	**14.320**

The change in deferred tax liabilities was attributable to the recognition of the deferred tax liabilities of the merged entity Interbanca S.p.A. on the revaluation of property as well as the increase in receivables for interest on arrears that will be taxed upon receipt.

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

	31.12.2017	31.12.2016
1. Opening balance	**38.204**	**39.176**
2. Increases	**396.109**	**30**
2.1 Deferred tax assets recognised in the year	15.167	30
a) relative to previous years	814	30
b) due to change in accounting standards	-	-
c) reversals of impairment losses	-	-
d) other	14.353	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	380.942	-
3. Decreases	**132.710**	**1.002**
3.1 Deferred tax assets reversed during the year	123.306	1.002
a) reversals	123.306	1.002
b) impairment losses due to unrecoverability	-	-
c) change in accounting standards	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	9.404	-
a) conversion into tax credits as per Italian Law 214/2011	9.404	-
b) other	-	-
4. Closing balance	**301.603**	**38.204**

"Other increases", totalling 380,9 million Euro, referred to the recognition of the deferred tax assets of the merged entities Interbanca S.p.A. and, to a lesser extent, IFIS Factoring S.r.l..

13.3.1 Changes in deferred tax assets as per Italian Law 214/2011 (recognised through profit or loss)

	31.12.2017	31.12.2016
1. Opening balance	**-**	**-**
2. Increases	**185.618**	**-**
2.1 Other changes	185.618	-
3. Decreases	**9.404**	**-**
3.1 Reclassifications	-	-
3.2 Conversion in tax credits	9.404	-
a) deriving from losses for the year	9.242	-
b) deriving from tax losses	162	-
3.3 Other reductions	-	-
4. Closing balance	**176.214**	**-**

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

	31.12.2017	31.12.2016
1. Opening balance	**13.925**	**15.583**
2. Increases	**27.181**	**-**
2.1 Deferred tax liabilities recognised in the year	18.017	-
a) relative to previous years	9.679	-
b) due to change in accounting standards	-	-
c) other	8.338	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	9.164	-
3. Decreases	**4.402**	**1.658**
3.1 Deferred tax liabilities reversed during the year	4.402	370
a) reversals	4.402	370
b) due to change in accounting standards	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	1.288
4. Closing balance	**36.704**	**13.925**

“Other increases”, totalling 9,2 million Euro, referred to the recognition of the deferred tax assets of the merged entities Interbanca S.p.A. and, to a lesser extent, IFIS Factoring S.r.l..

13.5 Changes in deferred tax assets (recognised through equity)

	31.12.2017	31.12.2016
1. Opening balance	**79**	**63**
2. Increases	**277**	**16**
2.1 Deferred tax assets recognised in the year	-	16
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	-	16
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	277	-
3. Decreases	**24**	**-**
3.1 Deferred tax assets reversed during the year	24	-
a) reversals	24	-
b) impairment losses due to unrecoverability	-	-
c) due to change in accounting standards	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	**332**	**79**

13.6 Changes in deferred tax liabilities (recognised through equity)

	31.12.2017	31.12.2016
1. Opening balance	**394**	**5.753**
2. Increases	**1.405**	**17**
2.1 Deferred tax liabilities recognised in the year	662	17
a) relative to previous years	-	17
b) due to change in accounting standards	-	-
c) other	662	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	743	-
3. Decreases	**-**	**5.376**
3.1 Deferred tax liabilities reversed during the year	-	5.376
a) reversals	-	5.376
b) due to change in accounting standards	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	**1.799**	**394**

Section 15 - Other assets – Item 150

15.1 Other assets: breakdown

	31.12.2017	31.12.2016 RESTATED
Receivables due from tax authorities	35.253	7.249
Prepayments and accrued income	47.185	28.532
Guarantee deposits	616	477
Other items	148.499	130.281
Total	**231.553**	**166.539**

The restated balances reflect the 9,8 million Euro price adjustment for the acquisition of the former Interbanca Group, which represents the receivable due from the seller for the excess consideration paid up front at the transaction date. This receivable was settled on 31 July 2017 with the receipt of the relevant exposure.

Receivables due from Tax Authorities included 5,7 million Euro in receivables for payments on account for the virtual stamp duty, 4,4 million Euro in funds placed in an escrow account pending the resolution of a tax dispute, and 24,5 million Euro in VAT credits arising from the settlement for the year 2017 and that can be carried forward to the following year.

Prepayments and accrued income included 38,3 million Euro in prepayments related to the NPL area's debt collection costs, 3,9 million Euro in interest on arrears due from the Public Administration, and 1,9 million Euro in prepaid interests in favour of customers with a fixed-term Rendimax account.

Other items included a 105,0 million Euro receivable due from the parent La Scogliera S.p.A., including 51,4 million Euro related to the taxable profit for the year transferred to the Consolidating Company under the tax consolidation regime and 53,6 million Euro related to tax credits claimed by the latter for excess tax payments from prior years, as well as 26,9 million Euro in receivables due from the buyers of NPL portfolios.

LIABILITIES

Section 1 – Due to banks - Item 10

1.1 Due to banks: breakdown by type

Type/Amounts	31.12.2017	31.12.2016
1. Due to Central banks	**699.585**	**1.171**
2. Due to banks	**74.890**	**532.214**
2.1 Current accounts and on demand deposits	20.825	84.909
2.2 Term deposits	38.205	396.419
2.3 Loans	15.860	50.886
2.3.1 Repurchase agreements	-	50.886
2.3.2 Other	15.860	-
2.4 Debt from buyback commitments on treasury equity instruments	-	-
2.5 Other payables	-	-
Total	**774.475**	**533.385**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	774.475	533.385
Total fair value	**774.475**	**533.385**

Payables due to banks rose essentially because of the 700,0 million Euro (par value) TLTRO tranche obtained in March 2017. Term deposits at other banks declined by a similar amount.

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

Section 2 – Due to customers – Item 20

2.1 Due to customers: breakdown by type

Type/Amounts	31.12.2017	31.12.2016
1. Current accounts and on demand deposits	1.169.221	884.433
2. Term deposits	4.106.828	3.722.912
3. Loans	682.576	1.049.163
3.1 repurchase agreements	-	270.314
3.2 other	682.576	778.849
4. Debt from buyback commitments on treasury equity instruments	-	-
5. Other payables	8.276	5.668
Total	**5.966.901**	**5.662.176**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	5.968.107	5.682.618
Total fair value	**5.968.107**	**5.682.618**

Current accounts and on demand deposits at 31 December 2017 included funding from the on demand Rendimax savings account and the Contomax online current account, amounting to 916,5 million and

29,8 million Euro, respectively; term deposits represent funding from fixed-term Rendimax and Contomax accounts and time deposits.

The repurchase agreements outstanding at 31 December 2016 entered into with Cassa di Compensazione e Garanzia as counterparty and government bonds as the underlying assets were settled during 2017.

It should be noted that the Bank does not carry out "term structured repo" transactions.

Other loans referred to payables for finance leases; these are recognised using the financial method set out in IAS 17, as detailed in paragraph 2.5 below.

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

2.5 Payables for finance leases

	31.12.2017	31.12.2016
Payables for finance leases	3.608	3.768

The above payable related for 3,6 million Euro to the real estate lease the former company Toscana Finanza SpA entered into in 2009 for a property in Florence. The term of the lease entered into with Centro Leasing S.p.A. is 18 years (from 01.03.2009 to 01.03.2027) and provides for the payment of 216 monthly instalments of 28.490 Euro, including the principal, interest and an option to buy the asset at the end of the lease for 1.876.800 Euro. The property will soon be converted into the head office of the NPL Area.

Section 3 – Debt securities issued – Item 30

3.1 Debt securities issued: breakdown by type

Securities	31.12.2017				31.12.2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	789.414	88.768	712.400	-	-	-	-	-
1.1 structured bonds	-	-	-	-	-	-	-	-
1.2 other bonds	789.414	88.768	712.400		-	-	-	-
2. Other securities	580	-	-	580	-	-	-	-
2.1 structured securities	-	-	-	-	-	-	-	-
2.2 other	580	-	-	580	-	-	-	-
Total	**789.994**	**88.768**	**712.400**	**580**	**-**	**-**	**-**	**-**

Debt securities issued included the principal and interest amounts of the 300,9 million Euro senior bond that Banca IFIS issued in the first half of 2017 as well as the 401,5 million Euro Tier 2 bond issued in mid-October 2017.

Debt securities issued included also 87,0 million Euro in bond loans and 580 thousand Euro in certificates of deposits issued by the merged entity Interbanca S.p.a..

3.2 Breakdown of item 30 "Debt securities issued": subordinated bonds

The line item "Debt securities issued" included 401,5 million Euro in subordinated bonds.

Section 4 – Financial liabilities held for trading - item 40

4.1 Financial liabilities held for trading: breakdown by type

Type / Amounts	31.12.2017					31.12.2016				
	NV	FV			FV *	NV	FV			FV *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-		-	-	-	-	
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	-	38.239	-	-	-	-	-	2.498	-
1.1 For trading	X	-	38.239	-	X	X	-	-	2.498	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-			-	-	-	-
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**-**	**-**	**38.239**	**-**	**-**	**-**	**-**	**-**	**2.498**	
Total (A+B)	X	**-**	**38.239**	**-**	X	X	**-**	**-**	**2.498**	X

Key
FV= fair value
FV* = Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness compared to the date of issuance.
NV = Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3

Concerning level 2 liabilities held for trading, see the comments in section 2 under assets.

Section 8 – Tax liabilities – Item 80

See section 14 under assets.

Section 10 - Other liabilities - Item 100

10.1 Other liabilities: breakdown

	31.12.2017	31.12.2016
Due to suppliers	32.504	29.249
Sums available to customers	33.022	13.375
Due to the Tax Office and Social Security agencies	13.283	10.090
Due to personnel	8.135	6.025
Accrued expenses and deferred income	3.737	3.587
Other payables	247.811	160.320
Total	**338.492**	**222.646**

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

Other payables included approximately 140,2 million Euro in amounts due to customers that have not yet been credited, 22 million Euro in outgoing wire transfers not yet settled, and nearly 15,6 million Euro in allowances for commitments and guarantees.

Section 11 - Post-employment benefits - Item 110

11.1 Post-employment benefits: annual changes

	31.12.2017	31.12.2016
A. Opening balance	**1.507**	**1.453**
B. Increases	**4.176**	**77**
B.1 Allocations for the year	43	20
B.2 Other changes	91	57
Business combinations	4.042	-
C. Reductions	**207**	**23**
C.1 Payments made	97	20
C.2 Other changes	110	3
D. Closing balance	**5.476**	**1.507**
Total	**5.476**	**1.507**

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

Other increases referred to the merger of Interbanca S.p.A., while other decreases included the impact of the discounting of benefits earned up to 31 December 2006 and still held in the company, which, based on the changes introduced by the new IAS 19, are recognised through equity.

The line item “business combinations” represents the impact on the liabilities for post-employment benefits of the mergers of Interbanca S.p.A. and IFIS Factoring S.r.l. into Banca IFIS, which were carried out in 2017.

Pursuant to the requirements of the ESMA in the document *“European common enforcement priorities for 2012 financial statements”* of 12 November 2012, the discount rate used was the interest rate based on the market yield of a benchmark of AA-rated European corporate bonds with maturity over 10 years. The same interest rate was used to discount the obligations at 31 December 2016.

11.2 Other information

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

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

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

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

In particular:

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

Section 12 – Provision for risks and charges - Item 120

12.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2017	31.12.2016
1 Provisions for pensions	-	-
2. Other provisions for risks and charges	13.163	4.331
2.1 legal disputes	10.727	1.855
2.2 personnel expenses:	1.604	-
2.3 other	832	2.476
Total	**13.163**	**4.331**

12.2 Provisions for risks and charges: annual changes

Items/Components	31.12.2017	
	Provisions for pensions	Other provisions
A. Opening balance	**-**	**4.331**
B. Increases	**-**	**16.331**
B.1 Allocations for the year	-	5.685
B.2 Changes due to the passage of time	-	-
B.3 Changes due to changes in the discount rate	-	-
B.4 Other changes	-	10.646
C. Reductions	**-**	**7.499**
C.1 Used during the year	-	7.497
C.2 Changes due to changes in the discount rate	-	-
C.3 Other changes	-	2
D. Closing balance	**-**	**13.163**

12.4 Provisions for risks and charges – Other provisions

Legal disputes

The provision outstanding at 31 December 2017, amounting to 10,7 million Euro, included 7,1 million Euro for 22 disputes concerning the Trade Receivables segment (the plaintiffs seek 25,8 million Euro in damages), 74 thousand Euro for 7 disputes concerning the NPL Area (the plaintiffs seek 147 thousand Euro in damages), and 3,5 million Euro for 9 disputes concerning the former Interbanca (the plaintiffs seek 50,5 million Euro in damages).

Other provisions

The provision outstanding at 31 December 2017, amounting to 2,4 million Euro, included 1,6 million Euro in personnel-related expenses and 0,8 million Euro in other provisions, including 0,6 million Euro as provision for risks on unfunded commitments.

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).

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 31 December 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 merger of the subsidiary Interbanca S.p.A. are reported separately.

Legal disputes

Banca IFIS legal disputes

Banca IFIS recognises contingent liabilities amounting to 2,0 million Euro in claims, represented by 14 disputes: 13 refer to disputes concerning the Trade Receivables segment, for a total of 1,9 million Euro, and 1 to a labour dispute, for 54 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 Interbanca legal disputes

Here below are the most significant contingent liabilities of the merged entity Interbanca S.p.A..

Lawsuit against Interbanca to cancel a settlement

A lawsuit was filed against the former 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 the former Interbanca, among others. During the dispute, some defendants made various demands to the former Interbanca.

The Court deemed the settlement agreement valid and enforceable, dismissing all claims of the Plaintiffs against the former Interbanca. In the first-instance trial of the defendants and the former Interbanca for the remaining claims, whose outcome is still pending, the court-appointed expert witness is preparing his report and has concluded that the three debtors have suffered no damages. The Plaintiffs, not satisfied with the expert witness report, filed a motion to strike/supplement it, but the Court dismissed said motion and ordered only some additional technical analyses. The next hearing is scheduled for 10 April 2018.

The plaintiffs appealed against the first-instance ruling in favour of the Company, but the Appeals Court upheld the decision with a ruling that is now final.

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 the former Interbanca indirectly held a stake between 1999 and 2004 filed a lawsuit for damages. The lawsuit was filed against the former Interbanca and three former employees to ascertain their alleged joint responsibility and sentence them to pay for the damages allegedly incurred by the creditors because of a spin-off, initially estimated to be at least 388 million Euro. In 2013, the former Interbanca was also sued for causing approximately 3,5 billion Euro in environmental damage. Italy's Ministry of the Environment and the Protection of the Territory and the Sea as well as the Ministry of Economy and Finance joined the proceedings to support the plaintiff's claims. On 10 February 2016, the Court of Milan dismissed the request to join the proceedings filed by said Ministries as inadmissible as well as dismissed all claims for damages filed by the plaintiff against Interbanca and its former employees.

In March 2016, the Ministries and the plaintiff filed an appeal. In November 2016, the former Interbanca and its former employees entered into separate settlement agreement with the plaintiff, which withdrew the lawsuit. The proceeding with the Ministries continues. The case has been adjourned to 20 June 2018.

On 28 July 2015, the Ministry of the Environment and the Protection of the Territory and the Sea served the former 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. On 21 March 2016, the Regional Administrative Court upheld the former Interbanca's appeal and cancelled 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 been scheduled for 14 June 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 Interbanca tax disputes

Dispute concerning withholding taxes on interest paid in Hungary.

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 2012, the Italian Revenue Agency assessed approximately 72,5 million Euro in additional withholding taxes against the merged entity Interbanca S.p.A.,

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

The Company involved filed an appeal against the verification notices pursuant to the law with the competent Tax Commissions, paying 1/3 of the tax 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.

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.

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 the former Interbanca and other Investees.

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.

Section 14 – Equity attributable to owners of the company – Items 130, 150, 160, 170, 180, 190 and 200

14.1 Share capital and treasury shares: breakdown

Item		31.12.2017	31.12.2016
180	Share capital (in thousands of Euro)	53.811	53.811
	Number of ordinary shares	53.811.095	53.811.095
	Nominal amount of ordinary shares	1 Euro	1 Euro
190	Treasury shares (in thousands of Euro)	3.168	3.187
	Number of treasury shares	377.829	380.151

14.2 Share capital - number of shares: annual changes

Headings/Types	Ordinary	Others
A. Shares held at the beginning of the year	**53.811.095**	**-**
- fully paid-up	53.811.095	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	380.151	-
A.2 Outstanding shares: opening balance	**53.430.944**	**-**
B. Increases	**2.322**	**-**
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	2.322	-
C. Reductions	-	-
C.1 Annulments	-	-
C.2 Buybacks of treasury shares	-	-
C.3 Company sell-offs	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	**53.433.266**	**-**
D.1 Treasury shares (+)	377.829	-
D.2 Shares held at the end of the year	53.811.095	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-

14.3 Share capital: other information

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

14.4 Profit reserves: other information

Items/Components	31.12.2017	31.12.2016
Legal reserve	10.762	10.762
Extraordinary reserve	385.863	357.954
Other reserves	625.677	(2.075)
Total profit reserves	**1.022.302**	**366.641**
Buyback reserve	3.168	3.187
Future buyback reserve	-	-
Other reserves	2.278	2.278
Total item 160 reserves	**1.027.747**	**372.106**

The change in other reserves compared to the previous year was closely associated with the merger of the subsidiary Interbanca S.p.A. into Banca IFIS, finalised on 23 October 2017. The merger was carried out using the pooling of interest method based on the Group's Consolidated Financial Statements, resulting in a 627,3 million Euro merger surplus.

Pursuant to art. 1, paragraph 145 of the 2014 Budget law (Law no. 147 of 27 December 2013), the Bank realigned the difference between the tax base and carrying amount of property, plant and equipment recognised at 31 December 2012 and still held at 31 December 2013. The amount corresponding to the higher values following the realignment, net of the substitute tax, generated a 7,4 million Euro untaxed reserve.

In addition, following the merger of Interbanca S.p.A. into Banca IFIS, Article 172 paragraph 5 of the Consolidated Law on Income Tax requires the surviving entity to restore the merging entity's deferred tax reserves as follows:

- 4,6 million Euro special reserve as per Article 15 paragraph 10 of Italian Law no. 516 of 7/8/82
- 2,3 million Euro revaluation reserve as per Italian Law 408/90

Finally, there were an additional 20,7 million Euro in deferred tax reserves recognised by Banca IFIS and arising from the merger of Interbanca, in accordance with Italian laws no. 576/75, no. 83/72, and no. 408/90, that had been previously recognised by the latter.

Other information

1. Commitments and guarantees granted

Operations	31.12.2017	31.12.2016
1) Financial guarantees	320.300	201.277
a) Banks	18	-
b) Customers	320.282	201.277
2) Commercial guarantees	40	-
a) Banks	-	-
b) Customers	40	-
3) Irrevocable commitment to grant funds	120.390	35.756
a) Banks	-	-
i) certain use	-	-
ii) uncertain use	-	-
b) Customers	120.390	35.756
i) certain use	52.027	6.415
ii) uncertain use	68.363	29.341
4) Commitments underlying credit derivatives: sale of protection	-	-
5) Assets used as collateral by third parties	-	-
6) Other commitments	10.850	223.017
Total	**451.580**	**460.050**

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

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

2. Assets used as collateral for own liabilities and commitments

Portfolios	31.12.2017	31.12.2016
1. Financial assets held for trading	-	-
2. Financial assets at fair value	-	-
3. Available for sale financial assets	427.833	30.117
4. Held to maturity financial assets	-	-
5. Due from banks	53.637	-
6. Loans to customers	-	-
7. Property, plant and equipment	-	-

Available for sale financial assets refer to government bonds pledged as collateral in the refinancing operation with the Eurosystem.

5. Administration and mediation on behalf of third parties

Type of services	Amounts
1. Execution of orders on behalf of clients	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Portfolio management:	**-**
a) individual	-
b) collective	-
3. Safekeeping and administration of securities	**3.358.955**
a) third party securities in custody: associated with depositary bank	-
services (excluding portfolio management)	
1. securities issued by consolidated companies	-
2. other securities	-
b) other third party securities in custody (excluding portfolio management): other	1.044.868
1. securities issued by consolidated companies	-
2. other securities	1.044.868
c) third party securities held with third parties	*1.044.868*
d) own securities held with third parties	2.314.087
4. Other transactions	**-**

Part C - Income statement

Section 1 – Interest - Items 10 and 20

1.1 Interest receivable and similar income: breakdown

	Items/Types	Debt securities	Loans	Other transactions	31.12.2017	31.12.2016
1	Financial assets held for trading	-	-	-	-	-
2	Available for sale financial assets	6.564	-	-	6.564	11.083
3	Held to maturity financial assets	-	-	-	-	-
4	Due from banks	-	2.411	-	2.411	1.668
5	Loans to customers	1.047	483.248	-	484.295	295.865
6	Financial assets at fair value	-	-	-	-	-
7	Hedging derivatives	X	X	-	-	-
8	Other assets	X	X	426	426	93
	Total	**7.611**	**485.659**	**426**	**493.696**	**308.709**

The increase in interest on loans to customers was attributable to, among other things, the positive impact of the merger of the subsidiary Interbanca S.p.A. into Banca IFIS as well as the 109,9 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 merged entity Interbanca S.p.A..

1.3 Interest receivable and similar income: other information

1.3.1 Interest income on foreign currency financial assets

	31.12.2017	31.12.2016
Interest income on foreign currency financial assets	6.311	8.303

1.4 Interest due and similar expenses: breakdown

	Items/Types	Payables	Securities	Other transactions	31.12.2017	31.12.2016
1	Due to Central banks	(5.381)	X	-	(5.381)	(1.879)
2	Due to banks	(1.903)	X	-	(1.903)	(1.238)
3	Due to customers	(72.990)	X	(12.481)	(85.471)	(52.296)
4	Debt securities issued	X	(11.159)	-	(11.159)	-
5	Financial liabilities held for trading	-	-	-	-	-
6	Financial liabilities at fair value	-	-	-	-	-
7	Other liabilities and provisions	X	X	-	-	(320)
8	Hedging derivatives	X	X	-	-	-
	Total	**(80.274)**	**(11.159)**	**(12.481)**	**(103.914)**	**(55.733)**

Interest expense on payables due to customers classified under "payables" referred to the savings accounts for 71,8 million Euro at 31 December 2017.

Interest expense on payables due to customers related to “other transactions” referred to the funding costs for the securitisation carried out in late 2016, as detailed in Part E of these Notes.

1.6 Interest due and similar expenses: other information

1.6.1 Interest expense on foreign currency liabilities

	31.12.2017	31.12.2016
Interest expense on foreign currency liabilities	(365)	(289)

1.6.2 Interest expense on liabilities for finance leases

	31.12.2017	31.12.2016
Interest expense on liabilities for finance leases	(47)	(60)

Section 2 – Commissions - Items 40 and 50

2.1 Commission income: breakdown

Service type/Amounts	31.12.2017	31.12.2016
a) guarantees granted	2.126	2
b) derivatives on loans	-	-
c) management, mediation and consultancy services:	599	359
1. trading in financial instruments	-	-
2. trading in currencies	-	-
3. asset management	599	359
3.1. individual	599	359
3.2. collective	-	-
4. safe custody and management of securities	-	-
5. depository bank	-	-
6. placement of securities	-	-
7. order collection and transmission	-	-
8. consultancy	-	-
8.1 on investments	-	-
8.2 on financial structure	-	-
9. third-party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. Other products	-	-
d) collection and payment services	728	987
e) servicing for securitisation transactions	-	-
f) services for factoring transactions	53.304	51.939
g) tax collection and payment	-	-
h) management of multi-lateral trading systems	-	-
i) current account holding and management	783	1.129
j) other services	10.345	1.837
Total	**67.885**	**56.253**

2.3 Commission expense: breakdown

Services/Amounts	31.12.2017	31.12.2016
a) guarantees received	(754)	(202)
b) derivatives on loans	-	-
c) management, mediation and consultancy services:	(95)	(92)
1. trading in financial instruments	-	-
2. trading in currencies	(1)	-
3. asset management:	-	-
3.1 own assets	-	-
3.2 delegated by third parties	-	-
4. safe custody and management of securities	(94)	(92)
5. placement of financial instruments	-	-
6. out-of-office canvassing of financial instruments, services and products	-	-
d) collection and payment services	(2.898)	(2.939)
e) other services	(3.422)	(2.230)
Total	**(7.169)**	**(5.463)**

This line item referred to commissions from approved banks' mediation activities, the work of other credit intermediaries, and commissions paid to correspondent banks and factors.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Voci/proventi	31.12.2017		31.12.2016	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading	-	-	-	-
B. Available for sale financial assets	48	-	-	-
C. Financial assets at *fair value*	-	-	-	-
D. Equity investments	-	X	-	X
Total	**48**	**-**	**-**	**-**

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

4.1 Net profit (loss) from trading: breakdown

Items / Returns	Capital gains (A)	Profit from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	**(4.280)**
4. Derivative instruments	**25.093**	**15.523**	**(8.467)**	**(15.842)**	**16.307**
4.1 Financial derivatives:	25.093	15.523	(8.467)	(15.842)	16.307
- On debt securities and interest rates	25.093	15.523	(8.467)	(15.842)	16.307
- On equity instruments and share indexes	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
4.2 Derivatives on loans	-	-	-	-	-
Total	**25.093**	**15.523**	**(8.467)**	**(15.842)**	**12.027**

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

6.1 Profit (loss) from sale or buyback: breakdown

Items/Returns	31.12.2017			31.12.2016		
	Profit	Losses	Net result	Profit	Losses	Net result
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	19.020	(4)	19.016	44.809	(280)	44.529
3. Available for sale financial assets	7.571	(992)	6.579	8.643	(3.148)	5.495
3.1 Debt securities	7.571	(428)	7.143	8.643	(3.148)	5.495
3.2 Equity instruments	-	(564)	(564)	-	-	-
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Held to maturity financial assets	-	-	-	-	-	-
Total assets	**26.591**	**(996)**	**25.595**	**53.452**	**(3.428)**	**50.024**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

Profits from the disposal of loans to customers were achieved by selling receivables portfolios of the NPL Area.

The gains on the sale of debt securities referred to the sale of government and bank bonds carried out during the year.

Section 8 – Net impairment losses/reversals - Item 130

8.1 Net impairment losses on receivables: breakdown

Items/ returns	Impairment losses (1)			Reversals of impairment losses (2)				Total 31.12.2017	Total 31.12.2016
	Specific		Portfo-lio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- loans	-	-	-	-	-	-	-	-	-
- debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers	**(41.816)**	**(64.323)**	**(106)**	**7.453**	**54.681**	**-**	**-**	**(44.111)**	**(53.208)**
Acquired non-performing loans	-	-	-	-	9.119	-	-	9.119	(34.349)
- loans	-	-	X	-	9.119	X	X	9.119	(34.349)
- debt securities	-	-	X	-	-	X	X	-	-
Other receivables	(41.816)	(64.323)	(106)	7.453	45.562	-	-	(53.230)	(18.859)
- loans	(41.816)	(62.608)	(106)	7.453	45.562	-	-	(51.515)	(18.859)
- debt securities	-	(1.715)	-	-	-	-	-	(1.715)	-
C. Total	**(41.816)**	**(64.323)**	**(106)**	**7.453**	**54.681**	**-**	**-**	**(44.111)**	**(53.208)**

Key
A= from interest
B= other reversals

Impairment losses referred for 33,6 million Euro to Trade Receivables, 33,5 million Euro to the NPL Area, and 0,3 million Euro to Tax Receivables; meanwhile, the Corporate Banking segment reported 23,3 million Euro in net reversals of impairment losses on receivables deriving specifically from some individually significant positions; similarly, the Governance and Services segment reported 0,3 million Euro in net reversals of impairment losses.

Impairment losses in the NPL Area referred to positions for which trigger events occurred, causing the position to become impaired under the adopted measurement model and the relevant accounting policy.

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

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

Items/ Returns	Impairment losses (1)		Reversals of impairment losses (2)		Total 31.12.2017	Total 31.12.2016
	Specific		Specific			
	Write-offs	Others	A	B		
A. Debt securities	-	(571)	-	-	(571)	-
B. Equity instruments	-	(1.470)	X	X	(1.470)	(4.356)
C. UCITS units	-	-	X	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(2.041)**	**-**	**-**	**(2.041)**	**(4.356)**

Key
A= from interest
B= other reversals

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

8.4 Net impairment losses/reversal on other financial transactions: breakdown

Items/ Returns	Impairment losses			Reversals of impairment losses				Total 31.12.2017	Total 31.12.2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Guarantees granted	-	(12)	-	-	5.326	-	291	5.605	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to grant funds	-	-	-	-	-	-	-	-	-
D. Other operations	-	-	-	-	-	-	-	-	-
E. Total	**-**	**(12)**	**-**	**-**	**5.326**	**-**	**291**	**5.605**	**-**

Legenda
A= from interest
B= other reversals

Section 9 – Administrative expenses - Item 150

9.1 Personnel expenses: breakdown

Type of expense/Sectors	31.12.2017	31.12.2016
1) Employees	(79.120)	(52.224)
a) salaries and wages	(58.000)	(38.710)
b) social security contributions	(16.170)	(10.587)
c) post-employment benefits	(3.387)	(1.997)
d) pension expense	(318)	-
e) allocations for post-employment benefits	-	(20)
f) allocations to pensions and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments made to supplementary external funds:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
h) costs arising from share-based payment agreements	-	-
i) other employee benefits	(1.245)	(910)
2) Other serving employees	(153)	(120)
3) Directors and Statutory Auditors	(4.207)	(3.948)
4) Retired personnel	-	-
5) Recovery of expenses for seconded personnel	504	103
6) Reimbursements of expenses for seconded parties working in the bank	(289)	-
Total	**(83.266)**	**(56.189)**

Personnel expenses were up 48,2%. Employees numbered 1.218, rising +46,4% from 832 at 31 December 2016—also because of the merger of the subsidiary Interbanca.

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

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

9.2 Average number of employees by category

Employees:	31.12.2017	31.12.2016
Employees:	**1.025,0**	**771,5**
(a) senior managers	39,5	27,5
(b) middle managers	293,0	171,0
(c) remaining personnel	692,5	573,0
Other personnel	**-**	**-**

9.5 Other administrative expenses: breakdown

Type of expense/Amounts	31.12.2017	31.12.2016
Expenses for professional services	**(43.887)**	**(54.777)**
Legal and consulting services	(26.831)	(23.773)
Auditing	(346)	(234)
Outsourced services	(16.710)	(30.770)
Direct and indirect taxes	**(26.565)**	**(14.339)**
Expenses for purchasing goods and other services	**(72.449)**	**(50.923)**
Software assistance and hire	(19.589)	(4.790)
Customer information	(12.422)	(11.282)
FITD and Resolution fund	(8.753)	(9.561)
Postage and archiving of documents	(6.988)	(5.203)
Property expenses	(5.459)	(4.284)
Transitional services agreement	(3.373)	-
Car fleet management and maintenance	(2.960)	(2.275)
Advertising and inserts	(2.694)	(3.671)
Telephone and data transmission expenses	(2.519)	(1.834)
Employee travel	(2.215)	(1.611)
Securitisation costs	(1.669)	(3.335)
External business trips and transfers	(1.070)	(425)
Other sundry expenses	(2.738)	(2.652)
Total administrative expenses	**(142.901)**	**(120.039)**

Other administrative expenses totalled 142,9 million Euro, up 19,0% from 120,0 million Euro in the prior-year period largely because of the merger of the subsidiary Interbanca. The most significant increase concerned software licensing and support costs.

Section 10 – Net allocations to provisions for risks and charges – Item 160

10.1. Net allocations to provisions for risks and charges: breakdown

Type of expense/Amounts	31.12.2017	31.12.2016
- Net allocations to the provision for risks and charges for legal disputes	(39)	(343)
- Net allocations to the provision for risks and charges for tax dispute	-	133
- Net allocations to the provision for sundry risks and charges	(3.106)	(2.015)
Total	**(3.145)**	**(2.225)**

Net allocations to provisions for risks and charges totalled 3,1 million Euro (compared to 2,2 million Euro in December 2016), and were specifically related to legal disputes referring to the trade receivables segment.

For more details, see Part B, Section 12 Provisions for risks and charges in these Notes.

Section 11 – Net impairment losses/reversals on property, plant and equipment – Item 170

11.1. Net impairment losses on property, plant and equipment: breakdown

	Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	**Net result (a + b - c)**
A.	Property, plant and equipment				
	A.1 Owned	(3.760)	-	-	(3.760)
	- for functional use	(3.760)	-	-	(3.760)
	- for investment purposes	-	-	-	-
	A.2 Acquired under finance leases	-	-	-	-
	- for functional use	-	-	-	-
	- for investment purposes	-	-	-	-
	Total	**(3.760)**	**-**	**-**	**(3.760)**

Section 12 – Net impairment losses/reversals on intangible assets - Item 180

12.1 Net impairment losses on intangible assets: breakdown

	Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	**Net result (a + b - c)**
A.	Intangible assets				
	A.1 Owned	(6.722)	-	-	(6.722)
	- Internally generated	-	-	-	-
	- Other	(6.722)	-	-	(6.722)
	A.2 Acquired under finance leases	-	-	-	-
	Total	**(6.722)**	**-**	**-**	**(6.722)**

Section 13 – Other operating income (expenses) - Item 190

13.1 Other operating expenses: breakdown

Type of expense/Amounts	31.12.2017	31.12.2016
a) Transactions with customers	-	(3.616)
b) Other expenses	(2.442)	(3.079)
Total	**(2.442)**	**(6.695)**

Transactions with customers at the previous year included 2,8 million Euro in expenses incurred for a legal dispute involving the trade receivables segment.

13.2 Other operating income: breakdown

Type of expense/Amounts	31.12.2017	31.12.2016
a) Recovery of third party expenses	4.986	2.348
b) Receivable rental fees	1.009	48
c) Other income	3.999	956
Total	**9.994**	**3.352**

The item “Recovery of expenses charged to third parties” refers to charges on customers for legal and consulting expenses, as well as registration fees and stamp duties recognised under the item “Other administrative expenses”.

Section 17 – Profit (Loss) from sale of investments - Item 240

17.1 Profit (Loss) from sale of investments: breakdown

Income items/Amounts		31.12.2017	31.12.2016
A.	Property, plant and equipment	74	-
	- Profit from sale	74	-
	- Loss from sale	-	-
B.	Other activities	(38)	-
	- Profit from sale	-	-
	- Loss from sale	(38)	-
	Net income	**36**	**-**

Section 18 - Income taxes for the year relating to current operations - Item 260

18.1 Income taxes for the year relating to current operations: breakdown

Income components/Sectors		31.12.2017	31.12.2016
1.	Current tax expense (-)	-	(34.810)
2.	Changes in current taxes of previous years (+/-)	116	(2.227)
3.	Reductions in current taxes for the year (+)	-	-
3.bis	Reductions in current taxes for the year for tax credits as per Italian Law no. 214/2011 (+)	9.404	-
4.	Changes in deferred tax assets (+/-)	(66.094)	(972)
5.	Changes in deferred tax liabilities (+/-)	(3.936)	1.660
6.	Tax expense for the year (-) (-1+/-2+3+3 bis+/-4+/-5)	(60.510)	(36.349)

The 66,1 million Euro change in Deferred Tax Assets recognised through profit or loss:

- included the taxes related to the taxable profit for the year, included in Other Assets as an approximately 51,4 million Euro receivable due from the Parent/Consolidating Company La Scogliera under current tax consolidation arrangements;
- excluded 380,9 million Euro in Deferred Tax Assets recognised as a result of the merger of the subsidiaries Interbanca S.p.A. and IFIS Factoring S.r.l. into Banca IFIS.

18.2 Reconciliation between theoretical tax charges and effective tax charges for the year

Items/Components	31.12.2017
Pre-tax profit (loss) for the year from continuing operations	**215.416**
Corporate tax (IRES) – theoretical tax charge (27,5%)	(59.239)
- effect of non-taxable income and other reductions - permanent	*8.297*
- Effect of non-deductible charges and other increases - permanent	*(1.650)*
- benefits from the application of national tax consolidation	*-*
- non-current corporate tax	*1.688*
- deferred non-current corporate tax	*-*
- effect of other changes	*-*
Corporate tax – Effective tax charges	**(50.904)**
Regional tax on productive activities (IRAP) – theoretical tax charges (5,57%)	(11.999)
- effect of income/charges that are not part of the taxable base	*3.152*
- non-current regional tax on productive activities	*(759)*
- deferred non-current regional tax on productive activities	*-*
Regional tax on productive activities – Effective tax charges	**(9.606)**
Other taxes	**-**
Effective tax charges for the year	**(60.510)**

Section 20 – Other information

There is no further information to be reported in addition to that already included in previous or following sections of these notes to the consolidated financial statements.

Section 21 – Earnings per share

21.1 Average number of ordinary diluted shares

Earnings per share and diluted earnings per share	31.12.2017	31.12.2016
Profit for the period (in thousands of Euro)	**154.906**	**71.722**
Average number of outstanding shares	53.431.314	53.153.178
Average number of potentially dilutive shares	6.145	9.635
Average number of diluted shares	53.425.169	53.143.543
Earnings per share (Units of Euro)	**2,90**	**1,35**
Diluted earnings per share (Units of Euro)	**2,90**	**1,35**

Potentially dilutive shares refer to share-based payments for upfront variable pay, as described in Part I of these Notes.

Part D - Statement of comprehensive income

STATEMENT OF COMPREHENSIVE INCOME

The changes in the values of assets recognised during the year against valuation reserves are reported below.

	Items (in thousands of Euro)	Gross amount	Income tax	Net amount
10.	**Profit (loss) for the period**	**215.416**	**60.510**	**154.906**
	Other comprehensive income not to be reclassified to profit or loss	**91**	**25**	**66**
20	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	91	25	66
50.	Non-current assets under disposal	-	-	-
60.	Share of valuation reserves of equity accounted investments	-	-	-
	Other comprehensive income to be reclassified to profit or loss	**1.972**	**652**	**1.320**
70.	Foreign investment hedges:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
80.	Exchange rate differences:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
90.	Cash flow hedges:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
100.	Available for sale financial assets:	1.972	652	1.320
	a) fair value gains (losses)	3.683	1.218	2.465
	b) reclassification to profit or loss	(1.159)	(383)	(776)
	- impairment losses	-	-	-
	- profit/loss from realisation	(1.159)	(383)	(776)
	c) other changes	(551)	(182)	(369)
110	Non-current assets under disposal:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
120	Share of valuation reserves of equity accounted investments:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	- impairment losses	-	-	-
	- profit/loss from realisation	-	-	-
	c) other changes	-	-	-
130	**Total other comprehensive income**	**2.063**	**677**	**1.386**
140	**Total comprehensive income (item 10+130)**	**217.479**	**61.187**	**156.292**

Part E - Information on risks and risk management policies

The prudential supervisory provisions for banks continue to strengthen the system of rules and incentives that allow to measure more accurately potential risks connected to banking and financial operations as well as maintain internal capital levels more suited to the effective level of risk exposure of each intermediary.

Concerning risk governance, as the Parent, the Bank regularly reviews the strategic guidelines set out in the so-called Risk Appetite Framework. Meanwhile, the second pillar of the provisions includes the ICAAP (Internal Capital Adequacy Assessment Process) 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 (liquidity risk, banking book interest rate risk, concentration risk, etc.), and its adequacy as far as the governance and management of liquidity risk and funding is concerned.

This examination accompanied the preparation and submission to the Supervisory Body of the annual ICAAP and ILAAP Reports as at 31 December 2016.

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 - Banca IFIS has set up an Internal Control System that aims to guarantee a reliable and sustainable generation of value in a context of sensible risk control and taking, so as to protect the Bank's capital adequacy as well as its financial position and performance. This document has been updated during 2017 also to reflect Banca IFIS's new organisational structure following the mergers of the subsidiaries IFIS Factoring S.r.l. and Interbanca S.p.A. into Banca IFIS.

Banca IFIS's internal control system consists of a series of rules, functions, structures, resources, processes, and procedures aimed at ensuring the following goals are achieved consistently with the principle of sound and prudent management:

- executing business strategies and policies;
- containing risk within the limits set out in the Bank's Risk Appetite Framework ("RAF");
- safeguarding the value of assets and protecting the Bank from losses;
- maintaining effective and efficient business processes;
- ensuring the reliability and security of corporate information and IT procedures;
- preventing the risk that the Bank might become involved, including involuntarily, in unlawful activities (and specifically those associated with money laundering, usury, and terrorist financing);
- ensuring operations comply with the law and supervisory regulations as well as internal policies, rules and procedures.

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. The operational structures are primarily responsible for the risk management process:

as part of their day-to-day operations, they shall identify, measure or assess, monitor, mitigate, and report the risks arising from ordinary operations in accordance with the risk management process; they shall comply with the operational limits assigned to them in accordance with the risk objectives and the procedures that form part of the risk management process;

- risk and compliance controls (so-called) “second line of defence”) are intended to ensure the risk management process is correctly implemented in accordance with the operational limits assigned to the various functions, and that business operations comply with regulations—including corporate governance rules;
- internal auditing (so-called “third line of defence”) is aimed at identifying breaches of procedures and regulations as well as regularly assessing the comprehensiveness, adequacy, functionality (in terms of both efficiency and effectiveness), and reliability of the internal control and IT systems on a regular basis based on the nature and extent of the risks.

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 16 March 2017 and published on the Bank’s Internet website in the Corporate Governance section.

This Part provides information on the following risk profiles, the relevant management and hedging policies implemented by the Bank, and trading in derivative financial instruments:

a) credit risk;

b) market risks:

- interest rate risk,
- price risk,
- currency risk,

c) liquidity risk;

d) operational risks.

Section 1 - Credit risk

Qualitative information

1. *General aspects.*

The Bank 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)
- Unsecured loans to retail entrepreneurs
- Purchasing and managing non-performing loan portfolios
- Purchasing and managing tax receivables
- Market for securities and equity investments

Specifically:

- 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;
- corporate lending and structured finance operations focus on offering secured and unsecured products to support companies operating in Italy 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. The clients of this segment are usually corporations;
- the acquisition of distressed retail loans or non-performing loans, mainly from retail customers, refers to the set of actions aimed at collecting (through both judicial and non-judicial actions) the distressed loans acquired;
- the operations of the tax receivables segment consist in managing receipts of direct and indirect taxes as well as collecting tax receivables arising mainly from insolvency proceedings;
- Besides maintaining a position in the market for investments in debt securities, which mainly consists of Italian government bonds, the Bank also trades to a lesser extent in equity markets, investing in non-controlling interests in unlisted companies to support their growth, in the market for mutual funds, and in third-party securitisation transactions.

Given the particular business of the Bank, 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 Banca IFIS, 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).

2. Credit risk management policies.

2.1 Organisational aspects

Overall, despite some differences deriving from the various products/portfolios, the lending process follows a shared organisational approach with various operational stages and roles, responsibilities, and controls at different levels. During 2017, in accordance with the new organisational structure of Banca IFIS resulting from the mergers of IFIS Factoring S.r.l. and Interbanca S.p.A. into Banca IFIS, the Bank reorganised the lending process, creating new Business Units dedicated to different activities.

Therefore, the organisational structure consists of the following Business Units:

- ✓ **Banca IFIS Impresa Italia**, dedicated to factoring and corporate lending services for Italian businesses*;*
- ✓ **Banca IFIS Impresa International**, dedicated to factoring services for Italian exporters as well as foreign companies;
- ✓ **Pharma**, dedicated to factoring services for local health agencies and hospitals;
- ✓ **Pharmacies**, the organisational unit that provides financing services for Italian pharmacies;
- ✓ **Tax Receivables**, the organisational unit dedicated to purchasing tax receivables, mainly from companies in insolvency proceedings or liquidation;
- ✓ **Structured Finance**, the organisational unit dedicated to developing, assessing and managing specialist financing transactions to support the growth of business customers;
- ✓ **Special Situations**, the organisational unit responsible for identifying and assessing new opportunities for lending to Italian companies that, despite reporting positive operating profits, have gone through or are recovering from financial distress;
- ✓ **Equity Investment**, the organisational unit responsible for conducting due diligence on investments in performing non-financial companies and intermediaries;
- ✓ **Non Performing Loans**, the organisational unit dedicated to purchasing, servicing and selling distressed loan portfolios—mainly retail unsecured ones—originated by financial institutions and banks.

Each organisational unit develops and manages business relationships and opportunities in its respective segment by working together with the Branches located throughout Italy, in accordance with the strategic guidelines and objectives set by the Board of Directors.

As for the **lending process**, each business unit identifies the opportunities for new transactions in accordance with the lending policies in force and the defined risk appetite; in this context, it examines loan applications and formalises a proposal to be submitted to the competent decision-making bodies, ensuring lending policies and controls are implemented correctly and analysing the applicant's creditworthiness in accordance with existing internal regulations.

The proposals to grant lines of credit and/or purchase receivables are submitted to the competent decision-making bodies, which, based on the powers delegated to them, express their decision—which always refers to the overall exposure towards the counterparty (or any related groups).

Banca IFIS's Branches have no independent decision-making power for the purposes of assuming credit risk; Branches manage ordinary operations with customers under the constant monitoring of the central structures in accordance with the limits and procedures established by the Head Office’s competent bodies.

The line of credit is then **finalised**: the Bank sends customers a commitment letter to inform them that their application has been approved and specifying the terms of the credit facility, finalises the agreement, obtains guarantees, if any, and grants the credit line. Throughout these stages, the business units are aided by specific supporting units responsible for preparing the agreement in accordance with the terms of the approval as well ensuring all activities leading to the granting of the credit facility are properly carried out.

The process for the acquisition of non-performing loan portfolios consists of similar stages that can be summarised as follows:

- ✓ origination: the Bank identifies the counterparties from which it plans to purchase the portfolios and assesses the economic expediency of said transactions;
- ✓ due diligence, as part of which highly-skilled analysts assess the quality 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;
- ✓ approval: this stage includes the preparation of the file, the decision-making process, and the implementation of the approval by the competent decision-making body;
- ✓ finalisation: the parties prepare and finalise the purchase agreement, and the relevant consideration is paid.

The operational management of receivables, carried out for performing customers, mainly consists in the **monitoring** activities conducted by specific units within the individual business units. These are responsible for constantly and pro-actively reviewing borrowers (first line of defence); in 2017, the Bank set up a supporting unit responsible for constantly monitoring credit positions with the aid of the reference manager and/or the Bank's evaluation structures in order to identify counterparties with performance problems as well as any changes compared to the assessments carried out during the underwriting stage or the most recent review of the position. The goal is to anticipate problems and provide adequate reporting to the competent decision-making bodies. If the credit position is in an objective situation of distress, it is transferred to specific functions specialised in managing non-performing exposures. The monitoring unit also reviews the position on a regular basis to ensure the mitigation actions taken by the managers within the business units are correctly implemented.

Collection operations for receivables deriving from purchases of distressed retail loans are the responsibility of resources within the Non-Performing Loans business unit as well as of a broad and proven network of debt collection companies and financial agents operating across Italy. The Non-Performing Loans business unit oversees the judicial debt collection process, working with the law firms hired by the Bank and constantly monitoring their work to evaluate their performance and ensure they act fairly. Finally, it assesses the expediency of selling non-performing loan portfolios, submitting any proposals for approval to the competent decision-making bodies, consistently with the BU's profitability targets and after analysing the relevant accounting, reporting, legal, and operational impacts. To do so, it relies on the in-depth inquiries conducted by the Bank's competent business functions within their area of expertise.

2.2 Management, measurement and control systems

Credit risk is constantly controlled by operational procedures that can rapidly individuate anomalies.

Over time, Banca IFIS has implemented instruments and procedures allowing to specifically evaluate and monitor risks for each type of customer and product.

If the applicant passes the evaluation process and is granted a credit facility, the Group starts **monitoring** the credit risk on an ongoing basis, ensuring repayments are made on time and the relationship remains regular, reviewing the information that the Italian banking system reports to the Central Credit Register or select databases as well as the reputational profile, and examining the underlying causes for each one of these aspects.

Concerning portfolio monitoring operations, as previously mentioned, loans to customers are monitored by specific units within the mentioned business units that are responsible for constantly and proactively reviewing borrowers (**first line of defence**); a specific organisational unit conducts additional monitoring at a centralised level using performance analysis models developed by the Bank's Risk Management function to identify any potential issues through specific early warning indicators.

Credit risk exposures to Italian companies are assigned an internal rating based on a model developed in-house that was updated in December 2017.

Starting from January 2018, the new rules for the classification and measurement of financial assets as per the new accounting standard IFRS 9 will become effective.

Risk Management plays a crucial role as part of the **second line of defence** in measuring and monitoring operations.

Concerning credit risks, the Risk Management function:

- oversees, monitors and assesses credit risks, carrying out audits and analysis in accordance with the relevant guidelines; specifically, it: i) assesses credit quality, ensuring compliance with lending strategies and guidelines by monitoring credit risk indicators on an ongoing basis; ii) constantly monitors the exposure to credit risk as well as compliance with the operational limits assigned to the different structures with reference to the assumption of credit risk; iii) ensures, through second line of defence controls, that the performance of individual exposures, and specifically non-performing ones, is properly monitored, and assesses the consistency of the classifications as well as the level of provisions; iv) monitors the exposure to concentration risk as well as the performance of Major Exposures;
- performs quantitative analyses to support the business units in using risk measures;
- oversees the supervision of the value of collateral as well as personal and financial guarantees.

Banca IFIS pays particular attention to the concentration of credit risks. 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 Banca IFIS are systematically monitored.

Concerning the credit risk associated with bond and equity investments, the Bank constantly monitors their credit quality, and Banca IFIS's Board of Directors and Top Management receive regular reports on this matter.

In the context of Basel 3 principles for calculating capital requirements against first-pillar credit risks, Banca IFIS chose to adopt the Standardised Approach. To calculate capital requirements for single-name concentration risk, which falls under second-pillar risks, the Bank adopts the Granularity Adjustment method as per Annex B, Title III of Circular no. 285 of 17 December 2013, with a capital add-on calculated using the ABI method to measure geo-sectoral concentration risk.

2.3 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 Bank by obtaining additional surety bonds from the shareholders or directors of the invoice seller.

As for the account debtors in factoring relationships, wherever the Bank believes that the elements available to assess the account debtor do not allow to properly measure/assume the related credit risk, or the proposed amount of risk exceeds the limits identified during the debtor's assessment, the Bank adequately hedges the risk of default of the account debtor. Guarantees issued by correspondent factors and/or insurance policies underwritten with specialised operators are the main hedge against non-domestic account debtors in non-recourse operations.

As for 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. In the current year, the Bank has activated a new subsidised financing service for SMEs with the support of the Italian Ministry of Economic Development's Guarantee Fund. The goal is twofold: allow the company to obtain financing without pledging additional collateral (and therefore without paying for bank sureties or insurance policies) to the extent of the Fund's guarantee, and enable the Bank to mitigate the credit risk for the guaranteed exposure.

As for operations concerning distressed loans and purchases of tax receivables arising from insolvency proceedings, as well as the relevant business model, generally no action is taken to hedge credit risks.

In 2017, the Bank reviewed the processes for assessing the eligibility of mortgage guarantees on real estate assets, allowing to activate the mitigation mechanisms set out in the relevant prudential regulations.

2.4 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 supporting unit 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.

Concerning Lending, the supporting Workout & Credit Recovery function 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 supporting Legal function if required.
- taking any non-judicial action considered necessary to collect the debt, including selling and restructuring the loans.

The Bank regularly updates the value of the mortgage based on independent appraisals adjusted to account for any losses arising from the realisation.

Non-performing exposures include the receivables acquired by the Non-Performing Loans business unit at a significant discount to their par value; the receipts, which usually exceed the consideration paid, minimise the risk of losses.

As for non-performing exposures purchased and not yet collected, the overall outstanding book value of the portfolio was approximately 13.075 million Euro. At the time of purchase, the historical book value of these receivables was approximately 13.303 million Euro, and they were acquired for approximately 651 million Euro, i.e. an average price equal to approximately 4,9% of the historical book value. In 2017, approximately 4.745 million Euro were acquired for approximately 240 million Euro, i.e. an average price equal to 5,05%. 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 overall at the end of 2017 there were approximately 27 million Euro in outstanding bills of exchange (the amount does not include, for instance, nearly 465 million Euro in outstanding settlement plans).

In 2017, the bank completed seven sales of portfolios to leading players whose business is purchasing NPLs. Overall, Banca IFIS sold receivables with an outstanding book value of nearly 1,146 million Euro, consisting of approximately 133 thousand positions, for an overall consideration of about 73 million Euro.

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.

Quantitative information

A. Credit quality

A.1 Non-performing and performing loans: amounts, impairment losses, trend, economic and geographical distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Available for sale financial assets	-	-	-	-	805.161	805.161
2. Held to maturity financial assets	-	-	-	-	-	-
3. Due from banks	-	-	-	-	1.546.776	1.546.776
4. Loans to customers	588.720	491.773	107.386	253.549	4.342.631	5.784.059
5. Financial assets at fair value	-	-	-	-	-	-
6. Financial assets under disposal	-	-	-	-	-	-
Total 31.12.2017	**588.720**	**491.773**	**107.386**	**253.549**	**6.342.631**	**8.135.996**
Total 31.12.2016	**352.308**	**292.600**	**101.885**	**303.751**	**5.535.822**	**6.586.366**

Equity securities and UCITS units are not included in this table.

A.1.2 Distribution of exposures by portfolio and credit quality (gross and net amounts)

Portfolio/Quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Specific impairment losses/reversals	Net exposure	Gross exposure	Portfolio impairment losses/reversals	Net exposure	
1. Available for sale financial assets	15.078	15.078	-	805.161	-	805.161	805.161
2. Held to maturity financial assets	-	-	-	-	-	-	-
3. Due from banks	-	-	-	1.546.776	-	1.546.776	1.546.776
4. Loans to customers	2.021.545	833.666	1.187.879	4.627.626	31.446	4.596.180	5.784.059
5. Financial assets at fair value	-	-	-	X	X	-	-
6. Financial assets under disposal	-	-	-	-	-	-	-
Total 31.12.2017	**2.036.623**	**848.744**	**1.187.879**	**6.979.563**	**31.446**	**6.948.117**	**8.135.996**
Total 31.12.2016	**1.015.211**	**268.418**	**746.793**	**5.848.928**	**9.355**	**5.839.573**	**6.586.365**

Equity securities and UCITS units are not included in this table.

In compliance with paragraph 37, letter a) of IFRS 7 “Financial Instruments: Disclosures”, here below is the maturity analysis for past due amounts relating to performing loans – Other loans.

(in thousands of Euro)	**31.12.2017**	**31.12.2016**
Past due up to 3 months	23.356	104.091
Past due > 3 months < 6 months	36.945	32.365
Past due > 6 months < 1 year	93.864	45.489
Past due > 1 year	99.384	121.805
Total	**253.549**	**303.750**

Portfolio/Quality	Activities with clearly low credit quality		Other activities
	Minusvalenze cumulate	Net exposure	Net exposure
1. Financial assets held for trading	3.286	3.173	34.383
2. Hedging derivatives	-	-	-
Total 31.12.2017	**3.286**	**3.173**	**34.383**
Total 31.12.2016	**-**	**-**	**487**

A.1.3 On- and off-balance-sheet exposures to banks: gross and net amounts and past due buckets

Types of loans/ amounts	Gross exposure					Specific impairment losses/reversals	Portfolio impairment losses/reversals	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	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
) Non-performing past due exposures	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Performing past due exposures	X	X	X	X	-	X	-	-
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other performing exposures	X	X	X	X	1.546.776	X	-	1.546.776
- of which: forborne exposures	X	X	X	X	-	X	-	-
Total A	**-**	**-**	**-**	**-**	**1.546.776**	**-**	**-**	**1.546.776**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	17.386	X	-	17.386
Total B	**-**	**-**	**-**	**-**	**17.386**	**-**	**-**	**17.386**
TOTAL A+B	**-**	**-**	**-**	**-**	**1.564.162**	**-**	**-**	**1.564.162**

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.).

A.1.6 On- and off-balance-sheet exposures to customers: gross and net amounts and past due buckets

Types of loans/amounts	Gross exposure					Specific impairment losses/reversals	Portfolio impairment losses/reversals	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	534.111	4.779	15.200	708.355	X	673.725	X	588.720
- of which: forborne exposures	54.798	-	388	45.223	X	40.671	X	59.738
b) Unlikely to pay	199.414	23.645	57.779	381.231	X	170.296	X	491.773
- of which: forborne exposures	78.449	424	2.441	169.231	X	103.887	X	146.658
) Non-performing past due exposures	80.392	14.497	13.213	4.007	X	4.723	X	107.386
- of which: forborne exposures	609	4	11	47	X	24	X	647
d) Performing past due exposures	X	X	X	X	254.292	X	743	253.549
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other performing exposures	X	X	X	X	5.178.495	X	30.703	5.147.792
- of which: forborne exposures	X	X	X	X	45.024	X	1.039	43.985
Total A	**813.917**	**42.921**	**86.192**	**1.093.593**	**5.432.787**	**848.744**	**31.446**	**6.589.220**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	67.102	-	-	-	X	15.544	X	51.558
b) Performing	X	X	X	X	420.192	X	-	420.192
Total B	**67.102**	**-**	**-**	**-**	**420.192**	**15.544**	**-**	**471.750**
TOTAL A+B	**881.019**	**42.921**	**86.192**	**1.093.593**	**5.852.979**	**864.288**	**31.446**	**7.060.970**

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

A.1.7 On-balance-sheet exposures to customers: trends in gross non-performing exposures

Type/Categories	Bad loans	Unlikely to pay	Past due loans
A. Opening gross exposure	**593.677**	**318.323**	**103.211**
- of which: transferred and not derecognised	-	-	-
B. Increases	**1.000.213**	**709.114**	**194.873**
B.1 inflows from performing loans	2.732	96.848	171.514
B.2 transfers from other non-performing loan categories	65.651	76.968	484
B.3 other increases	931.830	535.298	22.875
C. Reductions	**331.445**	**365.368**	**185.974**
C.1 outflows to performing loans	427	21.290	62.131
C.3 derecognitions	32.624	52.776	-
C.3 collections	93.634	122.288	110.244
C.4 collections from sales	18.944	14.435	-
C.5 losses on disposal	-	-	-
C.4 transfers to other non-performing loan categories	68.494	61.995	12.614
C.5 other reductions	117.322	92.584	985
D. Closing gross exposure	**1.262.445**	**662.069**	**112.110**
- of which: transferred and not derecognised	-	-	-

Total net **non-performing exposures** amounted to 1.188,0 million Euro, up 59,1% from 746,8 million Euro in December 2016 as a result of both the acquisitions the NPL Area finalised during 2017 and the contribution from the merger of the subsidiary Interbanca S.p.A.. The net non-performing exposures of the Corporate Banking segment amounted to 168,8 million Euro, with a coverage ratio of 75,6%.

Total **bad loans** to customers at 31 December 2017, net of impairment losses, totalled 588,7 million Euro, against 352,3 million Euro at 31 December 2016 (+67,1%). The change was essentially attributable to the purchases made by the NPL Area during the year as well as the merger of Interbanca, which contributed 28,9 million Euro in net bad loans.

In December 2017, **unlikely to pay** totalled 491,8 million Euro, compared to 292,6 million Euro in 2016 (+68,1%), including 270,1 million Euro related to the NPL Area (+11,8 million Euro from the end of 2016). The net unlikely to pay deriving from the merger of Interbanca amounted to 130,0 million Euro.

At 31 December 2017, **net non-performing past due exposures** totalled 107,6 million Euro, compared to 101,9 million Euro in December 2016 (+5,6%), including 0,9 million Euro from the merger of the subsidiary Interbanca.

A.1.7bis On-balance-sheet exposures to customers: trends in gross forborne exposures broken down by credit quality

Type/Categories	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening gross exposure	**126.506**	**7.005**
- of which: transferred and not derecognised	-	-
B. Increases	**294.970**	**68.401**
B.1 inflows from non-forborne performing exposures	29.412	-
B.2 inflows from forborne performing exposures	3.440	28.011
B.3 inflows from non-performing forborne exposure	-	2.950
B.4 other increases	262.118	37.440
C. Reductions	**69.851**	**30.382**
B.1 outflows to non-forborne performing exposures	28.011	16.302
B.2 outflows to forborne performing exposures	2.950	-
B.3 outflows to non-performing forborne exposure	7.227	1.530
C.4 derecognitions	-	-
C.5 collections	13.410	7.032
C.6 collections from sales	-	-
C.7 losses on disposal	-	-
C.8 other reductions	18.253	5.518
D. Closing gross exposure	**351.625**	**45.024**
- of which: transferred and not derecognised	-	-

A.1.8 On-balance-sheet exposures to customers: trends in overall impairment losses/reversals

Type/Categories	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	Of which forborne exposures	Total	Of which forborne exposures	Total	Of which forborne exposures
A. Opening balance of total impairment losses/ reversals of impairment losses	**241.368**	**9.338**	**25.724**	**8.500**	**1.326**	**-**
- of which: transferred and not derecognised	-	-	-	-	-	-
B. Increases	**526.205**	**57.759**	**252.536**	**110.686**	**3.418**	**27**
B.1 Impairment losses	23.761	4.345	40.727	5.720	696	9
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other non-performing loan categories	12.155	-	68.078	21.150	-	-
B.4 other increases	490.289	53.414	143.731	83.816	2.722	18
C. Reductions	**93.848**	**26.426**	**107.964**	**15.299**	**21**	**3**
C.1 impairment reversals from measurement	1.339	532	-27,248	8.622	5	3
C.2 impairment reversals from collection	8.163	-	-9,983	6.677	3	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 derecognitions	16.268	-	-40,765	-	-	-
C.5 transfers to other non-performing loan categories	68.078	21.150	-12,155	-	-	-
C.6 other reductions	-	4.744	-17,813	-	13	-
D. Closing balance of total impairment losses/ reversals of impairment losses	**673.725**	**40.671**	**170.296**	**103.887**	**4.723**	**24**
- of which: transferred and not derecognised	-	-	-	-	-	-

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of on- and off-balance-sheet exposures by class of external rating

For the purposes of calculating capital requirements against credit risk, Banca IFIS uses the external credit assessment institution (ECAI) Fitch Ratings exclusively for the positions recognised under “Exposures to Central Governments and Central Banks”; no external ratings are used for the other asset classes. Considering the composition of the assets, external ratings are used exclusively for the portfolio of government bonds.

A.2.2 Distribution of on- and off-balance-sheet exposures by class of internal rating

The Bank does not use internal ratings for the purposes of calculating capital absorption. Banca IFIS has implemented an Internal Rating System for domestic businesses, which was developed using proprietary databases and consists of:

- a “financial” module, to assess the company's operating/financial soundness;
- a “central credit register” module, presenting the evolution of counterparty risk vis-à-vis the banking industry;
- an “internal performance” module, monitoring the performance of the relationships between the counterparty and the Bank.

A.3 Distribution of guaranteed exposures by guarantee type

A.3.2 Guaranteed exposures to customers

	Net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Unsecured loans				
							Other derivatives								
		Property Mortgages	Property Finance Leases	Securities	Other collateral guar- antees	CLN	Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	
1. Guaranteed on-balance-sheet exposures:	**964.892**	**423.256**	**-**	**11.388**	**99.359**	**-**	**-**	**-**	**-**	**-**	**7.444**	**39**	**214**	**227.381**	**769.081**
1.1 totally guaranteed	621.946	383.295	-	6.764	57.441	-	-	-	-	-	1.885	39	214	170.858	620.496
- of which non-performing	117.648	88.217	-	120	3.436	-	-	-	-	-	-	39	-	25.836	117.648
1.2 partially guaranteed	342.946	39.961	-	4.624	41.918	-	-	-	-	-	5.559	-	-	56.523	148.585
- of which non-performing	58.111	22.220	-	315	4.590	-	-	-	-	-	391	-	-	2.367	29.883
2. Guaranteed off-balance-sheet exposures:	**12.495**	**1.224**	**-**	**3.142**	**42**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.862**	**6.270**
2.1 totally guaranteed	5.194	1.178	-	2.134	21	-	-	-	-	-	-	-	-	1.862	5.195
- of which non-performing	1.854	-	-	-	-	-	-	-	-	-	-	-	-	1.854	1.854
2.2 partially guaranteed	7.301	46	-	1.008	21	-	-	-	-	-	-	-	-	-	1.075
- of which non-performing	1.089	-	-	-	21	-	-	-	-	-	-	-	-	-	21

B. Concentration and distribution of exposures

B.1 Breakdown of on- and off-balance sheet exposures to customers by category (carrying amounts)

Exposures/counterparties	Governments			Other public entities			Financial institutions			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal
A. On-balance-sheet exposures																		
A.1 Bad loans	-	-	X	4.445	3.306	X	1.579	17.232	X	1	-	X	102.652	642.447	X	480.043	10.740	X
- of which forborne exposures			X			X	890	8.444	X			X	6.103	32.226	X	52.745	1	X
A.2 Unlikely to pay	490	130	X	2.683	454	X	35.866	12.100	X	-	-	X	202.912	155.731	X	249.822	1.881	X
- of which forborne exposures			X	1.931	454	X	2.232	9.938	X			X	87.546	93.491	X	54.949	4	X
A.3 Non-performing past due exposures	14.032	2.709	X	32.600	9	X	-	-	X	-	-	X	54.937	1.334	X	5.817	671	X
- of which forborne exposures			X			X			X			X	635	15	X	12	9	X
A.4 Performing exposures	550.109	X	18	621.343	X	84	562.857	X	1.890	16	X	-	2.928.703	X	28.955	62.190	X	499
- of which forborne exposures		X		50	X			X			X		43.923	X	1.039	12	X	
Total A	**564.631**	**2.839**	**18**	**661.071**	**3.769**	**84**	**600.302**	**29.332**	**1.890**	**17**	**-**	**-**	**3.289.204**	**799.512**	**28.955**	**797.872**	**13.292**	**499**
B. Off-balance-sheet exposures																		
B.1 Bad loans	-	-	X	-	-	X	-	-	X	-	-	X	9.996	-	X	12.527	-	X
B.2 Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	21.939	15.544	X	1	-	X
B.3 Other non-performing exposures	-	-	X	-	-	X	1.100	-	X	-	-	X	5.995	-	X	-	-	X
A.4 Performing exposures	-	X	-	-	X	-	45.793	X	-	351	X	-	374.017	X	-	31	X	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**	**46.893**	**-**	**-**	**351**	**-**	**-**	**411.947**	**15.544**	**-**	**12.559**	**-**	**-**
Total (A+B) 31.12.2017	**564.631**	**2.839**	**18**	**661.071**	**3.769**	**84**	**647.150**	**29.332**	**1.890**	**368**	**-**	**-**	**3.701.151**	**815.056**	**29.994**	**810.431**	**13.292**	**499**
Total (A+B) 31.12.2016	**427.361**	**149**	**2**	**842.724**	**3.420**	**108**	**878.914**	**17.778**	**25**	**56**	**-**	**-**	**2.463.771**	**254.264**	**9.064**	**579.522**	**10.645**	**156**

B.2 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	588.578	668.526	126	3.650	8	-	3	-	5	1.549
A.2 Unlikely to pay	486.670	162.455	5.097	5.875	1	1.966	1	-	4	-
A.3 Non-performing past due expo-	96.235	4.460	10.817	255	334	8	-	-	-	-
A.4 Performing exposures	5.122.781	28.140	200.455	1.787	60.184	1.334	17.620	182	301	3
Total A	**6.294.264**	**863.581**	**216.495**	**11.567**	**60.527**	**3.308**	**17.624**	**182**	**310**	**1.552**
B. Off-balance-sheet exposures										
B.1 Bad loans	22.523	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	21.940	2.253	-	13.291	-	-	-	-	-	-
B.3 Other non-performing exposures	5.957	-	1.138	-	-	-	-	-	-	-
A.4 Performing exposures	371.446	-	48.237	-	-	-	484	-	25	-
Total B	**421.866**	**2.253**	**49.375**	**13.291**	**-**	**-**	**484**	**-**	**25**	**-**
Total (A+B) 31.12.2017	**6.716.130**	**865.834**	**265.870**	**24.858**	**60.527**	**3.308**	**18.108**	**182**	**335**	**1.552**
Total (A+B) 31.12.2016	**4.956.197**	**274.010**	**225.763**	**3.631**	**297**	**6**	**14.678**	**123**	**713**	**3**

B.3 Geographical breakdown of cash and off-balance sheet exposures to banks (carrying amounts)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Impairment losses/rever-sal	Net exposure	Impairment losses/rever-sal	Net exposure	Impairment losses/rever-sal	Net exposure	Impairment losses/rever-sal	Net exposure	Impairment losses/rever-sal
A. On-balance-sheet exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due expo-	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	1.518.653	-	14.123	-	14.000	-	-	-	-	-
Total A	**1.518.653**	**-**	**14.123**	**-**	**14.000**	**-**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing expo-	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	5.287	-	1.002	-	11.097	-	-	-	-	-
Total B	**5.287**	**-**	**1.002**	**-**	**11.097**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2017	**1.523.940**	**-**	**15.125**	**-**	**25.097**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2016	**1.848.295**	**-**	**130**	**-**	**342**	**-**	**-**	**-**	**-**	**-**

B.4 Major exposures

		31.12.2017	31.12.2016
a)	Carrying amount	3.504.943	3.599.257
b)	Weighted amount	418.922	279.448
c)	Number	3	11

The overall weighted amount of Major Exposures at 31 December 2017 largely consisted of 238,3 million Euro in exposures to investments and 176,2 million Euro in tax assets.

Disclosure regarding Sovereign Debt

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

In compliance with the provisions of the aforementioned communication, it should be noted that at 31 December 2017 the book value of exposures to sovereign debt represented by debt securities was 427,8 million Euro, and consisted entirely of Italian government bonds; these securities, with a par value of 423 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 62 months.

The fair values used to measure the exposures to sovereign debt at 31 December 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 individual statement of financial position.

Pursuant to the CONSOB Communication, besides the exposure to sovereign debt, it is also necessary to consider receivables due from the Italian National Administration, which at 31 December 2017 totalled 797,8 million, including 661 million Euro due from "other public bodies" and 136,8 million Euro due from the "central government" (of which 79,6 million Euro relating to tax receivables).

C. Securitisation transactions

C.1 Securitisation transactions

Qualitative information

This section describes the Bank's exposures towards securitisation transactions in which it is involved as originator, sponsor, or investor.

The Bank has a "Securitisation management policy" that governs the management of securitisation transactions in which it is involved as "investor" (i.e. the buyer of the notes) or "sponsor" (i.e. the party that establishes the transaction). For each potential case, the policy sets out the responsibilities of the organisational units and bodies with reference to both the due diligence process and the ongoing monitoring of the transaction.

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. At 31 December 2017, the amount subscribed for by the Bank reached the maximum limit of 150 million Euro. 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.

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.

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 vehicle were recognised under “due to customers”;
- 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 “due to customers”;
- the arrangement fees were fully recognised in profit or loss in the year in which the programme was launched.

At 31 December 2017, the interest recognised in profit or loss amounted to 9,7 million Euro (at a 1,15% rate).

Indigo Lease securitisation

Since December 2016, the subsidiary IFIS Leasing S.p.A. has been involved in a securitisation transaction, which started as static with a portfolio of performing loans totalling 489 million Euro and then became revolving in July 2017, with an additional sale of 182 million Euro worth of receivables.

The revolving securitisation (rated by Moody's and DBRS) has a target amount of 532 million Euro. The overall portfolio transferred to the special purpose vehicle Indigo Lease S.r.l. at 31 December 2017 totalled 768 million Euro. The repayments are connected to the receipts from the transportation leasing receivables portfolio. Since February 2017, Banca IFIS has been holding the class A notes (senior notes that received an Aa3 (sf) rating from Moody's) issued by Indigo Lease S.r.l., totalling 378 million Euro, while all class B notes (unrated junior notes) were purchased by IFIS Leasing for 170 million Euro.

Third-party securitisation transactions

At 31 December 2017, Banca IFIS held 33,6 million Euro in notes deriving from third-party securitisation transactions categorised within the banking book portfolio. Banca IFIS has subscribed for 32,9 million Euro worth of senior notes and 0,8 million Euro worth of junior notes.

Specifically, these derive from three separate third-party securitisation transactions whose underlying assets were, respectively, a non-performing secured loan portfolio, a speculative *mutuo fondiario* (a type of mortgage loan), and a portfolio of minibonds issued by Italian listed companies.

Here below are the main characteristics of the transactions outstanding at the reporting date:

- “San Marco” Securitisation: this is a securitisation of a non-performing secured portfolio of mortgage loans with an overall par value of approximately 160 million Euro and maturity in September 2022. Banca IFIS participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior tranches (24,8 million Euro) and 5% of the junior tranches (0,7 million Euro), which were issued by the special purpose vehicle Tiberio SPV S.r.l.;

- “Cinque V” Securitisation: launched in late November 2017, this securitisation through the special purpose vehicle Ballade SPV S.r.l. only has a *mutuo fondiario* classified as bad loan as the underlying asset, with a par value of 20 million Euro and maturity in October 2020. Also in this case, Banca IFIS participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior notes (2,0 million Euro) and 5% of the junior notes (44 thousand Euro);
- “Elite Basket Bond (EBB)” Securitisation: the special purpose vehicle EBB S.r.l. issued Asset Backed Securities (ABS) at a price equal to the par value, amounting to 122 million Euro, in a single tranche with maturity in December 2027 and a Basket of minibonds issued by 11 Italian listed companies as the underlying asset. These notes are unsecured senior bonds but carry a Credit Enhancement equal to 15% of the transaction's overall amount (24 million Euro), to be used in the event the issuers default on interest and/or principal payments on the minibonds. Banca IFIS participates in this transaction only as underwriter, subscribing for 6,0 million Euro worth of notes of the above tranche.

Quantitative information

C.1. Exposures from the main “own” securitisations broken down by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/reversal	Carrying amount	Impairment losses/reversal	Carrying amount	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal
A. Fully derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	**-**	**-**	**-**	**-**	**124.757**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- loans to customers	-	-	-	-	124.757	-	-	-	-	-	-	-	-	-	-	-	-	-

C.2 Exposures from the main “third-party” securitisations broken down by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/reversal	Carrying amount	Impairment losses/reversal	Carrying amount	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal
Secured and unsecured loans	26.846	-	-	-	754	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasing financing	377.267	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities	6.013	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**410.126**	**-**	**-**	**-**	**754**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

C.3 Special purpose vehicle for the securitisation

Securitisation name/ special purpose vehicle	Registered office	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt securities	Others	Senior	Mezzanine	Junior
IFIS ABCP Programme S.r.l.	Conegliano (Province of Treviso)	100%	1.566.291	-	171.151	1.000.000	-	-

E. Disposals

A. Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised refer to securitised receivables.

Quantitative information

E.1 Financial assets sold and not derecognised: book value and full value

Types/ Portfolio	Financial assets held for trading			Financial assets at fair value			Available for sale financial assets			Held to maturity financial assets			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.17	31.12.16
A. On-balance-sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**699**	**-**	**-**	**220.220**	**-**	**-**	**220.919**	**404.082**
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	323.033
2. Equity securities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	699	-	-	220.220	-	-	220.919	81.049
B. Derivatives	**-**	**-**	**-**	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	**-**	-
Total 31.12.2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**699**	**-**	**-**	**220.220**	**-**	**-**	**220.919**	**X**
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*1.736*	-	-	*1.736*	*X*
Total 31.12.2016	**-**	**-**	**-**	**-**	**-**	**-**	**323.033**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**81.049**	**-**	**-**	**X**	**404.082**
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*1.039*	-	-	*X*	*1.039*

Key:
A= Financial assets sold and fully recognised (book value)
B= Financial assets sold and partly recognised (book value)
C= Financial assets sold and partly recognised (full value)

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E.2 Financial liabilities for financial assets sold and not derecognised: book value

Liabilities/Assets	Financial assets held for trading	Financial assets at fair value	Available for sale financial assets	Held to maturity financial assets	Due from banks	Loans to customers	Total
1. Due to customers	**-**	**-**	**-**	**-**	**-**	**95.463**	**95.463**
a) for fully recognised assets	-	-	-	-	-	95.463	95.463
a) for partly recognised assets	-	-	-	-	-	-	-
2. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) for fully recognised assets	-	-	-	-	-	-	-
a) for partly recognised assets	-	-	-	-	-	-	-
Total 31.12.2017	**-**	**-**	**-**	**-**	**-**	**95.463**	**95.463**
Total 31.12.2016	**-**	**-**	**321.200**	**-**	**-**	**46.295**	**367.495**

Section 2 - Market risks

Generally, as Banca IFIS does not usually trade in financial instruments, its financial risk profile refers mainly to the banking book. 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 2017, the Group recognised currency swaps with a mark-to-market value positive to the tune of 2,808 thousand Euro and negative to the tune of 184 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.

At the end of 2017, in line with internal policies forbidding any kind of trading for speculative purposes, the trading book consisted entirely of residual transactions from the Corporate Desk operations of the former Interbanca S.p.A. that were discontinued in 2009, as part of 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 Bank assumes a position opposite to the one sold to corporate clients with independent market counterparties.

2.1 Interest rate risk and price risk – supervisory trading book

Qualitative information

Banca IFIS 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 Corporate Desk transactions, and all outstanding transactions are hedged with “back to back” trades.

Quantitative information

1. Supervisory trading book: distribution by residual duration (re-pricing date) of on-balance-sheet financial assets and liabilities and financial derivatives

Currency: Euro

Type/Residual life	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite duration
1. On-balance-sheet assets	**-**	**-**	**189**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	189	-	-	-	-	-
2. On-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	531	181.762	235.265	9.496	99.618	46.167	-	-
+ short positions	531	47.734	155.238	9.469	99.510	46.167	-	-

Currency: other currencies

Type/Residual life	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite duration
1. On-balance-sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	18.490	-	-	-	-	-	-
+ short positions	-	151.478	79.906	-	-	-	-	-

2.2 Interest rate risk and price risk – banking portfolio

Qualitative information

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

As a general principle, the Bank 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. In 2017, the Group launched a strategy to diversify funding sources: in the first half of 2017, it launched a 4-year TLTRO (Targeted longer-term refinancing operations) institutional funding programme. In addition, it expanded wholesale funding by issuing bonds reserved for institutional investors as part of the “EMTN” programme. These bonds (one of which is subordinated) are medium-long term and have a fixed interest rate. In 2017, the Bank repurchased the notes related to the self-securitisations with the leasing and corporate portfolios as the underlying assets. Meanwhile, the floating-rate securitisation with the factoring portfolio as the underlying asset is still outstanding (3-year revolving programme).

As for the assets, loans to customers still largely have floating rates as far as both trade receivables and corporate financing are concerned.

As for the operations concerning distressed retail loans (carried out by the NPL BU), 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 31 December 2017, the bond portfolio mainly consisted of inflation-indexed bonds (excluding the re-purchases of notes from self-securitisation transactions). The average duration of the overall portfolio is approximately 66 months.

The interest rate risk associated with funding operations, in accordance with the strategy defined by ALM & Capital Management, 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: ALM & Capital Management, which, in line with the defined risk appetite, defines the actions required to pursue it; the Treasury Department, which directly manages funding operations and the bond portfolio; the Risk Management function, responsible for proposing the risk appetite, 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.

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.

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

As for the price risk, the Bank does not generally assume risks associated with price fluctuations on financial instruments, as its business focuses on financing SMEs' working capital.

The classification of the bonds held as Available for sale financial assets introduces the risk that the Bank's reserves may fluctuate as a result of the change in their fair value. However, this risk is considered moderate given the relatively small size of the portfolio in proportion to total assets and its composition, as it mostly consists of government bonds.

The Risk Management function is responsible for monitoring the price risk that the Bank 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.

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities

Currency: Euro

Type/Residual life	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite duration
1. On-balance-sheet assets	**2.879.564**	**2.727.160**	**1.060.444**	**272.726**	**686.971**	**213.840**	**29.683**	**-**
1.1 Debt securities	-	402.783	397.695	-	41.219	3.951	6.013	-
- with early redemption option	-	402.783	-	-	8.996	3.951	6.013	-
- other	-	-	397.695	-	32.223	-	-	-
1.2 Loans to banks	102.157	1.371.975	2.933	1.244	5.392	-	-	-
1.3 Loans to customers	2.777.407	952.402	659.816	271.482	640.360	209.889	23.670	-
- current accounts	176.038	686	440	1.703	29.292	6.248	94	-
- other loans	2.601.369	951.716	659.376	269.779	611.068	203.641	23.576	-
- with early redemption option	163.840	474.801	428.289	35.424	37.147	15.557	1.909	-
- other	2.437.529	476.915	231.087	234.355	573.921	188.084	21.667	-
2. On-balance-sheet liabilities	**1.290.251**	**1.944.042**	**672.344**	**626.471**	**2.572.253**	**406.252**	**-**	**-**
2.1 Due to customers	1.177.203	1.912.342	672.211	626.392	1.573.250	4.733	-	-
- current accounts	247.593	111.144	28.050	12.716	807	1.969	-	-
- other payables	929.610	1.801.198	644.161	613.676	1.572.443	2.764	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	929.610	1.801.198	644.161	613.676	1.572.443	2.764	-	-
2.2 Due to banks	25.705	31.683	15	-	698.085	-	-	-
- current accounts	20.815		-	-	-	-	-	-
- other payables	4.890	31.683	15	-	698.085	-	-	-
2.3 Debt securities	87.343	17	118	79	300.918	401.519	-	-
- with early redemption option	-	-	-	-	-	401.519	-	-
- other	87.343	17	118	79	300.918	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions								
+ long positions	44.323	-	-	-	-	-	-	-
+ short positions	20.764	-	4.181	655	7.868	10.855	-	-

Currency: other currencies

Type/Residual life	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite duration
1. On-balance-sheet assets	**108.355**	**145.712**	**9.807**	**1**	**1.236**	**496**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	13.875	49.199	-	-	-	-	-	-
1.3 Loans to customers	94.480	96.513	9.807	1	1.236	496	-	-
- current accounts	186	-	-	-	-	-	-	-
- other loans	94.294	96.513	9.807	1	1.236	496	-	-
- with early redemption option	28.074	48.899	9.343	1	-	496	-	-
- other	66.220	47.614	464	-	1.236	-	-	-
2. On-balance-sheet liabilities	**218**	**18.978**	**-**	**-**	**561**	**-**	**-**	**-**
2.1 Due to customers	209	-	-	-	561	-	-	-
- current accounts	204	-	-	-	561	-	-	-
- other payables	5	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	5	-	-	-	-	-	-	-
2.2 Due to banks	9	18.978	-	-	-	-	-	-
- current accounts	9	-	-	-	-	-	-	-
- other payables	-	18.978	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions								
+ long positions	714	2.134	-	-	-	-	-	-
+ short positions	714	2.134	-	-	-	-	-	-

2.3 Currency risk

Qualitative information

A. Currency risk's general aspects, management processes and measurement methods

The assumption of 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 Bank'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 as part of corporate banking operations, 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.

A residual currency risk arises as a natural consequence of the mismatch between the clients' borrowings and the Treasury Department's funding operations in foreign currency. Such mismatches are mainly a result of the difficulty in correctly anticipating financial trends connected with factoring operations, with particular reference to cash flows from account debtors vis-à-vis the maturities of loans granted to customers, as well as the effect of interest on them.

However, the Treasury Department strives to minimise such mismatches every day, constantly realigning the size and timing of foreign currency positions.

Currency risk related to the Bank's business is assumed and managed according to the risk policies and limits set by the Bank'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, based on ALM & Capital Management's proposals, shall consider these suggestions and 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 Bank.

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.

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. In 2015 the Bank tested said interest for impairment, recognising a 2,4 million Euro charge in profit or loss. In 2016 and 2017, the fair value was revalued by 193,4 and 540,7 thousand Euro, respectively, through equity, bringing the value of the equity interest to 1.405,3 million Euro.

B. Currency risk's hedging activity

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

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	US DOLLAR	POUND STERLING	POLISH ZLOTY	CANADIAN DOLLAR	SWISS FRANC	OTHER CURRENCIES
A. Financial assets	**187.442**	**3.486**	**4.622**	**36**	**722**	**17.853**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	-	-	1.405
A.3 Loans to banks	56.446	882	4.573	35	524	613
A.4 Loans to customers	130.996	2.604	49	1	198	15.835
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**790**	**1.165**	**2.636**	**-**	**940**	**14.227**
C.1 Due to banks	85	1.128	2.636	-	940	14.199
C.2 Due to customers	705	37	-	-	-	28
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives						
- Options						
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other						
+ long positions	-	-	18.490	-	-	-
+ short positions	209.434	-	20.344	-	-	1.607
Total assets	**187.442**	**3.486**	**23.112**	**36**	**722**	**17.853**
Total liabilities	**210.224**	**1.165**	**22.980**	**-**	**940**	**15.834**
Unbalance (+/-)	**(22.782)**	**2.321**	**132**	**36**	**(218)**	**2.019**

2.4 Derivative instruments

A. Financial derivatives

Banca IFIS does not trade in financial derivatives on behalf of third parties and limits proprietary trading to instruments hedging against market risk.

Banca IFIS often uses financial derivatives to hedge currency exposures. At 31 December 2017, the Bank recognised foreign exchange derivatives with a positive fair value of 2.808 thousand euro and a negative fair value of 184 thousand euro. As for the transactions entered into, it should be noted that the Bank never undertakes speculative transactions.

The trading book consisted 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.

A.1 Supervisory trading book: year-end notional amounts

Underlying assets/ type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparts	Over the counter	Central counterparts
1. Debt securities and interest rates	361.406	-	-	-
a) Options	21.168	-	-	-
b) Swaps	340.238	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share in-	30.091	-	-	-
a) Options	30.091	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	249.875	-	191.830	-
a) Options	-	-	-	-
b) Swaps	-	-	191.830	-
c) Forwards	249.875	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	**641.372**	**-**	**191.830**	**-**

A.3 Financial derivatives: gross positive fair value - breakdown by product

Underlying assets/type of derivatives	Positive fair value			
	31.12.2017		31.12.2016	
	Over the counter	Central counter-parts	Over the counter	Central counter-parts
A. Supervisory trading book	37.367	-	487	-
a) Options	-	-	-	-
b) Interest rate swaps	34.514	-	-	-
c) Cross currency swaps	-	-	487	-
d) Equity swaps	-	-	-	-
e) Forwards	2.853	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Hedging banking book	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**37.367**	**-**	**487**	**-**

A.4 Financial derivatives: gross negative fair value - breakdown by product

Underlying assets/type of derivatives	Negative fair value			
	31.12.2017		31.12.2016	
	Over the counter	Central counter-parts	Over the counter	Central counter-parts
A. Supervisory trading book	38.239	-	2.498	-
a) Options	-	-	-	-
b) Interest rate swaps	37.955	-	-	-
c) Cross currency swaps	-	-	2.498	-
d) Equity swaps	-	-	-	-
e) Forwards	284	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Hedging banking book	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**38.239**	**-**	**2.498**	**-**

A.5 Financial derivatives: supervisory trading book: notional values, gross positive and negative fair value by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	Governments and Central banks	Other public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional amount	-	-	225.473	-	-	135.933	-
- positive fair value	-	-	14.559	-	-	19.955	-
- negative fair value	-	-	37.955	-	-	-	-
- future exposure	-	-	1.336	-	-	1.045	-
2) Equity instruments and share indexes							
- notional amount	-	-	-	30.091	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	226	-	-	-
3) Currencies and gold							
- notional amount	-	-	228.282	21.593	-	-	-
- positive fair value	-	-	2.808	45	-	-	-
- negative fair value	-	-	184	100	-	-	-
- future exposure	-	-	2.283	216	-	-	-
4) Other amounts							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional amounts

Underlying assets/Residual life	Up to 1 year	Over 1 to 5 years	Over 5 years	Total
A. Supervisory trading book	**319.819**	**229.218**	**92.335**	**641.372**
A.1 Financial derivatives on debt securities and interest rates	69.944	199.127	92.335	361.406
A.2 Financial derivatives on equity instruments and share indexes	-	30.091	-	30.091
A.3 Financial derivatives on exchange rates and gold	249.875	-	-	249.875
A.4 Financial derivatives on other values	-	-	-	-
B. Banking book	**-**	**-**	**-**	**-**
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
B.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other values	-	-	-	-
Total 31.12.2017	**319.819**	**229.218**	**92.335**	**641.372**
Total 31.12.2016	**191.830**	**-**	**-**	**191.830**

Section 3 – Liquidity risk

Qualitative information

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

The liquidity risk refers to the possibility that the Bank fails to service its debt obligations due to the inability to raise funds or sell enough assets on the market to address the financial deficit. The liquidity risk also refers to the inability to secure new adequate financial resources, in terms of amount and cost, to meet its operating needs and opportunities, hence forcing the Bank to either slow down or stop its operations, or incur excessive funding costs in order to service its obligations, significantly affecting its profitability.

In 2017 the Bank, as the Parent, implemented a strategy to diversify its funding sources with the main goal of reducing its reliance on retail funding.

At 31 December 2017, the main funding sources were the Bank's equity, online retail funding—consisting of on-demand and term deposits—medium/long-term bonds issued as part of the EMTN programme, funding from the Eurosystem (TLTRO), and the revolving securitisation of the factoring portfolio.

The Bank's operations consist in factoring operations, which focus mainly on trade receivables and receivables due from Italy's public administration maturing within the year, and medium/long-term receivables deriving mainly from corporate banking, structured finance, and work-out and recovery operations.

As for the Bank'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 successful diversification strategy pursued throughout 2017, which focused mainly on institutional investors, and the rating the Bank received from Fitch were key for reducing funding risk. The significant amount of high-quality liquidity reserves (mainly held with the Bank of Italy) allow to comfortably meet regulatory and internal requirements concerning the prudent management of liquidity risk.

This policy, which negatively affects the economic efficiency of treasury management, in terms of the rate spread between interbank funding and lending, to guarantee certain and stable liquidity, is adequately supported by the profitability of the Bank's operations.

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

The Bank's business functions responsible for ensuring that liquidity policies are properly implemented are: the Treasury Department, which directly manages liquidity; the Risk Management function, responsible for proposing the risk appetite, selecting the most appropriate risk indicators, and monitoring them with reference to pre-set limits; and the Top Management, which every year, aided by ALM & Capital Management, shall make proposals to the Bank's Board of Directors regarding policies on funding and the management of liquidity risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Bank.

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 compliance with supervisory provisions, the Bank also has a Contingency Funding Plan aimed at protecting the Bank 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.

Quantitative information

1. Distribution by residual contractual duration of financial assets and liabilities - Currency: Euro

Items/Duration	on demand	over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets	**1.692.132**	**50.101**	**185.744**	**382.727**	**1.117.559**	**438.783**	**447.830**	**1.569.021**	**1.373.832**	**1.347.146**
A.1 Government bonds	-	-	-	-	-	692	692	30.000	393.000	-
A.2 Other debt securities	57	-	-	-	57	373	431	36.741	387.572	-
A.3 UCITS units	4.963	-	-	-	-	-	-	-	-	-
A.4 Loans	1.687.112	50.101	185.744	382.727	1.117.502	437.718	446.707	1.502.280	593.260	1.347.146
- banks	81.983	-	-	444	24.098	18	-	-	-	1.346.957
- customers	1.605.129	50.101	185.744	382.283	1.093.404	437.700	446.707	1.502.280	593.260	189
On-balance-sheet liabilities	**1.198.343**	**51.110**	**56.568**	**138.327**	**1.689.324**	**682.022**	**653.702**	**2.633.625**	**401.969**	**-**
B.1 Deposits and current accounts	1.190.179	49.086	56.568	138.327	1.689.307	676.654	634.586	893.160	1.969	-
- banks	20.815	662	-	15.067	3.505	15	-	-	-	-
- customers	1.169.364	48.424	56.568	123.260	1.685.802	676.639	634.586	893.160	1.969	-
B.2 Debt securities	311	-	-	-	17	5.368	18.079	359.585	400.000	-
B.3 Other liabilities	7.853	2.024	-	-	-	-	1.037	1.380.880	-	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of underlying assets										
- long positions	-	-	21.000	-	131.600	80.000	-	-	-	-
- short positions	-	-	-	18.410	-	-	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets										
- long positions	34.514	-	-	-	-	-	-	-	-	-
- short positions	37.955	-	-	-	-	-	-	-	-	-
C. 3 Deposits and loans to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C. 4 Irrevocable loan commitments										
- long positions	12.015	-	-	-	254	7.313	655	10.057	14.028	-
- short positions	14.475	-	-	-	-	4.181	655	7.868	10.855	-
C.5 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.1 Credit derivatives with exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Currency: other currencies

Items/Duration	on demand	over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets	**52.842**	**22.845**	**54.563**	**20.375**	**62.030**	**7.937**	**8.826**	**45.216**	**2.185**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	52.842	22.845	54.563	20.375	62.030	7.937	8.826	45.216	2.185	-
- banks	13.875	20.019	-	-	29.184	-	-	-	-	-
- customers	38.967	2.826	54.563	20.375	32.846	7.937	8.826	45.216	2.185	-
On-balance-sheet liabilities	**218**	**863**	**1.153**	**7.412**	**9.593**	**-**	**-**	**561**	**-**	**-**
B.1 Deposits and current accounts	213	863	1.153	7.412	9.593	-	-	561	-	-
- banks	9	863	1.153	7.412	9.593	-	-	-	-	-
- customers	204	-	-	-	-	-	-	561	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	5	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**1.190**	**4.268**	**20.838**	**18.490**	**130.640**	**79.906**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of underlying assets										
- long positions	-	-	-	18.490	-	-	-	-	-	-
- short positions	-	-	20.838	-	130.640	79.906	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C. 3 Deposits and loans to be received										
- long positions	-	2.134	-	-	-	-	-	-	-	-
- short positions	-	2.134	-	-	-	-	-	-	-	-
C. 4 Irrevocable loan commitments										
- long positions	595	-	-	-	-	-	-	-	-	-
- short positions	595	-	-	-	-	-	-	-	-	-
C.5 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.1 Credit derivatives with exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisation transactions

Please refer to the comments in the section on credit risks.

Third-party securitisation transactions

Concerning the third-party securitisation transactions in which Banca IFIS participated, please refer to 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 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 Bank's total assets, since the derecognition requirements set by IAS 39 were not met. Meanwhile, the underwriting of the securities arising from the securitisation has not added any risk nor changed the presentation of the 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.

Section 4 – Operational risks

Qualitative information

A. General aspects, management procedures and measurement methods concerning 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, fraud risk, risk of money laundering and terrorist financing, and the risk of financial misstatement.

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.

Banca IFIS 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

Bank 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 annual Risk Self Assessment, which allows to identify the main operational problems and therefore establish the most appropriate mitigating measures.

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

BANCA IFIS

Part F - Equity

Section 1 – Equity

A. Qualitative information

Managing equity concerns a set of policies and decisions necessary to establish capital levels that are consistent with the assets and risks taken by the Bank. Banca IFIS is subject to the capital adequacy requirements established by the so-called Basel Committee (CRR/CRD IV).

The Board of Directors constantly monitors that the Bank meets the minimum supervisory requirements, and therefore the capital adequacy ratios, as well as complies with the capital limits set out in the Risk Appetite Framework (RAF).

Furthermore, also in accordance with the European Central Bank's recommendation of 28 January 2015, the Bank ensures compliance with capital adequacy ratios through a pay-out policy linked to the achievement of the above minimum capital requirements, as well as the careful assessment of the potential impact of extraordinary financial operations (share capital increases, convertible loans, etc.).

The Bank’s capital adequacy is further assessed and monitored every time an extraordinary operation is planned. In these cases, based on available information regarding said operations, the Banca IFIS Group estimates the impact on capital adequacy ratios as well as the RAF, and considers any measures necessary to meet the requirements.

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 2017 Banca IFIS made the following transactions on treasury shares:

- granted a former employee 862 treasury shares with a market value of 40 thousand Euro and a par value of 862 Euro, making profits of 32 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve;
- gave 1460 treasury shares with a market value of 49 thousand Euro and a par value of 1.460 Euro to the minority shareholders of the merged entity Interbanca Spa as part of a stock swap, making profits of 37 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve.

The remaining balance at the end of the year was 377.829 treasury shares with a market value of 3,2 million Euro and a par value of 377.829 Euro.

B. Quantitative information

B.1 Company's equity: breakdown

Equity items	31.12.2017	31.12.2016
Share capital	53.811	53.811
Share premiums	101.864	101.776
Reserves	1.027.747	372.106
-retained earnings	-	-
a) legal reserves	10.762	1.762
b) statutory reserve	-	-
c) treasury shares	-	-
d) other	1.011.539	355.879
-other(1)	5.446	5.465
Equity instruments	-	-
(Treasury shares)	(3.168)	(3.187)
Valuation reserves:	2.133	747
- Available for sale financial assets	2.275	955
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Foreign investment hedges	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Non-current assets under disposal	-	-
- Actuarial gains (losses) on defined benefit plans	-	-
- Share of valuations reserves of equity-accounted investments	(142)	(208)
- Specific revaluation laws	-	-
Profit (loss) for the period (+/-)	154.906	71.722
Equity	**1.337.294**	**596.975**

(1) The item included 3,2 million Euro in treasury shares not deriving from retained earnings.

The change in the line item “Reserves” compared to the previous year was closely associated with the merger of the subsidiary Interbanca S.p.A. into Banca IFIS, finalised on 23 October 2017. The merger was carried out using the pooling of interest method based on the Group's Consolidated Financial Statements, resulting in a 627,3 million Euro merger surplus.

B.2 Valuation reserves of available for sale financial assets: breakdown

Assets/Amounts	31.12.2017		31.12.2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	2.267	-	776	-
2. Equity securities	-	(352)	180	(1)
3. UCITS units	360	-	-	-
4. Loans	-	-	-	-
Total	**2.627**	**(352)**	**956**	**(1)**

B.3 Valuation reserves of available for sale financial assets: annual changes

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	**776**	**179**	**-**	**-**
2. Increases	**2.267**	-	**360**	**-**
2.1 Fair value gains	2.105	-	360	-
2.2 Reclassification to profit or loss of negative reserves:				
- from impairment losses	-	-	-	-
- from realisation	-	-	-	-
2.3 Other changes	162	-	-	-
3. Reductions	**776**	**531**	**-**	**-**
3.1 Fair value losses	-	-	-	-
3.2 Impairment losses	-	-	-	-
3.3 Reclassification to profit or loss of positive reserves:				
- from realisation	776	-	-	-
3.4 Other changes	-	531	-	-
4. Closing balance	**2.267**	**(352)**	**360**	**-**

As required by article 2427, paragraph 7-bis of the Italian Civil Code, the following table shows the equity items along with the nature, utilization and distribution possibilities, as well as what has been used in previous years.

Equity items	Amount as of 31.12.2017	Potential Usage Purpose (*)	Available Amount	Activity Summary for last three years	
				Losses coverage	Other reasons
Share capital	53.811		-	-	-
Share premiums	101.864	A, B, C (1)	101.864	-	-
Reserves:	1.027.747		396.625	-	-
- Legal reserve	*10.762*	*B*	*10.762*	-	-
- Extraordinary reserve	*385.863*	*A, B, C*	*385.863*	-	-
- Reserves from International Accounting Standards adoption	*(2.159)*		-	-	-
- Treasury shares	*3.168*	*A, B (2)*	-	-	-
- Other reserves	*630.113*	*A, B, C*	*(3)*	-	-
Valuation reserves:	2.133		-	-	-
- Available for sale financial assets	*2.275*	*(4)*	-	-	-
- Actuarial gains (losses) on defined benefit plans	*(142)*		-	-	-
Treasury shares (-)	(3.168)		-	-	-
Profit for the year	154.906		-	-	-
Total	**1.337.294**		**1.118.602**	**-**	**-**

(*) A = to increase capital, B = to cover losses, C = for distribution to shareholders.
(1) The share premium reserve is available and distributable as the legal reserve has reached one fifth of the share capital
2) Available within the limits of the amount of treasury shares, pursuant to article 2357 of the Italian Civil Code.
(3) Consistently with the Bank's intention to further strengthen its capital position, the gain on bargain purchase arising from the acquisition of the former GE Capital Interbanca Group will be allocated to a reserve that will remain unavailable until the approval of the financial statements for the year 2021.
(4) The reserve is restricted pursuant to article 6 of Italian Legislative Decree 38/2005.

Section 2 – Own funds and prudential ratios

2.1 Own funds

Individual own funds, risk-weighted assets and capital ratios at 31 December 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.

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

A. Qualitative information

1. Common equity Tier 1 Capital (CET1)

A) Common equity Tier 1 Capital (CET1)

This item includes:

- 53,8 million Euro in paid-up capital instruments;
- 101,9 million Euro in share premium;
- 3,2 million Euro own CET1 instruments held directly;
- 1.131,4 million Euro in other reserves. Specifically, this item includes:

  - 400,2 million Euro in retained earnings from prior years;
  - 154,9 million Euro in profit recognised under Own Funds (CRR - article 26), less 53,4 million Euro in dividends expected to be paid;
  - the 627,3 million Euro impact of the merger of Interbanca S.p.A., aligning the reserves with the corresponding consolidated amounts—which, in the 2016 Financial Statements, already included the impact of the Bargain deriving from the acquisition of the former Interbanca Group;
- other items of comprehensive income, positive to the tune of 2,1 million Euro and consisting of:
  - 0,1 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with IAS 19;
  - 2,2 million Euro in positive reserves for available for sale financial assets;

D) Items to be deducted from CET1

This item includes:

- 21,3 million Euro in other intangible assets;
- 167,4 million Euro in deferred tax assets that rely on future profitability and do not arise from temporary differences, net of the relevant tax liabilities.

E) Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions

This item includes:

- 2,6 million Euro in unrealised gains on AFS securities (-) (CRR - article 468 par. 1 and 2 letter c);
- positive filter on negative actuarial reserves (IAS 19), amounting to 57 million Euro (+) (CRR – article 473 par. 3 and 4 letter d);
- 33,5 million Euro in deferred tax assets that rely on future profitability and do not arise from temporary differences, net of the relevant tax liabilities (+) (CRR – article 469 par. 1 letter a) and article 478 par. 1 letter d).

2. Additional Tier 1 Capital (AT1)

G) Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime

Not available.

I) Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions

Not available.

3. Tier 2 Capital (T2)

M) Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime

This line item included 400,0 million Euro in fully paid-up subordinated loans eligible as Tier 2 Capital;

O) Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries recognised in T2 pursuant to transitional provisions

This line item included 0,2 million Euro in unrealised gains on AFS equity instruments subject to transitional provisions (+) (CRR – Art. 468 par 1 and 2 letter c);

B. Quantitative information

	31.12.2017	31.12.2016[(1)]
A. Common Equity Tier 1[(2)] (CET1) before application of prudential filters	**1.283.861**	**562.930**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	-	-
C. CET1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	1.283.861	562.930
D. Items to be deducted from CET1	188.717	13.117
E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions	30.900	(722)
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**1.126.044**	**549.091**
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime	-	-
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions	-	-
L. Total Additional Tier 1 Capital (AT1) (G-H+/-I)	**-**	**-**
M. Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime	400.000	-
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions	189	36
P. Total Tier 2 Capital (T2) (M-N+/-O)	**400.189**	**36**
Q. Total own funds (F+L+P)	**1.526.233**	**549.127**

(1) The amounts at 31 December 2016 were restated to account for the 9.769 thousand Euro Bargain.
(2) Common Equity Tier 1 capital includes the profit for the period net of estimated dividends.

The approximately 977 million Euro increase in Own Funds compared to 31 December 2016 was largely attributable to:

- 101,5 million Euro arising from the inclusion of the profit for the year, net of the estimated dividend;
- the 627,3 million Euro impact of the merger of Interbanca S.p.A., aligning the reserves with the corresponding consolidated amounts—which, in the 2016 Financial Statements, already included the impact of the Bargain deriving from the acquisition of the former Interbanca Group;
- 133,9 million Euro arising from the deduction of 80% 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, 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 subordinated bond issued in 2017, with a par value of 400 million Euro and eligible as Tier 2 (T2) capital.

2.2 Capital adequacy

A. Qualitative information

Total risk-weighted assets rose by more than 2,5 billion Euro, mainly because of the mergers of Interbanca S.p.A. and IFIS Factoring S.r.l. occurred during the year.
At 31 December 2017, Banca IFIS S.p.A. reported the following individual capital adequacy ratios:

- CET1 capital ratio: 17,46%;
- Tier1 capital ratio: 17,46%;
- Total capital ratio: 23,66%.

Although risk-weighted assets grew during the year, the considerable increase in total Own Funds caused the Total capital ratio to rise sharply from 14,00% at 31 December 2016.

Banca IFIS S.p.A. is the Parent of the Banking Group of the same name; therefore, for more information on Own Funds and prudential requirements, please refer to Part F – Section 2 of the Notes to the Consolidated Financial Statements of the Banca IFIS Banking Group.

B. Quantitative information

Categories/Amounts	Non-weighted amounts		Weighted amounts / requirements	
	31.12.2017	31.12.2016 RESTATED	31.12.2017	31.12.2016 RESTATED
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	**9.830.705**	**7.540.701**	**5.750.800**	**3.360.004**
1. Standardised approach	9.830.705	7.540.701	5.750.800	3.360.004
2. Internal rating method	-	-	-	-
2.1 Basic indicator approach	-	-	-	-
2.2 Advanced measurement approach	-	-	-	-
3. Securitisation programmes	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			**460.064**	**268.800**
B.2 Credit and counterparty valuation adjustment risk			**1.726**	**-**
B.3 Settlement risk			**-**	**-**
B.4 Market risks			**1.166**	**1.494**
1. Standard method			1.166	1.494
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**53.060**	**43.533**
1. Basic indicator approach			53.060	43.533
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation factors			**-**	**-**
B.7 Total prudential requirements			**516.016**	**313.827**
C. RISK ASSETS AND CAPITAL REQUIREMENT RATIOS				
C.1 Risk-weighted assets			**6.450.215**	**3.922.844**
C.2 Common equity tier 1 capital / Risk-weighted assets (CET1 Capital ratio)			**17,46%**	**14,00%**
C.2 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)			**17,46%**	**14,00%**
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			**23,66%**	**14,00%**

Part G - Business combinations

Section 1 - Transactions carried out during the year

During the year, the subsidiaries IFIS Factoring S.r.l. and Interbanca S.p.A. were merged into Banca IFIS.

The mergers were carried out using the pooling of interest method based on the Group's Consolidated Financial Statements at 31 December 2016, which show the amounts resulting from the business combination related to the acquisition of the former GE Capital Interbanca Group.

As a result of the merger, the Bank recognised a 627,3 million Euro merger surplus in equity.

Section 2 - Transactions carried out after the end of the year

On 2 February 2018, the Bank finalised the acquisition of 100% of Cap.Ital.Fin. S.p.A., a company specialising in salary-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees. The consideration for the transaction amounted to 2,1 million Euro and is subject to a price adjustment mechanism to be calculated based on the financial position of the acquiree at the effective date, which, at the reporting date, had not yet been finalised.

Section 3 – Retrospective adjustments

As mentioned in the paragraph “Introductory notes on how to read the data” in the Directors’ report, 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. The impact of this price adjustment was applied retrospectively to the reporting period ended 31 December 2016. Therefore, at 1 January 2017 the statement of financial position was restated (column 31 December 2016 restated), adding 9,8 million Euro to item 150 “Other assets” and deducting 9,8 million Euro from item 100 “Equity investments”.

Part H - Related-party transactions

In compliance with the provisions of Consob resolution no. 17221 of 12 March 2010 (as subsequently amended by means of Resolution no. 17389 of 23 June 2010) and the provisions of Circular 263/2006 (Title V, Chapter 5) of the Bank of Italy, Banca IFIS prepared the procedure relating to transactions with "related parties", the current version of which was approved by the Board of Directors on 10 November 2016. This document is publicly available on Banca IFIS's website, www.bancaifis.it, in the 'Corporate Governance' Section.

In 2017, Banca IFIS carried out a major transaction with the subsidiary IFIS Finance Sp. Z o.o., as disclosed on the Bank's website under the section "Institutional Investors", subsection "Information documents".

At 31 December 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. and the wholly-owned subsidiaries IFIS Finance Sp. Z o. o., IFIS Leasing S.p.A., IFIS Rental Services S.r.l., IFIS NPL S.p.A., and Two Solar Park 2008 S.r.l..

The types of related parties, as defined by IAS 24, that are relevant for Banca IFIS include:

- the parent company;
- the subsidiaries;
- 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
5.105	-	238	94	530

The above information includes fees paid to Directors (3,4 million Euro, gross amount) and Statutory Auditors (298 thousand Euro, gross amount).

2. Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 31 December 2017, broken down by type of related party pursuant to IAS 24.

Items	Parent company	Subsidiaries	Key management personnel	Other related parties	Total	As a % of the item
Financial assets held for trading	-	1.947	-	-	**1.947**	5,2%
Available for sale financial assets	-	-	-	6.567	**6.567**	0,8%
Loans to customers	-	789.642	-	5.812	**795.454**	13,8%
Other assets	105.071	213	-		**105.284**	45,5%
Total assets	**105.071**	**791.802**	**-**	**12.379**	**909.252**	9,8%
Due to customers	-	972	413	1.017	**2.402**	0,0%
Financial liabilities held for trading	-	100	-	-	**100**	0,3%
Other liabilities	-	126	-	-	**126**	0,0%
AFS reserve	-	-	-	75	**75**	3,3%
Total liabilities	**-**	**1.198**	**413**	**1.091**	**2.703**	0,0%

Items	Parent company	Subsidiaries	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	17.375	-	4.042	**21.417**	4,3%
Interest due	-	-	(3)	(9)	**(12)**	0,0%
Commission income	-	-	-	16	**16**	0,0%
Commission expense	-	(175)	-	-	**(175)**	2,4%
Net profit (loss) from trading	-	496	-	-	**496**	4,1%
Reversals on receivables	-	-	-	346	**346**	(0,8)%
Other administrative expenses	-	-	-	(30)	**(30)**	0,0%
Other operating income/expenses	-	319	-	-	**319**	4,2%

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 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 31 December 2017 Banca IFIS recognised net receivables due from the parent company amounting to 105,1 million Euro.

Transactions with **subsidiaries** relate to:

- the 1,9 million Euro derivative outstanding with the subsidiary Two Solar Park 2008 S.r.l.;
- 789,6 million Euro in loans Banca IFIS granted to its subsidiaries;
- 145 thousand Euro in interest rate swaps between Banca IFIS and IFIS Finance Sp. Zo.o.;

- secondment agreements, recognised for 213 thousand Euro under other assets and for 126 thousand Euro under other liabilities;
- the current account of the subsidiary Two Solar Park 2008 S.r.l., with a negative balance of 972 thousand Euro at 31 December 2017.

Transactions with **key management personnel** relate almost entirely to Rendimax or Contomax savings accounts.

Transactions with **other related parties** that are part of Banca IFIS's ordinary business are conducted at arm's length.

During the year, 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 31 December 2017 amounted to 0.5 million Euro.

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.

There were also transactions with two entities in which Banca IFIS owns an equity interest of more than 20% and recognised as available for sale financial assets amounting to 6,6 million Euro.

The transactions are related to 4,1 million Euro worth of loans.

Part I - Share-based payments

A. Qualitative information

1. Description of share-based payment agreements

Top Management's remuneration consists of fixed pay and variable pay calculated as a percentage of consolidated profit gross of taxes.

Variable pay, which is limited to a maximum proportional to fixed pay, is paid partly upfront and partly deferred.

Upfront variable pay is awarded and paid after the approval of the financial statements and ICAAP report for the year to which it refers.

Deferred variable pay is deferred by three years and is not paid if:

- there is a pre-tax loss;
- in one of the three years following its determination, “overall capital” is reported to be less than “overall internal capital” in the “ICAAP report” to be submitted every year to the Bank of Italy;
- at the end of the third year, the recipient is no longer in the position for which pay was awarded.

Starting from 2014, variable pay is paid 50% in cash and 50% in Banca IFIS S.p.A. shares. This applies to both upfront and deferred variable pay.

For this purpose, the Bank plans to use treasury shares in its portfolio; the reference price for determining the number of shares to the value of the variable pay concerned will be the average share price for the period from 1 April through 30 April of the year the compensation is awarded and paid.

Upfront variable pay can be clawed back if in the year following its award the right to it has not vested.

B. Quantitative information

The table on annual changes is not presented here, since for Banca IFIS share-based payment agreements do not fall within the category concerned by said table.

2. Other information

The portion to be settled in shares of Top Management's variable pay awarded for the year 2017 amounts to 530 thousand Euro: the number of shares to be awarded will be calculated as described above.

BANCA IFIS

Part L - Segment reporting

In accordance with IFRS 8, Banca IFIS S.p.A., Parent Company of the Banca IFIS Group, presents the segment reporting in Part L of the Notes to the Consolidated Financial Statements.

Venice - Mestre, 06 March 2018

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Giovanni Bossi

Attachments to the Separate Financial Statements:

BANCA IFIS

Financial Statements of the Subsidiaries

IFIS Finance Sp. Z o.o.

IFIS FINANCE SP. Z O.O.
Balance Sheet
(All amounts are stated in PLN thousand)

ASSETS	Note	31.12.2017	31.12.2016
Non-current assets		9.071	835
Tangible fixed assets	1		
Fixed assets			
technical equipment and machinery		14	14
vehicles		107	146
other fixed assets		13	26
		134	186
Long-term receivables	2		
From other parties		176	195
		176	195
Long-term investments	3		
Long-term financial assets		8.345	-
in third parties	3.1	8.345	-
		8.345	-
Non-current prepayments and deferred expenses			
Deferred tax asset	13.3	416	454
		416	454
Current assets		311.428	299.665
Short-term receivables			
Receivables from third parties		8	62
taxation and social security receivables		4	6
other		4	56
		8	62
Short-term investments			
in related parties	4.1	439	2.566
in third parties	4.2	240.086	244.552
cash and cash equivalents	4.3	70.875	52.450
		311.400	299.568
Short-term prepayments and deferred expenses	5	20	35
TOTAL ASSETS		320.499	300.500

IFIS FINANCE SP. Z O.O.

Balance Sheet

(All amounts are stated in PLN thousand)

EQUITY AND LIABILITIES	Note	31.12.2017	31.12.2016
Equity			
Share capital	6.1	47.000	47.000
Reserve capital		66.496	66.496
Other capital reserves		28.526	20.794
Net profit		3.725	7.732
		145.747	142.022
Liabilities and provisions for liabilities		174.752	158.478
Provisions for liabilities			
Deferred tax liability	13.3	83	525
		83	525
Long-term liabilities			
Liabilities due to third parties	7.1	-	41
other financial liabilities		-	41
		-	41
Short-term liabilities			
Related party liabilities	8.1	140.259	152.619
trade		-	529
other		140.259	152.090
Liabilities due to third parties		33.728	4.608
other financial liabilities	8.2	33.099	4.184
trade liabilities	8.3	77	-
taxation, custom duties and social security liabilities		552	424
		173.987	157.227
Accruals and deferred income			
Other		682	685
- short-term	9.1	682	685
		682	685
TOTAL EQUITY AND LIABILITIES		320.499	300.500

IFIS FINANCE SP. Z O.O.
Profit and Loss Account
(All amounts are stated in PLN thousand)

	Note	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Net revenue and net revenue equivalents, including:	10		
Net revenue from sales of finished products		13.338	15.234
		13.338	15.234
Operating expenses			
Depreciation and amortisation expense		(62)	-
Raw materials and energy used		(27)	(23)
External services		(3.228)	(2.846)
Taxes and charges including:		(103)	(108)
Payroll		(1.605)	(1.588)
Social security and other employee benefits		(295)	(279)
		(5.320)	(4.844)
Profit on sales		8.018	10.390
Other operating income			
Other		45	5
		45	5
Other operating costs			
Other		-	(378)
		-	(378)
Operating profit		8.063	10.017
Financial income			
Interest, including:	11	365	534
Other		-	747
		365	1.281
Financial costs			
Interest, including:	12	(436)	(576)
- from related parties		*(423)*	*(558)*
Other		(3.315)	(1.004)
		(3.751)	(1.580)
Profit from operating activities		4.677	9.718
Profit before taxation		4.677	9.718
Corporate income tax	13.1	(952)	(1.986)
Net profit		**3.725**	**7.732**

IFIS Leasing S.p.A.

STATO PATRIMONIALE

	Voci dell'attivo	31 dicembre 2017	31 dicembre 2016
10.	Cassa e disponibilità liquide	2.729	0
20.	Attività finanziarie detenute per la negoziazione	107	6.793
60.	Crediti	1.210.253.956	1.037.055.644
90.	Partecipazioni		43.552.016
110.	Attività materiali	257.409	413.270
110.	Attività immateriali	1.613.004	179.500
120.	Attività fiscali	41.245.380	43.096.644
	a) correnti	317.436	127.900
	b) anticipate	40.927.944	42.968.744
	- di cui alla L.214/2011	38.441.623	42.875.503
140.	Altre attività *	59.333.112	47.927.327
	TOTALE ATTIVO	**1.312.705.697**	**1.172.231.194**

	Voci del passivo e del patrimonio netto	31 dicembre 2017	31 dicembre 2016
10.	Debiti *	999.643.522	889.999.304
	10.1 Debiti verso banche		
	10.2 Debiti verso enti finanziari		
	10.3 Debiti verso la clientela		
70.	Passività fiscali	833.933	423.472
	a) correnti	833.933	389.789
	b) differite	0	33.682
90.	Altre passività	46.165.056	26.460.199
100.	Trattamento di fine rapporto del personale	1.943.574	1.950.268
110	Fondi per rischi e oneri	7.334.624	5.139.624
	b) altri fondi	7.334.624	5.139.624
120.	Capitale	41.000.000	41.000.000
160.	Riserve	207.297.365	199.283.862
170.	Riserve da valutazione	96.944	(39.038)
180.	Utile (Perdita) d'esercizio	8.390.678	8.013.504
	TOTALE PASSIVO E PATRIMONIO NETTO	**1.312.705.697**	**1.172.231.194**

*I dati relativi al 2016 sono stati riesposti secondo le modalità descritte in nota integrativa, parte B, nelle rispettive sezioni.

CONTO ECONOMICO

Importi in unità di Euro

	Voci	31 dicembre 2017	31 dicembre 2016
10.	Interessi attivi e proventi assimilati	41.771.674	39.733.669
20.	Interessi passivi e oneri assimilati	(18.328.738)	(12.502.670)
	MARGINE DI INTERESSE	**23.442.936**	**27.230.999**
30.	Commissioni attive*	16.523.235	13.482.861
40.	Commissioni passive	(4.811.588)	(14.583.056)
	COMMISSIONI NETTE	**11.711.647**	**(1.100.195)**
50.	Dividendi e proventi simili	0	14.903.262
60.	Risultato netto della attività di negoziazione	(6.686)	6.793
	MARGINE DI INTERMEDIAZIONE	**35.147.897**	**41.040.859**
100.	Rettifiche/Riprese di valore nette per deterioramento di:	(6.019.000)	(6.108.602)
	a) attività finanziarie	(6.019.000)	(6.108.602)
110.	Spese amministrative:	(21.482.405)	(24.181.307)
	a) spese per il personale	(12.477.928)	(12.260.018)
	b) altre spese amministrative*	(9.004.477)	(11.921.288)
120.	Rettifiche/Riprese di valore nette su attività materiali	(141.422)	(181.845)
130.	Rettifiche/Riprese di valore nette su attività immateriali	(167.108)	(111.132)
150.	Accantonamenti netti ai fondi per rischi e oneri	(2.330.455)	(100.027)
160.	Altri proventi e oneri di gestione*	5.080.145	3.902.601
	RISULTATO DELLA GESTIONE OPERATIVA	**10.087.651**	**14.260.548**
170.	Utile(perdite) delle partecipazioni	0	(5.726.090)
180.	Utile(perdite) da cessione di investimenti	(3.592)	51.336
	UTILE (PERDITA) DELL' ATTIVITA' CORRENTE AL LORDO DELLE IMPOSTE	**10.084.059**	**8.585.793**
190.	Imposte sul reddito dell'operatività corrente	(1.693.381)	(572.290)
	UTILE (PERDITA) DELL' ATTIVITA' CORRENTE AL NETTO DELLE IMPOSTE	**8.390.678**	**8.013.504**
	UTILE (PERDITA) D'ESERCIZIO	**8.390.678**	**8.013.504**

*I dati relativi al 2016 sono stati riesposti secondo le modalità descritte in nota integrativa, parte C, nelle rispettive sezioni.

IFIS Rental Services S.r.l.

Attivo	31/12/2017		31/12/2016	
B) Immobilizzazioni				
I Immateriali				
3) Diritti di brevetto industriale e di utilizzo di opere dell'ingegno				
7) Altre		761.568		-
		761.568		**-**
II Materiali				
2) Impianti e macchinari concessi in noleggio		-		-
3) Attrezzature industriali e commerciali concesse in noleggio		227.801.070		257.214.595
4) Altri beni		-		-
		227.801.070		**257.214.595**
Totale immobilizzazioni		**228.562.638**		**257.214.595**
C) Attivo circolante				
II Crediti				
1) Verso clienti				
- entro 12 mesi	16.050.623		26.899.494	
		16.050.623		**26.899.494**
2) Verso imprese controllanti				
- entro 12 mesi	1.639.311		-	
- oltre 12 mesi	2.626.547			
		4.265.858		**-**
4-bis) Crediti tributari		**107.873**		**25**
4-ter) Imposte anticipate				
- entro 12 mesi	7.262.830		9.014.128	
- oltre 12 mesi				
		7.262.830		**9.014.128**
5) Verso altri				
- entro 12 mesi	76.723		166.488	
- oltre 12 mesi				
		76.723		**166.488**
		27.763.908		**36.080.135**
IV Disponibilità liquide				
1) Depositi bancari e postali		2.949.062		5.810.164
		2.949.062		**5.810.164**
Totale attivo circolante		**30.712.970**		**41.890.298**
D) Ratei e risconti				
Ratei e risconti attivi	2.413.107		2.465.748	
		2.413.107		**2.465.748**
Totale attivo		**261.688.715**		**301.570.642**

Passivo			31/12/2017		31/12/2016
A) Patrimonio netto					
I	Capitale		6.000.000		6.000.000
II	Riserva da sovrapprezzo quote		-		-
IV	Riserva legale		85.216		
VII	Altre riserve				
	- Riserva sovrapprezzo azioni		114.010.000		114.010.000
VIII	Utili (perdita) a nuovo		1.619.111		
IX	Utili (perdita) dell'esercizio		10.758.521		1.704.327
Totale			**132.472.848**		**121.714.327**
B) Fondi per rischi e oneri					
	2) Per imposte				
	3) Altri		743.178		725.840
Totale			**743.178**		**725.840**
C) Trattamento di fine rapporto lavoro subordinato			116.275		158.081
Totale			**116.275**		**158.081**
D) Debiti					
	4) Debiti verso banche				
	- entro 12 mesi	75.873.049		50.303.413	
	- oltre 12 mesi	37.660.668		100.129.590	
			113.533.717		**150.433.002**
	7) Debiti verso fornitori				
	- entro 12 mesi	6.026.196		9.767.038	
			6.026.196		**9.767.038**
	12) Debiti tributari				
	- entro 12 mesi	527.861		359.229	
			527.861		**359.229**
	13) Debiti verso istituti di previdenza e di sicurezza sociale				
	- entro 12 mesi	71.794		97.265	
			71.794		**97.265**
	14) Altri debiti				
	- entro 12 mesi	845.155		1.283.858	
			845.155		**1.283.858**
Totale			**121.004.723**		**161.940.393**
E) Ratei e risconti passivi					
	Ratei e risconti passivi	7.351.691		17.032.001	
			7.351.691		**17.032.001**
Totale passivo			**261.688.715**		**301.570.642**

Conto economico	31/12/2017		31/12/2016	
A) Valore della produzione				
1) Ricavi delle vendite e delle prestazioni		127.415.939		23.123.505
5) Altri ricavi e proventi		9.504.819		1.492.204
a) proventi diversi	8.373.781			
c) ripristini di valore	1.131.039			
Totale valore della produzione		**136.920.759**		**24.615.709**
B) Costi della produzione				
6) Per materie prime, sussidiarie, di consumo e di merci				
7) Per servizi		**7.868.081**		**1.735.241**
8) Per godimento di beni di terzi		**661.723**		**114.987**
9) Per il personale				
a) Salari e stipendi	1.383.932		214.027	
b) Oneri sociali	401.675		57.437	
c) Trattamento di fine rapporto	90.314		19.270	
e) Altri costi	227.743		48.608	
		2.103.664		**339.343**
10) Ammortamenti e svalutazioni				
a) Ammortamento delle immobilizzazioni immateriali				
b) Ammortamento delle immobilizzazioni materiali	107.404.716		18.787.752	
c) Altre svalutazioni delle immobilizzazioni	200.565		330.694	
d) Svalutazioni dei crediti compresi nell'attivo circolante e delle disponibilità liquide	151.263		279.047	
		107.756.544		**19.397.493**
12) Accantonamento per rischi		**56.978**		**41.084**
14) Oneri diversi di gestione		**5.957.413**		**783.795**
Totale costo della produzione		**124.404.404**		**22.411.942**
Differenza tra valore e costo della produzione (A-B)		**12.516.355**		**2.203.766**
C) Proventi e oneri finanziari				
16) Altri proventi finanziari:				
d) proventi diversi dai precedenti:				
- altri	48.797		5.980	
		48.797		**5.980**
17) Interessi e altri oneri finanziari:				
- altri	(2.212.047)		(493.051)	
		(2.212.047)		**(493.051)**
17bis) Utili e perdite su cambi	(166)		(1.562)	
		(166)		**(1.562)**
Totale proventi e oneri finanziari		**(2.163.416)**		**(488.633)**
D) Rettifiche di valore delle attività finanziarie				
18) Rivalutazioni				
a) Partecipazioni	-		-	
		-		-
19) Svalutazioni				
a) Partecipazioni	-		-	
		-		-
Totale rettifiche di valore attività finanziarie		**-**		**-**
Risultato prima delle imposte (A-B±C±D±E)		**10.352.939**		**1.715.134**
22) Imposte sul reddito dell'esercizio:				
a) correnti	(469.667)		(101.122)	
b) differite			90.315	
c) anticipate	875.250			
		405.582		**(10.807)**
23) Utile (Perdita) dell'esercizio		**10.758.521**		**1.704.327**

Two Solar Park 2008 S.r.l.

Stato patrimoniale

	31-12-2017	31-12-2016
Stato patrimoniale		
Attivo		
B) Immobilizzazioni		
I - Immobilizzazioni immateriali	300.027	322.486
II - Immobilizzazioni materiali	17.286.221	18.356.931
III - Immobilizzazioni finanziarie	37.246	37.246
Totale immobilizzazioni (B)	17.623.494	18.716.663
C) Attivo circolante		
I - Rimanenze	-	84.000
II - Crediti		
esigibili entro l'esercizio successivo	1.691.858	1.267.149
esigibili oltre l'esercizio successivo	-	1.043.461
imposte anticipate	1.221.348	-
Totale crediti	2.913.206	2.310.610
IV - Disponibilità liquide	976.007	2.242.298
Totale attivo circolante (C)	3.889.213	4.636.908
D) Ratei e risconti	109.226	160.166
Totale attivo	21.621.933	23.513.737
Passivo		
A) Patrimonio netto		
I - Capitale	100.000	100.000
II - Riserva da soprapprezzo delle azioni	-	1.400.000
VI - Altre riserve	685.936	3.110.000
VII - Riserva per operazioni di copertura dei flussi finanziari attesi	(1.924.093)	(2.436.114)
VIII - Utili (perdite) portati a nuovo	-	(3.159.268)
IX - Utile (perdita) dell'esercizio	(348.072)	(1.564.796)
Totale patrimonio netto	(1.486.229)	(2.550.178)
B) Fondi per rischi e oneri	2.004.023	2.516.044
D) Debiti		
esigibili entro l'esercizio successivo	905.761	5.333.711
esigibili oltre l'esercizio successivo	20.149.543	18.214.160
Totale debiti	21.055.304	23.547.871
E) Ratei e risconti	48.835	-
Totale passivo	21.621.933	23.513.737

Conto economico

	31-12-2017	31-12-2016
Conto economico		
A) Valore della produzione		
1) ricavi delle vendite e delle prestazioni	316.929	240.767
5) altri ricavi e proventi		
altri	2.233.284	1.921.815
Totale altri ricavi e proventi	2.233.284	1.921.815
Totale valore della produzione	2.550.213	2.162.582
B) Costi della produzione		
6) per materie prime, sussidiarie, di consumo e di merci	-	24.097
7) per servizi	658.116	329.070
8) per godimento di beni di terzi	16.000	16.624
10) ammortamenti e svalutazioni		
a), b), c) ammortamento delle immobilizzazioni immateriali e materiali, altre svalutazioni delle immobilizzazioni	1.093.169	1.092.487
a) ammortamento delle immobilizzazioni immateriali	22.459	21.777
b) ammortamento delle immobilizzazioni materiali	1.070.710	1.070.710
d) svalutazioni dei crediti compresi nell'attivo circolante e delle disponibilità liquide	100.000	128.164
Totale ammortamenti e svalutazioni	1.193.169	1.220.651
12) accantonamenti per rischi	-	14.276
14) oneri diversi di gestione	29.425	20.185
Totale costi della produzione	1.896.710	1.624.903
Differenza tra valore e costi della produzione (A - B)	653.503	537.679
C) Proventi e oneri finanziari		
16) altri proventi finanziari		
d) proventi diversi dai precedenti		
altri	2	14.008
Totale proventi diversi dai precedenti	2	14.008
Totale altri proventi finanziari	2	14.008
17) interessi e altri oneri finanziari		
altri	773.521	936.084
Totale interessi e altri oneri finanziari	773.521	936.084
Totale proventi e oneri finanziari (15 + 16 - 17 + - 17-bis)	(773.519)	(922.076)
D) Rettifiche di valore di attività e passività finanziarie		
19) svalutazioni		
a) di partecipazioni	-	1.200.000
Totale svalutazioni	-	1.200.000
Totale delle rettifiche di valore di attività e passività finanziarie (18 - 19)	-	(1.200.000)
Risultato prima delle imposte (A - B + - C + - D)	(120.016)	(1.584.397)
20) Imposte sul reddito dell'esercizio, correnti, differite e anticipate		
imposte correnti	276.901	75.350
imposte relative a esercizi precedenti	129.042	-
imposte differite e anticipate	(177.887)	(94.951)
Totale delle imposte sul reddito dell'esercizio, correnti, differite e anticipate	228.056	(19.601)
21) Utile (perdita) dell'esercizio	(348.072)	(1.564.796)

Independent auditors’ fees and other fees as per art. 149 duodecies of Consob Regulation no. 11971 of 14 May 1999

Type of services	Service provider	Beneficiary	Fees (units of Euro)
Independent auditors’ fees	EY S.p.A.	Banca IFIS S.p.A.	249.699
		Subsidiaries	119.301
Certification services	EY S.p.A	Banca IFIS S.p.A.	25.000
		Subsidiaries	-
Tax consultancy services	EY S.p.A	Banca IFIS S.p.A.	-
		Subsidiaries	-
Other services	EY S.p.A	Banca IFIS S.p.A.	95.000
		Subsidiaries	33
Total			**489.032**

The costs for certification services refer to agreed upon procedures related to the securitisation ABCP Programme. The costs for other services are principally related to services connected to the EMTN Programme, as described in paragraph “Significant events occurred during the year” of the Directors’ report.

Declaration on the financial statements as per article 154-bis, paragraph 5 of Italian Legislative Decree 58 of 24 February 1998 and article 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended and supplemented

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 financial statements, over the course of the period from January 1st, 2017 to December 31st, 2017.

2. The adequacy of the administrative and accounting procedures in place for preparing the financial statements as at December 31st, 2017 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 financial statements as at December 31st, 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.

   3.2 the management report contains a reliable analysis of the business outlook and management result, the financial position of the issuer and a description of the main risks and uncertainties it is exposed to.

Venice, March 6th, 2018

CEO

Giovanni Bossi

Manager charged with preparing the Company's financial reports

Mariacristina Taormina

Board of Statutory Auditors' report

REPORT OF THE BOARD OF STATUTORY AUDITORS
to the FINANCIAL STATEMENTS as at 31st December 2017

(Translation from the original Italian text)

Dear Shareholders,

With this report - prepared pursuant to article 153 of Legislative Decree 58/1998 and to article 2429, paragraph 2 of the Italian Civil Code - the Board of Statutory Auditors of Banca IFIS S.p.A. hereby informs you of the supervisory and control activities carried out in the performance of their duties, during the year ended 31 December 2017.

1. Activities of the Board of Statutory Auditors

During the year 2017, the Board of Statutory Auditors carried out their institutional tasks in accordance with the rules of the Italian Civil Code and with Legislative Decrees no. 385/1993 (1993 Banking Law), no. 39/2010 and no. 58/1998 (Consolidated Law on Finance), of the By-Laws, in addition to being in compliance with those issued by the public authorities that exercise activities of supervision and control, also taking into account the principles of conduct recommended by the National Council of Chartered Accountants in the document of 15 April 2015.

During the year, the Board of Statutory Auditors performed its duties, holding 26 meetings, of which 6 were held jointly with the Risk Management and Internal Control Committee.
The Board of Statutory Auditors also participated in 21 meetings of the Board of Directors.
The Chairman of the Board of Statutory Auditors or another Auditor also participated in the meetings of the Risk Management and Internal Control Committee, of the Appointments Committee and of the Remuneration Committee.

The minutes of the Board of Statutory Auditors, which sometimes contain explicit recommendations to rapidly resolve difficulties that have come to light, are always sent in their entirety to the CEO and to the General Manager. The Chairman of the Risk Management and Internal Control Committee is constantly invited to attend meetings of the Board of Statutory Auditors. It is believed that such attendance will ensure an adequate flow of information between the committees within the Board of Directors.
The Head of Internal Auditing also attends the meetings of the Board of Statutory Auditors, as a permanent invitee for the continuous interaction with the corporate function of third-level control.

2. Significant operations of the year

In carrying out the activities of supervision and control, the Board of Statutory Auditors obtained periodically from the Directors, including through the participation in meetings of the Board of Directors, information on the activities carried out and on the most important economic, financial and asset liability operations approved and implemented by the Bank and by the subsidiaries, also pursuant to art. 150, paragraph 1 of the Consolidated Law on Finance.

During the year, the project for company simplification following the purchase of the Interbanca Group continued. IFIS Factoring S.r.l. and Interbanca S.p.A. were merged, allowing for a more efficient line of management and control.

As a consequence, the scope of consolidation has changed in comparison to the previous year and, as of 31 December 2017, also includes the companies IFIS Finance Sp. Z o.o and IFIS Leasing S.r.l. as well as IFIS Rental Services S.r.l., a non-regulated company.

Among the significant events of 2017, the details of which are provided in the Management Report and the Explanatory Notes, it has been considered appropriate to report the following:

- the obtaining of a rating from Fitch (BB, with stable outlook);
- the issuing of senior unsecured bonds for 300 million;
- the issuing of Tier 2 subordinate bonds for 400 million.

It is also deemed useful to report that the Bank has signed binding agreements for the purchase of Cap.Ital.Fin S.p.A., a company operating in salary-backed loans, the ownership of which was purchased on 2 February 2018. Furthermore, the Bank continued with the setting up of IFIS NPL S.p.A.; both companies are enrolled in the register pursuant to article 106 of the Consolidated Banking Law.
Finally, during the year 2017, the Bank proceeded with the conversion of a non-performing loan that had been granted by the previous administration, Interbanca S.p.A., equal to the entire sum of the capital of Two Solar Park 2008 S.r.l..

3. Supervisory activities

3.1 – Supervisory activities on the observance of the law, the By-Laws and the Self-Governance Code for listed companies

On the basis of the information obtained through its own supervisory activities, the Board of Statutory Auditors was not made aware of any operations that had not been conducted in compliance with the principles of correct management and that had not been approved and implemented in accordance with the law and with the By-Laws, which were contrary to the interests of the Bank, that were in contrast with the resolutions passed by the Shareholders' Meeting, that were imprudent or risky or were such as to compromise the integrity of the corporate assets.

The Board of Statutory Auditors was not made aware of any operations that could pose conflicts of interest.

The Board of Statutory Auditors monitored compliance of the Procedure for transactions with associated parties with the law in force and its correct application.
In particular, as provided for by the relevant rules, the Chairman and/or the other Statutory Auditors participated in the meetings of the Risk Management and Control Committee to discuss operations with related parties; the Board of Statutory Auditors periodically received information relating to the progress of their positions.

The Board of Statutory Auditors judged that the Board of Directors, in the Management Report and in the Explanatory Notes, had provided adequate information on the transactions with related parties, taking into account the provisions of the regulations in force. To the knowledge of the Board of Statutory Auditors, there were no intra-group operations or operations with the related parties implemented in 2017 that were contrary to the interests of the company.

In the year 2017, the Bank did not perform any atypical or unusual transactions. With regard to the operations of particular importance and of an ordinary nature, these respect the principles of

prudence, do not contravene the resolutions of the Shareholders' Meetings and do not prejudice the company's assets.
During the year, the Board of Statutory Auditors brought to the attention of the Management Body possible improvements both for the Procedure for monitoring transactions with related parties and that for the Most Important Operations in the context of the application experiences that had occurred.

Regarding the outsourcing of activities of the Bank, and in particular of the Important Operational Functions, the Board of Statutory Auditors:

- acknowledged the report prepared by the Internal Audit Department and expressed its opinion at the Board meeting of 27 April 2017, as required by the Supervisory Authority;
- recommended to the Management Body, an increase in the rate of reporting with regards to monitoring systems and practices regarding outsourced activities.

The Board of Statutory Auditors, in acknowledging the accession of Banca IFIS S.p.A. to the Self-Governance Code for listed companies, verified the requirements of independence of its members, in addition to the correct application of the criteria and procedures of verification adopted by the Board of Directors to assess the independence of the Directors.

3.2 – Supervisory activities on the adequacy of the internal control system, of the risk management systems and of the organisational structure

The Board of Statutory Auditors monitored the suitability of internal monitoring systems and risk management through:

- meetings with the management of the Bank;
- regular meetings with the Audit Functions - Internal Audit, Compliance, Anti money laundering (AML) and Risk Management and the Financial Reporting Officer - in order to evaluate the methodology for the planning of operations, based on the identification and evaluation of the principal risks present in the organisational processes and units;
- examination of the periodical reports from the Audit Functions and the periodical information regarding the results of monitoring activities;
- acquired information from the managers of corporate functions;
- discussion of the results of the work carried out by the external auditing firm;
- participation in the work of the Risk Management and Control Committee and, when the topics so required, in their joint examination with the Committee.

In the execution of its monitoring duties, the Board of Statutory Auditors maintained continuous relations with the Audit Function.

Having considered the development of the Bank, not only quantitatively, the Board of Statutory Auditors focused on preparation of organisational safeguards to improve monitoring of the main risks.
The Board of Statutory Auditors placed emphasis on the evolution of organisational structure, geared to strengthening the management structure and to the continued strengthening of risk monitoring.

In this context, the Board of Statutory Auditors acknowledged that audit systems were adapted to the updated composition of the group, via the definition of processes and management policies and the coordination of audit processes.

The Board of Statutory Auditors also recommended strengthening of the procedures for the monitoring and control of potential risks regarding liquidity (such as mismatching and funding gaps), potentially resulting from the evolution of supply profiles and the evolution of commitments.

In recognising the changes introduced on an organisational structure level, the Board of Statutory Auditors called the attention of Top Management to the verification of adequacy of dedicated human resources, with particular reference to auditing roles, also in light of the widening of the banking group.

Furthermore, the NPL Area was subject to organisational and company evolution, aimed at a more efficient and effective management of purchased portfolios.
In acknowledging the changes, the Board of Statutory Auditors underlined the need for constant improvement of (i) the reporting of the Company bodies regarding the acquisition, progress and monitoring of the activities of the NPL Area, and (ii) internal monitoring systems, with particular reference to the new asset classes subject to acquisition such as NPL Corporate Secured.
Also following discussions with the external auditing firm, the Board of Statutory Auditors furthermore recommended the assumption of all necessary and opportune initiatives - such as the completion of the setting-up of the Validation Function - in order to guarantee the integrity and the correctness of the application of models of evaluation, together with the results of the same, for the portfolios of non-performing loans.

Finally, with regard to the development of activities related to the strengthening of credit risk monitoring, including the design and implementation of the IRB system for management purposes, the Board stressed the necessary rapidity for the full implementation of the IRB system, not only for statistical and reporting purposes of all areas of the Bank Group.

Over the course of 2017, the Board of Statutory Auditors also monitored continuation of the Risk Appetite Framework and supervised the suitability and effects of the entire ICAAP and ILAAP processes on the requirements set out by the regulations.

From the examination of the Audit Function reports, the continuous and constant strengthening of the internal control system is evident. In particular, attention is drawn to the increase in resources assigned to this system.

Intervention plans were provided with reference to the activities and to the problems identified, whose timely implementation is judged by the Board of Statutory Auditors as essential and requiring particular attention by the Management Body.

On the basis of the activities carried out, the Board of Statutory Auditors – also in relation to the continuous growth of the Bank and the group – believes that there are certain areas for possible further improvement, highlighting at the same time that there are no elements that are sufficiently critical as to invalidate the internal control system and risk management.

3.3 – Supervisory activities on the administrative-accounting system and on the financial report and non-financial disclosure processes

The Board of Statutory Auditors, in its role as Committee for internal control and auditing, also in consideration of the modifications made to our regulations by legislative decree n° 135/2016, monitored the process and the efficiency of internal monitoring systems and risk management with regards to the financial report.

The Board of Statutory Auditors periodically met the manager responsible for the exchange of information regarding the administrative-accounting system and in addition discussed the reliability of the latter in order to have an accurate representation of management-related issues.
During these meetings, the Financial Reporting Officer made no indication of any significant shortcomings in the operational and auditing processes that could invalidate the adequacy and effective application of administrative accounting procedures.
The Board of Statutory Auditors examined the Report of the Financial Reporting Officer for the 2017, consolidated financial statements which contains the results of tests on the controls carried out as well as the main problems identified in the framework of the application of relevant legislation and the methods used, and which identifies the appropriate solutions.

During the year, the Bank, with the constant support of the Board of Statutory Auditors, improved the audit systems to ensure consistency and alignment of the data between the various characteristic sources of the individual pieces of information.

It is deemed appropriate to underline the evolution of the ICT information system, which has seen the adopting of a new core banking system. The Board of Statutory Auditors has continuously recommended that particular attention be paid to auditing procedures concerning the aligning of data between the various typical individual sources of information, the procedures for the financial report and the databases used by second level Audit Functions.

The Board of Statutory Auditors also examined declarations, issued on 06 March 2018 by the CEO and by the manager responsible, in accordance with the provisions contained in article 154 *bis* of the Consolidated Law on Finance and in article 81 *ter* of the Consob Regulations 11971/1999, from which no failings emerged that might affect the judgement of adequacy of the administrative-accounting procedures.

The Board of Statutory Auditors then acknowledged the monitoring systems developed by the Financial Reporting Officer regarding the relative subsidiaries in the group of consolidated companies that do not demonstrate profiles of significant criticality.

The external auditing firm EY S.p.A., at periodic meetings, and in light of the Additional Report pursuant to article 19 of EU regulation n° 537/2014 issued on 15 March 2018, did not report any critical situations to the Board of Statutory Auditors that could affect the internal control system relating to the administrative and accounting procedures, nor did it ever highlight facts that were deemed reprehensible or any irregularities that would require reporting pursuant to art. 155, paragraph 2, of the Consolidated Law on Finance.

The Board of Directors prepared, in accordance with the law, the consolidated financial statements as at 31 December 2017 of the Banca IFIS Group that were submitted for audit by the external auditing firm EY S.p.A.. The group of consolidated companies was modified following the aforementioned mergers. The Board of Statutory Auditors acknowledged the preparation of instructions provided to the subsidiaries for the process of consolidation.

With regard to the consolidated financial statements – as required by the rules of conduct recommended by the National Board of Certified Public Accountants in the document of 15 April 2015 – the Board of Statutory Auditors monitored compliance with the procedural rules concerning the formation and setting out of the same and of the management report.

In light of the above, there are no elements which demonstrate that the activity was not carried out respecting the principles of correct administration, nor that the organisational layout, internal auditing systems and the accounting and administrative systems are not, as a whole, suited to the requirements and dimension of the company.

The Bank prepared the Non-Financial Disclosure, made obligatory by Legislative Decree 254/2016 as of financial periods beginning 1 January 2017. The indications set out by the regulations are completed by "Implementing regulation for Legislative Decree of 30 December 2016, n. 254" published on 18 January 2018 by the Italian Securities and Exchange Commission with Resolution n. 20267.
The Bank prepared the Non-Financial Disclosure as an autonomous document on a consolidated basis and this Board of Statutory Auditors, in light of the previsions of article 3, paragraph 7 of Legislative Decree 254/2016, has verified said document, also in light of that expressed by the external auditing firm in its report pursuant to article 3, paragraph 10 of Legislative decree 254/2016 issued on 15 March 2018, with regards to its completeness and its correspondence to that provided for by regulations and according to the criteria of preparation illustrated in the Methodology Notes for the Non-Financial Disclosure, without identifying elements which require mention in this report.

3.4 – Supervisory activities pursuant to Legislative Decree 39/2010

The Board of Statutory Auditors, as the Committee for internal audit and for the general auditing procedure, carried out the task of supervision of the external auditing firm's operations, as provided for by art. 19 of the amended Legislative Decree no. 39/2010.

Following the coming into force of the so-called "Barnier reform" and the consequential new national regulatory framework, introduced by the (EU) regulation n° 537 of 16 April 2014 and by Legislative decree n° 135 of 17 July 2016, which amended Legislative decree n° 29/2010, the Board of Statutory Auditors benefited from sufficient information in this matter.
Furthermore, on the suggestion of the Board of Statutory Auditors, the Bank prepared suitable procedures for the monitoring of the system of payments made to the external auditing firm according to that provided for by the Barnier reform.
During the year, the Board of Statutory Auditors met with the external auditing firm EY S.p.A. several times, as already stated, pursuant to art. 150 of the Consolidated Law on Finance, in order to exchange information concerning the activities carried out in implementation of their respective duties.

The external auditing firm:

- issued, on 08 August 2017, the report on the limited audit of the abbreviated six-monthly consolidated financial statements with no exceptions being highlighted;
- issued, on 15 March 2018 – in accordance with art. 14 of Legislative Decree no. 39/2010 and article 10 of the EU regulation n° 537 of 16 April 2014 – the certification reports from which it is evident that the financial statements and consolidated financial statements, closed at 31 December 2017, are drawn up clearly and represent in a truthful and correct manner the financial and asset situation, the economic results and the cash flows of Banca IFIS S.p.A. and of the Group for the year ended on that date. In the opinion of the external auditing firm, the Management Report on the financial statements and consolidated financial statements as at 31 December 2017 and the information of the Report on corporate governance and shareholder structure are consistent with the annual financial statements and consolidated financial statements as at 31 December 2017.

Again, on 15 March 2018, the external auditing firm presented the Board of Statutory Auditors with the Additional Report, provided for in article 11 of the EU regulation n° 537/2014, which this

Board of Statutory Auditors will bring to the attention of the upcoming meeting of the Board of Directors on 23 March 2018.

The Additional Report does not present any significant shortfalls in the internal auditing system with regards to the financial reporting process which would merit being brought to the attention of those responsible for the activity of governance.
In the Additional Report, the external auditing firm presented the Board of Statutory Auditors with the declaration regarding independence pursuant to article 6 of the EU regulation n° 537/2014, from which no situations emerge that might compromise independence.
Lastly, the Board of Statutory Auditors acknowledged the Transparency Report prepared by the external auditing firm and published on its website pursuant to article 18 of Legislative Decree 39/2010.

Lastly, as previously mentioned, the Board of Statutory Auditors examined the content of the report by EY S.p.A. regarding the Non-financial disclosure issued pursuant to article 3, paragraph 10 of Legislative Decree 254/2016 on 15 March 2018.

The Board of Statutory Auditors reports that over the course of 2017, as well as the function of auditing of the individual financial statement, consolidated financial statement and the financial statements of the subsidiaries, EY S.p.A., with the approval of this Board of Statutory Auditors, was entrusted with the task of certification for the AUP IFIS ABC PROGRAMME for 25.000 euros, and the following tasks for other services:
- Consistency valuation of the price of Interbanca for the merger (2505 bis of the Italian Civil Code) of 15.000 euros;
- EMTN program Prospectus for 50.000 euros;
- EMTN program Prospectus- "bring down letter" for 30.000 euros.

Furthermore, on 1 December 2017, EY S.p.A. made a request for adjustment of its fees as a result of increased activities both carried out and which will be necessary, following the merger through acquisition of Interbanca S.p.A. and IFIS Factoring S.r.l. into Banca IFIS S.p.A., in addition to the original task of external auditing assigned by the Banca IFIS S.p.A. Shareholders' Meeting held on 17 April 2014; with regards to this, it is underlined that EY S.p.A. was also the company charged with the auditing of Interbanca S.p.A. and IFIS Factoring S.r.l..
During the sessions of 7 December 2017 and 5 March 2018, the Board of Statutory Auditors examined the aforementioned request and presents this meeting, via a separate document, its favourable opinion with regards to the same.
The external auditing firm also confirmed to the Board of Statutory Auditors that, during the year and in the absence of the conditions for their release, it did not issue any other opinions pursuant to the law beyond those issued pursuant to article 2505 *bis* with regards to the merging of Interbanca.

3.5 – Relations with the Supervisory Body

As recommended by the standards of conduct of the National Council of Chartered Accountants, in 2017 the Board of Statutory Auditors acquired from the Supervisory Body all the information useful to verify those aspects relating to the autonomy, the independence and the professionalism necessary to efficiently carry out the tasks assigned to it.
The Board of Statutory Auditors thus acquired from the Body the information on the adequacy of the organisational model adopted by the company, on its concrete functioning and on its effective implementation.

The Supervisory Body reported on the activities carried out during the year ended 31 December 2017 without indicating any significant critical profiles, highlighting a situation of substantial alignment with the provisions of the organisation and management model pursuant to Legislative Decree n°. 231/2001.

4. Remuneration policies

The Board of Statutory Auditors took note that during the meeting on 06 March 2018, the Board of Directors approved the document Report on Remuneration, regarding the 2017 financial year.
With reference to remuneration policies, it is deemed opportune to underline that the By-laws foresee for the impossibility for the Meeting itself to: (i) *"set a limit to the ratio between the variable and the fixed component of the individual remuneration greater than 1: 1"*; (ii) award the Chairman a remuneration higher than that *"fixed received by the head of the Management Body"*.

During the session of 15 March 2018, the Board of Statutory Auditors furthermore acknowledged, thus agreeing with the comments within, the verifications carried out by the Internal Audit bodies and presented in the draft of the Report on verifications carried out regarding the procedures for remuneration, policies and regulatory context: verifications which led to a satisfactory outcome.
During the year 2017, the Board of Statutory Auditors took note of the allocation of treasury shares of the Bank to the CEO and to the General Manager in accordance with the policies approved by the Shareholders' Meeting of 22 March 2016 and of the operating procedure approved by the Board of Directors.

In general, in light of the provisions issued by the Supervisory Authorities on the subject of remuneration and incentive systems, the Board of Statutory Auditors monitored, in close connection with the Remuneration Committee, the correct application of the rules governing the remuneration of managers of the Audit Functions and of the Manager Responsible and the communication of remuneration policies for the 2018 financial year to the companies belonging to the Group.

On the basis of the information available, the Board of Statutory Auditors considers that the principles set out in the Remuneration Report are not inconsistent with the corporate objectives, strategies and policies of prudent risk management.

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The Board of Statutory Auditors is not aware, in addition to that which has already been discussed earlier, of facts or details that need to be communicated to the Shareholders' Meeting.
The Board of Statutory Auditors did not receive, during the year 2017, any complaints from shareholders pursuant to art. 2408 of the Italian Civil Code.

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In the course of the activity performed and on the basis of the information obtained, no omissions, reprehensible facts, irregularities or in any case other significant circumstances were detected that would require reporting to the Supervisory Authorities or mention in this report.

In conclusion, the Board of Statutory Auditors - taking into account the specific tasks conferred to the external auditing firm regarding auditing of the accounts and of the reliability of the financial statements - issued its opinion without qualifications, and in light of the claims issued pursuant to art. 154 bis of Legislative Decree 58/1998 by the Officer appointed to prepare the accounts and the corporate documents and by the CEO, has no comments to make to the Shareholders' Meeting, pursuant to art. 153 of the Consolidated Law on Finance, concerning the approval of the financial statements for the year to 31 December 2017, accompanied by the Management Report, as presented by the Board of Directors, and therefore has no objections to the approval of the financial statements, to the proposed allocation of the operating profit or to distribution of the dividends.

Venice - Mestre, 16 March 2018

For the Board of Statutory Auditors
The Chairman

Giacomo Bugna

This report has been translated into the English language solely for the convenience of international readers.

Independent auditors’ report on the Separate Financial Statements

The attached report of the independent auditors and the separate financial statements to which it refers conform to those which will be deposited at the registered office of Banca IFIS S.p.A. and published pursuant to the law; subsequent to the date given in 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

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca IFIS S.p.A. ("the Company"), which comprise the statement of financial position as at December 31, 2017, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flows statement for the year then ended, and the notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Banca IFIS S.p.A. as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.
We are independent of Banca IFIS S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matter:

Key Audit Matter	Audit Response
Valuation of NPL Sector Loans The Company operates with an operating segment ("NPL Sector") dedicated to the purchase of receivables without recourse, management and collection of non-guaranteed receivables of difficult collectability, which contributes to the reclassified banking margin of 36.2%, equivalent to Euro 164, 5 million. This operation is relevant for the audit both because the related economic effects are significant for the financial statements as a whole, and for the methods adopted by the Group for their representation and evaluation, which are characterized by complexity profiles and by use of assumptions and hypotheses inherent in the adoption of specific valuation models. These models, in accordance with IAS 39, provide for the application of the amortized cost method, which is based on estimates of expected cash flows, the result of historical experience accrued and broken down by homogeneous clusters, updated based on the results of credit recovery activities of judicial or extrajudicial nature. Within the accounting policies set out in part A of the notes to the financial statements, the criteria for recognizing and assessing the loans of the NPL Sector are described, as well as the risks and uncertainties related to the use of the estimates that underlie the valuation process.	In relation to these aspects, our review procedures included, inter alia: • an understanding of the policies, processes and controls implemented by the Company for the acquisition, recognition and periodic assessment of NPL Sector loans, based on the evolution of the recovery estimate, and the performance of compliance procedures on the checks considered key among those detected; • the carrying out on a sample basis of substantive procedures aimed at verifying the correctness of the valuation assumptions both as regards the expected cash flows, and with regard to the estimated timing for their recovery, taking into account of the underlying guarantees, if any; • the carrying out of procedures for the comparative analysis of the NPL Sector loan portfolio by comparison with the data referring to previous years and analysis and discussion with management about the differences, considered as most significant; • the analysis of the adequacy of the information provided in the notes to the financial statements.

Responsibilities of Directors and Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Directors are responsible for assessing Banca IFIS S.p.A.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to

cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banca IFIS S.p.A.'s internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banca IFIS S.p.A.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholder of Banca IFIS S.p.A., in the general meeting held on April 17, 2014, engaged us to perform the audits of the separate and consolidated financial statements of each years ending December 31, 2014 to December 31, 2022.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of Banca IFIS S.p.A. in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the Board of Statutory Auditors ("Collegio Sindacale") in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Banca IFIS S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Banca IFIS S.p.A. as at December 31, 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Banca IFIS S.p.A. as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Banca IFIS S.p.A. as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

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Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Banca IFIS S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by the Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Verona - March 15, 2018

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

This report has been translated into the English language solely for the convenience of international readers.