1Q18

BANCA IFIS
VALUE TO YOUR BUSINESS

CONSOLIDATED INTERIM REPORT AT 31 MARCH 2018

www.bancaifis.it

Contents

Corporate Bodies

Board of Directors	
Chairman	Sebastien Egon Fürstenberg
Deputy Chairman	Alessandro Csillaghy De Pacser
CEO	Giovanni Bossi [(1)]
Directors	Giuseppe Benini
	Francesca Maderna
	Antonella Malinconico
	Riccardo Preve
	Marina Salamon
	Daniele Santosuosso

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

General Manager	Alberto Staccione
Board of Statutory Auditors	
Chairman	Giacomo Bugna
Standing Auditors	Giovanna Ciriotto
	Massimo Miani
Alternate Auditors	Guido Gasparini Berlingieri
	Valentina Martina
Independent Auditors	EY S.p.A.
Corporate Accounting Reporting Officer	Mariacristina Taormina

BANCA IFIS

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

FCI
Facilitating Open Account – Receivables Finance

Member of Factors
Chain International

Introductory notes on how to read the data

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

- **First-time adoption of IFRS 9**: effective 1 January 2018, the Group adopted the new accounting standard "IFRS 9 Financial Instruments" (IFRS 9). In accordance with the transitional provisions in IFRS 9, the Group elected not to restate the comparative information at 31 December 2017; therefore, all comparative amounts are measured in line with the Group's accounting policies used in the preparation of the 2017 Consolidated Financial Statements. The impact of the restatement of the carrying amounts at 1 January 2018 has been recognised in opening retained earnings and in other reserves included in other comprehensive income. The comparative information in the statement of financial position and the income statement has been re-aggregated to ensure accounting consistency with the corresponding amounts at 31 March 2018. For more details, please see Accounting Policies - paragraph "Impact of the first-time adoption of IFRS 9" in this document.
- **Redefinition of operating segments**: in accordance with the new structure used by the Head Office to analyse the Group's results, in the first quarter of 2018 Banca IFIS redefined its operating segments as follows:
  - Enterprises Segment: it essentially corresponds to the former Trade Receivables, Corporate Banking, Leasing (excluding the operations included in the Governance & Services segment), and Tax Receivables segments, which were brought together to represent the Group's commercial offering for businesses in a consistent manner;
  - NPL Segment, dedicated to non-recourse factoring and managing mostly unsecured distressed retail loans; it corresponds to the former NPL Area segment;
  - Governance & Services Segment, which provides the segments operating in the Group's core businesses with the financial resources and services necessary to perform their respective activities. It includes also the Bank's growing business with individuals and specifically the operations of the subsidiary Cap.Ital.Fin., which recently joined the Group and extends salary- or pension-backed loans, as well as portfolios of personal loans previously allocated to the Leasing segment.

  The comparative information in this document has been restated in line with the new segment reporting.

  In addition, the comparative information has been re-aggregated to ensure accounting consistency with the corresponding amounts at 31 March 2018 in order to reflect the new items required by IFRS 9.
- **Refinement of the method for estimating cash flows associated with the NPL Segment's receivables**: in the first quarter of 2018, the Bank refined the model used to estimate the cash flows of receivables undergoing non-judicial operations: specifically, it updated the historical data series and refined the clusterisation of the portfolio to account for the most recent acquisitions on secondary markets. In addition, the Bank developed a model for estimating cash flows and applied it to part of the positions undergoing judicial operations. Specifically, it uses the new statistical model to estimate the cash flows of all the positions for which a writ has already been or will be issued starting from 1 January 2018. These positions were previously recognised at cost up to the identification of the individual cash flows. The application of the new model allows for the early identification of cash flows in a collective manner. The refinement was made possible after collecting

significant amounts of data, which allow to make sufficiently reliable estimates. The other positions undergoing judicial operations continue to be recognised at cost until said requirements are met or a garnishment order is issued.

This refinement caused a change in the estimate of cash flows that, discounted at the original IRR of the positions, resulted in an overall 19,7 million Euro positive change in amortised cost, which was recognised in profit or loss in accordance with IAS/IFRS. Moreover, in line with the change in positive cash flows, the Group recognised 9,2 million Euro in previously deferred costs associated with judicial collection actions through profit or loss. For more details, please refer to the section Contribution of operating segments.

- **Acquisition of Cap.Ital.Fin. S.p.A.**: on 2 February 2018, the Banca IFIS Group acquired 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 price initially paid for the transaction totalled 2,1 million Euro, gross of potential adjustments to be calculated and agreed with the seller based on contractual provisions. As expected, the consolidation process has brought about goodwill provisionally estimated at 700 thousand Euro, recognised under item “Intangible assets”. Under IFRS 3, the allocation of the cost of the business combination must be quantified within 12 months of the acquisition date.

Results and Strategy

Comment by the CEO

In the first three months of 2018, the Banca IFIS Group delivered positive financial results, confirming the soundness of the model and the effectiveness of the individual business units. The constant improvement in the Bank's liquidity and capital position allows it to continue growing in the reference markets.

The Group continues lending to enterprises as well as acquiring and servicing the non-performing loans originated by Italian financial institutions. During the quarter, we have been pursuing a “new normal” in the markets where we operate against the backdrop of ever-changing conditions.

As for non-performing loans, the Italian market is increasingly dominated by the so-called jumbo deals as well as the preparations by banks for “GACS-compliant” transactions for certain asset classes, which would allow to dispose of greater amounts of non-performing exposures, before the scheme expires in September 2018. In addition, the market in which we operate as industry leader is considerably affected by recent European regulations—specifically the ECB's addendum and guidance. Several players are currently wrestling with the uncertainty as to the potential impact and repercussions of the “*new regulatory normal*” on their business model.

As for small and micro enterprises, conventional bank lending has contracted further even though confidence among consumers and enterprises improved during the quarter. This decline is pushing entrepreneurs to look for alternative forms of financing, including fresh capital. Among the businesses we serve, the reduction in conventional bank lending and the inability to raise capital on the stock market due to their limited size is driving demand for credit from the healthy companies that managed to survive the crisis with overhauled and/or new business models.

Against this macro-economic backdrop, the focus of Banca IFIS's **NPL segment** remains on accelerating loan processing operations. This is made possible by the increase in the number of employees dedicated to the NPL business as well as the additional efficiency gains in the relevant channels. **The speed of conversion of the asset classes** is the key driver we are rapidly improving upon.

As for the enterprises segment, the Bank continues strengthening its relationship with customers, including by adopting technological platforms and new business intelligence models that allow to directly support the entities looking for credit. In addition, we successfully launched a process to cross-sell products and services across the business areas that lend to enterprises—especially in the case of medium/long-term financing: this has now become part of the day-to-day operations of the sales network, which previously focused exclusively on short-term lending. Finally, within this segment the Bank is constantly pursuing and experimenting with new internal organisational forms and partnerships to effectively support the companies looking for credit, so as to offer a comprehensive range of solutions tailored to the customer's needs.

To conclude, the ideas we expressed at the beginning of the year—promoting **synergies**, **streamlining processes, developing human capital, and innovating not just in technology, but across the board**—characterised the first quarter of 2018 and will remain a focus in the upcoming quarters.

We are aware that, since our inception, we have always maintained a unique business model within the Italian financial industry—and this is what increasingly differentiates us from the other players, quarter after quarter. This uniqueness enables us to identify and seize outside-the-box opportunities, also thanks to our strong capital position and liquidity. This is our greatest innovation: we see ourselves as an Enterprise, rather than a Bank, that relentlessly pursues improvements by adapting to the changes required by the market as well as customers.

In the not so distant future the Bank is expected to **play a major role** in the consolidation of small first-rate financial institutions that operate in our local community, which need advanced business models to realise their full potential.

Highlights - reclassified data

Net banking income[1] totalled 139,4 million Euro (+34,6% from 103,5 million Euro in the first three months of 2017). This positive result is attributable to a series of factors: the outstanding performance of the NPL Segment, which benefited from its ability to rapidly convert non-performing exposures into performing positions through proprietary channels and databases; and the strong performance of the Enterprises segment, driven by ordinary and specialised lending instruments. This translated into an increase in the number of customers across all the Bank's segments.

Net impairment losses amounted to 11,0 million Euro, compared to 2,2 million Euro at 31 March 2017, and essentially referred to loans to customers of the Enterprises segment. In the first three months of 2018, the cost of credit amounted to 73 bps, compared to 31 bps at 31 December 2017. In the previous year, the Bank had recognised some reversals of impairment losses, excluding which the cost of credit quality would have amounted to 89 bps.

Operating costs amounted to 73,4 million Euro, resulting in a cost/income ratio of 52,7% compared to 53,7% at 31 March 2017. Personnel expenses rose to 26,8 million Euro (24,1 million Euro in March 2017, +11,4%), consistently with the increase in the Group's employees, which numbered 1.541 at 31 March 2018 (compared to 1.361 at 31 March 2017, +13,2%). Other administrative expenses rose from 31,1 million Euro in 2017 to 46,6 million Euro because of one-off costs arising from the refinement of the new model for estimating the NPL segment's positions undergoing judicial operations (9,2 million Euro) as well as the expansion in judicial debt collection operations. Said combined impact was also reflected in the increase in legal expenses (from 6,9 million Euro in the first quarter of 2017 to 11,7 million Euro at 31 March 2018, +70,4%), as well as direct and indirect taxes, up +182,1% from 4,9 to 14,0 million Euro The costs associated with non-judicial collection operations totalled 4,1 million Euro at 31 March 2018. In line with the NPL segment's strong performance during the quarter, there was an increase in legal expenses and the costs associated with the rationalisation of the IT systems—as well as, at Group level, the streamlining of the corporate structure and growth projects finalised during the reporting period.

At 31 March 2018, the Group's net profit totalled 37,9 million Euro, up +15,8% from 32,7 million Euro in the prior-year period. The Group's tax rate was 31,2%, compared to 28,5% in the prior year.

As for the contribution of individual segments[2] to the operating and financial results at 31 March 2018, here below are the highlights:

- The **Enterprises segment**'s net banking income, accounting for 56,4% of the total, amounted to 78,6 million Euro, +10,9% from 70,9 million Euro in 2017. This positive performance was the direct result of a series of organisational actions aimed at

[1] Net impairment losses on receivables of the NPL Segment 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] Starting from the first quarter of 2018, Banca IFIS has decided to report three business segments: the Enterprises segment (including all the areas that make up the Group's commercial offering for enterprises, i.e. trade receivables, corporate banking, leasing, and tax receivables); the NPL segment; and the Governance and Services segment. The comparative information has been restated by following the same logic.

streamlining processes and meeting the market's demands, leading to an increase in both volumes and customers across all the business areas included within this segment. The net banking income of the Enterprises segment included a 20,4 million Euro reversal of the PPA (Purchase Price Allocation) (22,7 million Euro in the first quarter of 2017).

Specifically, **trade receivables**[3], which included also medium- and long-term products, saw a rise in turnover (+7,3%), outstanding receivables (+2,2%), the number of customers (+3%), and cross-selling, leading to an 18,0% increase (+5,5% on a like-for-like basis) in net banking income.

As for **Leasing**, the Group's ongoing streamlining of its corporate structure will lead to the merger of the subsidiary IFIS Leasing S.p.A. into Banca IFIS and, at the same time, the adoption of a new technological platform by the area. In the first quarter of the year, the equipment leasing segment expanded steadily: the area's overall distributed volumes rose by 13% while the equipment segment's volumes were up 30%, with the acquisition of over 150 new customers in just 3 months. At 31 March 2018, the leasing area's net banking income was essentially unchanged from the first quarter of 2017 at 12,5 million Euro (+31,1% on a like-for-like basis).

Corporate banking —which includes the specialised credit areas— generated 23,5 million Euro in net banking income (+14% from 31 March 2017 on a like-for-like based) thanks to the increase in volumes and the improved net commission income.

Loans to businesses totalled 5.373,2 million Euro. This is an exceptional result, considering that it was slightly decreasing by 1,5% as compared to the end of the year despite the seasonality—which specifically affects the trade receivables area.

- The **NPL segment** -dedicated to acquiring and converting (mostly unsecured) non-performing loans into sustainable settlement plans - reported 65,1 million Euro in net banking income, up from 30,5 million Euro in March 2017 (+113,3%) and accounting for 46,7% of the total. This outstanding result, which follows the strong performance in the last quarter of 2017, testifies to the business area's exceptional ability to identify the best portfolio processing strategies thanks to the high standing of the resources involved as well as the supporting technological infrastructure. At 31 March 2018, the positions included within the proprietary portfolio amounted to over 1,5 million Euro and had a par value of 13,0 billion Euro (carrying amount: 831,8 million Euro). The Bank forecasts an ERC[4] (Estimated Remaining Collections) of more than 1,8 billion Euro over 15 years. The purchases during the period totalled 6,1 million Euro, down from the prior year because the number of transactions in the unsecured consumer market declined steadily as the focus shifted to GACS-compliant operations. In the first quarter of 2018, the Bank continued refining and improving the models for measuring its assets under management: specifically, it put a new model for the measurement of part of the positions undergoing mainly judicial operations into production, resulting in an approximately 19,7 million Euro positive impact through profit or loss. During the period, the Bank collected 40,1 million Euro, up sharply (+60,5%) from the prior-year period thanks to the finalisation of voluntary

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[3] Concerning the reclassification of the medium/long-term financing business area from “Corporate Banking” to “Trade Receivables” and the transfer of a mortgage portfolio from the Leasing area to the Governance and Services segment, for the sake of consistency, the Group decided to present also the comparative information of these segments for the first quarter of 2017 on a like-for-like basis. In addition, following the adoption of the new IFRS 9 effective 1 January 2018, the comparative information in the statement of financial position and the income statement has been re-aggregated to ensure the accounting consistency with the corresponding amounts at 31 March 2018.

[4] This is the amount of expected future cash flows from the acquired portfolios.

repayment plans as well as the higher number of Garnishment Orders issued by the different courts in the previous quarters.

During the quarter, the Bank continued diversifying its funding sources and making them more flexible, as it seeks to reduce retail funding and expand institutional funding. At 31 March 2018, the Group's funding structure was as follows:

- 63,4% retail;
- 10,5% debt securities;
- 12,8% ABS;
- 9,2% TLTRO;
- 4,1% other.

Below is the breakdown of net **non-performing loans in the Enterprises segment** (totalling 342,8 million Euro):

- **net bad loans** amounted to 62,8 million Euro, in line with the end of 2017 (+0,4%); the net bad-loan ratio was 1,2%, essentially in line with 1,1% at 31 December 2017. The coverage ratio stood at 91,7%, unchanged from 31 December 2017;
- **net unlikely to pay** were down 6,2 million Euro to 159,7 million Euro;
- **net non-performing past due exposures** rose by 6,0 million Euro to 120,2 million.

Overall, the **gross non-performing loans of the Enterprises segment** totalled 1.188,4 millon Euro, with 845,6 million Euro in impairment losses and a coverage ratio of 71,2%.

At the end of March 2018, **consolidated equity** totalled 1.413,0 million Euro, compared to 1.368,7 million Euro at 31 December 2017 (+3,2%).

The **consolidated Common Equity Tier 1 (CET1[5])** , **Tier 1 (T1) and Total Own Funds Ratios** of the Banca IFIS Group alone, excluding the effect of the consolidation of the Parent Company La Scogliera at 31 March 2018, amounted to 15,49% for both the CET1 and T1 ratios (compared to 15,64% at 31 December 2017), while the consolidated Total Own Funds Ratio amounted to 20,91% (compared to 21,07% at 31 December 2017).

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[5] The reported total own funds refers only to the scope of the Banca IFIS Group, thus excluding the effects of the prudential consolidation in the parent La Scogliera S.p.A. Consolidated own funds, risk-weighted assets and solvency ratios at 31 March 2018 were calculated based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were transposed in the Bank of Italy's Circulars no. 285 and 286 of 17 December 2013. Article 19 of the CRR requires to include the unconsolidated holding of the banking Group in prudential consolidation. The CET1 at 31 March 2018 including La Scogliera S.p.A amounted to 11,10%, compared to 11,66% at 31 December 2017, the Tier 1 Capital (T1) amounted to 11,75% compared to 12,18%, and the Total Own Funds Ratio totalled 15,35%, compared to 16,15% at 31 December 2017.

Reclassified Group Key Data

Net impairment losses on receivables of the NPL Segment were entirely 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.

Highlights

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2018	31.12.2017	ABSOLUTE	%
Financial assets at fair value through other comprehensive income	453.847	442.576	11.271	2,5%
Due from banks	1.565.449	1.760.752	(195.303)	(11,1)%
Loans to customers	6.457.208	6.392.567	64.641	1,0%
Total assets	9.520.802	9.554.330	(33.528)	(0,4)%
Due to banks	820.190	791.977	28.213	3,6%
Due to customers	5.022.110	5.293.188	(271.078)	(5,1)%
Debt securities issued	1.774.973	1.639.994	134.979	8,2%
Equity	1.412.989	1.368.719	44.270	3,2%

CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	FIRST THREE MONTHS		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	**139.378**	**103.543**	**35.835**	**34,6%**
Net credit risk losses	(10.957)	(2.168)	(8.789)	405,4%
Net profit (loss) from financial activities	**128.421**	**101.375**	**27.046**	**26,7%**
Operating costs	(73.421)	(55.644)	(17.777)	31,9%
Pre-tax profit from continuing operations	55.000	45.731	9.269	20,3%
Net profit for the period attributable to the Parent company	**37.854**	**32.687**	**5.167**	**15,8%**

CONSOLIDATED COMPREHENSIVE INCOME (in thousands of Euro)	31.03.2018	31.03.2017
Profit (Loss) for the period	**37.854**	**32.688**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	179	198
Other comprehensive income, net of taxes, to be reclassified to profit or loss	3.191	1.862
Comprehensive Income	**41.224**	**34.748**
Total consolidated comprehensive income attributable to non-controlling interests	-	(1)
Total consolidated comprehensive income attributable to the Parent	**41.224**	**34.747**

GROUP KPIs	31.03.2018	31.12.2017	% CHANGE
Ratio - Total Own Funds	15,4%	16,2%	(0,8)%
Ratio - Common Equity Tier 1	11,1%	11,7%	(0,6)%
Number of company shares (in thousands)	53.811	53.811	-
Number of shares outstanding at period end(1) (in thousands)	53.433	53.433	-
Book value per share	26,44	25,62	3,2%
EPS	0,71	3,38	(79,0)%

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

Results by business segment

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Financial assets held for trading through profit or loss				
Amounts at 31.03.2018	-	-	34.987	34.987
Amounts at 31.12.2017	*-*	*-*	*35.614*	*35.614*
% Change	*-*	*-*	*(1,8)%*	*(1,8)%*
Financial assets mandatorily measured at fair value through profit or loss				
Amounts at 31.03.2018	65.398	-	50.199	115.597
Amounts at 31.12.2017	*58.807*	*-*	*-*	*58.807*
% Change	*11,2%*	*-*	*n.a.*	*96,6%*
Financial assets at fair value through other comprehensive income				
Amounts at 31.03.2018	13.602	-	440.245	453.847
Amounts at 31.12.2017	*13.973*	*-*	*428.603*	*442.576*
% Change	*(2,7)%*	*-*	*2,7%*	*2,5%*
Due from banks				
Amounts at 31.03.2018	-	-	1.565.449	1.565.449
Amounts at 31.12.2017	*-*	*-*	*1.760.752*	*1.760.752*
% Change	*-*	*-*	*(11,1)%*	*(11,1)%*
Loans to customers				
Amounts at 31.03.2018	5.373.237	831.817	252.154	6.457.208
Amounts at 31.12.2017	*5.456.508*	*799.436*	*136.623*	*6.392.567*
% Change	*(1,5)%*	*4,1%*	*84,6%*	*1,0%*
Due to banks				
Amounts at 31.03.2018	-	-	820.190	820.190
Amounts at 31.12.2017	*-*	*-*	*791.977*	*791.977*
% Change	*-*	*-*	*3,6%*	*3,6%*
Due to customers				
Amounts at 31.03.2018	-	-	5.022.110	5.022.110
Amounts at 31.12.2017	*-*	*-*	*5.293.188*	*5.293.188*
% Change	*-*	*-*	*(5,1)%*	*(5,1)%*
Debt securities issued				
Amounts at 31.03.2018	-	-	1.774.973	1.774.973
Amounts at 31.12.2017	*-*	*-*	*1.639.994*	*1.639.994*
% Change	*-*	*-*	*8,2%*	*8,2%*

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 31.03.2018	78.637	65.059	(4.318)	139.378
Amounts at 31.03.2017	*70.911*	*30.504*	*2.128*	*103.543*
% Change	*10,9%*	*113,3%*	*(302,9)%*	*34,6%*
Net profit (loss) from financial activities				
Amounts at 31.03.2018	67.634	65.059	(4.273)	128.421
Amounts at 31.03.2017	*68.294*	*30.504*	*2.577*	*101.375*
% Change	*(1,0)%*	*113,3%*	*(265,8)%*	*26,7%*

SEGMENT KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality (1)			
Amounts at 31.03.2018	0,73%	n.a.	n.a.
Amounts at 31.12.2017	*0,31%*	*n.a.*	*n.a.*
% Change	*0,42%*	-	-
Net bad loans/Loans to customers			
Amounts at 31.03.2018	1,0%	n.a.	5,3%
Amounts at 31.12.2017	*0,9%*	*n.a.*	*9,6%*
% Change	*0,1%*	-	*(4,3)%*
Coverage ratio on gross bad loans			
Amounts at 31.03.2018	(91,7)%	n.a.	(77,3)%
Amounts at 31.12.2017	*(91,7)%*	*n.a.*	*(77,4)%*
% Change	*(0,0)%*	-	*(0,1)%*
Non-performing exposures/Loans to customers			
Amounts at 31.03.2018	6,4%	99,9%	12,8%
Amounts at 31.12.2017	*6,3%*	*99,9%*	*17,3%*
% Change	*0,1%*	*(0,0)%*	*(4,5)%*
RWAs(2) (3)			
Amounts at 31.03.2018	4.471.725	833.895	408.116
Amounts at 31.12.2017	*4.450.750*	*801.915*	*424.484*
% Change	*0,5%*	*4,0%*	*(3,9)%*

(1) Pursuant to the new accounting standard IFRS 9, which became effective on 1 January 2018 and supersedes IAS 39, the cost of credit quality has been calculated based on the impairment losses recognised under the new standard as from 1 January 2018. The comparative amount is the one previously disclosed with reference to “Business customers” and is based on the impairment losses calculated under IAS 39, as entities may elect not to apply the new standard retrospectively.
(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.
(3) The Governance & Services sector's RWAs includes the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

Quarterly Evolution

CONSOLIDATED STATEMENTOF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2018	YEAR 2017			
	31.03	31.12	30.09	30.06	31.03
ASSETS					
Financial assets mandatorily measured at fair value through profit or loss	115.597	58.807	46.098	42.285	39.704
Financial assets at fair value through other comprehensive income	453.847	442.576	475.528	634.694	631.568
Due from banks	1.565.449	1.760.752	1.932.489	1.650.338	1.394.111
Loans to customers	6.457.208	6.392.567	5.922.069	6.047.860	5.803.700
Property, plant and equipment	127.005	127.881	128.243	109.566	109.675
Intangible assets	25.250	24.483	23.790	18.003	14.199
Tax assets	408.270	438.623	510.367	545.724	571.935
Other assets	368.176	308.641	324.664	380.100	274.960
Total assets	**9.520.802**	**9.554.330**	**9.363.248**	**9.428.570**	**8.839.852**

CONSOLIDATED STATEMENTOF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2018	YEAR 2017			
	31.03	31.12	30.09	30.06	31.03
LIABILITIES AND EQUITY					
Due to banks	820.190	791.977	965.194	967.285	1.028.971
Due to customers	5.022.110	5.293.188	5.337.597	5.291.594	5.055.558
Debt securities issued	1.774.973	1.639.994	1.223.979	1.352.375	1.122.879
Tax liabilities	48.140	40.076	37.033	34.912	32.423
Other liabilities	442.400	420.376	460.712	489.343	346.383
Equity:	1.412.989	1.368.719	1.338.733	1.293.061	1.253.638
- Share capital, share premiums and reserves	1.375.135	1.187.952	1.189.610	1.189.404	1.220.951
- Profit for the period	37.854	180.767	149.123	103.657	32.687
Total liabilities and equity	**9.520.802**	**9.554.330**	**9.363.248**	**9.428.570**	**8.839.852**

CONSOLIDATED INCOME STATEMENT: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2018	YEAR 2017			
	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	**119.480**	**121.252**	**91.872**	**110.560**	**90.987**
Net commission income	**19.820**	**21.129**	**18.272**	**20.145**	**14.219**
Other components of net banking income	78	7.639	11.945	18.971	(1.663)
Net banking income	**139.378**	**150.020**	**122.089**	**149.676**	**103.543**
Net credit risk losses/reversals	(10.957)	(37.075)	(1.140)	14.277	(2.168)
Net profit (loss) from financial activities	**128.421**	**112.945**	**120.949**	**163.953**	**101.375**
Personnel expenses	(26.827)	(24.469)	(24.298)	(25.411)	(24.073)
Other administrative expenses	(46.625)	(48.511)	(34.257)	(38.718)	(31.134)
Net allocations to provisions for risks and charges	(2.806)	1.719	(2.922)	2.873	(1.597)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(2.809)	(2.688)	(2.822)	(2.483)	(3.459)
Other operating income/expenses	5.646	4.028	3.028	(72)	4.619
Operating costs	**(73.421)**	**(69.921)**	**(61.271)**	**(63.811)**	**(55.644)**
Pre-tax profit from continuing operations	**55.000**	**43.024**	**59.678**	**100.142**	**45.731**
Income taxes for the year relating to continuing operations	(17.146)	(11.387)	(14.210)	(29.168)	(13.043)
Profit for the period	**37.854**	**31.637**	**45.468**	**70.974**	**32.688**
Profit (Loss) for the period attributable to non-controlling interests	-	(7)	2	4	1
Profit for the period attributable to the parent company	**37.854**	**31.644**	**45.466**	**70.970**	**32.687**

INCOME STATEMENT DATA BY SEGMENT: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2018	YEAR 2017			
	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**139.378**	**150.020**	**122.089**	**149.676**	**103.543**
Enterprises	*78.637*	*88.894*	*88.881*	*100.811*	*70.911*
NPL	*65.059*	*56.140*	*29.408*	*48.454*	*30.504*
Governance & Services	*(4.318)*	*4.986*	*3.800*	*411*	*2.128*
Net profit (loss) from financial activities	**128.421**	**112.945**	**120.949**	**163.953**	**101.375**
Enterprises	*67.635*	*56.275*	*87.508*	*114.939*	*68.294*
NPL	*65.059*	*56.140*	*29.408*	*48.454*	*30.504*
Governance & Services	*(4.273)*	*530*	*4.033*	*560*	*2.577*

Group Historical Data

The following table shows the main indicators and performances recorded by the Group in the comparable interim periods of the last 5 years.

HISTORICAL DATA (1) (in thousands of Euro)	31.03.2018	31.03.2017	31.03.2016	31.03.2015	31.03.2014
Financial assets at fair value through other comprehensive income (IFRS 9)	453.847	631.568	n.a.	n.a.	n.a.
Available for sale financial assets (IAS 39)	n.a.	n.a.	1.066.413	5.069.781	2.287.950
Loans to customers	6.457.208	5.803.700	3.307.793	2.921.902	2.339.663
Due to banks	820.190	1.028.971	182.568	200.953	618.132
Due to customers	5.022.110	5.055.558	3.722.501	7.241.379	9.341.959
Debt securities issued	1.774.973	1.122.879	-	-	-
Equity	1.412.989	1.253.638	550.243	571.878	405.393
Net banking income	139.378	103.543	76.604	72.595	69.996
Net profit (loss) from financial activities	128.421	101.375	68.339	65.109	60.970
Profit (loss) attributable to the parent company	37.854	32.687	22.045	26.229	24.676
Cost/Income ratio	52,7%	53,7%	46,7%	35,2%	33,3%
Ratio - Total Own Funds	15,4%	14,9%	14,7%	14,6%	15,0%
Ratio - Common Equity Tier 1	11,1%	14,0%	13,6%	13,9%	15,0%

(1) For comparison purposes, the data for 2017 has been re-aggregated to ensure accounting consistency with the amounts at 31 March 2018 in order to account for the changes introduced by IFRS 9; the data for prior periods are those published in the respective Consolidated Interim Reports.

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Reclassified financial statements

Net impairment losses on receivables of the NPL Segment were entirely 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.

Consolidated Statement of Financial Position

ASSETS (in thousands of Euro)	31.03.2018	31.12.2017
Cash and cash equivalents	36	50
Financial assets held for trading through profit or loss	34.987	35.614
Financial assets mandatorily measured at fair value through profit or loss	115.597	58.807
Financial assets at fair value through other comprehensive income	453.847	442.576
Due from banks	1.565.449	1.760.752
Loans to customers	6.457.208	6.392.567
Property, plant and equipment	127.005	127.881
Intangible assets	25.250	24.483
of which:		
- goodwill	1.529	834
Tax assets:	408.270	438.623
a) current	51.916	71.309
b) deferred	356.354	367.314
Other assets	333.153	272.977
Total assets	**9.520.802**	**9.554.330**

LIABILITIES AND EQUITY (in thousands of Euro)	31.03.2018	31.12.2017
Due to banks	820.190	791.977
Due to customers	5.022.110	5.293.188
Debt securities issued	1.774.973	1.639.994
Financial liabilities held for trading	38.096	38.171
Tax liabilities:	48.140	40.076
a) current	4.869	1.477
b) deferred	43.271	38.599
Other liabilities	369.693	352.999
Post-employment benefits	7.809	7.550
Provisions for risks and charges	26.802	21.656
Valuation reserves	(1.615)	(2.710)
Reserves	1.224.243	1.038.155
Share premiums	101.864	101.864
Share capital	53.811	53.811
Treasury shares (-)	(3.168)	(3.168)
Profit (loss) for the period (+/-)	37.854	180.767
Total liabilities and equity	**9.520.802**	**9.554.330**

Consolidated Income Statement

ITEMS (in thousands of Euro)	31.03.2018	31.03.2017
Net interest income	**119.480**	**90.987**
Net commission income	**19.820**	**14.219**
Other components of net banking income	78	(1.663)
Net banking income	**139.378**	**103.543**
Net credit risk losses/reversals	(10.957)	(2.168)
Net profit (loss) from financial activities	**128.421**	**101.375**
Administrative expenses:	(73.452)	(55.207)
a) personnel expenses	(26.827)	(24.073)
b) other administrative expenses	(46.625)	(31.134)
Net allocations to provisions for risks and charges	(2.806)	(1.597)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(2.809)	(3.459)
Other operating income/expenses	5.646	4.619
Operating costs	**(73.421)**	**(55.644)**
Pre-tax profit (loss) for the period from continuing operations	**55.000**	**45.731**
Income taxes for the period relating to continuing operations	(17.146)	(13.043)
Profit (Loss) for the period	**37.854**	**32.688**
Profit (Loss) for the period attributable to non-controlling interests	-	1
Profit (loss) for the period attributable to the Parent company	**37.854**	**32.687**

Consolidated Statement of Comprehensive Income

ITEMS (in thousands of Euro)	31.03.2018	31.03.2017
Profit (Loss) for the period	**37.854**	**32.688**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**179**	**198**
Equity securities designated as at fair value through other comprehensive income	150	185
Defined benefit plans	29	13
Other comprehensive income, net of taxes, to be reclassified to profit or loss	**3.191**	**1.862**
Exchange differences	(288)	1.430
Financial assets (other than equity securities) at fair value through other comprehensive income	3.479	432
Total other comprehensive income, net of taxes	**3.370**	**2.060**
Comprehensive Income	**41.224**	**34.748**
Total consolidated comprehensive income attributable to non-controlling interests	-	(1)
Total consolidated comprehensive income attributable to the Parent	**41.224**	**34.747**

Contribution of business segments to Group results – reclassified data

Net impairment losses on receivables of the NPL Segment were entirely 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.

The organisational structure

Following the strategic and organisational changes that concerned the Group starting from the second half of 2017, the model for segment reporting has undergone a major overhaul.

In order to make segment reporting consistent with the structure used by the Head Office to analyse the Group's results, the previous model was streamlined by aggregating some segments with similar economic characteristics—especially as far as the following aspects are concerned:

- nature of the products and services;
- type or class of customers.

The new segment reporting consists in:

- Enterprises Segment: it essentially corresponds to the former Trade Receivables, Corporate Banking, Leasing (excluding the operations included in the Governance & Services segment), and Tax Receivables segments, which were brought together to represent the Group's commercial offering for businesses in a consistent manner;
- NPL Segment, dedicated to non-recourse factoring and managing mostly unsecured distressed retail loans; it corresponds to the former NPL Area segment;
- Governance & Services Segment, which provides the segments operating in the Group's core businesses with the financial resources and services necessary to perform their respective activities. It includes also the Bank's growing business with individuals—and specifically the operations of the subsidiary Cap.Ital.Fin., which recently joined the Group and extends salary- or pension-backed loans, as well as portfolios of personal loans previously allocated to the Leasing segment.

The comparative information in this document has been restated in line with the new segment reporting.

In addition, the comparative information has been re-aggregated to ensure accounting consistency with the corresponding amounts at 31 March 2018 in order to reflect the new items required by IFRS 9. To facilitate comparisons, the Group maintained the information concerning the coverage ratios of non-performing exposures consistent with the amounts reported in the Consolidated Financial Statements at 31 December 2017, except for the mentioned re-aggregations, which are detailed in the chapter “Accounting Policies”.

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 31.03.2018	78.637	65.059	(4.318)	139.378
Amounts at 31.03.2017	*70.911*	*30.504*	*2.128*	*103.543*
% Change	*10,9%*	*113,3%*	*(302,9)%*	*34,6%*
Net profit (loss) from financial activities				
Amounts at 31.03.2018	67.635	65.059	(4.273)	128.421
Amounts at 31.03.2017	*68.294*	*30.504*	*2.577*	*101.375*
% Change	*(1,0)%*	*113,3%*	*(265,8)%*	*26,7%*

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Financial assets held for trading through profit or loss				
Amounts at 31.03.2018	-	-	34.987	34.987
Amounts at 31.12.2017	-	-	*35.614*	*35.614*
% Change	-	-	*(1,8)%*	*(1,8)%*
Financial assets mandatorily measured at fair value through profit or loss				
Amounts at 31.03.2018	65.398	-	50.199	115.597
Amounts at 31.12.2017	*58.807*	-	-	*58.807*
% Change	*11,2%*	-	*n.a.*	*96,6%*
Financial assets at fair value through other comprehensive income				
Amounts at 31.03.2018	13.602	-	440.245	453.847
Amounts at 31.12.2017	*13.973*	-	*428.603*	*442.576*
% Change	*(2,7)%*	-	*2,7%*	*2,5%*
Due from banks				
Amounts at 31.03.2018	-	-	1.565.449	1.565.449
Amounts at 31.12.2017	-	-	*1.760.752*	*1.760.752*
% Change	-	-	*(11,1)%*	*(11,1)%*
Loans to customers				
Amounts at 31.03.2018	5.373.237	831.817	252.154	6.457.208
Amounts at 31.12.2017	*5.456.508*	*799.436*	*136.623*	*6.392.567*
% Change	*(1,5)%*	*4,1%*	*84,6%*	*1,0%*
Due to banks				
Amounts at 31.03.2018	-	-	820.190	820.190
Amounts at 31.12.2017	-	-	*791.977*	*791.977*
% Change	-	-	*3,6%*	*3,6%*
Due to customers				
Amounts at 31.03.2018	-	-	5.022.110	5.022.110
Amounts at 31.12.2017	-	-	*5.293.188*	*5.293.188*
% Change	-	-	*(5,1)%*	*(5,1)%*
Debt securities issued				
Amounts at 31.03.2018	-	-	1.774.973	1.774.973
Amounts at 31.12.2017	-	-	*1.639.994*	*1.639.994*
% Change	-	-	*8,2%*	*8,2%*

SEGMENT KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality(1)			
Amounts at 31.03.2018	0,73%	n.a.	n.a.
Amounts at 31.12.2017	*0,31%*	*n.a.*	*n.a.*
% Change	*0,42%*	*-*	*-*
Net bad loans/Loans to customers			
Amounts at 31.03.2018	1,0%	n.a.	5,3%
Amounts at 31.12.2017	*0,9%*	*n.a.*	*9,6%*
% Change	*0,1%*	*-*	*(4,3)%*
Coverage ratio on gross bad loans			
Amounts at 31.03.2018	(91,7)%	n.a.	(77,3)%
Amounts at 31.12.2017	*(91,7)%*	*n.a.*	*(77,4)%*
% Change	*(0,0)%*	*-*	*(0,1)%*
Non-performing exposures/Loans to customers			
Amounts at 31.03.2018	6,4%	99,9%	12,8%
Amounts at 31.12.2017	*6,3%*	*99,9%*	*17,3%*
% Change	*0,1%*	*(0,0)%*	*(4,5)%*
RWAs(2)(3)			
Amounts at 31.03.2018	4.471.725	833.895	408.116
Amounts at 31.12.2017	*4.450.750*	*801.915*	*424.484*
% Change	*0,5%*	*4,0%*	*(3,9)%*

1) Pursuant to the new accounting standard IFRS 9, which became effective on 1 January 2018 and supersedes IAS 39, the cost of credit quality has been calculated based on the impairment losses recognised under the new standard as from 1 January 2018. The comparative amount is the one previously disclosed with reference to "Business customers" and is based on the impairment losses calculated under IAS 39, as entities may elect not to apply the new standard retrospectively.
(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.
(3) The Governance & Services sector's RWAs includes the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

Enterprises

The Enterprises Segment includes the following business areas:

- **Trade Receivables:** this area is dedicated to supporting the trade receivables of SMEs operating in the domestic market as well as companies growing abroad or based abroad and working with Italian customers; this area also includes medium/long-term financing, dedicated to supporting the company's operating cycle through services ranging from funding optimisation to working capital financing and the support for productive investments; moreover, it includes Banca IFIS Pharma, which supports the trade receivables of local health services' suppliers and pharmacists.
- **Leasing**: this area provides finance and operating leases—but not real estate leases, as the Group does not offer them—to small economic operators and SMEs.
- **Corporate Banking:** this unit is comprised of multiple areas: the Structured Finance area, which supports companies and private equity funds in arranging bilateral or syndicated loans; the Special Situation area, which supports the financial recovery of businesses that managed to overcome financial distress; and the Equity Investment area, dedicated to investing in non-financial companies and intermediaries.
- **Tax Receivables**: it is the area specialised in purchasing tax receivables from insolvency proceedings; it operates under the Fast Finance brand and offers to buy both accrued and accruing tax receivables on which repayment has already been requested or which shall be

requested in the future, and that arose during insolvency proceedings or in prior years. As a complement to its core business, this segment seldom acquires also trade receivables from insolvency proceedings.

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2018	31.03.2017	CHANGE	
			ABSOLUTE	%
Net interest income	58.851	55.180	3.671	6,7%
Net commission income	19.796	15.919	3.877	24,4%
Other components of net banking income	(10)	(188)	178	(94,7)%
Net banking income	**78.637**	**70.911**	**7.726**	**10,9%**
Net credit risk losses/reversals	(11.002)	(2.617)	(8.385)	320,4%
Net profit (loss) from financial activities	**67.635**	**68.294**	**(659)**	**(1,0)%**

Even though net banking income rose by 10,9%, the net profit from financial activities totalled 67,6 million Euro, down 1,0% from the prior-year period because of impairment losses, as detailed below.

The positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiary over time amounted to 20,4 million Euro at 31 March 2018, compared to 22,7 million Euro at 31 March 2017 (-9,9%).

The difference between the fair value as measured in the business combination and the carrying amount of the recognised receivables at 31 March 2018 amounted to 252,9 million Euro (281,4 million Euro at 31 December 2017) and will make a positive contribution to the results for future years, considering that the average life of the underlying portfolio is estimated at 3 years. Compared to the balance at the end of 2017, in addition to the aforementioned change in the income statement, 8,1 million Euro were absorbed by the impact on equity of the adoption of IFRS 9.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.03.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Net non-performing loans	62.815	62.573	242	0,4%
Net unlikely to pay	159.711	165.902	(6.191)	(3,7)%
Net past due exposures	120.242	114.201	6.041	5,3%
Total net non-performing exposures to customers	**342.768**	**342.676**	**92**	**0,0%**
Net performing loans	5.030.469	5.113.832	(83.363)	(1,6)%
Total on-balance-sheet loans to customers	**5.373.237**	**5.456.508**	**(83.271)**	**(1,5)%**

Below is the breakdown of non-performing exposures by supervisory risk category.

ENTERPRISES (in thousands of Euro)	BAD LOANS(1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON PERFORMING	PERFORMING
BALANCE AT 31.03.2018					
Nominal amount of non-performing exposures	760.623	293.425	134.337	1.188.385	5.058.477
As a proportion of total gross receivables	*12,2%*	*4,7%*	*2,2%*	*19,0%*	*81,0%*
Impairment losses	(697.808)	(133.714)	(14.095)	(845.617)	(28.008)
As a proportion of gross value	*(91,7)%*	*(45,6)%*	*(10,5)%*	*(71,2)%*	*(0,6)%*
Carrying amount	62.815	159.711	120.242	342.768	5.030.469
As a proportion of net total receivables	*1,2%*	*3,0%*	*2,2%*	*6,4%*	*93,6%*
BALANCE AT 31.12.2017					
Nominal amount of non-performing exposures	755.613	307.464	125.261	1.188.338	5.152.825
As a proportion of total gross receivables	*11,9%*	*4,8%*	*2,0%*	*18,7%*	*81,3%*
Impairment losses	(693.040)	(141.562)	(11.060)	(845.662)	(38.993)
As a proportion of the nominal amount	*(91,7)%*	*(46,0)%*	*(8,8)%*	*(71,2)%*	*(0,8)%*
Carrying amount	62.573	165.902	114.201	342.676	5.113.832
As a proportion of net total receivables	*1,1%*	*3,0%*	*2,1%*	*6,3%*	*93,7%*

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

In the first quarter of 2018, the Enterprises segment's net non-performing exposures amounted to 342,8 million Euro, essentially unchanged from the prior-year period (342,7 million Euro at 31 December 2017). Unlikely to pay declined by approximately 6,2 million Euro while past due loans rose by the same amount.

In the first quarter of 2018, net bad loans amounted to 62,8 million Euro, resulting in a net bad-loan ratio of 1,2%.

KPI y/y	31.03.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Cost of credit quality (1)	0,73%	0,31%	-	0,42%
Net bad loans/Loans to customers	1,1%	1,0%	-	0,1%
Coverage ratio on gross bad loans	(91,7)%	(91,7)%	-	(0,0)%
Non-performing exposures/Loans to customers	6,4%	6,3%	-	(0,1)%
Total RWA per segment	4.471.725	4.450.750	20.975	0,5%

(1) Pursuant to the new accounting standard IFRS 9, which became effective on 1 January 2018 and supersedes IAS 39, the cost of credit quality has been calculated based on the impairment losses recognised under the new standard as from 1 January 2018. The comparative amount is the one previously disclosed with reference to “Business customers” and is based on the impairment losses calculated under IAS 39, as entities may elect not to apply the new standard retrospectively.

In the first three months of 2018, the cost of credit calculated under IFRS 9 amounted to 73 bps, compared to 31 bps under IAS 39 at 31 December 2017. The entry into force of IFRS 9 did not cause this measure to deteriorate, as explained in the chapter Accounting Policies, paragraph “Impact of the first-time adoption of IFRS 9”. The comparative amount for the year 2017 reflects reversals of impairment losses on some individually significant positions, excluding which the cost of credit quality would have amounted to 89 bps.

To ensure a better understanding of the quarterly results, below we comment on the contribution of the individual business areas to the Enterprises Segment.

Trade receivables

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2018	31.03.2017	CHANGE	
			ABSOLUTE	%
Net interest income	25.326	24.498	828	3,4%
Net commission income	14.557	13.309	1.248	9,4%
Net banking income	**39.883**	**37.807**	**2.076**	**5,5%**
Net credit risk losses/reversals	(6.993)	(5.383)	(1.610)	29,9%
Net profit (loss) from financial activities	**32.890**	**32.424**	**466**	**1,4%**

Following the inclusion of medium-term products in the commercial offering for SMEs, the Group revised the segment's scope. Therefore, the results for the first quarter of 2018—as well as, for the sake of consistency, the first quarter of 2017—include the operating and financial performance of the commercial lending business unit, which specialises in medium-term financing and was previously classified within the Corporate Banking segment.

The Trade Receivables Area contributed 39,9 million Euro to the Enterprises Segment's net banking income, up 5,5% from 31 March 2017.

The increase in net banking income was positively correlated with the rise in volumes concerning both conventional factoring operations and medium/long-term financing—which the Bank started providing to SMEs following the merger of Interbanca, expanding its offerings with new products.

As for factoring volumes, turnover totalled 2,9 billion Euro, up 210 million Euro (+7,3%) from the prior-year period. The nominal amount of outstanding receivables at the end of the first quarter of 2018 exceeded 3,6 million Euro, up nearly 77 million Euro (+2,2%) from the first quarter of 2017.

Medium/long-term financing also grew at a steady pace: in the first quarter of 2018, the Group extended 48,6 million Euro in new loans, compared to 39,3 in the prior-year period (+23,4%).

Net impairment losses on receivables amounted to 7,0 million Euro, up 29,9% from 5,4 million Euro in the prior-year period. The increase was largely attributable to the individual provisions set aside for bad loans and unlikely to pay.

At 31 March 2018, total net loans in the area amounted to 3,2 billion Euro compared to 3,4 billion Euro at 31 December 2017, with a decrease of -5,1% due to seasonal dynamics typical of the sector. The following table shows the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category.

TRADE RECEIVABLES (in thousands of Euro)	BAD LOANS[1]	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING	PERFORMING
BALANCE AT 31.03.2018					
Nominal amount of non-performing exposures	293.980	141.673	117.063	552.716	2.987.463
As a proportion of total receivables at nominal amount	*8,3%*	*4,0%*	*3,3%*	*15,6%*	*84,4%*
Impairment losses	(262.612)	(49.982)	(5.696)	(318.290)	(13.779)
As a proportion of the nominal amount	*(89,3)%*	*(35,3)%*	*(4,9)%*	*(57,6)%*	*(0,5)%*
Carrying amount	31.368	91.691	111.367	234.426	2.973.684
As a proportion of net total receivables	*1,0%*	*2,9%*	*3,5%*	*7,3%*	*92,7%*
BALANCE AT 31.12.2017					
Nominal amount of non-performing exposures	288.295	129.893	109.463	527.651	3.179.765
As a proportion of total receivables at nominal amount	*7,8%*	*3,5%*	*3,0%*	*14,2%*	*85,8%*
Impairment losses	(256.927)	(47.042)	(4.126)	(308.095)	(18.017)
As a proportion of the nominal amount	*(89,1)%*	*(36,2)%*	*(3,8)%*	*(58,4)%*	*(0,6)%*
Carrying amount	31.368	82.851	105.337	219.556	3.161.748
As a proportion of net total receivables	*0,9%*	*2,5%*	*3,1%*	*6,5%*	*93,5%*

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

Leasing

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2018	31.03.2017	CHANGE	
			ABSOLUTE	%
Net interest income	9.939	8.945	994	11,1%
Net commission income	2.558	590	1.968	333,6%
Other components of net banking income	-	(2)	2	(100,0)%
Net banking income	**12.497**	**9.533**	**2.964**	**31,1%**
Net credit risk losses/reversals	(2.482)	(551)	(1.931)	350,5%
Net profit (loss) from financial activities	**10.015**	**8.982**	**1.033**	**11,5%**

The Leasing area's net banking income totalled 12,5 million Euro, up 31,1% (+3,0 in absolute terms) compared to 31 March 2017. The increase was driven by net interest income (+1,0 million Euro) as well as commission income (+2,0 million Euro), which benefited from the rise in lending volumes.

In the first quarter of 2018, the segment extended 172 million Euro in new financing (Transportation: 88 million Euro, Equipment: 84 million Euro), up 19 million Euro (+12,5%) from the first quarter of 2017.

Net impairment losses on receivables amounted to 2,5 million Euro, up from 0,6 million Euro in the prior-year period. The rise was largely attributable to the increase in individual provisions set aside for bad loans and unlikely to pay in the equipment segment for 1,0 million during the first quarter of 2018 - as well as the greater amount of reversals on receivables recognised in the first three months of 2017 for 0,4 million Euro.

The Leasing area contributed 10,0 million Euro (+11,5% compared to the prior-year period) to the net profit from financial activities of the Enterprises segment.

At 31 March 2018, total net loans in the area amounted to 1.298,2 million Euro compared to 1.269,7 million at 31 December 2017, with an increase of +2,2%. The following table shows the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category.

LEASING LOANS (in thousands of Euro)	BAD LOANS(1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING	PERFORMING
BALANCE AT 31.03.2018					
Nominal amount of non-performing exposures	21.531	10.743	16.627	48.901	1.291.989
As a proportion of total receivables at nominal amount	*1,6%*	*0,8%*	*1,2%*	*3,6%*	*96,4%*
Impairment losses	(19.172)	(8.857)	(8.378)	(36.407)	(6.254)
As a proportion of the nominal amount	*(89,0)%*	*(82,4)%*	*(50,4)%*	*(74,5)%*	*(0,5)%*
Carrying amount	2.359	1.886	8.249	12.494	1.285.735
As a proportion of net total receivables	*0,2%*	*0,1%*	*0,6%*	*1,0%*	*99,0%*
BALANCE AT 31.12.2017					
Nominal amount of non-performing exposures	21.937	11.814	14.853	48.604	1.265.275
As a proportion of total receivables at nominal amount	*1,7%*	*0,9%*	*1,1%*	*3,7%*	*96,3%*
Impairment losses	(19.640)	(9.917)	(6.908)	(36.465)	(7.747)
As a proportion of the nominal amount	*(89,5)%*	*(83,9)%*	*(46,5)%*	*(75,0)%*	*(0,6)%*
Carrying amount	2.297	1.897	7.945	12.139	1.257.528
As a proportion of net total receivables	*0,2%*	*0,1%*	*0,6%*	*1,0%*	*99,0%*

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

Corporate Banking

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2018	31.03.2017	CHANGE	
			ABSOLUTE	%
Net interest income	20.876	18.822	2.054	10,9%
Net commission income	2.682	2.021	661	32,7%
Other components of net banking income	(10)	(186)	176	(94,6)%
Net banking income	**23.548**	**20.657**	**2.891**	**14,0%**
Net credit risk losses/reversals	(1.501)	3.389	(4.890)	(144,3)%
Net profit (loss) from financial activities	**22.047**	**24.046**	**(1.999)**	**(8,3)%**

The Corporate Banking segment's net banking income totalled 23,5 million Euro, up 14,0% compared to 31 March 2017. The rise is largely attributable to the increase in volumes as well as the improved net commission income.

In the first quarter of 2018, the segment extended 95 million Euro in new financing (Structured Finance: 91 million Euro, Equity Investment: 4 million Euro), up 14 million Euro (+17,9%) compared to the first quarter of 2017.

Net impairment losses on receivables amounted to 1,5 million Euro, compared to 3,4 million Euro in net reversals in the prior-year period as a result of an individually significant reversal on receivables.

The Corporate Banking area contributed 22,0 million Euro to the Enterprises segment's net profit from financial activities, down 8,3% from the prior-year period—largely because of the previously mentioned increase in net impairment losses on receivables.

At 31 March 2018, total net loans in the area amounted to 736,0 million Euro, compared to 675,0 million at 31 December 2017, with an increase of +9,0%. The following table shows the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category.

CORPORATE BANKING LOANS (in thousands of Euro)	BAD LOANS(1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING	PERFORMING
BALANCE AT 31.03.2018					
Nominal amount of non-performing exposures	445.112	141.009	633	586.754	648.135
As a proportion of total receivables at nominal amount	*36,0%*	*11,4%*	*0,1%*	*47,5%*	*52,5%*
Impairment losses	(416.024)	(74.875)	(21)	(490.920)	(7.975)
As a proportion of the nominal amount	*(93,5)%*	*(53,1)%*	*(3,3)%*	*(83,7)%*	*(1,2)%*
Carrying amount	29.088	66.134	612	95.834	640.160
As a proportion of net total receivables	*4,0%*	*9,0%*	*0,1%*	*13,0%*	*87,0%*
BALANCE AT 31.12.2017					
Nominal amount of non-performing exposures	445.381	165.757	945	612.083	577.214
As a proportion of total receivables at nominal amount	*37,4%*	*13,9%*	*0,1%*	*51,5%*	*48,5%*
Impairment losses	(416.473)	(84.603)	(26)	(501.102)	(13.229)
As a proportion of the nominal amount	*(93,5)%*	*(51,0)%*	*(2,8)%*	*(81,9)%*	*(2,3)%*
Carrying amount	28.908	81.154	919	110.981	563.985
As a proportion of net total receivables	*4,3%*	*12,0%*	*0,1%*	*16,4%*	*83,6%*

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

The decrease in loans classified as unlikely to pay was mainly attributable to the repayment of an individually significant position worth approximately 14 million Euro.

Tax Receivables

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2018	31.03.2017	CHANGE	
			ABSOLUTE	%
Net interest income	2.710	2.915	(205)	(7,0)%
Net commission income	(2)	(2)	-	0,0%
Net banking income	**2.708**	**2.913**	**(205)**	**(7,0)%**
Net credit risk losses/reversals	(25)	(72)	47	(65,3)%
Net profit (loss) from financial activities	**2.683**	**2.841**	**(158)**	**(5,6)%**

The Tax Receivables Area contributed 2,7 million Euro to the Business segment's net banking income, down 7,0% from 31 March 2017.

The decrease was essentially attributable to the reduction in receipts, which totalled 13 million Euro - down approximately 7% from 14 million Euro in first quarter 2017.

Concerning volumes, during the quarter the area acquired receivables with a par value of 13,9 million Euro, compared to 21,2 million Euro in the prior-year period.

The amounts of, and changes in, net impairment losses on receivables were immaterial.

At 31 March 2018, total net loans in the area amounted to 130,9 million Euro compared to 130,6 million Euro at 31 December 2017, with an increase of +0,3% The following table shows the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category.

TAX RECEIVABLES (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING	PERFORMING
BALANCE AT 31.03.2018					
Nominal amount of non-performing exposures	-	-	14	14	130.890
As a proportion of total receivables at nominal amount	-	-	*0,0%*	*0,0%*	*100,0%*
Impairment losses	-	-	-	-	-
As a proportion of the nominal amount	-	-	-	-	-
Carrying amount	-	-	14	14	130.890
As a proportion of net total receivables	-	-	*0,0%*	*0,0%*	*100,0%*
BALANCE AT 31.12.2017					
Nominal amount of non-performing exposures	-	-	-	-	130.571
As a proportion of total receivables at nominal amount	-	-	-	-	*100,0%*
Impairment losses	-	-	-	-	-
As a proportion of the nominal amount	-	-	-	-	-
Carrying amount	-	-	-	-	130.571
As a proportion of net total receivables	-	-	-	-	*100,0%*

NPL

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

The business is closely associated with converting non-performing exposures into performing assets and collecting them.

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

Right after the acquisition, pending the completion of information retrieval operations to help decide the most appropriate conversion method, the receivable is classified in a so-called “**staging**” area and recognised at cost (55,5 million Euro at 31 March 2018, compared to 93,7 million Euro at 31 December 2017) with no contribution to profit or loss.

After this phase, which usually lasts between 6 and 12 months, the segment decides the most appropriate method for managing the receivables; non-judicial operations mainly consist in activating receivables by finalising bills of exchange and settlement plans with the debtor, whereas judicial operations consist in converting them through legal actions to secure a court order for the garnishment of one fifth of pension benefits or wages—whose existence is the precondition for starting this kind of conversion.

Non-judicial operations

As for the positions not eligible for judicial operations, after completing the groundwork for processing them, they are classified in a "**collective" portfolio** pending the collection of the mentioned settlement plans. In this phase, the positions are measured at amortised cost (152,5 million Euro at 31 March 2018, compared to 153,4 million Euro at 31 December 2017), calculated as the net present value of estimated cash flows based on a proprietary statistical model built using internal historical data series. This model calculates conversion estimates for clusters of similar receivables and is regularly updated to account for changes in receipts as well as the characteristics of the acquired portfolios. Specifically, as part of the most recent review, the Group fine-tuned the historical collection statistics as well as a number of clusterisations (thanks to the increased stratification of historical information). Most significantly, it introduced differentiated conversion statistics for purchases on non-primary markets. At 31 March 2018, this recalibration resulted in an approximately 1,7 million Euro positive impact recognised through profit or loss.

When finalising a settlement plan or bill of exchange, if an amount equal to at least 3 times the average instalment has been paid since the collection date, the positions included in this portfolio will be reclassified to **"Positions with formalised bills of exchange or settlement plans"**; these are measured at amortised cost (138,3 million Euro at 31 March 2018, compared to 131,3 million Euro at 31 December 2017), calculated as the net present value of estimated cash flows based on the settlement plans, net of the historical default rate. The model's "recalibration" resulted in a 1,5 million Euro positive impact on this category, attributable to the fact that the Group introduced the concept of "survival" from Istat's actuarial tables into the modelling of collection times.

Judicial operations

The positions eligible for judicial operations are managed accordingly. Specifically, judicial operations, i.e. garnishment proceedings, consist of several legal stages aimed at obtaining an enforcement order. Overall, they usually take 18-24 months and consist in the following: obtaining a payment order, writ, attachment of property, and garnishment order. Up to 31 December 2017, the positions included within all the stages prior to the garnishment order were recognised at cost with no contribution to profit or loss, as there were no specific statistical models allowing to estimate cash flows in order to calculate the relevant amortised cost as well as the flows for the individual positions, since the garnishment order had not yet been obtained. In the first quarter of 2018, following internal development and testing, the Bank put a statistical model based on proprietary data series into production for the purposes of estimating the cash flows of positions undergoing judicial operations and for which a garnishment order has not yet been obtained ("pre-garnishment order collective model"); more specifically, it uses the new statistical model to estimate the cash flows of all the positions for which a writ has already been or will be issued starting from 1 January 2018. The Bank estimates future cash flows from these positions by accounting for both the average time required for each stage (writ, attachment) and the probability of success of the different stages (from writ to attachment, and from attachment to garnishment order), as well as the average time from the issuing of a garnishment order to the first receipt. These cash flows are used for the purposes of the measurement at amortised cost (as opposed to the previous measurement at cost), which is calculated by discounting the expected cash flows using the internal rate of return. The application of said model to the positions that met the necessary requirements resulted in an approximately 16,5 million Euro positive impact recognised through profit or loss—summarised in the category "Positions undergoing judicial processing ("**pre-garnishment order collective model**") in the following table—amounting to 51,6 million Euro at amortised cost at 31 March 2018.

The remaining positions undergoing judicial processing are measured at cost and included in the category “**Other positions undergoing judicial processing**” in the following table: at 31 March 2018, they amounted to 285,5 million Euro.

Therefore, effective 1 January 2018, the measurement of the positions undergoing judicial operations can be summarised as follows: in the first stage, during which the Bank does everything necessary to obtain a payment order, the positions are measured at cost. In the following stages, when the writ and the order of attachment are served on the third party (employer) and the debtor, the positions are measured at amortised cost, calculated as the net present value of expected cash flows based on the mentioned statistical model. Finally, when the garnishment order is obtained, the positions are measured at amortised cost, calculated as the net present value of the expected cash flows from the individual position, considering the debtor's age and the risk of loss of employment.

The positions undergoing judicial operations for which a garnishment order has been obtained are classified as “**Positions with order for the garnishment of one-fifth of pension benefits or wages**” and totalled 148,5 million Euro at 31 March 2018 (123,4 million Euro at 31 December 2017).

Throughout the various stages, the positions may be written off as part of a settlement agreement (or, to a lesser extent, conversion plans in the case of judicial operations) or reclassified to the collective portfolio if the debtors default on their payments under the agreed plans or garnishment orders.

There are also less significant portfolios originated in corporate banking or real estate segments that are measured either individually or, if no valuation models are already available, at cost.

Finally, the Bank occasionally seizes market opportunities by selling portfolios of positions yet to be processed to third parties.

The following table shows the breakdown of the NPL Segment's portfolio by conversion method and method of accounting; the impact recognised through profit or loss, totalling 66,7 million Euro, is the result of 20,8 million Euro in interest income from amortised cost and for 45,9 million Euro in in other components of net interest income from change in cash flows. Said amount does not comprise funding costs, net commission income, and the gains on sales of receivables, which are included in the table “Income Statement Data”.

NPL Segment Portfolio (in thousands of Euro)	Outstanding nominal amount	Carrying amount	Carr. amount / Out. nom. amount	Impact through profit or loss	of which model refinements	2018 collections	Methods of accounting
"Staging" positions	2.253.948	55.481	2%	-	-	-	Acquisition cost
Other positions undergoing non-judicial processing ("collective" operations)	7.297.523	152.512	2%	58	1.689	3.056	Cost = NPV of flows from model
Non-judicial operations: positions with formalised bills of exchange or settlement plans	606.972	138.257	23%	20.410	1.458	16.483	Cost = NPV of individual flows
Positions undergoing judicial processing ("pre-garnishment order collective model")	256.782	51.576	20%	16.382	16.548	34	Cost = NPV of flows from model
Other positions undergoing judicial processing	2.182.292	285.464	13%	2.815	-	5.562	Acquisition cost
Judicial operations: positions with order for the garnishment of one-fifth of pension benefits or wages	413.847	148.527	36%	27.062	-	14.972	Cost = NPV of individual flows
Total	**13.011.364**	**831.817**	**6%**	**66.727**	**19.695**	**40.107**	

The sum of gross estimated remaining collections (ERC) over a period of 180 months is equal to approximately 1,8 billion Euro.

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2018	31.03.2017	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	20.813	13.125	7.688	58,6%
Other components of net interest income	45.914	22.249	23.665	106,4%
Funding costs	(2.430)	(4.041)	1.611	(39,9)%
Net interest income	**64.297**	**31.333**	**32.964**	**105,2%**
Net commission income	(292)	(829)	537	(64,8)%
Gain on sale of receivables	1.054	-	1.054	n.a.
Net banking income	**65.059**	**30.504**	**34.555**	**113,3%**
Net profit (loss) from financial activities	**65.059**	**30.504**	**34.555**	**113,3%**

The item "Interest income from amortised cost" referring to interest accrued at the original effective interest rate went up from 13,1 million Euro to 20,8 million Euro, with the 58,6% increase mainly due to the increase in receivables recognised at amortised cost.

The item "Other components of net interest income", which showed an increase of 106,4%, includes the effects of the change in expected cash flows due to the higher or lower collections realised or expected compared to forecasts and/or the change in collection times. At 31 March 2018, the item also included the positive effect deriving from the change in cash flow estimation models as described above.

As regards funding costs, a decrease of 39,9% was recorded despite the increase in loans in the sector, which rose from around 799 million Euro to approximately 832 million Euro (+4,1%) in the quarter, thanks to the lower funding costs charged by the Governance & Services sector.

The item net commission income includes commission paid for management a collection services, the reduction of which is attributable to lower investments in exchange portfolios.

The net profit from financial activities of the NPL segment amounted to 65,1 million Euro (30,5 million Euro at 31 March 2017, +113%).

Excluding the above 19,7 million Euro "non-recurring" impact from the profit from financial activities, the latter would have amounted to 45,4 million Euro, up 49% from the prior-year period.

This growth was fuelled by the strong performance in the management of existing portfolios, resulting in better payment arrangements, as well as the higher number of garnishment orders issued by different courts.

As for the risk categories, please see the table below.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.03.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Bad loans	562.864	528.226	34.638	6,6%
Unlikely to pay	267.668	270.050	(2.382)	(0,9)%
Past due loans	342	444	(102)	(23,0)%
Total net non-performing exposures to customers	**830.874**	**798.720**	**32.154**	**4,0%**
Net performing loans	943	716	227	31,7%
Total on-balance-sheet loans to customers	**831.817**	**799.436**	**32.381**	**4,1%**

KPI	31.03.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	13.011.364	13.074.933	(63.569)	(0,5)%
Total RWA per segment	833.895	801.915	31.980	4,0%

NPL SEGMENT LOAN PERFORMANCE	31.03.2018	31.12.2017
Opening loan portfolio	**799.436**	**562.146**
Purchases	6.054	239.276
Sales	(1.347)	(55.408)
Gains on sales	1.054	19.020
Interest income from amortised cost	20.813	60.614
Other components of net interest income from change in cash flow	45.914	102.096
Collections	(40.107)	(128.308)
Closing loan portfolio	**831.817**	**799.436**

The Bank purchased 6,1 million Euro in receivables during the period, down from the first quarter of 2017. This was in line with the decline in the number of transactions on the market. The Italian market is increasingly dominated by the so-called jumbo deals as well as the preparations by banks for "GACS-compliant" (GACS is a state-guarantee scheme for NPL-backed securities) transactions for certain asset classes, which would allow to dispose of greater amounts of non-performing exposures, before the scheme expires in September 2018.

The line item "Sales" included 1,3 million Euro in collections from the sale of a portfolio completed in the first quarter of 2018, in accordance with the Bank's strategy to seize market opportunities as they arise.

The line item "Collections" included the instalments received in the first quarter of 2018 under settlement plans as well as pursuant to garnishment orders.

Funding from bills of exchange and settlement plans (equal to the nominal amount of all the instalments under the plan entered into with the debtor) was in line with the prior-year period (71,2 million Euro compared to 71,7 million Euro in the first quarter of 2017).

The garnishment orders obtained by the Group rose steadily in the first quarter of 2018 and concerned 5.400 debtors (compared to 2.200 in the first quarter of 2017).

At the end of the period, the portfolio managed by the NPL segment included 1.509.000 positions, for a par value of 13,0 billion Euro.

Governance & Services

The segment comprises, among other things, the resources required for the performance of the services of the Audit, Administration-Accounting, Planning, Organisation, ICT, Marketing and Communication, and HR functions, as well as the structures responsible for raising, managing and allocating financial resources to the operating segments. It includes also the Bank's growing business with individuals—and specifically the operations of the subsidiary Cap.Ital.Fin., which recently joined the Group and extends salary- or pension-backed loans, as well as portfolios of personal loans previously allocated to the Leasing segment.

At 31 March 2018, total net loans in the sector amounted to 252,2 million Euro, while net receivables grew by approximately 115 million Euro (+84,6%) compared to 31 December 2017.

During the first quarter, senior notes were purchased as part of a securitisation transaction guaranteed by the State (GACS) worth 90,7 million Euro. Moreover, the increase in loans was related to both the acquisition of the subsidiary Cap.Ital.Fin. S.p.A., which at 31 March 2018 contributed with a receivables portfolio of 7,5 million Euro, and the acquisition of two performing retail portfolios for a total of 31,1 million Euro. Said performing portfolios were acquired as part of the NPL segment's ordinary purchasing operations, which often concern also mixed portfolios—although the performing portion is always small relative to the overall portfolio.

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2018	31.03.2017	CHANGE	
			ABSOLUTE	%
Net interest income	(3.668)	4.474	(8.142)	(182,0)%
Net commission income	316	(871)	1.187	(136,3)%
Other components of net banking income	(966)	(1.475)	509	(34,5)%
Net banking income	**(4.318)**	**2.128**	**(6.446)**	**(302,9)%**
Net credit risk losses/reversals	45	449	(404)	(90,0)%
Net profit (loss) from financial activities	**(4.273)**	**2.577**	**(6.850)**	**(265,8)%**

The segment reported a 4,3 million Euro net loss from financial activities, sharply down from 31 March 2017. The change was largely attributable to the increase in interest expense on the Group's funding, which was not entirely offset by the chargeback to the other segments of the Group, as well as the reduced margins on the portfolios of personal loans previously allocated to the Leasing segment. This was attributable to the decline in the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiary IFIS Leasing S.p.A. over time (1,4 million Euro at 31 March 2018, 2,7 million Euro at 31 March 2017). The difference between the fair value as measured in the business combination and the carrying amount of the recognised receivables at 31 March 2018 amounted to 46,4 million Euro and will make a positive contribution to the results for future years, considering that the average life of the underlying portfolio is estimated at 3,1 years.

Although retail funding through the Rendimax and Contomax savings accounts remains the Group's main source of funding, starting from the end of the first quarter of 2017 the Bank has been pursuing a series of initiatives, including in the wholesale segment, to diversify funding sources and gradually reduce its dependence on retail funding. To this end, between the second and third quarters of 2017, the Group issued two bonds: a Senior Unsecured bond with a par value of 300 million Euro and maturity in May 2020, and a Tier 2 Subordinated bond with a par value of 400 million Euro and maturity in October 2027 that is callable in October 2022. These bond issues come on top of the outstanding bonds issued by the merged entity Interbanca. In the first quarter of 2018, the interest expense on the overall bond issues totalled approximately 6,9 million Euro.

By diversifying funding sources, the Bank seeks to balance retail and wholesale funding. Achieving this target will bring it into line with market best practices as well as allow to meet the requirements of Ratings Agencies with a view to a potential future upgrade of the Bank's credit rating. For the Bank, a debt “curve” consisting of several maturities is crucial to its strategy as well as the planning for new bond issues. This will also allow the Bank to improve its ability to determine the proper “fair pricing” for institutional investors and, therefore, calculate the amounts to be issued more efficiently. Even though their origination costs are considerably higher compared to Senior instruments, hybrid debt instruments such as Subordinated bond issues are key to meet the requirements concerning the volumes of debt instruments that can be bailed in.

The lower reliance on retail funding, combined with the reductions in the interest rates offered to customers that occurred in June and December 2017, resulted in nearly 1,5 million Euro in savings on interest expense compared to the prior-year period. Please note that the Group incurred greater costs associated with the increase in cash deposits held with the Bank of Italy, resulting in a negative 1,4 million Euro contribution compared to 0,7 million Euro in the prior-year period.

The Group used part of the funds raised to invest in Italian government bonds (mainly securities with a minimum guaranteed coupon and indexed to Italy's inflation rate), which made a positive 1,6 million Euro contribution to net interest income.

Finally, at the end of the first quarter of 2018 the Group finalised new initiatives to curb funding costs: the relevant economic benefits will start to materialise in the second quarter of 2018. One of these initiatives is the restructuring of the securitisation of trade receivables, which was finalised in October 2016 and overhauled on 29 March 2018. Among the most significant changes is the reduction in the spread guaranteed for the Senior Notes issued by the Vehicle from 150 to 105 basis points above the 1-month Euribor rate. This will generate 3,8 million Euro in annual savings starting from the second quarter of the year. Also in the case of funding from Corporate customers, guaranteed by term deposits up to 12 months, the Group recently lowered interest rate spreads across the various maturities. Given the rapid turnover of this product, the relevant benefits will start to materialise in the upcoming months as the outstanding deposits reach maturity.

As for the contribution of salary- or pension-backed loans, the new subsidiary Cap.Ital.Fin. S.p.A.'s net profit from financial activities is still immaterial.

Notes

Accounting Policies

Basis of preparation

This Consolidated Interim Report at 31 March 2018 of the Banca IFIS Group was prepared in accordance with Borsa Italiana's Rules for companies listed on the STAR segment (article 2.2.3 paragraph 3), which require publishing an interim report within 45 days of the end of each quarter, and considering Borsa Italiana's notice no. 7587 of 21 April 2016. Therefore, in accordance with said notice, concerning the contents of the Consolidated Interim Report, the Group made reference to the pre-existing paragraph 5 of article 154-ter of Italian Legislative Decree no. 58 of 24 February 1998.

The Interim Report at 31 March 2018 has 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 Regulation (EC) no. 1606 of 19 July 2002. This regulation was transposed into Italian law with Legislative Decree no. 38 of 28 February 2005.

The money of account is the Euro and, if not indicated otherwise, amounts are expressed in thousands of Euro.

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

The criteria for recognising, measuring, and derecognising assets and liabilities as well as the methods for recognising revenue and costs adopted in preparing the Consolidated Interim Report at 31 March 2018 are unchanged from those used to prepare the Consolidated Financial Statements for the year ended 31 December 2017, to which reference should be made for further details except for the impact related to the introduction of the following new standards applicable as from 1 January 2018:

- IFRS 9 - Financial Instruments;
- IFRS 15 - Revenue from Contracts with Customers.

For more details, please see the paragraphs “Impact of the first-time adoption of IFRS 9” and “Impact of the first-time adoption of IFRS 15” below.

Consolidation scope and methods

The Consolidated Interim Report has been drawn up on the basis of the accounts at 31 March 2018 prepared by the directors of the companies included in the consolidation scope, which was unchanged from the end of last year except for the inclusion of the company Cap.Ital.Fin S.p.A., acquired on 2 February 2018, in the scope of consolidation.

At 31 March 2018, the Group was composed of the parent company, Banca IFIS S.p.A., 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., Cap.Ital.Fin. S.p.A., and Two Solar Park 2008 S.r.l..

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

The consolidated financial statements include the financial statements of the parent company Banca IFIS S.p.A. and the mentioned subsidiaries.

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

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

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

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

As for the subsidiary IFIS Finance Sp. Z o.o., the consolidation process has brought about goodwill for 829 thousand Euro at the period-end exchange rate, recognised under "Intangible assets".

In the first quarter of 2018, the Banca IFIS Group acquired 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. The price initially paid for the transaction totalled 2,1 million Euro, gross of potential adjustments to be calculated and agreed with the seller based on contractual provisions.

Here below are its financial highlights at 31 March 2018.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.03.2018
Financial assets measured at amortised cost	8.380
Tax assets	1.471
Financial liabilities measured at amortised cost.	(6.275)
Other liabilities	(2.682)

The consolidation process has brought about goodwill provisionally estimated at 700 thousand Euro, recognised under item 'Intangible assets'. Under IFRS 3, the allocation of the cost of the business combination must be quantified within 12 months of the acquisition date.

Significant judgements and assumptions in determining the scope of consolidation

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

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

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

The assessment carried out led the Bank to include the subsidiaries listed in the previous paragraph, as well as the SPVs (Special Purpose Vehicles) set up for securitisation purposes, in the scope of consolidation at 31 March 2018. These SPVs are not formally part of the Banca IFIS Group.

Impact of the first-time adoption of IFRS 9

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 the following 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
- 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 (so-called OCI option) 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”). Conversely, for the debt securities classified within this category, the component of equity will be reclassified to profit or loss in the event of a sale.

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 (so-called “Stage 1”) since the initial recognition of the financial instrument. If the credit quality of the financial instrument has deteriorated “significantly” since initial recognition (so-called “Stage 2”) or become “impaired” (so-called “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, resulting in the recognition of 12-month expected credit losses (“Stage 1”) or lifetime expected credit losses (“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 using “fixed” percentages based on historical observed default rates related to the status of the position.

Considering the impact of the changes introduced by IFRS 9 on both the business and for organisational and reporting purposes, the Banca IFIS Group 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 both within the Group as a whole and at each one of its entities.

Based on the foregoing, below is a summary of the impact of both the re-aggregation of the comparative amounts at 31 December 2017 and the first-time adoption of IFRS 9 on the Banca IFIS Group's consolidated equity at 1 January 2018.

Re-aggregation of comparative information

In accordance with the transitional provisions in IFRS 9, the Group decided not to restate the comparative information at 31 December 2017; therefore, all comparative amounts are measured in line with the Group's accounting policies used in the preparation of the 2017 Consolidated Financial Statements.

For comparison purposes, the statements of financial position have been reclassified and re-aggregated within the new line items consistently with their composition in 2018, as showed below.

The portfolio of financial assets valued at fair value with an impact on total profitability corresponds, as per IFRS 9, to the ‘Held to collect and sale (HTCS)’ portfolio, i.e. to certificates of indebtedness characterized by cash flows consisting only of repayment of capital and interest and held for treasury investment or trading purposes. This portfolio also includes investments in equity securities, with the exception of capital notes represented by participating financial instruments, previously classified in the ‘Financial assets available for sale’ portfolio, for which the so-called ‘OCI Option’ for valuation at fair value exclusively in other comprehensive income (without reversal to the income statement of profits and losses at the time of sale) has been applied.

It is no longer possible to measure the units of UCITs previously allocated to the AFS portfolio at fair value through other comprehensive income, which consequently have been reclassified, starting from 1 January 2018, in the new portfolio of financial assets mandatorily valued at fair value in the income statement for a total of 13,7 million Euro.

The portfolio of financial assets valued at amortised cost corresponds to the IFRS 9 portfolio called “Held to collect (HTC)” including solely certificates of indebtedness with the same characteristics as the HTCS portfolio, but held as a lasting investment. In principle, that portfolio contains certificates of indebtedness that were previously allocated to receivable from banks and clients ("Loans and receivables").

The portfolio of financial assets valued at fair value in the income statement includes the pre-existing negotiation portfolio and the new portfolio of assets mandatorily valued at fair value in the income statement, formed by residual investments that cannot be included in other portfolios, and financial instruments that have not passed the so-called SPPI Test. In fact, if that test is failed, regardless of the business model identified at the origin of the financial instrument purchase, it has to be reclassified amongst financial assets valued at fair value in the income statement.

Consequently, when IFRS 9 was first applied, the financial asset portfolio valued at fair value in the income statement was fed for 58,8 million Euro as follows:

- from the pre-existing AFS portfolio for 14,0 million Euro of which 13,7 million related to shares of UCIs and 0,3 million as other certificates of indebtedness that failed the so-called SPPI test;
- from bank receivables for 17,1 million Euro for credits that failed the so-called SPPI test;
- from trade receivables for 43,2 million for credits that failed the so-called SPPI test;
- from capital notes represented by participating financial instruments resulting from debt restructuring transactions, entered at one euro each, for which the Group did not exercise the "OCI option";
- from other liabilities for 15,5 million Euro for liabilities on commitments and guarantees linked to the aforementioned receivables that did not pass the SPPI test.

Lastly, provisions for guarantees issued, previously entered under other liabilities were reclassified in the new specific items by deduction from where they were classified, except for the above-mentioned 15,5 million related to commitments on positions valued at fair value.

ASSETS (in thousands of Euro)	AMOUNTS AT			ASSETS (in thousands of Euro)
	31.12.2017	CLASSIFICATION	31.12.17 RE-AGGREGATED	
Cash and cash equivalents	50	-	50	Cash and cash equivalents
Financial assets held for trading	35.614	-	35.614	Financial assets held for trading at fair value through profit or loss
Financial assets at fair value	-	-	-	Financial assets designated as at fair value through profit or loss
n.a.	n.a.	58.807	58.807	Other financial assets mandatorily measured at fair value through profit or loss
Available for sale financial assets	456.549	(13.973)	442.576	Financial assets at fair value through other comprehensive income
Due from banks	1.777.876	(17.124)	1.760.752	Due from banks
Loans to customers	6.435.806	(43.239)	6.392.567	Loans to customers
Property, plant and equipment and intangible assets	152.364	-	152.364	Property, plant and equipment and intangible assets
Tax assets	438.623	-	438.623	Tax assets
Other assets	272.977	-	272.977	Other assets
Total assets	**9.569.859**	**(15.529)**	**9.554.330**	**Total assets**

LIABILITIES (in thousands of Euro)	AMOUNTS AT 31.12.2017	CLASSIFICATION	31.12.17 RE-AGGREGATED	LIABILITIES (in thousands of Euro)
Due to banks	791.977	-	791.977	Due to banks
Due to customers	5.293.188	-	5.293.188	Due to customers
Debt securities issued	1.639.994	-	1.639.994	Debt securities issued
Financial liabilities held for trading	38.171	-	38.171	Financial liabilities held for trading
Tax liabilities	40.076	-	40.076	Tax liabilities
Other liabilities	368.543	(15.544)	352.999	Other liabilities
Post-employment benefits	7.550	-	7.550	Post-employment benefits
n.a.	n.a.	590	590	Provisions for risks and charges for commitments and guarantees granted
Other provisions for risks and charges	21.641	(575)	21.066	Other provisions for risks and charges
Valuation reserves	(2.710)		(2.710)	Valuation reserves
Other Reserves	1.038.155		1.038.155	Other Reserves
Share premium	101.864	-	101.864	Share premium
Share capital	53.811	-	53.811	Share capital
(Treasury shares)	(3.168)	-	(3.168)	(Treasury shares)
Equity attributable to non-controlling interests	-	-	-	Equity attributable to non-controlling interests
Profit (Loss) for the period	180.767	-	180.767	Profit (Loss) for the period
Total liabilities and equity	**9.569.859**	**(15.529)**	**9.554.330**	**Total liabilities and equity**

As for the income statement, consistently with the relevant composition in 2018, the impact of the reversals on non-performing exposures due to the passage of time («discounting impact») (positive 1,3 million Euro at 31 March 2017) was reclassified from Net impairment losses/reversals on receivables to Interest income, and the impact of the measurement of the commitments and guarantees granted (positive 0,7 million Euro at 31 March 2017) was reclassified from Net impairment losses/reversals on other financial transactions to Net allocations to provisions for risks and charges.

Moreover, as was stated in the economic statements presented in that document, the net value adjustments on receivables related to NPL were reclassified under Interest income and proceeds assimilated; for a presentation that adheres better to the specific aspects of that business which sees net value adjustments as an essential part of revenue.

First-time adoption impact

Below is the impact of the first-time adoption of IFRS 9, distinguishing between the impact of the new impairment requirements and that of the measurement of financial assets following the SPPI test as well as the identification of the business model.

These impacts, which concern both the amount and 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 alignment of calculation methods at the Group level;

- 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 2,9 million Euro net of taxes on the Banca IFIS Group's consolidated equity.

ASSETS (in thousands of Euro)	AMOUNTS AT	IFRS 9 IMPACT		AMOUNTS AT
	31.12.17 RE-AGGREGATED	MEASUREMENT	IMPAIRMENT	01.01.2018 RE-AGGREGATED
Cash and cash equivalents	50	-	-	50
Financial assets held for trading at fair value through profit or loss	35.614	-	-	35.614
Financial assets designated as at fair value through profit or loss	-	-	-	-
Other financial assets mandatorily measured at fair value through profit or loss	58.807	-	-	58.807
Financial assets at fair value through other comprehensive income	442.576	-	(503)	442.073
Due from banks	1.760.752	-	(972)	1.759.780
Loans to customers	6.392.567	(49)	9.119	6.401.637
Property, plant and equipment and intangible assets	152.364	-	-	152.364
Tax assets	438.623	16	1.333	439.972
Other assets	272.977	-	-	272.977
Total assets	**9.554.330**	**(33)**	**8.977**	**9.563.274**

LIABILITIES (in thousands of Euro)	AMOUNTS AT	IFRS 9 IMPACT		AMOUNTS AT
	31.12.17 RE-AGGREGATED	MEASUREMENT	IMPAIRMENT	01.01.2018 RE-AGGREGATED
Due to banks	791.977	-	-	791.977
Due to customers	5.293.188	-	-	5.293.188
Debt securities issued	1.639.994	-	-	1.639.994
Financial liabilities held for trading	38.171	-	-	38.171
Tax liabilities	40.076	-	3.049	43.125
Other liabilities	352.999	-	-	352.999
Post-employment benefits	7.550	-	-	7.550
Provisions for risks and charges for commitments and guarantees granted	590	-	2.954	3.544
Other provisions for risks and charges	21.066	-	-	21.066
Valuation reserves	(2.710)	(2.275)		(4.985)
Other Reserves	1.038.155	2.242	2.974	1.043.371
Share premium	101.864	-	-	101.864
Share capital	53.811	-	-	53.811
Treasury shares	(3.168)	-	-	(3.168)
Equity attributable to non-controlling interests	-	-	-	-
Profit (Loss) for the period	180.767	-	-	180.767
Total liabilities and equity	**9.554.330**	**(33)**	**8.977**	**9.563.274**

Impact of the first-time adoption of IFRS 15

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 supersedes all existing revenue recognition requirements in IFRSs. The Group conducted a careful analysis in 2017 and concluded that the standard will not have a material impact based on the type of products it offers.

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 concerning the carrying amounts of some items recognised in the Consolidated Interim Report at 31 March 2018, 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 March 2018.

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 Segment;
- receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable;
- non-performing assets related to the Enterprises Segment;
- provisions for risks and charges;
- post-employment benefits;
- goodwill and other intangible assets.

Concerning specifically the measurement of the NPL Segment's 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.

In the first quarter of 2018, the Bank refined the model for estimating the cash flows of receivables undergoing non-judicial operations: specifically, it updated the historical data series and refined the clusterisation of the portfolio to account for the most recent acquisitions on secondary markets. In addition, the Bank developed a model for estimating cash flows and applied it to part of the positions undergoing judicial operations. Specifically, it uses the new statistical model to estimate the cash flows of all the positions for which a writ has already been or will be issued starting from 1 January 2018. These positions were previously recognised at cost up to the identification of the individual cash flows. The application of the new model allows for the early identification of cash flows in a collective manner. The refinement was made possible after collecting significant amounts of data, which allow to make sufficiently reliable estimates. The other positions undergoing judicial operations continue to be recognised at cost until said requirements are met or a garnishment order is issued.

This refinement caused a change in the estimate of cash flows that, discounted at the original IRR of the positions, resulted in an overall 19,7 million Euro positive change in amortised cost, which was recognised in profit or loss in accordance with IAS/IFRS. Moreover, in line with the change in positive cash flows, the Group recognised 9,2 million Euro in previously deferred costs associated with judicial collection actions through profit or loss.

Group equity and income situation

The main line items are commented on below. Please see Accounting Policies in this Consolidated Interim Report for details on the restatement of the comparative information at 31 December 2017 following the entry into force of the new accounting standard IFRS 9.

Reclassified Statement of financial positions items

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2018	31.12.2017	ABSOLUTE	%
Financial assets held for trading through profit or loss	34.987	35.614	(627)	(1,8)%
Financial assets mandatorily measured at fair value through profit or loss	115.597	58.807	56.790	96,6%
Financial assets at fair value through other comprehensive income	453.847	442.576	11.271	2,5%
Due from banks	1.565.449	1.760.752	(195.303)	(11,1)%
Loans to customers	6.457.208	6.392.567	64.641	1,0%
Property, plant and equipment and intangible assets	152.255	152.364	(109)	(0,1)%
Tax assets	408.270	438.623	(30.353)	(6,9)%
Other assets	333.189	273.027	60.162	22,0%
Total assets	**9.520.802**	**9.554.330**	**(33.528)**	**(0,4)%**
Due to banks	820.190	791.977	28.213	3,6%
Due to customers	5.022.110	5.293.188	(271.078)	(5,1)%
Debt securities issued	1.774.973	1.639.994	134.979	8,2%
Provisions for risks and charges	26.802	21.656	5.146	23,8%
Tax liabilities	48.140	40.076	8.064	20,1%
Other liabilities	415.598	398.720	16.878	4,2%
Equity	1.412.989	1.368.719	44.270	3,2%
Total liabilities and equity	**9.520.802**	**9.554.330**	**(33.528)**	**(0,4)%**

Financial assets mandatorily measured at fair value through profit or loss

The line item essentially includes the debt securities and the loans that did not pass the SPPI test, capital notes represented by participating financial instruments recorded at 1 Euro each, and UCITS units, pursuant to the new accounting standard IFRS 9. The increase compared to the end of the previous year was mainly attributable to the purchase of 54,2 million Euro worth of UCITS units during the quarter. Below is the breakdown of this line item.

FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2018	31.12.2017	ABSOLUTE	%
Debt securities	2.156	955	1.201	125,8%
UCITS units	68.132	13.729	54.403	396,3%
Loans	45.309	44.123	1.186	2,7%
Total	**115.597**	**58.807**	**56.790**	**96,6%**

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income totalled 453,8 million Euro at 31 March 2018, up 2,5% from 31 December 2017, and included the debt securities that passed the SPPI test as well as equity securities (shares) for which the Bank elected the so-called OCI option pursuant to IFRS 9.

Specifically, at 31 March 2018 **debt securities** amounted to 438,9 million Euro, up 2,6% from 31 December 2017 as a result of the purchases of securities issued by banks as well as the change in the fair value for the period.

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

Issuer/Maturity	1 year	2 years	3 years	5 years	over 5 years	Total
Government bonds	-	30.171	-	-	403.937	434.108
% of total	-	*6,9%*	-	-	*92,0%*	*98,9%*
Banks	-	-	-	-	4.828	4.828
% of total	-	-	-	-	*1,1%*	*1,1%*
Other issuers	-	-	-	-	-	-
% of total	-	-	-	-	-	-
Total	**-**	**30.171**	**-**	**-**	**408.765**	**438.936**
% of total	**-**	***6,9%***	**-**	**-**	***93,1%***	***100,0%***

This line item includes also **equity securities** relating to non-controlling interests, amounting to 14,9 million Euro (+1,1% compared to 31 December 2017). The change was largely attributable to the fair value adjustment of the securities in the portfolio.

Due from banks

At 31 March 2018, **receivables due from banks** totalled 1.565,4 million Euro, compared to 1.760,4 million Euro (re-aggregated amount) at 31 December 2017. 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.

Loans to customers

Total **loans to customers** amounted to 6.457,2 million Euro, up 1,0% from 6.392,6 million Euro (re-aggregated amount) at the end of 2017.

Specifically, both the NPL and Governance & Services segments saw an increase in exposures (+4,1 and +18,2%, respectively). As for the latter, the rise was attributable to the purchase of senior notes as part of a securitization transaction guaranteed by the State ("GACS") worth 90,7 million Euro, to the acquisition of the subsidiary Cap.Ital.Fin. S.p.A., which contributed 7,5 million Euro in loans at 31 March 2018, and to the acquisition of two performing retail portfolios totalling 31,1 million Euro, which more than compensated for the natural amortisation of the existing portfolios. Said performing portfolios were acquired as part of the NPL segment's ordinary purchasing operations, which often concern also mixed portfolios — although the performing portion is always small relative to the overall portfolio. The Enterprises Segment showed a slight decrease (-1,5%) mainly due to seasonality trends which specifically affected the Trade Receivables area .

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.

LOANS TO CUSTOMERS – BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2018	31.12.2017	ABSOLUTE	%
Enterprises	5.373.237	5.456.508	(83.271)	*(1,5)%*
- of which non-performing	*342.768*	*342.676*	*92*	*0,0%*
NPL	831.817	799.436	32.381	*4,1%*
- of which non-performing	*830.874*	*798.720*	*32.154*	*4,0%*
Governance & Services	252.154	136.623	115.531	*84,6%*
- of which non-performing	*32.338*	*23.582*	*8.756*	*37,1%*
Total loans to customers	**6.457.208**	**6.392.567**	**64.641**	***1,0%***
- of which non-performing	***1.205.980***	***1.164.978***	***41.002***	***3,5%***

Total net **non-performing exposures**, which are significantly affected by the receivables of the NPL Segment, amounted to 1.206,0 million Euro at 31 March 2018, compared to 1.165,0 million Euro at the end of 2017 (+3,5%).

For a detailed analysis of loans to customers, please see the section “Contribution of operating segments to Group results”.

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 25,2 million Euro, compared to 24,5 million Euro at 31 December 2017 (+3,1%). The increase was largely attributable to the goodwill arising from the acquisition of the subsidiary Cap.Ital.Fin S.p.A., provisionally estimated at 700 thousand Euro.

The item also refers to software (23,7 million Euro) as well as goodwill (829 thousand Euro) arising from the consolidation of the investment in IFIS Finance Sp.Z o.o..

Property, plant and equipment and investment property totalled 127,0 million Euro, down from 127,9 million Euro at 31 December 2017 because of the depreciation expense for the period.

At the end of the period, the properties recognised under property, plant and equipment and investment property included the important historical building “Villa Marocco”, located in Mestre – Venice and housing Banca IFIS's registered office.

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

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.
Current tax assets, totalling 51,9 million Euro (-27,2% from the end of 2017), included 22,9 million Euro in IRES/IRAP credits claimed in the tax return, 21,3 million Euro in credits acquired from third parties, and 6,3 million Euro in tax credits from the conversion of deferred tax assets (DTAs) in accordance with Italian Law no. 214/2011.
Deferred tax assets, totalling 356,4 million Euro (-3,0% from the end of 2017), included 214,7 million Euro in impairment losses on receivables that can be deducted in the following years, 80,7 million Euro in past tax losses that can be carried forward arising from the mergers of the former subsidiaries Interbanca S.p.A. and IFIS Factoring S.r.l., 22,4 million Euro in ACE (Aid for Economic Growth) benefits that can be carried forward, and the remainder referred to mismatch arrangements—including the difference recognised at the time of the business combination for the subsidiary IFIS Leasing (15,8 million Euro).

Current tax liabilities, amounting to 4,9 million Euro, represent the tax burden for the period (1,5 million Euro at 31 December 2017).

Deferred tax liabilities totalled 43,3 million Euro, up 12,1% from the end of 2017 largely because of the tax impact of the adoption of IFRS 9, as described in the paragraph "Impact of the first-time adoption of IFRS 9". The item deferred tax liabilities also included 23,6 million Euro in receivables for interest on arrears that will be taxed upon receipt, 9 million Euro in the revaluation of the property in Milan, 3 million Euro in mismatches of trade receivables, and 4,1 million Euro in other mismatch arrangements.

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

Here below is the breakdown of the different treatments by type and the relevant impact on CET1 and risk-weighted assets at 31 March 2018:

- the "deferred tax assets that rely on future profitability and do not arise from temporary differences" are deducted from CET1; at 31 March 2018, the 100% deduction—as the transitional regime (art. 478 of the CCR) expired—amounted to 159,0 million Euro; in this regard, please note that this deduction, will be gradually absorbed by the future use of such deferred tax assets;
- the "deferred tax assets that rely on future profitability and arise from temporary differences" are not deducted from CET1 and receive instead a 250% risk weight: at 31 March 2018, these assets were completely offset by the corresponding deferred tax liability.
- the "deferred tax assets pursuant to Italian Law 214/2011", concerning impairment losses on receivables that can be converted into tax credits, receive a 100% risk weight; at 31 March 2018, the corresponding weight totalled 214,7 million Euro;
- "current tax assets", amounting to 51,9 million Euro, receive a 0% weight as they are exposures to the Central Government.

Overall, the Tax Assets recognised at 31 March 2018 and 100% deducted from Own Funds resulted in an expense amounting to 2,15% as a proportion of CET1 (1,86% at 31 December 2017), which will decline in the future as said assets are utilised against taxable income.

Other assets and liabilities

Other assets amounted to 333,2 million Euro at 31 March 2018 (+22,0% compared to 31 December 2017).

The line item included 107,7 million Euro in receivables due from the parent company La Scogliera S.p.A. (including 54,1 million Euro as a result of the tax consolidation regime and 53,6 million Euro in tax credits claimed by the latter for excess tax payments from prior years); 9,9 million Euro in funds placed in an escrow account pending the resolution of a dispute; 3,1 million Euro in net receivables due from tax authorities for payments on account (stamp duty); and 31,8 million Euro in VAT credits claimed. Finally, the line item included 32,2 million Euro in deferred costs associated with the NPL segment's positions with a pending garnishment order.

At the end of the period, other liabilities totalled 369,7 million Euro (+4,7% from the end of 2017). 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	
	31.03.2018	31.12.2017	ABSOLUTE	%
Due to banks	**820.190**	**791.977**	**28.213**	**3,6%**
- Eurosystem	697.669	699.585	(1.916)	(0,3)%
- Other payables	122.521	92.392	30.129	32,6%
Due to customers	**5.022.110**	**5.293.188**	**(271.078)**	**(5,1)%**
- Rendimax and Contomax	4.605.693	4.948.386	(342.693)	(6,9)%
- Other term deposits	220.071	104.675	115.396	110,2%
- Other payables	196.346	240.127	(43.781)	(18,2)%
Debt securities issued	**1.774.973**	**1.639.994**	**134.979**	**8,2%**
Total funding	**7.617.273**	**7.725.159**	**(107.886)**	**(1,4)%**

Total funding, which amounted to 7.617,3 million Euro at 31 March 2018, down 1,4% compared to 31 December 2017, is represented for 65,9% by **Payables due to customers** (compared to 68,5% at 31 December 2017), for 10,8% by **Payables due to banks** (compared to 10,3% at 31 December 2017), and for 23,3% by **Debt securities issued** (21,2% at 31 December 2017).

Payables due to customers at 31 March 2018 totalled 5.022,1 million Euro (-5,1% compared to 31 December 2017). This was essentially because retail funding (Rendimax and Contomax) declined by 6,9% from the end of 2017 to 4.605,7 million Euro.

Payables due to banks totalled 820,2 million Euro (compared to 792,0 million Euro in December 2017), up 3,6% essentially because of the increase in term deposits at other banks: these amounted to 122,5 million Euro, compared to 92,4 million Euro at the end of the prior year (+32,6%).

Debt securities issued amounted to 1,775,0 million Euro. The item included 978,0 million Euro (850,0 million Euro at 31 December 2017) in notes issued by the special purpose vehicles as part of the securitisation transactions launched at the end of 2016.

The line item also included the 302,4 million Euro (including interest) senior bond that Banca IFIS issued in the first half of 2017 as well as the 406,0 million Euro (including interest) Tier 2 bond. The rest of debt securities issued at 31 March 2018 included 88,0 million Euro in bond loans and 571 thousand Euro in certificates of deposits issued by the merged entity Interbanca S.p.A..

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2018	31.12.2017	ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	3.514	590	2.924	495,6%
Legal disputes	15.750	15.463	287	1,9%
Other provisions	7.538	5.603	1.935	34,5%
Total provisions for risks and charges	**26.802**	**21.656**	**5.146**	**23,8%**

Below is the breakdown of the provision for risks and charges at the end of the period by type of dispute compared with the re-aggregated amounts for the prior year. For the sake of clarity, the provisions deriving from the acquisition of the former GE Capital Interbanca Group are reported separately. We did not deem it necessary to present separately the provisions derived from the acquisition of Cap.Ital.Fin S.p.A. in the first quarter of 2018, as the amounts involved were immaterial.

Provisions for credit risk related to commitments and financial guarantees granted

At 31 March 2018, this line item amounted to 3,5 million Euro and reflected the impairment losses on commitments and financial guarantees granted by the Group recognised in accordance with the new standard IFRS 9. At 31 December 2017, following the re-aggregation pursuant to the new layout required by the Bank of Italy, this line item included 0,6 million Euro in provisions for risks on unfunded commitments. The change from the end of 2017 was largely attributable to the first-time adoption of the new standard.

Legal disputes

Banca IFIS legal disputes

The provision outstanding at 31 March 2018, amounting to 7,6 million Euro, included 7,5 million Euro for 23 disputes concerning the Trade Receivables segment (the plaintiffs seek 28,0 million Euro in damages), and 94 thousand Euro for 9 disputes concerning the NPL Segment (the plaintiffs seek 188 thousand Euro in damages).

Former GE Capital Interbanca Group legal disputes

The provision outstanding at 31 March 2018, amounting to 8,1 million Euro, included 4,6 million Euro for 18 disputes involving IFIS Factoring and IFIS Rental, and 3,5 million Euro for 9 disputes involving the former Interbanca (the plaintiffs seek 50,5 million Euro in damages).

Other provisions

Other Banca IFIS provisions

At 31 March 2018, the Bank had set aside an additional 2,0 million Euro entirely related to the estimated contribution to the Resolution Fund. The change in “Other provisions” compared to 31 December 2017 was largely attributable to the recognition of said amount.

Other former GE Capital Interbanca Group provisions

The provisions outstanding at 31 March 2018, amounting to 5,5 million Euro, included 1,4 million Euro in personnel-related expenses and 4,1 million Euro in other provisions, including 3,3 million Euro in customer allowances. There were no significant changes compared to 31 December 2017.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 31 March 2018. Based on the opinion of the legal advisers assisting the subsidiaries, they are considered possible, and therefore they are only disclosed.

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

Legal disputes

Banca IFIS legal disputes

Banca IFIS recognises contingent liabilities amounting to 4,4 million Euro in claims, represented by 20 disputes: 13 refer to the Trade Receivables segment, for a total of 1,9 million Euro, 1 is a labour dispute, for 54 thousand Euro, and 6 refer to the NPL Segment, for 2,4 million Euro. Banca IFIS, supported by the legal opinion of its lawyers, made no provisions for these positions, as the risk of defeat is considered possible.

Former GE Capital Interbanca Group legal disputes

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

Lawsuit against Interbanca to cancel a settlement

A lawsuit was filed against 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 final expert witness report, which confirms the previous findings, was filed on 15 March 2018. At the hearing on 10 April 2018, the Court, despite the objections raised by the attorneys of the Plaintiffs over the additional court-appointed expert witness, adjourned the case to 12 June 2019.

The plaintiffs appealed against the first-instance ruling in favour of the Company, lowering their claims to 149 million Euro, 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 responsibility and have them sentenced 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 GE Capital Interbanca Group tax disputes

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

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

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

Therefore, for the years between 2007 and 2011, the Italian Revenue Agency assessed approximately 68 and 42 million Euro in additional withholding taxes against Interbanca Spa and IFIS Leasing Spa, respectively, as well as administrative penalties amounting to 150/250%.

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

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

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

Dispute concerning the write-off of receivables

Company involved IFIS Leasing Spa

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

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

Dispute concerning the VAT treatment of insurance mediation activities

Company involved IFIS Leasing Spa

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

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

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 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.

Equity

At 31 March 2018, consolidated **Equity** totalled 1.413,0 million Euro, up +3,2% from 1.368,8 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	
	31.03.2018	31.12.2017	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	101.864	101.864	-	0,0%
Valuation reserves:	(1.615)	(2.710)	1.095	(40,4)%
- Securities	*3.629*	*2.275*	1.354	59,5%
- Post-employment benefits	*49*	*20*	29	145,0%
- exchange differences	*(5.293)*	*(5.005)*	(288)	5,8%
Reserves	1.224.243	1.038.155	186.088	17,9%
(Treasury shares)	(3.168)	(3.168)	-	0,0%
Profit for the period	37.854	180.767	(142.913)	(79,1)%
Equity	**1.412.989**	**1.368.719**	**44.270**	**3,2%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2017	**1.368.719**
Change in opening balances	2.941
Increases:	**41.617**
Profit for the period	37.854
Change in valuation reserve:	3.658
- Securities	*3.629*
- Post-employment benefits	*29*
Other changes	105
Decreases:	**288**
Change in valuation reserve:	288
- exchange differences	*288*
Equity at 31.03.2018	**1.412.989**

Change in opening balance refers to the impact on equity of the first-time adoption of IFRS 9, as detailed in the paragraph “Impact of the first-time adoption of IFRS 9”.

The change in the valuation reserve for the period was attributable to the fair value adjustment of the financial instruments classified as Financial assets at fair value through other comprehensive income.

The change in the valuation reserve for exchange differences refers mainly to exchange differences deriving from the consolidation of the subsidiary IFIS Finance Sp. Z o.o..

Own funds and capital adequacy ratios

OWN FUNDS AND CAPITAL ADEQUACY RATIOS (in thousands of Euro)	AMOUNTS AT	
	31.03.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	819.248	859.944
Tier 1 Capital (T1)	866.984	898.356
Total own funds	**1.132.879**	**1.191.097**
Total RWA	**7.380.187**	**7.376.306**
Common Equity Tier 1 Ratio	11,10%	11,66%
Tier 1 Capital Ratio	11,75%	12,18%
Total Own Funds Capital Ratio	**15,35%**	**16,15%**

Consolidated own funds, risk-weighted assets and prudential 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. Specifically, Article 19 of the CRR requires to include the unconsolidated Holding of the Banking Group in prudential consolidation.

Concerning the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on Own Funds—Regulation (EU) 2017/2395 amending Regulation (EU) 575/2013 (CRR)—which allow Entities to include a portion of the increased expected credit loss provisions in their Common Equity Tier 1 capital pursuant to IFRS 9 and until the end of the transitional period (1 January 2018/31 December 2022), Banca IFIS informed the Bank of Italy of its decision to apply the transitional arrangements throughout the entire period.

Said portion will be included in CET1 gradually and by applying the following factors:

- 0,95 from 1 January 2018 through 31 December 2018;

- 0,85 from 1 January 2019 through 31 December 2019;
- 0,70 from 1 January 2020 through 31 December 2020;
- 0,50 from 1 January 2021 through 31 December 2021;
- 0,25 from 1 January 2022 through 31 December 2022;

The first-time adoption of IFRS 9 at 1 January 2018 did not cause the expected credit loss provisions to increase; therefore, the transitional arrangements — "static approach" — are not applicable.

At 31 March 2018, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 167 thousand Euro, net of the tax effect. Therefore, in accordance with the transitional arrangements —"dynamic approach" — the Group included 80 thousand Euro in Common equity Tier 1 (CET1) capital.

The 58,2 million Euro decrease in Own Funds compared to 31 December 2017 was largely attributable to:

- 51,0 million Euro arising from the decline in the proportion of eligible minority interests (Article 84 of the CRR) following the end of the transitional regime (Article 480 of the CRR);
- the 100% deduction of "deferred tax assets that rely on future profitability and do not arise from temporary differences" because of the end of the transitional regime (Article 478 of the CRR), totalling 159,0 million Euro — compared to 137,0 million Euro (80% under the transitional regime) deducted at 31 December 2017; in this regard, please note that this deduction will be gradually absorbed by the future use of such deferred tax assets.

Total risk-weighted assets rose by 3,6 million Euro, in line with risk assets.

The moderate increase in risk-weighted assets, combined with the decline in Own Funds—largely because of the end of the transitional regime (CRR – Part Ten)—caused the Total capital ratio to amount to 15,35% at 31 March 2018, down from 16,15% at 31 December 2017; similarly, the CET1 ratio declined from 11,66% to 11,10%.

When comparing the results, please note that the Bank of Italy, following the Supervisory Review and Evaluation Process (SREP) conducted in 2016 to review the capitalisation targets of the system's largest intermediaries, required the Banca IFIS Group to meet the following consolidated capital requirements in 2018, including a 1,875% capital conservation buffer:

- common equity tier 1 (CET 1) capital ratio of 7,2%, with a required minimum of 5,3%;
- Tier 1 capital ratio of 9,0%, with a required minimum of 7,1%;
- Total Capital ratio of 11,4%, with a required minimum of 9,5%.

Pursuant to the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on Own Funds, during the transitional period Banca IFIS must disclose the Own Funds and the relevant capital ratios it would report without applying the transitional arrangements. The moderate impact of the adoption of IFRS 9 did not give rise to differences between the results with and without these transitional arrangements.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS WITHOUT IFRS 9 TRANSITIONAL ARRANGEMENTS (in thousands of Euro)	AMOUNTS AT	
	31.03.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	819.248	859.944
Tier 1 Capital (T1)	866.984	898.356
Total own funds	**1.132.879**	**1.191.097**
Total RWA	**7.380.187**	**7.376.306**
Common Equity Tier 1 Ratio	11,10%	11,66%
Tier 1 Capital Ratio	11,75%	12,18%
Ratio - Total Own Funds	**15,35%**	**16,15%**

Here below is the breakdown of risk-weighted assets.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Total RWA per segment	4.471.725	833.895	408.116	5.713.736
Off-balance-sheet exposures: payable, guarantees granted				323.501
Other assets: sundry receivables, suspense accounts				253.617
Tax assets				220.185
Market risk				24
Operational risk (basic indicator approach)				848.822
Credit valuation adjustment risk on Interbanca derivatives				20.302
Total RWAs				**7.380.187**

As previously mentioned, article 19 of the CRR requires to include the unconsolidated Holding of the Banking Group in prudential consolidation. The capital adequacy ratios of the Banca IFIS Group alone, presented exclusively for information purposes, would be as showed in the following table.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS: BANCA IFIS GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	31.03.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	1.142.229	1.152.603
Tier 1 Capital (T1)	1.142.229	1.152.603
Total own funds	**1.542.229**	**1.552.792**
Total RWA	**7.375.193**	**7.369.921**
Common Equity Tier 1 Ratio	15,49%	15,64%
Tier 1 Capital Ratio	15,49%	15,64%
Total Own Funds Capital Ratio	**20,91%**	**21,07%**

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Reclassified income statements items

Net impairment losses on receivables of the NPL Segment were entirely 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.

Formation of net banking income

Net banking income totalled 139,4 million Euro, up 34,6% from 103,5 million Euro in the prior year.

This amount included 19,7 million Euro in the net positive impact arising from the refinement of the model for estimating cash flows, as detailed in the section "Contribution of operating segments to Group results". Excluding said impact, net banking income would have risen by 15,6%.

A positive contribution to this result came from the Enterprises segment's net banking income, which grew by 10,9% on the back of the increase in volumes—especially in the Trade Receivables and Leasing business areas.

In addition, net banking income included the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiaries over time, totalling 21,8 million Euro (26,1 million Euro at 31 March 2017).

NET BANKING INCOME (in thousands of Euro)	YEAR		CHANGE	
	31.03.2018	31.03.2017	ABSOLUTE	%
Net interest income	119.480	90.987	28.493	31,3%
Net commission income	19.820	14.219	5.601	39,4%
Other components of net banking income	78	(1.663)	1.741	(104,7)%
Net banking income	**139.378**	**103.543**	**35.835**	**34,6%**

Net interest income rose from 91,0 million Euro at 31 March 2017 to 119,5 million Euro at 31 March 2018 (+31,3%).

Net commission income totalled 19,8 million Euro, up 39,4% from 31 March 2018.

Commission income, totalling 23,3 million Euro (compared to 17,8 million Euro at 31 March 2017), 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, leases, as well as from other fees usually charged to customers for services.

Commission expense, totalling 3,5 million Euro compared to 3,6 million Euro in the prior-year period, largely referred to fees paid to banks and financial intermediaries such as management fees, fees paid to third parties for the distribution of leasing products, as well as brokerage operations carried out by approved banks and other credit brokers.

Formation of net profit from financial activities

The Group's **net profit from financial activities** totalled 128,4 million Euro, compared to 101,4 million Euro at 31 March 2017 (+26,7%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	YEAR		CHANGE	
	31.03.2018	31.03.2017	ABSOLUTE	%
Net banking income	139.378	103.543	35.835	34,6%
Net credit risk losses/reversals	(10.957)	(2.168)	(8.789)	405,4%
Net profit (loss) from financial activities	**128.421**	**101.375**	**27.046**	**26,7%**

Net credit risk losses totalled 11,0 million Euro (compared to 2,2 million Euro at 31 March 2017). They referred essentially to the Enterprises Segment.

Formation of net profit for the period

FORMATION OF NET PROFIT (in thousands of Euro)	YEAR		CHANGE	
	31.03.2018	31.03.2017	ABSOLUTE	%
Net profit (loss) from financial activities	**128.421**	**101.375**	**27.046**	**26,7%**
Operating costs	(73.421)	(55.644)	(17.777)	31,9%
Pre-tax profit (loss) for the period from continuing operations	**55.000**	**45.731**	**9.269**	**20,3%**
Income taxes for the period relating to continuing operations	(17.146)	(13.043)	(4.103)	31,5%
Profit (Loss) for the period attributable to non-controlling interests	-	1	(1)	(100,0)%
Profit (loss) for the period attributable to the Parent company	**37.854**	**32.687**	**5.167**	**15,8%**

The cost/income ratio totalled 52,7%, down from 53,7% at 31 March 2017 (recalculated based on re-aggregations implemented for IFRS 9 purposes).

OPERATING COSTS (in thousands of Euro)	YEAR		CHANGE	
	31.03.2018	31.03.2017	ABSOLUTE	%
Administrative expenses:	73.452	55.207	18.245	33,0%
a) personnel expenses	26.827	24.073	2.754	11,4%
b) other administrative expenses	46.625	31.134	15.491	49,8%
Net allocations to provisions for risks and charges	2.806	1.597	1.209	75,7%
Net impairment losses/reversals on property, plant and equipment and intangible assets	2.809	3.459	(650)	(18,8)%
Other operating income/expenses	(5.646)	(4.619)	(1.027)	22,2%
Operating costs	**73.421**	**55.644**	**17.777**	**31,9%**

Personnel expenses totalled 26,8 million Euro, up 11,4% (24,1 million Euro in March 2017). At 31 March 2018, the Group's employees numbered 1.541, up 13,2% from the prior-year period (1.361 units).

Other administrative expenses, totalled 46,6 million Euro, up 49,8% from 31,1 million Euro at 31 March 2017 because of, among other things, the reclassification to profit or loss of 9,2 million Euro in previously deferred costs as a result of the application of the new model for estimating the NPL segment's positions undergoing judicial collection operations; in addition, there was an increase in the costs associated with judicial collection operations for the NPL segment's receivables, which are preferred over non-judicial operations.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	YEAR		CHANGE	
	31.03.2018	31.03.2017	ABSOLUTE	%
Expenses for professional services	**16.489**	**12.335**	**4.154**	**33,7%**
Legal and consulting services	11.678	6.854	4.824	70,4%
Auditing	158	294	(136)	(46,3)%
Outsourced services	4.653	5.187	(534)	(10,3)%
Direct and indirect taxes	**13.959**	**4.949**	**9.010**	**182,1%**
Expenses for purchasing goods and other services	**16.177**	**13.850**	**2.327**	**16,8%**
Customer information	4.043	2.249	1.794	79,8%
Software assistance and hire	3.236	3.257	(21)	(0,6)%
Postage and archiving of documents	2.427	1.038	1.389	133,8%
Property expenses	1.789	1.621	168	10,4%
Advertising and inserts	1.060	555	505	91,0%
Employee travel	822	552	270	48,9%
Car fleet management and maintenance	791	862	(71)	(8,2)%
Telephone and data transmission expenses	710	659	51	7,7%
Securitisation costs	321	427	(106)	(24,8)%
External business trips and transfers	48	316	(268)	(84,8)%
FITD and Resolution fund	6	18	(12)	(66,7)%
Transitional services agreement	-	1.075	(1.075)	(100,0)%
Other sundry expenses	924	1.221	(297)	(24,3)%
Total administrative expenses	**46.625**	**31.134**	**15.491**	**49,8%**

The subline item **“Legal and consulting”** expenses was up compared to the prior-year period because of the increase in costs associated with the rationalisation of the Group's IT systems as well as, as already mentioned, the costs associated with the judicial collection actions for the NPL segment's receivables. Specifically, in accordance with the application of the statistical model for estimating cash flows also to some positions undergoing judicial operations, which were previously recognised at cost, the Group recognised 3,2 million Euro in costs associated with judicial collection operations through profit or loss. These costs had been previously deferred until the issue of the Garnishment Order (identification of the individual cash flows).

The subline item “**Outsourced services**” declined compared to the prior-year period, largely because the NPL segment scaled down non-judicial debt collection operations in favour of judicial operations.

“**Direct and indirect taxes**” included 10,7 million Euro (1 million Euro at 31 March 2017) in registration fees paid for the expanded judicial debt collection operations and the refinement of the model used to estimate the NPL segment's positions undergoing judicial operations for 6,0 million Euro, as well as 2,2 million Euro in stamp duty costs for retail funding that are charged back to customers as from 1 January 2018.

The “**Transitional services agreement**” concerning 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 expired at the end of 2017.

Net allocations to provisions for risks and charges totalled 2,8 million Euro (compared to 1,6 million Euro in March 2017). The item included 2,0 million Euro set aside for the contribution to Italy's Interbank Deposit Protection Fund as well as 1,1 million Euro for legal disputes largely referring to the Enterprises segment, including approximately 0,3 million Euro in net reversals.

Other net operating income totalled 5,6 million Euro (4,6 million Euro at 31 March 2017) and referred mainly to revenue from the recovery of expenses charged to third parties. The relevant cost item is included in other administrative expenses, namely under legal expenses and indirect taxes, as well as recoveries of expenses associated with leasing operations. In addition, the line item included 2,2 million Euro in chargebacks of stamp duty costs for retail funding, which the Bank continued bearing until 31 December 2017.

Pre-tax profit for the period stood at 55,0 million Euro, compared to 45,7 million Euro at 31 March 2017.

Income tax expense amounted to 17,1 million Euro, compared to 13,0 million Euro at 31 March 2017. The Group's tax rate declined from 28,5% at 31 March 2017 to 31,18% at 31 March 2018.

The net profit for the period attributable to the Parent amounted to 37,9 million Euro.

Significant events occurred in the period

The Banca IFIS Group 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:

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, on 2 February 2018 the Bank finalised the acquisition of 100% of Cap.Ital.Fin S.p.A., a company on the register as per Article 106 of the Consolidated Law on Banking that operates across Italy and specialises 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 was notified to the Bank of Italy and is expected to close in the summer of 2018.

Issuer rating

In February 2018, the agency Fitch Rating Inc. confirmed the 'BB+ outlook stable' rating obtained by Banca IFIS on 28 September 2017; evidence of the Bank's market solidity and its positive growth and development project.

Significant subsequent events

Preferred unsecured senior bond placement

In April 2018, Banca IFIS announced and successfully completed the placement of its first preferred unsecured senior bond issue. The 300 million Euro bond has a 5-year maturity and a 2% fixed coupon rate, and the issue price was 99.231%. 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. Fitch assigned a “BB+” long-term rating to the bond.

Reverse merger

Concerning the announced reverse merger of La Scogliera S.p.A. into Banca Ifis S.p.A., as per the press releases dated 8 and 9 February 2018, on 9 April 2018 the Board of Directors received an update on the stage of completion of the transaction and, specifically, on the fact that the merger could be finalised in the second half of 2018, instead of the first half of the current year as originally estimated, as the parties involved are discussing in detail how to complete the transaction.

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

Venice - Mestre, 10 May 2018

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Giovanni Bossi

Statement by the Manager charged with preparing the Company's financial reports

The undersigned Mariacristina Taormina, Manager charged with preparing the financial reports of Banca IFIS S.p.A., having also taken into account the provisions of Art. 154 bis, paragraph 2 of Italian Legislative Decree no.58 dated 24 February 1998, confirms that the financial information included into the Consolidated Interim Report as at 31 March 2018 corresponds to the related books and accounting records.

Venice - Mestre, May 10th, 2018

Manager charged with preparing the
Company's financial reports
Mariacristina Taormina