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BANCA IFIS

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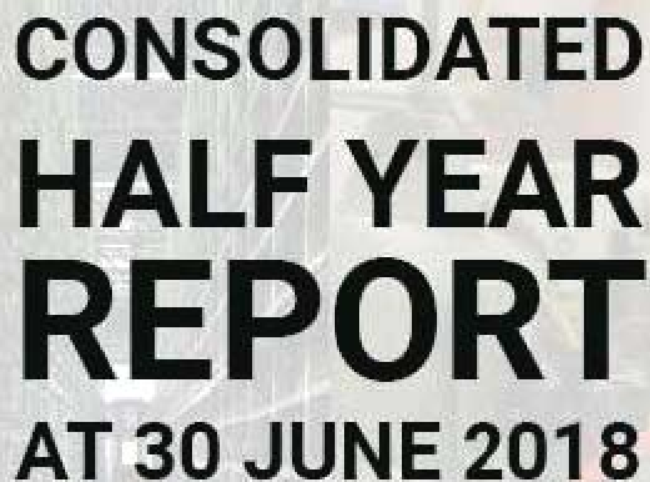

CONSOLIDATED HALF YEAR REPORT AT 30 JUNE 2018

www.bancaifis.it

Banca IFIS S.p.A - Registered office in Via Terraglio 63, 30174 Mestre, Venice - Registration number in the Companies Registered of Venice and Tax Code 02505630109 - VAT number 02992620274 - REA (Administrative Economic Index) number: VE - 0247118 - Fully paid-up share capital Euro 53.811.095 - Registry of Banks no. 5508 - Parent Company of the Banca IFIS Banking Group, enrolled in the registry of Banking Groups - Member of the Interbank Deposit Protection Fund, of the Italian Banking Association, of the Italian Factoring Association, of Factors Chain International. Member of the National Compensation Fund.

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BANCA IFIS

Corporate Bodies

Board of Directors

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

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

General Manager	Alberto Staccione

Board of Statutory Auditors

Chairman	Giacomo Bugna
Standing Auditors	Giovanna Ciriotto
	Massimo Miani
Alternate Auditors	Guido Gasparini Berlingieri
	Valentina Martina

Independent Auditors	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

Member of FCI

Interim Directors' report on the Group

Introductory notes on how to read the data

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

- **First-time adoption of IFRS 9**: effective 1 January 2018, the Group adopted the new accounting standard "IFRS 9 Financial Instruments" (IFRS 9). As permitted under the transitional provisions of IFRS 9, the Group elected not to restate the comparative information at 31 December 2017; therefore, the amounts for 2017, calculated under IAS 39, are not fully comparable. The impact of the restatement of the carrying amounts at 1 January 2018 has been recognised in initial retained earnings and in other reserves included in other comprehensive income. For more details, please refer to the paragraph Accounting Policies in the Notes to the Condensed Consolidated Interim Financial Statements at 30 June 2018

  For comparison purposes, the line items of the statement of financial position presented in this Report are compared with those at 1 January 2018, whereas in the case of the income statement, the comparative information has been re-aggregated to ensure accounting consistency with the corresponding amounts at 30 June 2018.

  In addition, following the introduction of the category of the so-called POCI – "purchased or originated credit-impaired" financial assets under the new standard IFRS 9, the new write-off policies adopted by the Group, and in accordance with the 5th update to Circular 262 of the Bank of Italy, the presentation of gross non-performing exposures and the relevant impairment losses has changed significantly starting from 1 January 2018.

- **Redefinition of operating segments**: in accordance with the new structure used by the Head Office to analyse the Group's results, effective 1 January 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 and 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. S.p.A., 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, concerning the impact of the first-time adoption of IFRS 9, in the case of the statement of financial position, the comparative information is that at 1 January 2018 to enable comparison on a consistent basis; meanwhile, in the case of the income statement, the comparative information has been re-aggregated to ensure accounting consistency with the corresponding amounts at 30 June 2018.

- **Refinement of the method for estimating cash flows associated with the NPL segment's receivables**: in the first half 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. At March 2018, this recalibration resulted in an approximately 3,1 million Euro positive impact recognised through profit or loss.

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 34,7 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 14,8 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 to Group results”.

- **Sale of NPL portfolios**: due to dynamics recorded in the non performing credit market, which experienced a significant reduction in the number of transactions, in the first six month period of 2018 profit from NPL portfolios’ sale was 2,0 million Euro, in reduction of 88,9% compared to 17,6 million of the first half 2017. Please refer to the section “Contribution of operating segments to Group results” for details.
- **Change in Net credit risk losses/reversal:** the item recorded in the two half-year period opposite movements (40,0 million Euro of net credit risk losses at 30 June 2018 compared to 12,8 million of net credit risk reversal at 30 June 2017). With regard to first half of 2018, it was negatively affected by a credit loss on a individually significant position of 14 million Euro. On the opposite, the first six months of 2017 were positively affected by the reversal of the impairment on an individually significant exposure due to the successful conclusion of the related restructuring process for 19 million Euro (in addition to further 2 million Euro recorded in the net banking income).
- **Valuation of equity instruments at fair value through profit and loss**: in the first six month period of 2018, a positive change in fair value of a equity interest of 11,3 million Euro was recorded as a consequence of constant improvement in performances of the entity.
- **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 six months of the year, we were extremely active in each segment, evolving our individual businesses, supporting firms that can now work with more confidence and sustainable business models. The Group has developed new alliances to accelerate the growth of the leasing business, working together with high-standing partners. Always concerning the leasing segment, innovation led us to replace our technological platform as well as improve and streamline all operational processes.

We acquired control of Credifarma—to be consolidated in the second half of 2018—to strengthen our presence in the pharmacy lending sector. In the first six months of the year, we announced the acquisition of the servicer FBS and finalised the acquisition of 100% of Cap.Ital.Fin. This allows the Group to enter the salary-backed loan business, supporting the NPL segment. Finally, in July we launched a new initiative in the insurance sector. The economic and other benefits of all these activities will start materialising in the second half of 2018.

As for NPLs, in July the Group finalised the acquisition of non-performing loan portfolios with a par value of nearly 600 million Euro. Over the next few months, special emphasis will be placed on providing new debt restructuring solutions to entities that currently hold UTPs, so as to identify the best possible solutions to give new momentum to Italian businesses.

Unfortunately, in the second quarter, our performance was affected by a series of particularly material events that are unlikely to happen again with the same intensity. I am happy with the results of our ordinary activities in the first six months of 2018, and we confirm our guidance across all businesses for the second half of the year.

Highlights - reclassified data

Net impairment losses/reversals on receivables of the NPL segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

- **Net banking income** totalled 278,1 million Euro, +9,8% compared to the first half of 2017 (253,2 million Euro at 30 June 2017). The positive result was largely due to the outstanding performance of the NPL segment—as well as the contribution from the Enterprises segment's Trade Receivables and Leasing areas. The result for the first half of the year was negatively affected by the lower impact of the reversal of the PPA, i.e. 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 former Interbanca Group over time (44,1 million Euro at 30 June 2018, compared to 57,8 million Euro at 30 June 2017, -23,8%) influenced in the previous first half 2017 by some prepayments.
- **Net impairment losses** amounted to -40,0 million Euro, compared to 12,1 million Euro in net reversals in the prior-year period, and essentially referred to loans to customers of the Enterprises segment. This was attributable to two factors: the higher provisions set aside (14 million) on an individually significant position in the first six months of 2018, compared to 26,8 million Euro in reversals in 2017 in the Corporate Banking area. In the first six months of 2018, the Enterprises segment’s cost of credit calculated under IFRS 9 amounted to 138 bps,

compared to 31 bps under IAS 39 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** totalled 144,2 million Euro (119,5 million Euro at 30 June 2017, +20,7%), resulting in a cost/income ratio of 51,8% (49,0% in the prior-year period). Personnel expenses rose to 55,5 million Euro (49,5 million Euro in June 2017, +12,1%), consistently with the addition of new hires (including those of the new subsidiary Cap.Ital.Fin.); at 30 June 2018 Group employees numbered 1.577 (up 173 people). Administrative expenses amounted to 95,1 million Euro, up 36,1% from 69,9 million Euro in the prior-year period. This was the result of the increase reported by the NPL segment, driven by rising judicial debt collection costs as well as the adoption of the new statistical model for estimating the NPL segment's positions undergoing judicial operations in the NPL area. These costs totalled 14,8 million (that impact on legal expenses and registration fees) and had been previously deferred until the issue of the Garnishment Order.

  In addition, the period saw an increase in the expenses associated with consulting services related to the adoption of new technological systems and the help provided to the Group's internal employees in the various projects launched during the first half of the year.

Pre-tax profit totalled 93,9 million Euro in the first six months of 2018, compared to 145,9 million Euro in the prior-year period.

At 30 June 2018, the **Group net profit for the period** totalled 66,2 million Euro, down 36,1% from 103,7 million Euro at 30 June 2017.

As for the contribution of **individual segments**[1] to the operating and financial results at 30 June 2018, here below are the highlights:

The Enterprises segment's net banking income, accounting for 59,3% of the total, amounted to 165,1 million Euro, slightly down from the prior-year period (-3,9%):

- specifically, **Trade Receivables** generated 80,3 million Euro in net banking income (78,8 million Euro in the first half of 2017, +1,9%); the segment's turnover rose to 6,1 billion Euro (+8,8% from 30 June 2017), while the number of corporate customers rose to over 5.600. Outstanding trade receivables amounted to 3,4 billion Euro, in line with 31 December 2017. To support the entities that do business with Italy's Public Administration, the Group continued developing the TiAnticipo web portal, through which companies can upload their government-certified invoices and rapidly obtain financing;
- as for **Leasing**, the merger of IFIS Leasing into Banca IFIS was finalised in May, with the adoption of a new technological platform. The **Leasing** Area's net banking income totalled 26,2 million Euro, up 7,0% (+1,7 million Euro) compared to 30 June 2017. The increase was driven by net interest income (+0,8 million Euro) as well as commission income (+0,9 million Euro), which benefited from the rise in lending volumes, and the higher number of customers;

[1] 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.

- **Corporate Banking**'s net banking income totalled 52,5 million Euro, down 7,2 million Euro compared to 30 June 2017. The decline was largely attributable to the lower 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 former subsidiary over time (so-called “reversal PPA”), down 12,3 million Euro from the prior-year period—which was to be expected. In the first half of 2017, Corporate Banking reported 26,8 million Euro in net reversals, largely because of an individually significant reversal of impairment losses on receivables.

Loans to businesses totalled 5.599,7 million Euro at 30 June 2018, +2,5% compared to the restated data of 1 January 2018.

The NPL Area[2], dedicated to acquiring and converting mostly unsecured non-performing loans into sustainable settlement plans, transferred all its operations to the subsidiary IFIS NPL S.p.A. effective 1 July 2018. With 119,3 million Euro in net banking 79,0 million Euro in 2017, +51,1%) the NPL Area was the Group's fastest-growing segment, thanks to the higher number of court-issued garnishment orders as well as the strong performance in converting existing portfolios. Cash receipts rose from approximately 54 million Euro in the first half of 2017 to nearly 81 million Euro in the first six months of 2018. During the semester, the Group further refined the statistical measurement models for its assets under management: specifically, it adopted a new model for estimating the positions undergoing judicial operations, resulting in an approximately 34,7 million Euro positive impact through profit or loss.

During the period, the Bank continued diversifying its funding sources and making them more flexible. At 30 June 2018, the Group's funding structure was as follows:

- 59,4% retail;
- 14,0% debt securities;
- 12,8% ABS;
- 8,9% TLTRO;
- 4,9% other.

As for **gross non-performing exposures**, following the introduction of the category of the so-called POCI – “purchased or originated credit-impaired” financial assets under the new standard IFRS 9, the new write-off policies adopted by the Group, and in accordance with the 5th update to Circular 262 of the Bank of Italy, the presentation of gross non-performing exposures and the relevant impairment losses has changed significantly starting from 1 January 2018. As a result, gross non-performing exposures in the Enterprises segment accounted for 10,5% of total exposures at 30 June 2018, compared to 20,1% at 31 December 2017.

Overall, the **gross non-performing loans of the enterprises segment** totalled 615,7 million Euro, with 247,6 million Euro in impairment losses and a coverage ratio of 40,2% at 30 June 2018.

Below is the breakdown of **net non-performing loans in the Enterprises segment**[3] (totalling 368,1 billion Euro):

[2] Net impairment losses on receivables of the NPL segment were reclassified to interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

[3] Please note that, after the new accounting standard IFRS 9 and the provisions in the 5th update to Circular 262 of the Bank of Italy became effective, the Group restated non-performing loans in accordance with the rules concerning POCI – Purchased or Originated Credit Impaired – assets as well as its new write-off policy.

- **net bad loans** amounted to 68,0 million Euro, compared to 62,9 million Euro of the restated data at 1 January 2018 (+8,2%); the net bad-loan ratio was 1,2%, unchanged from the restated data at 1January 2018. The coverage ratio stood at 70,1% (71,0% at 1 January 2018);
- **net unlikely to pay** totalled 143,7 million Euro, -11,9% from 163,1 million Euro at the data restated at 1 January 2018; the coverage ratio declined to 34,0% from 26,5% at 1 January 2018. The change was mainly attributable to the higher provisions set aside on an individually significant position;
- **net non-performing past due exposures** totalled 156,5 million Euro, compared with 112,0 million Euro at 1 January 2018 (+39,7%). The rise was partly due to the natural increase in past due exposures to Italy's Public Administration as well as to new private-sector past due positions, concentrated on individually significant counterparties. The coverage ratio of net non-performing past due exposures stood at 8,5% (10,6% at 1 January 2018).

At the end of the period, consolidated **equity** totalled 1.373,1 million Euro, compared to 1.368,7 million Euro at 31 December 2017 (+0,3%).

The **consolidated Common Equity Tier 1 (CET1), 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[4] at 30 June 2018, amounted to 15,13% for both the CET1 and T1 ratios, compared to 15,64% at 31 December 2017, while the consolidated Total Own Funds Ratio amounted to 20,28%, compared to 21,07% at 31 December 2017.

[4] The reported total own funds ratio refers only to the scope of the Banca IFIS Group, thus excluding the effects of the prudential consolidation in the parent La Scogliera S.p.A. Consolidated own funds, risk-weighted assets and solvency ratios at 30 June 2017 were 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 30 June 2018 including La Scogliera S.p.A. amounted to 11,11%, compared to 11,66% at 31 December 2017, total own fund Tier 1 capital ratio (T1) was 11,85% compared to 12,18% at 31 December 2017 while the Total Own Funds Ratio totalled 15,43%, compared to 16,15% at 31 December 2017.

Highlights

Net impairment losses/reversals on receivables of the NPL segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2018	01.01.2018	ABSOLUTE	%
Financial assets at fair value through other comprehensive income	433.827	442.073	(8.246)	(1,9)%
Due from banks	1.568.042	1.759.780	(191.738)	(10,9)%
Loans to customers	6.710.457	6.401.686	308.771	4,8%
Total assets	9.732.743	9.563.274	169.469	1,8%
Due to banks	882.324	791.977	90.347	11,4%
Due to customers	4.840.864	5.293.188	(452.324)	(8,5)%
Debt securities issued	2.095.844	1.639.994	455.850	27,8%
Equity	1.373.083	1.371.660	1.423	0,1%

CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	1st HALF		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	**278.117**	**253.219**	**24.898**	**9,8%**
Net credit risk losses	(40.036)	12.109	(52.145)	(430,6)%
Net profit (loss) from financial activities	**238.081**	**265.328**	**(27.247)**	**(10,3)%**
Operating costs	(144.176)	(119.455)	(24.721)	20,7%
Pre-tax profit from continuing operations	93.905	145.873	(51.968)	(35,6)%
Net profit for the period attributable to the Parent company	**66.209**	**103.657**	**(37.448)**	**(36,1)%**

QUARTERLY CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	2nd QUARTER		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	**138.739**	**149.676**	**(10.937)**	**(7,3)%**
Net credit risk losses	(29.079)	14.277	(43.356)	(303,7)%
Net profit (loss) from financial activities	**109.660**	**163.953**	**(54.293)**	**(33,1)%**
Operating costs	(70.755)	(63.811)	(6.944)	10,9%
Pre-tax profit from continuing operations	38.905	100.142	(61.237)	(61,2)%
Net profit for the period attributable to the Parent company	**28.355**	**70.970**	**(42.615)**	**(60,0)%**

CONSOLIDATED COMPREHENSIVE INCOME (in thousands of Euro)	30.06.2018	30.06.2017
Profit (Loss) for the period	**66.209**	**103.662**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	1.136	246
Other comprehensive income, net of taxes, to be reclassified to profit or loss	(12.897)	4.197
Comprehensive Income	**54.448**	**108.105**
Total consolidated comprehensive income attributable to non-controlling interests	-	5
Total consolidated comprehensive income attributable to the Parent	**54.448**	**108.100**

GROUP KPIs	30.06.2018	30.06.2017	31.12.2017
Ratio - Total Own Funds	15,4%	15,6%	16,2%
Ratio - Common Equity Tier 1	11,1%	14,8%	11,7%
Number of company shares (in thousands)	53.811	53.811	53.811
Number of shares outstanding at period end(1) (in thousands)	53.441	53.431	53.433
Book value per share	25,69	24,02	25,62
EPS	1,24	1,94	3,38

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

Results by business segments

Net impairment losses/reversals on receivables of the NPL segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

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 30.06.2018	-	-	30.625	30.625
Amounts at 01.01.2018	*-*	*-*	*35.614*	*35.614*
% Change	*-*	*-*	*(14,0)%*	*(14,0)%*
Financial assets mandatorily measured at fair value through profit or loss				
Amounts at 30.06.2018	81.049	-	49.471	130.520
Amounts at 01.01.2018	*58.758*	*-*	*-*	*58.758*
% Change	*37,9%*	*-*	*n.a.*	*122,1%*
Financial assets at fair value through other comprehensive income				
Amounts at 30.06.2018	14.785	-	419.042	433.827
Amounts at 01.01.2018	*13.297*	*-*	*428.776*	*442.073*
% Change	*11,2%*	*-*	*(2,3)%*	*(1,9)%*
Due from banks				
Amounts at 30.06.2018	-	-	1.568.042	1.568.042
Amounts at 01.01.2018	*-*	*-*	*1.759.780*	*1.759.780*
% Change	*-*	*-*	*(10,9)%*	*(10,9)%*
Loans to customers				
Amounts at 30.06.2018	5.599.703	851.417	259.337	6.710.457
Amounts at 01.01.2018	*5.462.239*	*799.436*	*140.011*	*6.401.686*
% Change	*2,5%*	*6,5%*	*85,2%*	*4,8%*
Due to banks				
Amounts at 30.06.2018	-	-	882.324	882.324
Amounts at 01.01.2018	*-*	*-*	*791.977*	*791.977*
% Change	*-*	*-*	*11,4%*	*11,4%*
Due to customers				
Amounts at 30.06.2018	-	-	4.840.864	4.840.864
Amounts at 01.01.2018	*-*	*-*	*5.293.188*	*5.293.188*
% Change	*-*	*-*	*(8,5)%*	*(8,5)%*
Debt securities issued				
Amounts at 30.06.2018	-	-	2.095.844	2.095.844
Amounts at 01.01.2018	*-*	*-*	*1.639.994*	*1.639.994*
% Change	*-*	*-*	*27,8%*	*27,8%*

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 30.06.2018	165.072	119.290	(6.245)	**278.117**
Amounts at 30.06.2017	*171.723*	*78.957*	*2.539*	***253.219***
% Change	*(3,9)%*	*51,1%*	*n.s.*	***9,8%***
Net profit (loss) from financial activities				
Amounts at 30.06.2018	126.106	119.290	(7.315)	**238.081**
Amounts at 30.06.2017	*183.233*	*78.957*	*3.138*	***265.328***
% Change	*(31,2)%*	*51,1%*	*n.s.*	***(10,3)%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Second quarter 2018	86.435	54.231	(1.927)	**138.739**
Second quarter 2017	*100.812*	*48.453*	*411*	***149.676***
% Change	*(14,3)%*	*11,9%*	*(568,9)%*	***(7,3)%***
Net profit (loss) from financial activities				
Second quarter 2018	58.471	54.231	(3.042)	**109.660**
Second quarter 2017	*114.939*	*48.454*	*560*	***163.953***
% Change	*(49,1)%*	*11,9%*	*(642,2)%*	***(33,1)%***

SEGMENT KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality [1]			
Amounts at 30.06.2018	1,38%	n.a.	n.a.
Amounts at 31.12.2017	*0,31%*	*n.a.*	*n.a.*
% Change	*1,07%*	*-*	*-*
Net bad loans/Loans to customers			
Amounts at 30.06.2018	1,2%	n.a.	5,1%
Amounts at 01.01.2018	*1,2%*	*n.a.*	*9,4%*
% Change	*0,0%*	*-*	*(4,3)%*
Coverage ratio on gross bad loans			
Amounts at 30.06.2018	(70,1)%	n.a.	(24,0)%
Amounts at 01.01.2018	*(71,0)%*	*n.a.*	*(6,7)%*
% Change	*0,9%*	*-*	*(17,3)%*
Net non-performing exposures/Net loans to customers			
Amounts at 30.06.2018	6,6%	99,9%	13,1%
Amounts at 01.01.2018	*6,2%*	*99,9%*	*16,9%*
% Change	*0,4%*	*0,0%*	*(3,8)%*
Gross non-performing exposures/Gross loans to customers			
Amounts at 30.06.2018	10,5%	99,9%	15,8%
Amounts at 01.01.2018	*9,9%*	*99,9%*	*19,2%*
% Change	*0,6%*	*0,0%*	*(3,4)%*
RWAs[2] [3]			
Amounts at 30.06.2018	4.675.418	854.318	557.071
Amounts at 01.01.2018	*4.450.750*	*801.915*	*424.484*
% Change	*5,0%*	*6,5%*	*31,2%*

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 include 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

Net impairment losses/reversals on receivables of the NPL segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2018		YEAR 2017			
	30.06	31.03	01.01.2018	30.09	30.06	31.03
ASSETS						
Other financial assets mandatorily measured at fair value through profit or loss	130.520	115.597	58.758	46.098	42.285	39.704
Financial assets at fair value through other comprehensive income	433.827	453.847	442.073	475.528	634.694	631.568
Due from banks	1.568.042	1.565.449	1.759.780	1.932.489	1.650.338	1.394.111
Loans to customers	6.710.457	6.457.208	6.401.686	5.922.069	6.047.860	5.803.700
Property, plant and equipment	130.399	127.005	127.881	128.243	109.566	109.675
Intangible assets	24.815	25.250	24.483	23.790	18.003	14.199
Tax assets	400.773	408.270	439.972	510.367	545.724	571.935
Other assets	333.910	368.176	308.641	324.664	380.100	274.960
Total assets	**9.732.743**	**9.520.802**	**9.563.274**	**9.363.248**	**9.428.570**	**8.839.852**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2018		YEAR 2017			
	30.06	31.03	01.01.2018	30.09	30.06	31.03
LIABILITIES AND EQUITY						
Due to banks	882.324	820.190	791.977	965.194	967.285	1.028.971
Due to customers	4.840.864	5.022.110	5.293.188	5.337.597	5.291.594	5.055.558
Debt securities issued	2.095.844	1.774.973	1.639.994	1.223.979	1.352.375	1.122.879
Tax liabilities	50.519	48.140	43.125	37.033	34.912	32.423
Other liabilities	490.109	442.400	423.330	460.712	489.343	346.383
Equity:	1.373.083	1.412.989	1.371.660	1.338.733	1.293.061	1.253.638
- Share capital, share premiums and reserves	*1.306.874*	*1.375.135*	*1.190.893*	*1.189.610*	*1.189.404*	*1.220.951*
- Profit for the period	*66.209*	*37.854*	*180.767*	*149.123*	*103.657*	*32.687*
Total liabilities and equity	**9.732.743**	**9.520.802**	**9.563.274**	**9.363.248**	**9.428.570**	**8.839.852**

CONSOLIDATED INCOME STATEMENT: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2018		YEAR 2017			
	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	**110.097**	**119.480**	**121.252**	**91.872**	**110.560**	**90.987**
Net commission income	**19.954**	**19.820**	**21.129**	**18.272**	**20.145**	**14.219**
Other components of net banking income	8.688	78	7.639	11.945	18.971	(1.663)
Net banking income	**138.739**	**139.378**	**150.020**	**122.089**	**149.676**	**103.543**
Net credit risk losses/reversals	(29.079)	(10.957)	(37.075)	(1.140)	14.277	(2.168)
Net profit (loss) from financial activities	**109.660**	**128.421**	**112.945**	**120.949**	**163.953**	**101.375**
Personnel expenses	(28.624)	(26.827)	(24.469)	(24.298)	(25.411)	(24.073)
Other administrative expenses	(48.460)	(46.625)	(48.511)	(34.257)	(38.718)	(31.134)
Net allocations to provisions for risks and charges	3.754	(2.806)	1.719	(2.922)	2.873	(1.597)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(3.116)	(2.809)	(2.688)	(2.822)	(2.483)	(3.459)
Other operating income/expenses	5.691	5.646	4.028	3.028	(72)	4.619
Operating costs	**(70.755)**	**(73.421)**	**(69.921)**	**(61.271)**	**(63.811)**	**(55.644)**
Pre-tax profit from continuing operations	**38.905**	**55.000**	**43.024**	**59.678**	**100.142**	**45.731**
Income taxes for the period relating to continuing operations	(10.550)	(17.146)	(11.387)	(14.210)	(29.168)	(13.043)
Profit for the period	**28.355**	**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	**28.355**	**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			
	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**138.739**	**139.378**	**150.020**	**122.089**	**149.676**	**103.543**
Enterprises	*86.435*	*78.637*	*88.894*	*88.881*	*100.811*	*70.911*
NPL	*54.231*	*65.059*	*56.140*	*29.408*	*48.454*	*30.504*
Governance & Services	*(1.927)*	*(4.318)*	*4.986*	*3.800*	*411*	*2.128*
Net profit (loss) from financial activities	**109.660**	**128.421**	**112.945**	**120.949**	**163.953**	**101.375**
Enterprises	*58.471*	*67.635*	*56.275*	*87.508*	*114.939*	*68.294*
NPL	*54.231*	*65.059*	*56.140*	*29.408*	*48.454*	*30.504*
Governance & Services	*(3.042)*	*(4.273)*	*530*	*4.033*	*560*	*2.577*

Group historical data

Net impairment losses/reversals on receivables of the NPL segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

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)	30.06.2018	30.06.2017	30.06.2016	30.06.2015	30.06.2014
Financial assets at fair value through other comprehensive income (IFRS 9)	433.827	634.694	-	-	-
Available for sale financial assets (IAS 39)	-	-	1.027.770	3.803.216	1.302.425
Loans to customers	6.710.457	6.047.860	3.355.998	3.152.145	2.538.371
Due to banks	882.324	967.285	43.587	457.384	1.979.493
Due to customers	4.840.864	5.291.594	3.928.261	6.037.552	6.910.171
Debt securities issued	2.095.844	1.352.375	-	-	-
Equity	1.373.083	1.293.061	562.197	524.266	397.927
	-	-	-	-	-
Net banking income	278.117	253.219	150.923	265.441	145.763
Net profit (loss) from financial activities	238.081	265.328	135.162	247.772	121.822
Profit (loss) for the period attributable to the Parent company	66.209	103.657	39.120	130.779	50.055
Cost/Income ratio	51,8%	49,0%	50,9%	19,5%	32,0%
Ratio - Total Own Funds	15,4%	15,6%	14,2%	16,1%	14,2%
Ratio - Common Equity Tier 1	11,1%	14,8%	13,2%	15,4%	13,8%

(1) For comparison purposes, the data for 2017 has been re-aggregated to ensure accounting consistency with the amounts at 30 June 2018 in order to account for the changes introduced by IFRS 9; the data for prior periods are those originally published.

APM – Alternative Performance Measures

The Banca IFIS Group has defined a number of indicators, listed in the tables of the Group's KPIs, that provide alternative performance measures (APM) to help investors identify significant operational trends and financial ratios. For the interim financial statements, some indicators presented in the Annual report are not considered representative.
For a proper understanding of these APMs, please consider the following:

- these measures are based exclusively on the Group's historical data and are not indicative of the Group's future performance;
- APMs are non-IFRS measures and, although they are derived from the Group's consolidated financial statements, they are not audited;
- APMs are not intended as a substitute for IFRS measures;
- said APMs shall be considered in conjunction with the Group's financial information derived from its consolidated financial statements;
- since these are non-IFRS measures, the definitions of the measures used by the Group may differ from, and therefore not be comparable to, those used by other companies/groups;
- the APMs used by the Group are consistent across all reporting periods for which the Group has disclosed financial information in these financial statements.

In accordance with the guidelines issued by ESMA (ESMA/2015/1415), below is a detailed explanation of how these measures were calculated in order to facilitate their understanding.

Cost/income ratio (in thousands of Euro)	30.06.2018	30.06.2017
A. Operating costs	144.176	119.455
B. Net banking income	278.117	253.219
Reclassified cost/income ratio (A/B)	**51,8%**	**47,2%**

Book value per share	30.06.2018	30.06.2017
A. Number of shares outstanding	53.440.983	53.430.944
B. Consolidated equity in thousands of Euro	1.373.083	1.293.061
Book value per share (B/A) Euro	**25,69**	**24,02**

Impact of regulatory changes

Here below are the regulatory changes introduced in the first half of 2018 impacting the Banca IFIS Group:

Effective 1 January 2018, the following international accounting standards became effective (the impact of their first-time adoption is detailed in the paragraph Accounting Policies of the Condensed Consolidated Interim Financial Statements at 30 June 2018):

- IFRS 9 “Financial Instruments”, issued by the IASB in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016, which superseded IAS 39 in governing the classification and measurement of financial instruments as well as the relevant impairment process; please refer to the paragraph Impact of the first-time adoption of IFRS 9;
- IFRS 15 “Revenue from Contracts with Customers”, endorsed by the European Commission with Regulation no.1905/2016, which replaced IAS 18 “Revenue” and IAS 11 “Construction Contracts”; please refer to the paragraph Impact of the first-time adoption of IFRS 15;

Contribution of operating segments to Group results – reclassified data

Net impairment losses/reversals on receivables of the NPL segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they 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. S.p.A., 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, concerning the impact of the first-time adoption of IFRS 9, in the case of the statement of financial position, the comparative information is that at 1 January 2018 to enable comparison on a consistent basis; meanwhile, in the case of the income statement, the comparative information has been re-aggregated to ensure accounting consistency with the corresponding amounts at 30 June 2018.

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 30.06.2018	165.072	119.290	(6.245)	278.117
Amounts at 30.06.2017	*171.723*	*78.957*	*2.539*	*253.219*
% Change	*(3,9)%*	*51,1%*	*n.s.*	*9,8%*
Net profit (loss) from financial activities				
Amounts at 30.06.2018	126.106	119.290	(7.315)	238.081
Amounts at 30.06.2017	*183.233*	*78.957*	*3.138*	*265.328*
% Change	*(31,2)%*	*51,1%*	*n.s.*	*(10,3)%*

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Second quarter 2018	86.435	54.231	(1.927)	138.740
Second quarter 2017	*100.814*	*48.454*	*411*	*149.678*
% Change	*(14,3)%*	*11,9%*	*n.s.*	*(7,3)%*
Net profit (loss) from financial activities				
Second quarter 2018	58.471	54.231	(3.042)	109.660
Second quarter 2017	*114.939*	*48.454*	*560*	*163.955*
% Change	*(49,1)%*	*11,9%*	*n.s.*	*(33,1)%*

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 30.06.2018	-	-	30.625	30.625
Amounts at 01.01.2018	*-*	*-*	*35.614*	*35.614*
% Change	*-*	*-*	*(14,0)%*	*(14,0)%*
Other financial assets mandatorily measured at fair value through profit or loss				
Amounts at 30.06.2018	81.049	-	49.471	130.520
Amounts at 01.01.2018	*58.758*	*-*	*-*	*58.758*
% Change	*37,9%*	*-*	*n.a.*	*122,1%*
Financial assets at fair value through other comprehensive income				
Amounts at 30.06.2018	14.785	-	419.042	433.827
Amounts at 01.01.2018	*13.297*	*-*	*428.776*	*442.073*
% Change	*11,2%*	*-*	*(2,3)%*	*(1,9)%*
Due from banks				
Amounts at 30.06.2018	-	-	1.568.042	1.568.042
Amounts at 01.01.2018	*-*	*-*	*1.759.780*	*1.759.780*
% Change	*-*	*-*	*(10,9)%*	*(10,9)%*
Loans to customers				
Amounts at 30.06.2018	5.599.703	851.417	259.337	6.710.457
Amounts at 01.01.2018	*5.462.239*	*799.436*	*140.011*	*6.401.686*
% Change	*2,5%*	*6,5%*	*85,2%*	*4,8%*
Due to banks				
Amounts at 30.06.2018	-	-	882.324	882.324
Amounts at 01.01.2018	*-*	*-*	*791.977*	*791.977*
% Change	*-*	*-*	*11,4%*	*11,4%*
Due to customers				
Amounts at 30.06.2018	-	-	4.840.864	4.840.864
Amounts at 01.01.2018	*-*	*-*	*5.293.188*	*5.293.188*
% Change	*-*	*-*	*(8,5)%*	*(8,5)%*
Debt securities issued				
Amounts at 30.06.2018	-	-	2.095.844	2.095.844
Amounts at 01.01.2018	*-*	*-*	*1.639.994*	*1.639.994*
% Change	*-*	*-*	*27,8%*	*27,8%*

SEGMENT KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality [1]			
Amounts at 30.06.2018	1,38%	n.a.	n.a.
Amounts at 31.12.2017	*0,31%*	*n.a.*	*n.a.*
% Change	*1,07%*	-	-
Net bad loans/Loans to customers			
Amounts at 30.06.2018	1,2%	n.a.	5,1%
Amounts at 01.01.2018	*1,2%*	*n.a.*	*9,4%*
% Change	*0,0%*	-	*(4,3)%*
Coverage ratio on gross bad loans			
Amounts at 30.06.2018	(70,1)%	n.a.	(24,0)%
Amounts at 01.01.2018	*(71,0)%*	*n.a.*	*(6,7)%*
% Change	*0,9%*	-	*(17,3)%*
Net non-performing exposures/Net loans to customers			
Amounts at 30.06.2018	6,6%	99,9%	13,1%
Amounts at 01.01.2018	*6,2%*	*99,9%*	*16,9%*
% Change	*0,4%*	*0,0%*	*(3,8)%*
Gross non-performing exposures/Gross loans to customers			
Amounts at 30.06.2018	10,5%	99,9%	15,8%
Amounts at 01.01.2018	*9,9%*	*99,9%*	*19,2%*
% Change	*0,6%*	*0,0%*	*(3,4)%*
RWAs[2] [3]			
Amounts at 30.06.2018	4.675.418	854.318	557.071
Amounts at 01.01.2018	*4.450.750*	*801.915*	*424.484*
% Change	*5,0%*	*6,5%*	*31,2%*

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 include 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 organisational unit includes several areas: the Structured Finance area, which supports companies and private equity funds in arranging bilateral or syndicated loans; the Special Situations 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)	30.06.2018	30.06.2017	CHANGE	
			ABSOLUTE	%
Net interest income	115.675	132.505	(16.830)	(12,7)%
Net commission income	40.789	36.979	3.810	10,3%
Other components of net banking income	8.608	2.239	6.369	284,5%
Net banking income	**165.072**	**171.723**	**(6.651)**	**(3,9)%**
Net credit risk losses/reversals	(38.966)	11.510	(50.476)	(438,5)%
Net profit (loss) from financial activities	**126.106**	**183.233**	**(57.127)**	**(31,2)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2018	2nd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	56.824	77.325	(20.501)	(26,5)%
Net commission income	20.993	21.059	(66)	(0,3)%
Other components of net banking income	8.618	2.427	6.191	255,0%
Net banking income	**86.435**	**100.811**	**(14.376)**	**(14,3)%**
Net credit risk losses/reversals	(27.964)	14.127	(42.092)	(297,9)%
Net profit (loss) from financial activities	**58.471**	**114.939**	**(56.468)**	**(49,1)%**

The net banking income of the Enterprises Segment was down 3,9% (-6,7 million Euro) from the prior-year period as net interest income declined by 16,8 million Euro while net commission income and other components of income rose by 3,8 and 6,2 million Euro, respectively. According to the profitability analysis of the organisational units that comprise the segment, the change in Net Banking Income was as follows: Trade Receivables +1,5 million, Corporate Banking -7,2 million, Leasing +1,7 million, and Tax Receivables -2,7 million. As for the other positive components of net banking income, they largely refer to the Corporate Banking unit.

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 former subsidiary over time amounted to 40,5 million Euro at 30 June 2018, compared to 59,7 million Euro at 30 June 2017 (-32,1%). The difference between the fair value as measured in the business combination and the carrying amount of the recognised receivables amounted to 232,8 million Euro at 30 June 2018 (273,3 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 approximately 3 years.

During the period, the Enterprises Segment recognised 39,0 million Euro in credit risk losses, including 28,6 million Euro related to exposures of the Trade Receivables units, 5,3 million Euro to Corporate Banking, 5,0 million Euro to Leasing, and 0,1 million Euro to Tax Receivables. The performance of

Trade Receivables was affected by the higher amount of individual provisions set aside on bad loans and unlikely to pay, essentially referring to an individually significant position.

As for the change compared to the prior-year period, please consider that in the first half of 2017 Corporate Banking reported 26,8 million Euro in net reversals, largely because of an individually significant reversal of impairment losses on receivables.

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

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Net non-performing loans	68.008	62.873	5.135	8,2%
Net unlikely to pay	143.663	163.068	(19.405)	(11,9)%
Net non-performing past due exposures	156.471	111.986	44.485	39,7%
Total net non-performing exposures to customers (stage 3)	**368.142**	**337.927**	**30.215**	**8,9%**
Net performing loans (stages 1 and 2)	5.231.561	5.124.312	107.249	2,1%
Total on-balance-sheet loans to customers	**5.599.703**	**5.462.239**	**137.464**	**2,5%**

ENTERPRISES (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)
BALANCE AT 30.06.2018					
Nominal amount	227.276	217.535	170.934	**615.745**	5.260.890
As a proportion of total receivables at nominal amount	*3,9%*	*3,7%*	*2,9%*	***10,5%***	*89,5%*
Impairment losses	(159.268)	(73.872)	(14.463)	**(247.603)**	(29.329)
As a proportion of the nominal amount	*(70,1)%*	*(34,0)%*	*(8,5)%*	***(40,2)%***	*(0,6)%*
Carrying amount	68.008	143.663	156.471	**368.142**	5.231.561
As a proportion of net total receivables	*1,2%*	*2,6%*	*2,8%*	***6,6%***	*93,4%*
AT 01.01.2018					
Nominal amount	217.142	221.895	125.232	**564.269**	5.152.491
As a proportion of total receivables at nominal amount	*3,8%*	*3,9%*	*2,2%*	***9,9%***	*90,1%*
Impairment losses	(154.269)	(58.827)	(13.246)	**(226.342)**	(28.179)
As a proportion of the nominal amount	*(71,0)%*	*(26,5)%*	*(10,6)%*	***(40,1)%***	*(0,5)%*
Carrying amount	62.873	163.068	111.986	**337.927**	5.124.312
As a proportion of net total receivables	*1,2%*	*3,0%*	*2,1%*	***6,2%***	*93,8%*

The Enterprises Segment's net non-performing exposures totalled 368,1 million Euro in the first half of 2018, up 30,2 million Euro from 1 January 2018 (337,9 million Euro). Net unlikely to pay declined by 19,4 million Euro while net past due loans rose by 44,5 million Euro.

As already mentioned in “Introductory notes on how to read the data”, please note that following the introduction of the category of the so-called POCI – “purchased or originated credit-impaired” financial assets under the new standard IFRS 9, the new write-off policies adopted by the Group, and in accordance with the 5th update to Circular 262 of the Bank of Italy, the presentation of gross non-

performing exposures and the relevant impairment losses has changed significantly starting from 1 January 2018.

As for total or partial derecognitions without a forfeiture of the right to collect the receivable, to avoid continuing to recognise receivables that, even though they are still managed by debt collection structures, are highly unlikely to be recovered, at least every six months, the Bank identifies the exposures to be derecognised that have all of the following characteristics:

- the receivable has been written off;
- the receivable has been classified as a bad loan for more than 5 years;
- the counterparty has filed for bankruptcy, been put into administrative liquidation, or is subject to any insolvency proceedings.

At 30 June 2018, the Bank had written off 220,5 million Euro worth of receivables.

Please note that the Enterprises segment comprises receivables that qualify as POCI – Purchased or originated credit-impaired, referring to the non-performing assets that arose mainly from the business combination with the former GE Capital Interbanca Group at the acquisition date, including 93,4 million Euro in gross non-performing exposures and 25,8 million Euro in gross performing exposures (stage 2) at 30 June 2018; these amounts already incorporate the impact of lifetime ECLs, in accordance with the new accounting standard IFRS 9.

For the sake of completeness, below is the breakdown of non-performing exposures by risk category as reported in the consolidated financial statements at 31 December 2017:

ENTERPRISES (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING	PERFORMING
BALANCE AT 31.12.2017					
Nominal amount	813.492	378.359	131.250	**1.323.101**	5.259.641
As a proportion of total receivables at nominal amount	*12,4%*	*5,7%*	*2,0%*	***20,1%***	*79,9%*
Impairment losses	737.961	165.822	15.453	**919.236**	44.866
As a proportion of the nominal amount	*90,7%*	*43,8%*	*11,8%*	***69,5%***	*0,9%*
Carrying amount	75.531	212.537	115.797	**403.865**	5.214.775
As a proportion of net total receivables	*1,3%*	*3,8%*	*2,1%*	***7,2%***	*92,8%*

Gross non-performing exposures accounted for 10,5% of total exposures at 30 June 2018, compared to 20,1% at 31 December 2017.

In the first half of 2018, net bad loans amounted to 68 million Euro, resulting in a net bad-loan ratio of 1,2%.

KPI	30.06.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Cost of credit quality [1]	1,38%	0,31%	-	1,07%
Net bad loans/Loans to customers	1,2%	1,2%	-	0,0%
Coverage ratio on gross bad loans	(70,1%)	(71,0%)	-	0,9%
Net non-performing exposures/Net loans to customers	6,4%	6,2%	-	0,2%
Gross non-performing exposures/Gross loans to customers	10,5%	9,9%	-	0,6%
Total RWA per segment	4.675.418	4.450.750	224.668	5,0%

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 six months of 2018, the cost of credit calculated under IFRS 9 amounted to 138 bps, compared to 31 bps under IAS 39 at 31 December 2017. The comparative amount for the year 2017 reflects reversals of impairment losses on some individually significant positions; excluding these reversals, the cost of credit quality would have amounted to 89 bps.

To ensure a better understanding of the results for the first six months of the year, below we comment on the contribution of the individual business areas to the Enterprises segment.

Trade receivables

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2018	30.06.2017	CHANGE	
			ABSOLUTE	%
Net interest income	50.785	51.667	(882)	(1,7)%
Net commission income	29.522	27.136	2.386	8,8%
Net banking income	**80.307**	**78.803**	**1.504**	**1,9%**
Net credit risk losses/reversals	(28.615)	(13.019)	(15.596)	119,8%
Net profit (loss) from financial activities	**51.692**	**65.784**	**(14.092)**	**(21,4)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2018	2nd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	25.459	27.169	(1.710)	(6,3)%
Net commission income	14.965	13.827	1.138	8,2%
Net banking income	**40.424**	**40.996**	**(572)**	**(1,4)%**
Net credit risk losses/reversals	(21.622)	(7.636)	(13.986)	183,1%
Net profit (loss) from financial activities	**18.802**	**33.360**	**(14.558)**	**(43,6)%**

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 half of 2018—as well as, for the sake of consistency, the first half 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.

In the first half of the year, the Trade Receivables Area contributed 80,3 million Euro (40,4 million Euro in the second quarter of 2018) to the Enterprises Segment's net banking income, up 1,9% from the prior-year period.

Net interest income declined by 1,7% (-0,9 million Euro) compared to the first half of 2017, whereas net commission income was up 8,8% (+2,4 million Euro).

Net impairment losses/reversals on receivables amounted to 28,6 million Euro (including 21,6 million Euro in the second quarter of 2018), up from 13,0 million Euro in the prior-year period. The increase was largely attributable to the individual provisions set aside on bad loans and unlikely to pay, essentially referring to an individually significant position.

Therefore, net profit from financial activities amounted to 51,7 million Euro, down 14,1 million Euro (-21,4%).

The change in net banking income during the period was consistent with the trend 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, in the first half of 2018 turnover totalled 6,1 billion Euro, up 497,0 million Euro (+8,8%) from the prior-year period. The nominal amount of outstanding receivables at the end of the first half of 2018 exceeded 3,8 million Euro, up nearly 112 million Euro (+1,2%) from the first half of 2017. As for medium/long-term financing, in the first six months of 2018 the Group extended 72,8 million Euro in new loans, compared to 81,5 in the prior-year period (-10,7%).

At 30 June 2018, the Area's total net loans amounted to 3,4 billion Euro, in line with 1 January 2018.

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)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)
BALANCE AT 30.06.2018					
Nominal amount	178.303	134.720	154.234	**467.257**	3.141.260
As a proportion of total receivables at nominal amount	*4,9%*	*3,7%*	*4,3%*	***12,9%***	*87,1%*
Impairment losses	(143.763)	(61.120)	(6.817)	**(211.700)**	(14.487)
As a proportion of the nominal amount	*(80,6)%*	*(45,4)%*	*(4,4)%*	***(45,3)%***	*(0,5)%*
Carrying amount	34.540	73.600	147.417	**255.557**	3.126.773
As a proportion of net total receivables	*1,0%*	*2,2%*	*4,4%*	***7,6%***	*92,4%*
AT 01.01.2018					
Nominal amount	166.292	128.577	109.463	**404.332**	3.179.765
As a proportion of total receivables at nominal amount	*4,6%*	*3,6%*	*3,1%*	***11,3%***	*88,7%*
Impairment losses	(134.924)	(46.540)	(5.598)	**(187.062)**	(14.645)
As a proportion of the nominal amount	*(81,1)%*	*(36,2)%*	*(5,1)%*	***(46,3)%***	*(0,5)%*
Carrying amount	31.368	82.037	103.865	**217.270**	3.165.120
As a proportion of net total receivables	*0,9%*	*2,4%*	*3,1%*	***6,4%***	*93,6%*

Leasing

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2018	30.06.2017	CHANGE	
			ABSOLUTE	%
Net interest income	19.159	18.313	846	4,6%
Net commission income	7.009	6.147	862	14,0%
Other components of net banking income	-	(5)	5	(100,0)%
Net banking income	**26.168**	**24.455**	**1.713**	**7,0%**
Net credit risk losses/reversals	(4.952)	(2.102)	(2.850)	135,6%
Net profit (loss) from financial activities	**21.216**	**22.353**	**(1.137)**	**(5,1)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2018	2nd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	9.220	9.368	(148)	(1,6)%
Net commission income	4.451	5.557	(1.106)	(19,9)%
Other components of net banking income	-	(3)	3	(100,0)%
Net banking income	**13.671**	**14.922**	**(1.251)**	**(8,4)%**
Net credit risk losses/reversals	(2.470)	(1.551)	(919)	59,3%
Net profit (loss) from financial activities	**11.201**	**13.371**	**(2.170)**	**(16,2)%**

The Leasing segment's net banking income totalled 26,2 million Euro, up 7,0% (+1,7 in absolute terms) compared to 30 June 2017. The increase was driven by net interest income (+0,8 million Euro) as well as commission income (+0,9 million Euro), which benefited from the rise in lending volumes.

In the first half of 2018, the segment extended 333 million Euro in new financing, up 16 million Euro (+5,2%) from the first six months of 2017.

Net impairment losses on receivables amounted to 5,0 million Euro, up from 2,1 million Euro in the prior-year period. Approximately 1 million Euro of this increase was attributable to the higher provisions set aside for bad and past due loans of the equipment segment, and nearly another 1 million Euro to the higher generic provisions set aside compared to the prior-year period; furthermore, in the first quarter of 2017 the Bank had recognised nearly 0,4 million Euro in reversals of impairments losses on receivables of the operating lease segment.

The Leasing area contributed 21,2 million Euro (-5,1% compared to the prior-year period) to the net profit from financial activities of the Enterprises segment.

At 30 June 2018, the Area's total net loans amounted to 1.328,2 million Euro, up +4,6% from 1.270,7 million Euro at 1 January 2018. 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	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)
BALANCE AT 30.06.2018					
Nominal amount	18.764	12.424	16.246	**47.434**	1.320.347
As a proportion of total receivables at nominal amount	*1,4%*	*0,9%*	*1,2%*	***3,5%***	*96,5%*
Impairment losses	(15.505)	(9.636)	(7.646)	**(32.787)**	(6.863)
As a proportion of the nominal amount	*(82,6)%*	*(77,6)%*	*(47,1)%*	***(69,1)%***	*(0,5)%*
Carrying amount	3.259	2.788	8.600	**14.647**	1.313.484
As a proportion of net total receivables	*0,2%*	*0,2%*	*0,6%*	***1,1%***	*98,9%*
AT 01.01.2018					
Nominal amount	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	(19.345)	(10.038)	(7.641)	**(37.024)**	(6.112)
As a proportion of the nominal amount	*(88,2)%*	*(85,0)%*	*(51,4)%*	***(76,2)%***	*(0,5)%*
Carrying amount	2.592	1.776	7.212	**11.580**	1.259.163
As a proportion of net total receivables	*0,2%*	*0,1%*	*0,6%*	***0,9%***	*99,1%*

Corporate Banking

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2018	30.06.2017	CHANGE	
			ABSOLUTE	%
Net interest income	39.593	53.723	(14.130)	(26,3)%
Net commission income	4.260	3.703	557	15,0%
Other components of net banking income	8.608	2.245	6.363	283,4%
Net banking income	**52.461**	**59.671**	**(7.210)**	**(12,1)%**
Net credit risk losses/reversals	(5.278)	26.777	(32.055)	(119,7)%
Net profit (loss) from financial activities	**47.183**	**86.448**	**(39.265)**	**(45,4)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2018	2nd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	18.717	34.901	(16.184)	(46,4)%
Net commission income	1.578	1.682	(104)	(6,2)%
Other components of net banking income	8.618	2.431	6.187	254,5%
Net banking income	**28.913**	**39.014**	**(10.101)**	**(25,9)%**
Net credit risk losses/reversals	(3.777)	23.388	(27.165)	(116,1)%
Net profit (loss) from financial activities	**25.136**	**62.402**	**(37.266)**	**(59,7)%**

The Corporate Banking segment's net banking income totalled 52,5 million Euro, down 7,2 million Euro compared to 30 June 2017. The decline was largely attributable to the lower 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 former subsidiary over time (so-called "reversal

PPA”), down -12,3 million Euro from the prior-year period—which was to be expected, as the latter was influenced by some prepayments.

In the first half of 2018, the area extended 144 million Euro in new financing, up 6 million Euro (+4,1%) from the first six months of 2017.

Net impairment losses on receivables amounted to 5,3 million Euro, compared to 26,8 million Euro in net reversals in the prior-year period largely attributable to an individually significant reversal on receivables.

The Corporate Banking area contributed 47,2 million Euro to the Enterprises segment's net profit from financial activities, down 45% from the prior-year period—largely because of the previously mentioned increase in net impairment losses on receivables and the lower impact of the “reversal PPA”.

At 30 June 2018, the Area's total net loans amounted to 751,5 million Euro, up +10,8% from 678,5 million Euro at 1 January 2018. 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	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)
BALANCE AT 30.06.2018					
Nominal amount	30.209	69.436	439	**100.084**	662.553
As a proportion of total receivables at nominal amount	*4,0%*	*9,1%*	*0,1%*	***13,1%***	*86,9%*
Impairment losses	-	(3.116)	-	**(3.116)**	(7.979)
As a proportion of the nominal amount	*0,0%*	*(4,5)%*	*0,0%*	***(3,1)%***	*(1,2)%*
Carrying amount	30.209	66.320	439	**96.968**	654.574
As a proportion of net total receivables	*4,0%*	*8,8%*	*0,1%*	***12,9%***	*87,1%*
AT 01.01.2018					
Nominal amount	28.913	81.504	916	**111.333**	576.880
As a proportion of total receivables at nominal amount	*4,2%*	*11,8%*	*0,1%*	***16,2%***	*83,8%*
Impairment losses	-	(2.249)	(7)	**(2.256)**	(7.422)
As a proportion of the nominal amount	*0,0%*	*(2,8)%*	*(0,8)%*	***(2,0)%***	*(1,3)%*
Carrying amount	28.913	79.255	909	**109.077**	569.458
As a proportion of net total receivables	*4,3%*	*11,7%*	*0,1%*	***16,1%***	*83,9%*

Tax Receivables

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2018	30.06.2017	CHANGE	
			ABSOLUTE	%
Net interest income	6.138	8.802	(2.664)	(30,3)%
Net commission income	(2)	(8)	6	(75,0)%
Net banking income	**6.136**	**8.794**	**(2.658)**	**(30,2)%**
Net credit risk losses/reversals	(121)	(146)	25	(17,1)%
Net profit (loss) from financial activities	**6.015**	**8.648**	**(2.633)**	**(30,4)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2018	2nd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	3.428	5.887	(2.459)	(41,8)%
Net commission income	-	(6)	6	(100,0)%
Net banking income	**3.428**	**5.881**	**(2.453)**	**(41,7)%**
Net credit risk losses/reversals	(96)	(74)	(22)	29,7%
Net profit (loss) from financial activities	**3.332**	**5.807**	**(2.475)**	**(42,6)%**

The Tax Receivables Area contributed 6,1 million Euro to the Enterprises segment's net banking income, down 30% from 30 June 2017.

The decrease was essentially attributable to the reduction in receipts, which totalled 26 million Euro—down approximately 19% from 33 million Euro in the first half of 2017.

Concerning volumes, during the period the area acquired receivables with a par value of 36 million Euro, compared to 41 million Euro in the prior-year period.

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

At 30 June 2018, the Area's total net loans amounted to 137,7 million Euro, up 5,5% from 130,6 million Euro at 1 January 2018.

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 (STAGE 3)	PERFORMING (STAGES 1 AND 2)
BALANCE AT 30.06.2018					
Nominal amount	-	955	15	**970**	136.730
As a proportion of total receivables at nominal amount	-	*0,7%*	*0,0%*	***0,7%***	*99,3%*
Impairment losses	-	-	-	**-**	-
As a proportion of the nominal amount	-	-	-	**-**	-
Carrying amount	-	955	15	**970**	136.730
As a proportion of net total receivables	-	*0,7%*	*0,0%*	***0,7%***	*99,3%*
AT 01.01.2018					
Nominal amount	-	-	-	**-**	130.571
As a proportion of total receivables at nominal amount	-	-	-	**-**	*100,0%*
Impairment losses	-	-	-	**-**	-
As a proportion of the nominal amount	-	-	-	**-**	*0,0%*
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 (49,4 million Euro at 30 June 2018, compared to 93,7 million Euro at 1 January 2018) 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 (146 million Euro at 30 June 2018, compared to 153,4 million Euro at 1 January 2018), 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 (142,7 million Euro at 30 June 2018, compared to 131,3 million Euro at 1 January 2018), 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 34,7 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 79,9 million Euro at amortised cost at 30 June 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 30 June 2018, they amounted to 259,3 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 173,8 million Euro at 30 June 2018 (123,4 million Euro at 1 January 2018).

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 in accordance with its business model 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 122,6 million Euro, is the result of 45,8 million Euro in interest income from amortised cost and 76,8 million Euro 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	2018 collections	Methods of accounting
"Staging" positions	1.926.569	49.419	3%	-	-	Acquisition cost
Other positions undergoing non-judicial processing ("collective" operations)	7.321.690	146.117	2%	(4.673)	5.560	Cost = NPV of flows from model
Non-judicial operations: positions with formalised bills of exchange or settlement plans	646.274	142.777	22%	37.575	33.116	Cost = NPV of individual flows
Positions undergoing judicial processing ("pre-garnishment order collective model")	339.567	79.907	24%	34.715	149	Cost = NPV of flows from model
Other positions undergoing judicial processing	2.179.165	259.339	12%	5.293	9.711	Acquisition cost
Judicial operations: positions with order for the garnishment of one-fifth of pension benefits or wages	483.865	173.858	36%	49.696	32.130	Cost = NPV of individual flows
Total	**12.897.131**	**851.417**	**7%**	**122.606**	**80.667**	

Estimated Remaining Collections (ERC) for the next 180 months total approximately 1,8 billion Euro.

INCOME STATEMENT DATA (in thousands of Euro)	30.06.2018	30.06.2017	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	45.785	27.096	18.689	69,0%
Other components of net interest income	76.821	44.179	32.642	73,9%
Funding costs	(4.998)	(8.642)	3.643	(42,2)%
Net interest income	**117.608**	**62.633**	**54.975**	**87,8%**
Net commission income	(276)	(1.301)	1.025	(78,8)%
Gain on sale of receivables	1.958	17.625	(15.667)	(88,9)%
Net banking income	**119.290**	**78.957**	**40.333**	**51,1%**
Net profit (loss) from financial activities	**119.290**	**78.957**	**40.333**	**51,1%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2018	2nd Q. 2017	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	24.972	13.971	11.001	78,7%
Other components of net interest income	30.907	21.930	8.977	40,9%
Funding costs	(2.569)	(4.601)	2.032	(44,2)%
Net interest income	**53.310**	**31.300**	**22.010**	**70,3%**
Net commission income	16	(472)	488	(103,4)%
Gain on sale of receivables	904	17.625	(16.721)	(94,9)%
Net banking income	**54.231**	**48.454**	**5.777**	**11,9%**
Net profit (loss) from financial activities	**54.231**	**48.454**	**5.777**	**11,9%**

"Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, rose 69% from 27,1 million Euro to 45,8 million Euro, largely thanks to the increase in receivables

at amortised cost as a result of the rise in the receivables for which legal proceedings have commenced (i.e. those subject to the following legal proceedings: writ, attachment of property, and garnishment order) and those subject to settlement plans with regular payments.

"Other components of net interest income", up 73,9%, includes the impact of the change in expected cash flows based on the higher or lower effective or estimated cash collections compared to forecasts and / or changes in collection times, largely due to the introduction of the new pre-guarantee order collective model, amounting to 31,5 million Euro (to which 3,2 million Euro must be added among the interest income from the amortized cost, for a total of 34,7 million Euro).

The cost of funding declined by 42,2%, even though the sector's loans rose during the period from approximately 799 million Euro to nearly 851 million Euro (+6,5%) as a result of the lower funding cost charged by the Governance & Services Segment.

Net commission income included the fees paid for the management and collection of bills of exchange, whose decline was attributable to the lower investments in portfolios consisting of these assets.

The net profit from financial activities of the NPL segment amounted to 119,3 million Euro (79,0 million Euro at 30 June 2017, +51,1%).

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. In this regard, cash receipts rose from approximately 54 million Euro in the first half of 2017 to nearly 81 million Euro in the first six months of 2018, up 49%.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Bad loans	582.306	528.226	54.080	10,2%
Unlikely to pay	267.541	270.050	(2.509)	(0,9)%
Non-performing past due exposures	594	444	150	33,8%
Total net non-performing exposures to customers (stage 3)	**850.441**	**798.720**	**51.721**	**6,5%**
Net performing loans (stage 2)	976	716	260	36,3%
Total on-balance-sheet loans to customers	**851.417**	**799.436**	**51.981**	**6,5%**

The NPL segment's receivables qualify as POCI – Purchased or originated credit-impaired financial assets, the category introduced by the new accounting standard IFRS 9. These are loans that were impaired at the date they were acquired or originated.

KPI	30.06.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	12.897.132	13.074.933	(177.801)	(1,4)%
Total RWA per segment	854.318	801.915	52.403	6,5%

NPL SEGMENT LOAN PERFORMANCE	30.06.2018	01.01.2018
Opening loan portfolio	**799.436**	**562.146**
Purchases	10.470	239.276
Sales	(2.386)	(55.408)
Gains on sales	1.958	19.020
Interest income from amortised cost	45.785	60.614
Other components of net interest income from change in cash flow	76.821	102.096
Collections	(80.667)	(128.308)
Closing loan portfolio	**851.417**	**799.436**

The Bank purchased 10,5 million Euro in receivables during the period, down from the prior-year period 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. In July 2018, the Group bought portfolios of non-performing loans with a par value of approximately 600 million Euro. These were purchased mainly on the primary market and are largely unsecured.

The line item “Sales” included 2,4 million Euro in cash receipts from the sale of a portfolio completed in the first half 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 half 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 up from the prior-year period (152,7 million Euro compared to 136,4 million Euro in the previous year).

The garnishment orders obtained by the Group rose steadily in the first half of 2018 and concerned 11.000 debtors (compared to 5.600 in the first half of 2017).

At the end of the period, the portfolio managed by the NPL segment included 1.490.000 positions, for a par value of 12,9 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. S.p.A., 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 30 June 2018, the segment's total net loans amounted to 260,8 million Euro, and net receivables were up approximately 120,7 million Euro from 1 January 2018 (+86,3%).

In the first half of 2018, the Bank purchased 87,4 million Euro worth of senior notes from a securitisation backed by the Italian government's state-guarantee scheme for NPL-backed securities (GACS). Loans rose as a result of the acquisition of both the subsidiary Cap.Ital.Fin. S.p.A., contributing 20,7 million Euro worth of receivables, and two performing retail portfolios totalling 20,5 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)	30.06.2018	30.06.2017	CHANGE	
			ABSOLUTE	%
Net interest income	(3.705)	6.410	(10.114)	(157,8)%
Net commission income	(738)	(1.314)	576	(43,8)%
Other components of net banking income	(1.802)	(2.557)	755	(29,5)%
Net banking income	**(6.245)**	**2.539**	**(8.784)**	**(346,0)%**
Net credit risk losses/reversals	(1.070)	599	(1.668)	(278,6)%
Net profit (loss) from financial activities	**(7.315)**	**3.138**	**(10.452)**	**(333,1)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	2nd Q. 2018	2nd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	(37)	1.936	(1.972)	(101,9)%
Net commission income	(1.054)	(443)	(611)	138,0%
Other components of net banking income	(836)	(1.082)	246	(22,7)%
Net banking income	**(1.927)**	**411**	**(2.338)**	**(569,2)%**
Net credit risk losses/reversals	(1.115)	150	(1.264)	(844,3)%
Net profit (loss) from financial activities	**(3.042)**	**560**	**(3.602)**	**(642,7)%**

The segment reported a 7,3 million Euro net loss from financial activities, down from 30 June 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 for funding, although Rendimax and Contomax remain 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, in late April the Bank finalised another bond issue as part of the programme launched in the second and third quarters of 2017. This new senior unsecured preferred 300 million Euro issue comes on top of the other bonds outstanding (a senior unsecured bond with a par value of 300 million Euro and maturity in 2020, a Tier 2 Subordinated bond with a par value of 400 million Euro and maturity in October 2027 that is callable in October 2022, and the bonds of the merged entity Interbanca).

In the first half of 2018, the interest expense on the overall bond issues totalled approximately 14 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 “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 6,3 million Euro in savings on interest expense compared to the prior-year period.

Another action taken to reduce funding costs is the restructuring of the securitisation of trade receivables, which was launched in October 2016 and overhauled on 29 March 2018. The renegotiation generated 0,6 million Euro in savings during the first half of the year.

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 2,9 million Euro contribution compared to 2 million Euro in the prior-year period.

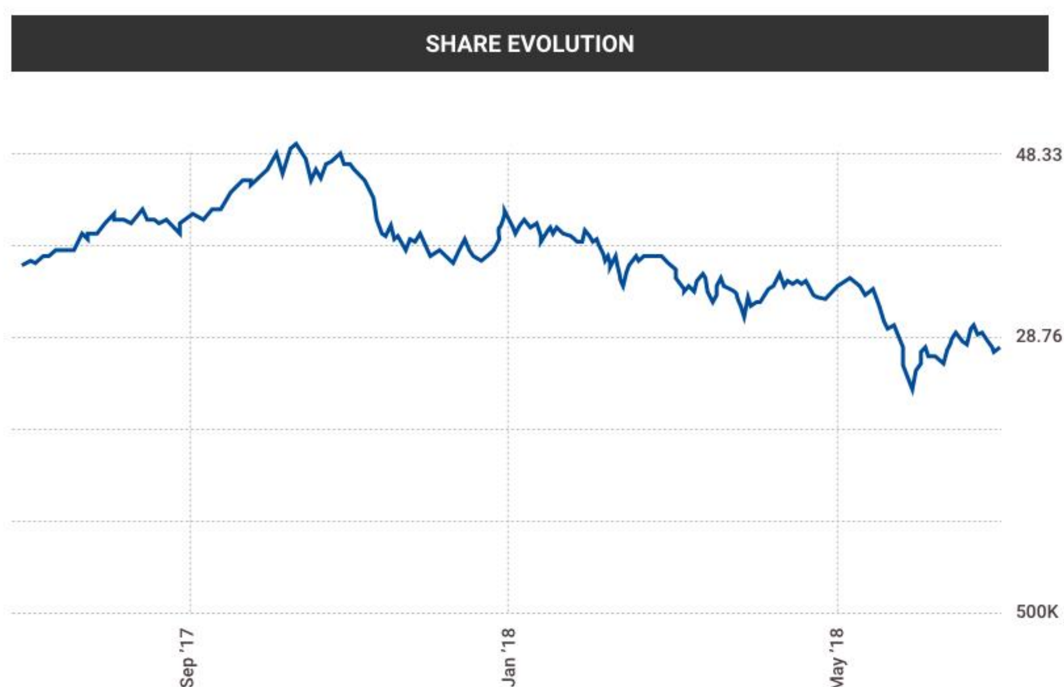
The Group used part of the funds raised to invest in Italian government bonds (mainly securities with a minimum guaranteed coupon and indexed to Italy's inflation rate), which made a positive 3 million Euro contribution to net interest income.

Banca IFIS shares

The share price

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

Official share price	30.06.2018	31.12. 2017	31.12.2016	31.12.2015	31.12.2014
Share price at period-end	25,78	40,77	26,00	28,83	13,69



Price/book value

Below is the ratio of the share price at period-end to consolidated equity per share outstanding.

Price/book value	30.06.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Share price at period-end	25,78	40,77	26,00	28,83	13,69
Consolidated Equity per share	25,69	25,62	22,99	10,81	8,27
Price/book value	**1,00**	**1,59**	**1,13**	**2,67**	**1,65**

Outstanding shares	30.06.2018	31.12. 2017	31.12.2016	31.12.2015	31.12.2014
Number of shares outstanding at period end (in thousands)(1)	53.441	53.443	53.431	53.072	52.924

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

Earnings per share and Price/Earnings

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

Earnings per share (EPS)	30.06.2018	30.06.2017
Consolidated net profit for the year (in thousands of Euro)	66.209	103.657
Consolidated earnings per share	**1,24**	**1,94**

Earnings per share and diluted earnings per share	30.06.2018	30.06.2017
Consolidated net profit for the year (in thousands of Euro)	66.209	103.657
Average number of outstanding shares	53.438.425	53.153.178
Average number of potentially diluted shares	-	3.624
Average number of diluted shares	53.438.425	53.149.554
Consolidated earnings per share for the period (Units of Euro)	**1,24**	**1,95**
Consolidated diluted earnings per share for the period (Units of Euro)	**1,24**	**1,95**

Corporate governance rules

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

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

Internal dealing rules

Banca IFIS adopts internal dealing rules aligned with the relevant EU legislation (Regulation (EU) No 596/2014, known as Market Abuse Regulation).

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

Specifically, this Policy governs:

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

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

List of Insiders

Banca IFIS adopts internal procedures for handling corporate information and the list of individuals who have access to inside information that are aligned with the mentioned Market Abuse Regulation.

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

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

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

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

Significant events occurred 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.

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.

Agreement to acquire FBS S.p.A.

On 15 May 2018, the Group finalised an agreement to acquire control over FBS S.p.A., a company operating in the NPL segment as a servicing specialist (including both master and special services), manager of secured and unsecured NPL portfolios, due diligence advisor, and investor authorised to conduct NPL transactions. The deal was notified to the Bank of Italy and is expected to close by September 2018 with the Group's acquisition of 90% of FBS for 58,5 million Euro.

Reverse merger

With reference to the proposed reverse merger of La Scogliera S.p.A. into Banca IFIS S.p.A., referred to in the press releases issued on 8 and 9 February 2018, the Board of Directors' Meeting of 9 April 2018 was updated on the progress of such merger and, in particular, on the fact that it could take place during the second half of 2018 instead of the first half as per initial forecasts. Some analyses are underway regarding the path to take and the technical procedures for implementation of this reverse merger and/or other corporate transactions suitable for the achievement of substantially equivalent regulatory results.

Significant subsequent events

Acquisition of control of Credifarma S.p.A.

On 2 July 2018, the Group finalised the acquisition of a controlling interest in Credifarma S.p.A., a company specialising in pharmacy lending. The deal was finalised through Banca IFIS's acquisition of the combined 32,5% stake of UniCredit and BNL – BNP Paribas Group as well as the acquisition of part of Federfarma's current interest in the company, amounting to 21,5%. Finally, the lender finalised a capital increase reserved for Banca IFIS to provide Credifarma with a robust financial position for regulatory purposes as well as to pursue future growth plans. The deal requires an overall investment—including the capital increase—of approximately 8,8 million Euro.

Transfer of Banca IFIS's business unit dedicated to Non-Performing Loans

IFIS NPL S.p.A., the joint-stock company into which Banca IFIS spun off its NPL segment, became fully operational on 1 July 2018. The transaction, announced in December 2017, now becomes effective as Banca IFIS's Board of Directors has approved the transfer of the business unit.

IFIS NPL has obtained the authorisation to extend financing and was entered into the register of financial intermediaries pursuant to Article 106 of the Italian Consolidated Law on Banking effective 1 July 2018.

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

Outlook

In early 2018, the economic outlook appears to be lacklustre, giving rise to adverse market conditions. From the supply-side perspective, the decline in exports—the result of an approximately 2% fall in net foreign demand—sees the agricultural sector contract while manufacturing and services expanded. Overall, according to Istat economic growth in the second quarter of 2018 will be lower than in the previous six quarters, and the annual growth rate for 2018 is projected to fall from +1,4% to 1,1%. The slowdown is felt across the euro area and the gradual wind-down of the Eurosystem's liquidity support to the financial system will complicate matters further in the second half of 2018 and, most importantly, beyond. The ability to reconcile a moderate and gradual contraction in liquidity with an equally moderate and gradual rise in interest rates while remaining on a sustainable growth path will be key to successfully exiting the crisis that started ten years ago.

Against this backdrop, in the second half of the year the Banca IFIS Group will continue pursuing a series of non-recurring business combination and growth initiatives.

After completing the merger of IFIS Leasing into Banca IFIS, special emphasis will be placed on the integration and growth of the acquired Cap.Ital.Fin S.p.A., which specialises in salary-backed loans. In addition, the Group will focus on actions to grow in the pharmacy segment following the acquisition of control of Credifarma S.p.A., which provides financial support to retail distributors of drugs and related products.

In the non-performing loan market, the newly established IFIS NPL S.p.A., into which Banca IFIS spun off its entire NPL segment after it was entered into the Register of non-banking Financial Intermediaries pursuant to Article 106 of the Consolidated Law on Banking, will continue expanding its operations. IFIS NPL allows the Banking Group to continue growing in the market for acquiring and managing non-performing loans, also by expanding into asset classes where the Group currently has no or little presence as well as introducing servicing on behalf of third parties—an opportunity that remains currently untapped—creating value by improving the management of non-performing portfolios and acting as a systemically important Italian private Asset Management Company open to partnerships and integrations. In this regard, in the second half of the year the Group will finalise the acquisition of FBS S.p.A., a financial intermediary as per Article 106 of the Consolidated Law on Banking that specialises in servicing non-performing loans with underlying real estate or corporate assets on behalf of third parties. The acquisition of FBS is part of Banca IFIS's previously mentioned strategy and will complement its offerings in the non-performing loan sector.

In addition, the Bank will provide debt restructuring solutions to entities that currently hold UTPs, thanks to its several years of experience in managing and extending loans to businesses as well as its robust and proven know-how when it comes to servicing non-performing loans. The goal is to identify the best possible solutions to revive Italian businesses that are currently in such situations but have sustainable fundamentals and business models.

Despite the encouraging GDP growth figures, it does not appear possible to grow our way out of the last few years of economic crisis in a steady and, most importantly, sustainable manner without restarting the flow of credit to the real economy. Against this backdrop, the Banca IFIS Group's ability to provide support to small- and medium-sized businesses, also thanks to strengthening capital adequacy ratios and increasing liquidity, continues representing a competitive advantage, enabling it to acquire new customers—also with the new scope following the acquisition of the former Interbanca Group as well as the growth initiatives and acquisitions already completed or currently underway. The market is still characterised by the selective supply of credit: entities rated non-prime BBB or lower saw financing decline by over 30 billion Euro between 2012 and 2016.

Demand for lending is projected to grow moderately across all products, in line with economic production and the hoped-for rebound in consumer confidence—which could be driven in turn by rising employment. Expectations are for an end to interest rate cuts and, in some cases, a reversal—albeit moderate—of this trend.

The outlook for funding remains uncertain. There is plenty of funding available, but its cost has been rising recently as interest rates on government bonds have increased. If confirmed, this trend could significantly impact Italy's entire credit industry, as this event is both unexpected and strictly concerns the Italian market, since the relevant benchmarks (Euribor, IRS) have remained unchanged.

Concerning wholesale funding, the low interest rates in the funding market remain available to banks only if they have prime collateral.

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

In line with the recently implemented changes and strategies that put the digital transformation at the centre of the Bank's growth plans, special emphasis will be placed on investments in technologies and human resources to support these efforts. The Bank recognises the importance of applying technological improvement to both processes, which must become as efficient as possible, and the relationships with its customers. The launch of rendimax insurance testifies to this approach, combining a strong digital identify with the focus on the customer's needs and the bank's willingness to expand into new sectors. In addition, the Group will soon launch the web console for services, including payment services, for the NPL segment's customers. New releases are planned for both said console and the TiAnticipo platform.

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

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

Other information

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

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

Privacy measures

The Banca IFIS Group has launched a project to comply with Regulation (EU) 2016/679 in order to incorporate the relevant regulatory provisions into its internal privacy management model, planning a series of both technological and organisational steps—such as appointing the Data Protection Officer for the Group's companies.

Parent Company management and coordination

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

National consolidated tax regime

Banca IFIS Spa and the subsidiary IFIS Rental Services S.r.l., together with the parent company La Scogliera S.p.A., opted for the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree 917/86.
Transactions between these companies were regulated by means of a private written agreement between the parties signed in April 2016 and September 2017. This agreement will lapse after three years.
All these entities have an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company.
Under this tax regime, Banca IFIS and IFIS Rental Services S.r.l. transferred their tax losses to La Scogliera S.p.A., recognising a 55,1 million Euro net receivable due from the parent at 30 June 2018.

Transactions on treasury shares

At 31 December 2017, the bank held 377.829 treasury shares recognised at a market value of 3,2 million Euro and a par value of 377.829 Euro.
During the first half of 2018, Banca IFIS made the following transaction on treasury shares:

- as deferred variable pay for the 2014 financial results, it awarded the Top Management 7.717 treasury shares at an average price of 32,667 Euro, for a total of 252 thousand Euro and a par value of 7.717 Euro, making profits of 187 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve;

The remaining balance at the end of the period was 370.112 treasury shares with a market value of 3,1 million Euro and a par value of 370.112 Euro.

Related-party transactions

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

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

During the first half of 2018, no significant transactions with related parties were undertaken.

For information on individual related party transactions, please refer to "Related-party transactions" in the Notes.

Atypical or unusual transactions

During the first half of 2018, the Banca IFIS Group did not carry out atypical or unusual transactions as defined by Consob Communication no. 6064293 of 28 July 2006.

Research and development activities

Due to its activity, the Group did not implement any research and development programmes during the period.

Condensed consolidated interim financial statements at 30 June 2018

Consolidated Financial Statements

As permitted under the transitional provisions of IFRS 9, the Group elected not to restate the comparative information in the year of initial application of IFRS 9; therefore, the amounts for 2017, calculated under IAS 39, are not fully comparable.

Consolidated Statement of Financial Position

	ASSETS (in thousands of Euro)	30.06.2018	31.12.2017
10.	Cash and cash equivalents	47	50
20.	Financial assets at fair value through profit or loss	161.145	94.421
	a) financial assets held for trading	30.625	35.614
	c) other financial assets mandatorily measured at fair value	130.520	58.807
30.	Financial assets at fair value through other comprehensive income	433.827	442.576
40.	Financial assets measured at amortised cost	8.278.499	8.153.319
	a) due from banks	1.568.042	1.760.752
	b) loans to customers	6.710.457	6.392.567
90.	Property, plant and equipment	130.399	127.881
100.	Intangible assets	24.815	24.483
	of which: goodwill	*1.504*	*834*
110.	Tax assets:	400.773	438.623
	a) current	46.433	71.309
	b) deferred	354.340	367.314
130.	Other assets	303.238	272.977
	Total assets	**9.732.743**	**9.554.330**

	LIABILITIES AND EQUITY (in thousands of Euro)	30.06.2018	31.12.2017
10.	Financial liabilities measured at amortised cost.	7.819.032	7.725.159
	a) due to banks	882.324	791.977
	b) due to customers	4.840.864	5.293.188
	c) debt securities issued	2.095.844	1.639.994
20.	Financial liabilities held for trading	38.627	38.171
60.	Tax liabilities:	50.519	40.076
	a) current	8.734	1.477
	b) deferred	41.785	38.599
80.	Other liabilities	421.087	352.999
90.	Post-employment benefits	7.792	7.550
100.	Provisions for risks and charges:	22.603	21.656
	a) commitments and guarantees granted	2.524	590
	c) other provisions for risks and charges	20.079	21.066
120.	Valuation reserves	(14.478)	(2.710)
150.	Reserves	1.168.592	1.038.155
160.	Share premiums	102.052	101.864
170.	Share capital	53.811	53.811
180.	Treasury shares (-)	(3.103)	(3.168)
200.	Profit (loss) for the period (+/-)	66.209	180.767
	Total liabilities and equity	**9.732.743**	**9.554.330**

Consolidated Income Statement

	ITEMS (in thousands of Euro)	30.06.2018	30.06.2017
10.	Interest receivable and similar income	204.198	206.863
	of which: interest income calculated using the effective interest method	*201.242*	-
20.	Interest due and similar expenses	(51.442)	(49.495)
30.	**Net interest income**	**152.756**	**157.368**
40.	Commission income	46.885	41.241
50.	Commission expense	(7.111)	(6.877)
60.	**Net commission income**	**39.774**	**34.364**
70.	Dividends and similar income	301	40
80.	Net profit (loss) from trading	(352)	(309)
100.	Gain (loss) on sale or buyback of:	1.997	17.577
	a) financial assets measured at amortised cost	1.999	17.625
	b) financial assets at fair value through other comprehensive income	-	(48)
	c) financial liabilities	(2)	-
110.	Net result of other financial assets and liabilities at fair value through profit or loss	6.820	-
	b) other financial assets mandatorily measured at fair value	6.820	-
120.	**Net banking income**	**201.296**	**209.040**
130.	Net credit risk losses/reversal on:	36.785	56.288
	a) financial assets measured at amortised cost	37.069	56.963
	b) financial assets at fair value through other comprehensive income	(284)	(675)
150.	**Net profit (loss) from financial activities**	**238.081**	**265.328**
190.	Administrative expenses:	(150.536)	(119.336)
	a) personnel expenses	(55.451)	(49.484)
	b) other administrative expenses	(95.085)	(69.852)
200.	Net allocations to provisions for risks and charges	948	1.276
	a) commitments and guarantees granted	1.140	3.173
	b) other net provisions	(192)	(1.897)
210.	Net impairment losses/reversal on property, plant and equipment	(2.846)	(2.048)
220.	Net impairment losses/reversal on intangible assets	(3.079)	(3.894)
230.	Other operating income/expenses	11.337	4.547
240.	**Operating costs**	**(144.176)**	**(119.455)**
290.	**Pre-tax profit (loss) for the period from continuing operations**	**93.905**	**145.873**
300.	Income taxes for the year relating to current operations	(27.696)	(42.211)
330.	**Profit (Loss) for the period**	**66.209**	**103.662**
340.	Profit (Loss) for the period attributable to non-controlling interests	-	5
350.	**Profit (loss) for the period attributable to the Parent company**	**66.209**	**103.657**

Consolidated Statement of Comprehensive Income

	ITEMS (in thousands of Euro)	30.06.2018	30.06.2017
10.	**Profit (Loss) for the period**	**66.209**	**103.662**
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**1.136**	**246**
20.	Equity securities designated as at fair value through other comprehensive income	1.081	74
30.	Financial liabilities designated as at fair value through profit or loss (changes in own credit risk)	-	-
40.	Hedging of equity securities designated as at fair value through other comprehensive income	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	55	172
80.	Non-current assets and disposal groups	-	-
90.	Share of valuation reserves of equity accounted investments:	-	-
	Other comprehensive income, net of taxes, to be reclassified to profit or loss	**(12.897)**	**4.197**
100.	Foreign investment hedges	-	-
110.	Exchange differences	(1.602)	1.437
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated items)	-	-
140.	Financial assets (other than equity securities) at fair value through other comprehensive income	(11.295)	2.760
150.	Non-current assets and disposal groups	-	-
160.	Share of valuation reserves of equity accounted investments:	-	-
170.	**Total other comprehensive income, net of taxes**	**(11.761)**	**4.443**
180.	**Total comprehensive income (Item 10+170)**	**54.448**	**108.105**
190.	Total consolidated comprehensive income attributable to non-controlling interests	-	5
200.	**Total consolidated comprehensive income attributable to the Parent**	**54.448**	**108.100**

Statement of Changes in Consolidated Equity at 30 June 2018

	Balance at 31/12/2017	Change in opening balances	Balance at 01/01/2018	Allocation of profit from previous year		Changes in the period									Equity at 30/06/2018	Equity attributable to non-controlling interests at
							Equity transactions									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity interests	Comprehensive income for the period		
Share capital:																
a) ordinary shares	53.811	-	53.811	-	-	-	-	-	-	-	-	-		-	53.811	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-		-	-	-
Share premiums	101.864	-	101.864	-	-	188	-	-	-	-	-	-		-	102.052	-
Reserves:																
a) retained earnings	1.032.741	2.948	1.035.689	127.533	-	-	-	-	-	-	-	-		-	1.163.222	-
b) other shares	5.414	-	5.414	-	-	(44)	-	-	-	-	-	-		-	5.370	-
Valuation reserves:	(2.710)	(7)	(2.717)	-	-	-	-	-	-	-	-	-		(11.761)	(14.478)	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-		-	-	-
Treasury shares	(3.168)	-	(3.168)	-	-	65	-	-	-	-	-	-		-	(3.103)	-
Profit (loss) for the period	180.767	-	180.767	(127.533)	(53.234)	-	-	-	-	-	-	-		66.209	66.209	-
Equity attributable to the Group	**1.368.719**	**2.941**	**1.371.660**	**-**	**(53.234)**	**209**	**-**	**-**	**-**	**-**	**-**	**-**		**54.448**	**1.373.083**	**-**
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	

Statement of Changes in Consolidated Equity at 30 June 2017

	Balance at 31/12/2016	Change in opening balances	Balance at 1/1/2017	Allocation of profit from previous year		Changes in the period									Equity at 30/06/2017	Equity attributable to non-
							Equity transactions									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity interests	Comprehensive income for the period		
Share capital:																
a) ordinary shares	53.811	-	53.811	-	-	-									53.811	-
b) other shares	-	-	-	-	-	-									-	-
Share premiums	101.776	-	101.776	-	-	-									101.776	-
Reserves:																
a) retained earnings	378.402	-	378.402	653.901	-	-									1.032.303	-
b) other shares	5.433	-	5.433	-	-	218									5.651	48
Valuation reserves:	(5.445)	-	(5.445)	-	-	-								4.443	(1.002)	-
Equity instruments	-	-	-	-	-	-									-	-
Treasury shares	(3.187)	-	(3.187)	-	-	-									(3.187)	-
Profit (loss) for the period	687.945	9.769	697.714	(653.901)	(43.814)	-								103.657	103.656	5
Equity attributable to the Group	**1.218.735**	**9.769**	**1.228.504**	**-**	**(43.814)**	**218**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**108.100**	**1.293.008**	**-**
Equity attributable to non-controlling interests	**48**	**-**	**48**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**-**	**53**

Consolidated Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT Indirect method	AMOUNT 30.06.2018	30.06.2017
A. OPERATING ACTIVITIES		
1. Operations	**68.070**	**131.701**
- profit (loss) for the period (+/-)	66.209	103.657
- profit/loss on financial assets held for trading and on other financial assets/liabilities at fair value through profit or loss (-/+)	352	309
- net credit risk losses/reversals (+/-)	(36.785)	(3.705)
- net impairment losses/reversals on property, plant and equipment and intangible assets (+/-)	5.925	5.942
- net allocations to provisions for risks and charges and other expenses/income (+/-)	(948)	1.897
- unpaid taxes, duties and tax credits (+/-)	27.696	42.210
- other adjustments (+/-)	5.621	(18.608)
2. Cash flows generated/absorbed by financial assets	**(177.679)**	**(753.122)**
- Financial assets held for trading	4.637	(463)
- other assets mandatorily measured at fair value	(71.713)	-
- financial assets at fair value through other comprehensive income	(5.571)	(262.120)
- financial assets measured at amortised cost	(88.111)	(410.157)
- other assets	(16.921)	(80.382)
3. Cash flows generated/absorbed by financial liabilities	**171.811**	**673.233**
- financial liabilities measured at amortised cost	93.873	572.523
- financial liabilities held for trading	456	(6.767)
- other liabilities	77.482	107.477
Net cash flows generated/absorbed by operating activities A (+/-)	**62.202**	**51.813**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**-**
- sale of equity investments	-	-
- dividends collected on equity investments	-	-
- sale of property, plant and equipment	-	-
- sale of intangible assets	-	-
- sales of subsidiaries and business units	-	-
2. Cash flows absorbed by	**(8.775)**	**(8.230)**
- purchases of property, plant and equipment	(5.364)	(1.266)
- purchases of intangible assets	(3.411)	(6.964)
Net cash flows generated/absorbed by investing activities B (+/-)	**(8.775)**	**(8.230)**
C. FINANCING ACTIVITIES		
- issues/buyback of treasury shares	253	-
- issues/buyback of equity instruments	(250)	219
- distribution of dividends and other	(53.433)	(43.813)
Net cash flows generated/absorbed by financing activities C (+/-)	**(53.430)**	**(43.594)**
NET CASH GENERATED/USED DURING THE PERIOD D=A+/-B+/-C	**(3)**	**(11)**
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	**50**	**34**
TOTAL NET CASH GENERATED/USED DURING THE PERIOD D	**(3)**	**(11)**
CASH AND CASH EQUIVALENTS: EFFECT OF CHANGES IN EXCHANGE RATES F	**-**	**-**
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	**47**	**23**

Notes

Accounting Policies

General part

Statement of compliance with IFRS

The Condensed consolidated interim financial statements at 30 June 2018 have been drawn up in accordance with the IASs/IFRSs in force at said date issued by the International Accounting Standards Board (IASB), together with the relevant interpretations (IFRICs and SICs). These standards were endorsed by the European Commission in accordance with the provisions in article 6 of European Union Regulation no. 1606/2002. This regulation was implemented in Italy with Legislative Decree no. 38 of 28 February 2005.

In particular, the contents of these Condensed consolidated interim financial statements comply with IAS 34 (Interim Financial Reporting); in addition, based on paragraph 10 of the aforementioned standard, the Group has taken advantage of the option to prepare the consolidated interim financial statements in condensed form.

The Condensed Consolidated Interim Financial Statements included in the Consolidated Interim Financial Report are audited only to a limited extent by EY S.p.A..

Basis of preparation

The Condensed consolidated interim financial statements at 30 June 2017 consist of:

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

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

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

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

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

The criteria for recognising, measuring and derecognising assets and liabilities, and the methods for recognising revenue and costs adopted in preparing the Condensed Consolidated Interim Financial Statements at 30 June 2018 were updated compared to those used to prepare the Consolidated Financial Statements for the year ended 31 December 2017, as the new accounting standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" became effective on 1 January 2018.

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.

Information on the business as a going concern

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

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

In this regard, having examined the risks and uncertainties connected to the present macro-economic context, and considering the financial and economic plans drawn up by the parent company, the Banca IFIS Group can indeed be considered as a going concern, in that it can be reasonably expected to continue operating in the foreseeable future. Therefore, the Condensed consolidated interim financial statements at 30 June 2018 have been prepared in accordance with this fact.

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

Consolidation scope and methods

The Condensed Consolidated Interim Financial Statements have been drawn up on the basis of the accounts at 30 June 2018 prepared by the directors of the companies included in the consolidation scope, which changed from the end of last year following the inclusion of the company Cap.Ital.Fin. S.p.A., acquired on 2 February 2018, in the scope of consolidation as well as the merger of the subsidiary IFIS Leasing S.p.A. into Banca IFIS S.p.A..

At 30 June 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 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 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 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.

The consolidation process has brought about goodwill provisionally estimated at 700 thousand Euro, recognised under item 'Intangible assets'.

This acquisition requires applying IFRS 3 "Business Combination": this will be done within 12 months of the acquisition date.

Investments in exclusively controlled companies

Name of the company	Registered office	Head office	Type (1)	Investment		Voting rights % (2)
				Held by	Share %	
IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	1	Banca IFIS S.p.A.	100%	100%
IFIS Rental Services S.r.l.	Milan	Milan	1	Banca IFIS S.p.A.	100%	100%
Cap.Ital.Fin. S.p.A.	Naples	Naples	1	Banca IFIS S.p.A.	100%	100%
IFIS NPL S.p.A.	Mestre	Florence, Milan and Mestre	1	Banca IFIS S.p.A.	100%	100%
IFIS ABCP Programme S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%
Indigo Lease S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%

Key

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

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 the reporting date. These SPVs are not formally part of the Banca IFIS Group.

Subsequent events

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

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

Other aspects

Risks and uncertainties related to estimates

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

Specifically, it made estimates on the carrying amounts of some items recognised in the Condensed consolidated interim financial statements at 30 June 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 30 June 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 half 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 34,7 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 14,8 million Euro in previously deferred costs associated with judicial collection actions through profit or loss.

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

Coming into effect of new accounting standards

The Condensed Consolidated Interim Financial Statements at 30 June 2018 have been drawn up in accordance with the IASs/IFRSs in force at the reporting date. See the paragraph *Statement of compliance with international accounting standards.*

The accounting standards used in preparing these Condensed Consolidated Interim Financial Statements at 30 June 2018, as far as the classification, recognition, measurement, and derecognition of financial assets and liabilities as well as the methods for recognising revenue and costs are concerned, changed compared to the ones used in preparing the 2017 Financial Statements. These changes are essentially attributable to the application of the following international accounting standards, which became effective on 1 January 2018:

- IFRS 9 “Financial Instruments”, issued by the IASB in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016, which superseded IAS 39 in governing the classification and measurement of financial instruments as well as the relevant impairment process; please refer to the paragraph Impact of the first-time adoption of IFRS 9;
- IFRS 15 “Revenue from Contracts with Customers”, endorsed by the European Commission with Regulation no.1905/2016, which replaced IAS 18 “Revenue” and IAS 11 “Construction Contracts”; please refer to the paragraph Impact of the first-time adoption of IFRS 15;

In addition, the Group has adopted for the first time some accounting standards and amendments effective for annual periods beginning on or after 1 January 2018. Below are the new accounting standards and the amendments to existing accounting standards endorsed by the EU, which have not

materially affected the amounts reported in the Group's Condensed Consolidated Interim Financial Statements at 30 June 2018.

- Amendments to IFRS 2: Classification and measurement of share-based payment transactions;
- Amendments to IAS 40 Investment Property: Clarification of the requirements on transfers to, or from, investment property;
- Annual Improvements to IFRS Standards 2014-2016 Cycle: IAS 28 Investments in Associates and Joint Ventures and IFRS 1 Additional Exemptions for First-time Adopters;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration: The interpretation clarifies how to account for transactions that involve advance consideration paid or received in a foreign currency.

IFRS 16, which will be effective for annual periods beginning on or after 1 January 2019, sets out the principles for the recognition, measurement, presentation and disclosure of leases. It requires lessees to recognise all leases based on a single model similar to the one used for finance leases under IAS 17. The standard includes two exemptions for lessees—leases of “low value” assets (e.g. personal computers) and short-term leases (e.g. leases with a lease term of 12 months or less). At the commencement date, the lessee shall recognise a liability for the lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset for the lease term (i.e. the right-of-use of the asset) Lessees shall separately recognise interest expense on the lease liability and depreciation on the right-of-use asset.

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

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

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

Pursuant to art. 154-ter of Italian Legislative Decree no. 58/98 (Consolidated Law on Finance), the Company must publish the Consolidated interim financial report, including the condensed consolidated interim financial statements, the interim directors' report, and the declaration as per article 154-bis, paragraph 5, as soon as possible, and in any case within three months of the end of the first half of the year. Banca IFIS's Consolidated interim financial report was submitted to the approval of the Parent Company's Board of Directors on 03 August 2018.

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 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 timelier 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 the restatement of the comparative amounts at 31 December 2017 and 30 June 2017 as well as the first-time adoption of IFRS 9 on the Banca IFIS Group's consolidated equity at 1 January 2018.

Restatement of comparative information

As permitted under the transitional provisions of IFRS 9, the Group elected not to restate the comparative information in the year of initial application of IFRS 9; therefore, the amounts for 2017, calculated under IAS 39, are not fully comparable.

Strictly for the purposes of allowing to compare the information for the period, the statement of financial position and the income statement for prior periods have been reclassified and restated using the new line items set out in the 5th update to Circular 262: “Banks' financial statements: layouts and preparation”, issued by the Bank of Italy to reflect the changes introduced by IFRS 9 in banks’ financial statements.

Under IFRS 9, the portfolio of financial assets at fair value through other comprehensive income corresponds to the “Held to collect and sale (HTCS)” portfolio, i.e. debt securities giving rise to cash flows that are solely payments of principal and interest and are held to invest the Group’s liquidity or sell them. This portfolio includes also investments in equity securities except for equity instruments, previously classified within the portfolio of “Available for sale financial assets”, for which the Group elected to use the so-called “OCI Option” so as to measure them at fair value through equity (without reclassifying any gains and losses on their disposal to profit or loss).

The UCITS units previously allocated to the AFS portfolio can no longer be measured at fair value through equity: therefore, effective 1 January 2018, they were reclassified to the new portfolio of financial assets mandatorily measured at fair value through profit or loss, for a total of 13,7 million Euro.

The portfolio of financial assets measured at amortised cost corresponds to the “Held to collect (HTC)” portfolio under IFRS 9. It consists exclusively of debt securities with the same characteristics as the HTCS portfolio and held for long-term investment purposes. As a general rule, this portfolio includes debt securities that would have previously been allocated to Loans and receivables.

The portfolio of financial assets at fair value through profit or loss includes the pre-existing trading book as well as the new portfolio of financial assets mandatorily measured at fair value through profit or loss, comprised of the investments not included within other portfolios, as well as the financial instruments that failed the so-called SPPI Test. If the financial instrument fails this test, regardless of the business model identified at the time the financial instrument was purchased, this must be reclassified to the portfolio of financial assets at fair value through profit or loss.

Therefore, the first-time adoption of IFRS 9 caused a 58,8 million Euro increase in financial assets at fair value through profit or loss, broken down as follows:

- 14,0 million Euro arising from the pre-existing AFS portfolio, including 13,7 million Euro worth of UCITS units and 0,3 million Euro in other debt securities that failed the so-called SPPI test;
- 17,1 million Euro in receivables due from banks that failed the so-called SPPI test, less 15,5 million Euro in provisions for commitments and guarantees associated with these receivables that had been previously recognised under other liabilities;
- 43,2 million Euro in net loans to customers that failed the so-called SPPI test;
- equity securities represented by equity instruments arising from debt restructuring transactions, with a carrying amount of 1 Euro each, for which the Group did not use the “OCI option”.

Finally, the provisions for guarantees granted, previously recognised under other liabilities, were reclassified to the new specific line item Provisions for risk and charges on commitments and guarantees granted, less the mentioned 15,5 million Euro.

Below is the reconciliation of assets and liabilities in the Consolidated Financial Statements at 31 December 2017 to the line items introduced by the 5th update to Circular 262: “Banks' financial statements: layouts and preparation” of the Bank of Italy.

ASSETS (in thousands of Euro) Circular 262/2005 4th Update		AMOUNTS AT			ASSETS (in thousands of Euro) Circular 262/2005 5th Update	
		31.12.2017	Classification Impact	31.12.17 RESTATED		
10	Cash and cash equivalents	50	-	50	10	Cash and cash equivalents
	-	-	-	94.421	20	Financial assets at fair value through profit or loss
20	Financial assets held for trading	35.614	-	35.614		a) Financial assets held for trading
30	Financial assets at fair value	-	-	-		b) Financial assets designated as at fair value
	-	-	58.807	58.807		c) Other financial assets mandatorily measured at fair value
40	Available for sale financial assets	456.549	(13.973)	442.576	30	Financial assets at fair value through other comprehensive income
	-	-	-	8.153.319	40	Financial assets measured at amortised cost
60	Due from banks	1.777.876	(17.124)	1.760.752		a) Due from banks
70	Loans to customers	6.435.806	(43.239)	6.392.567		b) Loans to customers
120	Property, plant and equipment	127.881	-	127.881	90	Property, plant and equipment
130	Intangible assets	24.483	-	24.483	100	Intangible assets
140	Tax assets	438.623	-	438.623	110	Tax assets
160	Other assets	272.977	-	272.977	130	Other assets
	Total assets	**9.569.859**	**(15.529)**	**9.554.330**		**Total assets**

LIABILITIES (in thousands of Euro) Circular 262/2005 4th Update		AMOUNTS AT			LIABILITIES (in thousands of Euro) Circular 262/2005 5th Update	
		31.12.2017	Classification Impact	31.12.17 RESTATED		
	-	-	-	7.725.159	10	Financial liabilities measured at amortised cost.
10	Due to banks	791.977	-	791.977		a) due to banks
20	Due to customers	5.293.188	-	5.293.188		b) due to customers
30	Debt securities issued	1.639.994	-	1.639.994		c) debt securities issued
40	Financial liabilities held for trading	38.171	-	38.171	20	Financial liabilities held for trading
80	Tax liabilities	40.076	-	40.076	60	Tax liabilities
100	Other liabilities	368.543	(15.544)	352.999	80	Other liabilities
110	Post-employment benefits	7.550	-	7.550	90	Post-employment benefits
120	Provisions for risks and charges	21.641		21.656	100	Provisions for risks and charges
	-	-	590	590		a) commitments and guarantees granted
	a) pensions and similar obligations	-	-	-		b) pensions and similar obligations
	b) other provisions	21.641	(575)	21.066		c) other provisions for risks and charges
140	Valuation reserves	(2.710)	-	(2.710)	120	Valuation reserves
170	Reserves	1.038.155	-	1.038.155	150	Reserves
180	Share premiums	101.864	-	101.864	160	Share premiums
190	Share capital	53.811	-	53.811	170	Share capital
200	Treasury shares (-)	(3.168)	-	(3.168)	180	Treasury shares (-)
220	Profit (loss) for the period	180.767	-	180.767	200	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 3,2 million Euro at 30 June 2017) was reclassified from “Net impairment losses/reversals on receivables” to “Interest receivable and similar income”, and the impact of the measurement of the commitments and guarantees granted (positive 3,2 million Euro at 30 June 2017) was reclassified from “Net impairment losses/reversals on other financial transactions” to “Net allocations to provisions for risks and charges”.

In addition, the new accounting standard IFRS 9 introduced the category of “Purchased or originated credit-impaired” (POCI) loans, that is loans that were impaired at the date they were acquired or originated; this definition encompasses also the NPL segment's loans.

Prior to the introduction of IFRS 9, the impact of the change in expected cash flows was recognised under interest receivable and similar income or, if impairment events occurred (NPV of expected cash flows lower than the purchase price, deceased debtor, or expired statute of limitations), net impairment losses on receivables.

Under the new standard, the impact from the periodic review of lifetime ECLs (expected credit losses throughout the asset's remaining useful life) is classified within the line item Net credit risk losses/reversals. At 30 June 2017, the reclassification amounted to 58,9 million Euro.

For more details, please refer to the section on *Purchased or originated credit-impaired (POCI) financial assets*.

Below is the reconciliation of the income statement presented in the Condensed Consolidated Interim Financial Statements at 30 June 2017 to the line items introduced by the 5th update to Circular 262: “Banks' financial statements: layouts and preparation” of the Bank of Italy.

	INCOME STATEMENT ITEMS (in thousands of Euro) Circular 262/2005 4th Update	AMOUNTS AT				INCOME STATEMENT ITEMS (in thousands of Euro) Circular 262/2005 5th Update
		30.06.2017	Classification Impact	30.06.2017 RESTATED		
10	Interest receivable and similar income	262.619	(55.756)	206.863	**10**	Interest receivable and similar income
20	Interest due and similar expenses	(49.495)	-	(49.495)	**20**	Interest due and similar expenses
30	**Net interest income**	**213.124**	**(55.756)**	**157.368**	**30**	**Net interest income**
40	Commission income	41.241	-	41.241	**40**	Commission income
50	Commission expense	(6.877)	-	(6.877)	**50**	Commission expense
60	**Net commission income**	**34.364**	-	**34.364**	**60**	**Net commission income**
70	Dividends and similar income	40	-	40	**70**	Dividends and similar income
80	Net profit (loss) from trading	(309)	-	(309)	**80**	Net profit (loss) from trading
90	Net result from hedging	-	-	-	**90**	Net result from hedging
100	Gain (loss) on sale or buyback of:	17.577	-	17.577	**100**	Gain (loss) on sale or buyback of:
	a) receivables	17.625	-	17.625		a) financial assets measured at amortised cost
	b) available for sale financial assets	(48)	-	(48)		b) financial assets at fair value through other comprehensive income
120	**Net banking income**	**264.796**	**(55.756)**	**209.040**	**120**	**Net banking income**
130	Net impairment losses/reversal on	3.705	52.583	56.288	**130**	Net credit risk losses/reversal on:
	a) receivables	1.207	55.756	56.963		a) financial assets measured at amortised cost
	b) available for sale financial assets	(675)	-	(675)		b) financial assets at fair value through other comprehensive income
	d) other financial transactions	3.173	(3.173)	-		
	-	-	-	-	**140**	Gains/losses on contractual modifications without derecognition
140	**Net profit (loss) from financial activities**	**268.501**	**(3.173)**	**265.328**	**150**	**Net profit (loss) from financial activities**
180	Administrative expenses:	(119.336)	-	(119.336)	**190**	Administrative expenses:
	a) Personnel expenses	(49.484)	-	(49.484)		a) Personnel expenses
	b) Other administrative expenses	(69.852)	-	(69.852)		b) Other administrative expenses
190	Net allocations to provisions for risks and charges	(1.897)	3.173	1.276	**200**	Net allocations to provisions for risks and charges
	-	-	3.173	3.173		a) commitments and guarantees granted
	-	-	-	(1.897)		b) other net provisions
200	Net impairment losses/reversal on property, plant and equipment	(2.048)	-	(2.048)	**210**	Net impairment losses/reversal on property, plant and equipment
210	Net impairment losses/reversal on intangible assets	(3.894)	-	(3.894)	**220**	Net impairment losses/reversal on intangible assets
220	Other operating income/expenses	4.547	-	4.547	**230**	Other operating income/expenses
230	**Operating costs**	**(122.628)**	**3.173**	**(119.455)**	**240**	**Operating costs**
280	**Pre-tax profit (loss) for the period from continuing operations**	**145.873**	-	**145.873**	**290**	**Pre-tax profit (loss) for the period from continuing operations**
290	Income taxes for the period relating to continuing operations	(42.211)	-	(42.211)	**300**	Income taxes for the period relating to continuing operations
320	**Profit (Loss) for the period**	**103.662**	-	**103.662**	**330**	**Profit (Loss) for the period**
330	Profit (Loss) for the period attributable to non-controlling interests	5	-	5	**340**	Profit (Loss) for the period attributable to non-controlling interests
340	**Profit (loss) for the period attributable to the Parent company**	**103.657**	-	**103.657**	**350**	**Profit (loss) for the period attributable to the Parent company**

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 before taxes on the Banca IFIS Group's consolidated equity.

Below is the impact of the transition to IFRS 9 based on the consolidated statement of financial position at 31 December 2017, restating it in accordance to the 5th update to Circular 262: “Banks' financial statements: layouts and preparation” of the Bank of Italy.

ASSETS (in thousands of Euro) Circular 262/2005 5th Update		AMOUNTS AT 31.12.17 RESTATED	IFRS 9 IMPACT		AMOUNTS AT 01.01.2018
			Measurement	Impairment	
10	Cash and cash equivalents	50	-	-	50
20	Financial assets at fair value through profit or loss	94.421	-	-	94.421
a)	Financial assets held for trading	35.614	-	-	35.614
b)	Financial assets designated as at fair value	-	-	-	-
c)	other financial assets mandatorily measured at fair value	58.807	(49)	-	58.758
30	Financial assets at fair value through other comprehensive income	442.576	-	(503)	442.073
40	Financial assets measured at amortised cost	8.153.319	-	8.147	8.161.417
a)	Due from banks	1.760.752	-	(972)	1.759.780
b)	Loans to customers	6.392.567	-	9.119	6.401.686
90	Property, plant and equipment	127.881	-	-	127.881
100	Intangible assets	24.483	-	-	24.483
110	Tax assets	438.623	16	1.333	439.972
130	Other assets	272.977	-	-	272.977
	Total assets	**9.554.330**	**(33)**	**8.977**	**9.563.274**

LIABILITIES (in thousands of Euro) Circular 262/2005 5th Update		AMOUNTS AT 31.12.17 RESTATED	IFRS 9 IMPACT		AMOUNTS AT 01.01.2018
			Measurement	Impairment	
10	Financial liabilities measured at amortised cost.	7.725.159	-	-	7.725.159
a)	due to banks	791.977	-	-	791.977
b)	due to customers	5.293.188	-	-	5.293.188
c)	debt securities issued	1.639.994	-	-	1.639.994
20	Financial liabilities held for trading	38.171	-	-	38.171
60	Tax liabilities	40.076	-	3.049	43.125
80	Other liabilities	352.999	-	-	352.999
90	Post-employment benefits	7.550	-	-	7.550
100	Provisions for risks and charges	21.656	-	2.954	24.610
a)	commitments and guarantees granted	590	-	2.954	3.544
b)	pensions and similar obligations	-	-	-	-
c)	other provisions for risks and charges	21.066	-	-	21.066
120	Valuation reserves	(2.710)	(7)	-	(2.717)
150	Reserves	1.038.155	(26)	2.974	1.041.103
160	Share premiums	101.864	-	-	101.864
170	Share capital	53.811	-	-	53.811
180	Treasury shares (-)	(3.168)	-	-	(3.168)
200	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.

Main items of the financial statements

1 – Financial assets at fair value through profit or loss ("FVTPL")

Classification criteria

This category comprises financial assets other than Financial assets at fair value through other comprehensive income and Financial assets measured at amortised cost. Specifically, this line item includes:

a) **financial assets held for trading**, essentially consisting of debt and equity securities as well as the positive amount of derivative contracts held for trading;

b) **financial assets designated as at fair value**, i.e. non-derivative financial assets designated as such on initial recognition if the relevant conditions are met. At initial recognition, an entity may irrevocably designate a financial asset as at fair value through profit or loss if, and only if, doing so would eliminate or significantly reduce a measurement or recognition inconsistency.

c) **financial assets mandatorily measured at fair value**, consisting of financial assets that are not eligible for the measurement at amortised cost or fair value through other comprehensive income based on the relevant business model or cash flow characteristics. Specifically, this category includes:

- debt instruments, securities and loans without cash flows that are solely payments of principal and interest consistent with a “basic lending arrangement” (so-called “SPPI test” failed);
- debt instruments, securities and loans held within a business model that is neither “Held to collect” (whose objective is to hold the asset to collect contractual cash flows) nor “Held to collect and sell” (whose objective is achieved by both collecting contractual cash flows and selling financial assets);
- UCITS units;
- equity instruments for which the Group elects not to use the option under the standard to measure them at fair value through other comprehensive income.

Derivative contracts include those embedded in complex financial instruments if the host contract is not a financial asset falling within the scope of IFRS 9, which are recognised separately if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid instrument they are part of is not measured at fair value with the relevant changes recognised in profit or loss.

Reclassifications to other categories of financial assets are allowed only if the entity changes its business model to manage the financial assets. In these cases, financial assets may be reclassified from the category measured at fair value through profit or loss to one of the other two categories under IFRS 9 (Financial assets measured at amortised cost or Financial assets at fair value through other comprehensive income). The transfer value corresponds to the fair value at the time of the reclassification, which is applied prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is calculated based on its fair value at the reclassification date, which is considered to be the date of initial recognition for the stage allocation for impairment purposes.

Recognition criteria

Financial assets are initially recognised at the date of settlement in the case of debt and equity securities, and at inception in the case of derivative contracts. At initial recognition, financial assets held for trading are measured at cost, that is the instrument's fair value, excluding the expenses and income directly attributable to the instrument, which are recognised in profit or loss.

Measurement criteria

Even after initial recognition, financial assets are measured at fair value, and the impact of the application of this method is recognised through profit or loss.

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

In the case of financial assets not quoted in an active market, the cost method is used as an approximation of fair value exclusively on a residual basis and in limited circumstances, that is if all the other previously mentioned measurement methods are not applicable.

Derecognition criteria

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

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

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

2 – Financial assets at fair value through other comprehensive income ("FVOCI")

Classification criteria

This category comprises financial assets that meet both the following conditions:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("Held to Collect and Sell" Business Model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest consistent with a "basic lending arrangement", in which consideration for the time value of money and credit risk are typically the most significant elements of interest (so-called "SPPI test" passed).

In addition, this line item includes equity instruments not held for trading for which at initial recognition the entity used the option to designate them at fair value through other comprehensive income (so-called "OCI option").

Reclassifications to other categories of financial assets are allowed only if the entity changes its business model to manage the financial assets. In these cases, financial assets may be reclassified from the category measured at fair value through other comprehensive income to one of the other two categories under IFRS 9 (Financial assets measured at amortised cost or Financial assets at fair value through profit or loss). The transfer value corresponds to the fair value at the time of the reclassification, which is applied prospectively from the reclassification date. If the asset is reclassified from the category concerned to amortised cost, the fair value of the financial asset at the reclassification date is adjusted by the accumulated gain (loss) presented in the valuation reserve. If the asset is reclassified to fair value through profit or loss, the accumulated gain (loss) previously recognised within the valuation reserve is reclassified from equity to profit or loss.

Recognition criteria

Financial assets are initially recognised at the date of settlement in the case of debt and equity securities, whereas loans are recognised at the date they were granted. These assets are initially recognised at fair value, including transaction costs directly attributable to the instruments, if any.

Measurement criteria

After initial recognition, the assets classified at fair value through other comprehensive income that are not equity securities are measured at fair value, recognising the impact of the application of amortised cost, impairment, and any exchange rate changes through profit or loss. Gains and losses resulting from changes in fair value are recognised under a dedicated equity reserve until the financial asset is transferred: then, accrued profits and losses are recognised in profit or loss.

The equity instruments the Group elected to classify within this category are measured at fair value, and the amounts recognised through equity (Statement of comprehensive income) are not to be subsequently reclassified to profit or loss—including in the event of their disposal. The relevant dividends represent the only component of the equity securities concerned that is recognised through profit or loss.

The fair value is calculated on the basis already described for Financial assets at fair value through profit or loss.

In the case of Financial assets at fair value through other comprehensive income that are either debt securities or receivables, at each reporting date, including interim reporting dates, the Group assesses whether a significant increase in credit risk (impairment) has occurred pursuant to IFRS 9, recognising an impairment loss to cover the expected credit losses through profit or loss.

Conversely, equity securities are not tested for impairment.

Derecognition criteria

Financial assets at fair value through other comprehensive income are derecognised exclusively when all relevant risks and rewards have been substantially transferred. Should the company retain part of the relevant risks and rewards, the financial assets will continue to be recognised, even though legal ownership has been actually transferred to a third party.

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

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

3 – Financial assets measured at amortised cost

Classification criteria

This category includes financial assets (specifically loans and debt securities) that meet both the following conditions:

- the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows (“Held to Collect” Business Model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest consistent with a “basic lending arrangement”, in which consideration for the time value of money and credit risk are typically the most significant elements of interest (so-called “SPPI test” passed).

Specifically, if the above technical requirements are met, this line item includes:

- receivables due from banks,
- receivables due from customers, largely consisting of:
    - demand advances to customers as part of factoring operations vis-à-vis a receivables portfolio factored with recourse and still recognised in the seller’s statement of financial position, or vis-à-vis receivables factored without recourse, providing no contractual clauses that eliminate the conditions for their recognition exist.
    - loans to customers deriving from mortgages or loans extended as part of corporate banking operations;
    - distressed retail loans acquired from banks and retail lenders;

  - tax receivables resulting from insolvency proceedings;
  - repurchase agreements;
  - receivables arising from finance leases;
- debt securities acquired through subscription or private placement, with fixed or determinable payments, not quoted in active markets.

Reclassifications to other categories of financial assets are allowed only if the entity changes its business model to manage the financial assets. In these cases, which are expected to be very infrequent, the financial assets may be reclassified from the category measured at amortised cost to one of the other two categories under IFRS 9 (Financial assets at fair value through other comprehensive income or Financial assets at fair value through profit or loss). The transfer value corresponds to the fair value at the time of the reclassification, which is applied prospectively from the reclassification date. Gains or losses arising from the difference between the amortised cost of the financial asset and the relevant fair value are recognised through profit or loss if the asset is reclassified to Financial assets at fair value through profit or loss or, if it is reclassified to Financial assets at fair value through other comprehensive income, to equity, within the specific valuation reserve.

Recognition criteria

These financial assets are initially recognised at the date of settlement in the case of debt and equity securities, whereas loans are recognised at the date they were granted. At initial recognition, the assets are measured at fair value, including transaction income or costs directly attributable to the asset. Costs meeting these characteristics, but to be reimbursed by the debtor or falling under normal internal administrative costs, are excluded.

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

Measurement criteria

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

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

At each reporting date, including interim reporting dates, the Group estimates the impairment of these assets in accordance with the impairment rules of IFRS 9, detailed in paragraph 16 – Other information.

The impairment losses found are recognised through profit or loss under "Net credit risk losses/reversals"—and so are the reversals of part or all of the amounts previously written down.

Impairment losses are reversed if the quality of the exposure has improved to the point of reducing the previously recognised impairment loss.

In profit or loss, under “Interest receivable and similar income”, the Group recognises the amount represented by the gradual reversal of the discount calculated at the time the impairment loss was recognised.

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

In some cases, throughout the life of the financial assets concerned, and specifically of receivables, the parties to the agreement subsequently agree to modify the original contractual terms. When, during the life of an instrument, the contractual terms are modified, the Group shall assess whether the original asset must continue to be recognised or, conversely, the original instrument must be derecognised and a new financial instrument recognised in its place.

Generally, modifications of a financial asset result in its derecognition and the recognition of a new asset when they are “substantial”. The “substantiality” of the modification shall be assessed considering both qualitative and quantitative factors. In some cases, it will become apparent, without conducting complex analyses, that the changes introduced substantially modify the characteristics and/or contractual cash flows of a specific asset, whereas in other cases, additional analyses (including quantitative analyses) will be required to appreciate their impact and assess whether to derecognise the asset and recognise a new financial instrument.

The (quali-quantitative) analyses aimed at defining the “substantiality” of the contractual modifications made to a financial asset shall therefore consider:

- the purposes for which the modifications where made: for instance, renegotiations for business reasons and forbearance measures due to the counterparty's financial difficulties:
  - the former, intended to “retain” the customer, involve a borrower that is not in financial distress. This case includes all renegotiations aimed at adjusting the cost of debt to market conditions. These transactions result in changes to the original contractual terms, usually at the request of the borrower, that concern aspects associated with the cost of debt, giving rise to an economic benefit for the borrower. Generally, the Bank believes that, whenever it enters into a renegotiation in order to avoid losing the client, this renegotiation shall be considered as substantial, since, in its absence, the customer could obtain financing from another intermediary and the bank would see estimated future revenue decline;
  - the latter, offered for “credit risk reasons” (forbearance measures), are part of the bank's attempt to maximise the recovery of the original receivable's cash flows. Following the modifications, usually the underlying risks and rewards have not been substantially transferred: therefore, the accounting presentation that provides the most relevant information to users of the financial statements (expect for the following discussion about objective factors) is the one made through “modification accounting”—whereby the difference between the carrying amount and the present value of modified cash flows discounted at the original interest rate is recognised through profit or loss—rather than derecognition;
- the existence of specific objective factors affecting the substantial modifications of the characteristics and/or contractual cash flows of the financial instrument (including, but not limited to, the modification of the type of counterparty risk the entity is exposed to) that are believed to require derecognising the asset because of their impact (estimated to be significant) on the original contractual cash flows.

Derecognition criteria

A receivable is derecognised when it is considered unrecoverable and the Bank forfeits the legal right to collect it. For instance, this occurs when insolvency proceedings are settled, the borrower dies without heirs, a court issues a final ruling that the debt does not exist, etc.

As for total or partial derecognitions without a forfeiture of the right to collect the receivable, to avoid continuing to recognise receivables that, even though they are still managed by debt collection structures, are highly unlikely to be recovered, at least every six months, the Bank identifies the exposures to be derecognised that have all of the following characteristics:

- the receivable has been written off;
- the receivable has been classified as a bad loan for more than 5 years;
- the counterparty has filed for bankruptcy, been put into administrative liquidation, or is subject to any insolvency proceedings.

Derecognitions are directly recorded under net impairment losses on receivables to the extent of the unadjusted remaining portion, and are recognised as a reduction of the principal. Partial or complete reversals of previous impairment losses are recognised as a reduction of net impairment losses on receivables.

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

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

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

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

4 - Property, plant and equipment and investment property

Classification criteria

The line item includes property, plant and equipment for investment purpose as well as those for functional use.

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

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

Property, plant and equipment for functional use include:

- land
- buildings
- furniture and accessories
- electronic office machines
- various machines and equipment
- photovoltaic plants
- vehicles

- leasehold improvements on third-party property

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

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

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

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

Recognition criteria

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

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

Measurement criteria

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

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

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

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

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

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

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

The usually estimated useful lives are the following:

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

Derecognition criteria

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

5 - Intangible assets

Classification criteria

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

Recognition criteria

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

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

Measurement criteria

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

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

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

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

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

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

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

Derecognition criteria

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

6 – Current and deferred taxes

Classification criteria

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

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

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

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

Recognition and measurement criteria

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

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

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

7 – Provisions for risks and charges

The provisions for risks and charges on commitments and guarantees granted include the provisions for credit risk set aside for loan commitments and the other guarantees granted that fall within the scope of the impairment rules in IFRS 9. As a general rule, in this case the Bank adopts the same methods for allocating items to three credit risk stages and calculating expected credit losses as the ones described for assets measured at amortised cost or at fair value through other comprehensive income.

In addition, these include also the provisions for risks and charges set aside for other types of commitments and guarantees granted that, because of their specific characteristics, do not fall within

the scope of the impairment rules in IFRS 9. Specifically, other provisions for risks and charges consist of liabilities arising when:

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

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

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

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

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

8 – Financial liabilities measured at amortised cost.

Classification criteria

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

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

Recognition criteria

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

Measurement criteria

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

The amortised cost method does not apply to short-term liabilities, as the effect of discounting would be insignificant.

Derecognition criteria

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

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

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

9 – Financial liabilities held for trading

Classification criteria

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

Recognition criteria

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

Measurement criteria

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

Derecognition criteria

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

10 – Foreign currency transactions

Initial recognition

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

Subsequent recognitions

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

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

11 - Other information

Post-employment benefits

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

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

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

In particular:

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

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

Share-based payments

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

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

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

Treasury shares

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

Recognition of income and costs

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

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

Dividends

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

Repurchase agreements

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

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

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

Amortised cost

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

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

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

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

Amortised cost applies to financial assets measured at amortised cost and at fair value through other comprehensive income, as well as financial liabilities measured at amortised cost.

Specifically concerning financial assets that are considered to be impaired at initial recognition, be they measured at amortised cost or fair value through other comprehensive income, and classified as “Purchased or Originated Credit Impaired (POCI) Financial Assets”, at initial recognition, the Bank calculates a credit-adjusted effective interest rate for which it is necessary to incorporate the initial expected credit losses into cash flow estimates. The Bank uses said credit-adjusted effective interest rate to apply the amortised cost method and, therefore, calculate the relevant interest.

Purchased or Originated Credit Impaired (POCI) Financial Assets

“Purchased or Originated Credit Impaired (POCI) Financial Assets” means the exposures that were impaired at the date they were acquired or originated.

POCI financial assets include also the exposures acquired as part of sales (of either individual assets or portfolios) and business combinations.

Based on the Business Model within which the asset is managed, POCI financial assets are classified as either Financial assets at fair value through other comprehensive income or Financial assets measured at amortised cost. As previously mentioned, interest is accounted for by applying a credit-adjusted effective interest rate, i.e. the rate that, upon initial recognition, discounts all the asset's estimated future cash receipts at amortised cost considering also lifetime expected credit losses.

The Bank regularly reviews said expected credit losses, recognising impairment losses or gains through profit or loss. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if said lifetime ECLs are lower than those incorporated into cash flow estimates at initial recognition.

“Purchased or Originated Credit Impaired Financial Assets” are usually allocated to Stage 3 at initial recognition.

If, as a result of an improvement in the counterparty's credit standing, the assets become “performing”, they are allocated to Stage 2.

These assets shall never be allocated to Stage 1, as the expected credit loss must always be calculated over a time horizon equal to their remaining useful life.

The NPL segment's receivables all qualify as POCI financial assets and are recognised and assessed through the following steps:

1. at the time of purchase, receivables are recognised by allocating the portfolio's purchase price among the individual receivables it consists of through the following steps:
   - recognition of the individual receivables at a value equal to the contract price, which is used for the purposes of reporting to the Central Credit Register;
   - after verifying the documentation, if provided in the contract, the Bank returns the loans lacking documentation or beyond the statute of limitations to the seller, and measures the fair value of receivables which actually exist and can be collected; finally, after sending a notice of assignment to the debtor, the Bank can start taking action to collect the receivable;
2. once the collection process begins, receivables are measured at amortised cost using the effective interest rate method;
3. the effective interest rate is calculated on the basis of the price paid, the transaction costs, if any, and the estimated cash flows and collection time calculated using either proprietary models or analytical estimates made by managers;
4. the effective interest rate as set out in the previous point is unchanged over time;
5. at the end of each reporting period, interest income accrued on the basis of the original effective interest rate is recognised under Interest Income. Said interest is calculated as follows: Amortised Cost at the beginning of the period x IRR/365 x days in the period;
6. in addition, at the end of each reporting period, the expected cash flows for each position are re-estimated;
7. should events occur (higher or lower revenues realised or expected compared to forecasts and/or a change in collection times) which cause a change in the amortised cost (calculated by discounting the new cash flows at the original effective rate compared to the amortised cost in the period), this change is also recognised under Credit risk losses/reversals.

Impairment of financial instruments

Under IFRS 9, the relevant impairment provisions apply to financial assets measured at amortised cost, financial assets at fair value through other comprehensive income that are not equity securities, and loan commitments and guarantees granted that are not measured at fair value through profit or loss.

"Expected Credit Losses" (ECLs) are calculated based on whether the financial instrument's credit risk has significantly increased since initial recognition.

The general impairment model requires allocating the financial instruments within the scope of IFRS 9 to three stages, which reflect the deterioration in credit quality:

- Stage 1: financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date;
- Stage 2: financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment;
- Stage 3: financial assets that have objective evidence of impairment at the reporting date. This coincides with non-performing exposures, i.e. those classified as bad loans, unlikely to pay, or non-performing past due exposures according to the rules of the Bank of Italy.

The existence of a significant increase in credit risk is identified for each individual relationship using both qualitative and quantitative criteria. The Banca IFIS Group applies the following transfer criteria differentially based on the scope of the outstanding loan portfolios:

- comparison between the one-year PD at initial recognition and the one-year PD at the reporting date; if the change in PD exceeds a given threshold, the exposure is allocated to stage 2;
- exposures that are more than 30 days past due or overdrawn;
- forborne exposures;
- "Watchlist & Other Early Warnings (e.g. financial ratios)", exposures included in the watchlist as part of the tier 1 credit monitoring process or exposures to companies with negative equity, substantial reductions in sales and/or EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) compared to the prior period.

The stage allocation of the exposures in the Debt securities portfolio is managed at the level of the purchased tranche for each ISIN code held at the reporting date and requires using an external rating of the issue or, if this is not available, the issuer; in short, they are allocated to the different stages based on the following transfer criteria:

- "Low credit risk exemption": if the issue rating of the security (ISIN) at the reporting date is "investment grade", the tranche is allocated to stage 1; otherwise, the Bank assesses the significant increase in credit risk between origination and reporting date;
- if the issue is "speculative grade", for each individual tranche, the Bank assesses the difference between the issue rating at the reporting date and the origination date; if the resulting rating difference is of 2 or more grades, the tranche is allocated to stage 2; otherwise, it is allocated to stage 1;
- if the issue rating at the reporting date is "speculative grade" and no issue rating at the origination date is available, the tranche is allocated to Stage 2;
- if there is no issue rating at the reporting date, but an issuer rating is available, the exposure shall be allocated by applying the previously described approach for the issue rating to the issuer rating.

Exposures are allocated to stage 3 if credit risk has increased to the point that the instrument is considered impaired, i.e. classified as non-performing, including in the case of financial instruments in default.

If, at a given reporting date, an exposure is allocated to stage 3 for one or more of the above transfer conditions, but these conditions no longer exist at a subsequent measurement date, the exposure is reallocated to stage 1.

Therefore, for financial assets subject to impairment under IFRS 9, the expected credit loss represents an estimate of the weighted probability of credit losses over the expected lifetime of the financial instrument and is calculated based on the above stage allocation.

In particular:

- 12-month expected credit loss, for assets allocated to stage 1. 12-month expected credit losses are those that result from default events that are possible within 12 months after the reporting date (or a shorter period if the expected lifetime is less than 12 months), weighted by the probability that the default event will occur.
- “Lifetime” expected credit loss, for assets allocated to stage 2 and stage 3. Lifetime expected credit losses are those that result from all possible default events over the expected life of the financial instruments, weighted by the probability that the default will occur.

If, at the reporting date, the credit risk on a financial instrument has not significantly increased since initial recognition, the entity shall adjust the loss allowance for the financial instrument to an amount equal to the 12-month expected credit losses. According to Appendix A of IFRS 9, 12-months expected credit losses are defined as "the portion of losses that result from default events on the financial instrument that are possible within 12 months after the reporting date".

Once the exposures have been allocated to the different credit risk stages, the Group calculates the expected credit losses (ECLs) for each individual transaction or tranche based on models calibrated on internal datasets, and models calibrated on datasets of External Credit Assessment Institutions (so-called “ECAI Agencies”) on portfolios for which no internal observations are available, based on measures such as Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), adjusted as needed to ensure compliance with the specific provisions of IFRS 9.

Multi-period PDs are adjusted according to short-term expectations to incorporate point-in-time effects (current stage of the Bank's risk factors compared to the long-term situation). LGD is estimated differently according to the loan's status (performing, past-due, unlikely-to-pay, bad loan), based on internal evidence (if available) about the “treatment” process (i.e. the probability a position will become once again performing considering the occurrence of a non-absorbing default event) as well as the historically observed recovery of positions classified as bad loans (i.e. a quantification of the recovery percentage historically observed for bad loans whose recovery cycle has ended).

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

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

recognised in profit or loss and shall not exceed the amortised cost that the loan would have had if the impairment had not been recognised.

Bad loans, excluding those referring to retail portfolios of personal loans or mortgages, with an outstanding gross amount of more than 100 thousand Euro are individually evaluated, whereas bad loans with an outstanding gross amount of less than 100 thousand Euro as well as bad loans with an outstanding gross amount of more than 100 thousand Euro but that were classified as such over 10 years prior to the reporting date are written off.

Unlikely to pay, excluding those referring to retail portfolios of personal loans or mortgages, with an amount of more than 100 thousand Euro are individually evaluated, whereas those with an amount of less than 100 thousand Euro are collectively tested for impairment.

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

Fair value disclosure

Qualitative disclosure

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

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

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

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

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

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

Fair value levels 2 and 3: valuation techniques and inputs used

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

The use of a valuation technique is intended to estimate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. In this case, the fair value measurement may be categorised in Level 2 or Level 3, according to what extent inputs to the pricing model are observable.

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

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

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

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

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

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

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

For the purposes of measuring performing loans at fair value, given the absence of prices directly observable on active and liquid markets, entities shall use valuation techniques based on a theoretical model meeting the requirements of IASs/IFRSs (Level 3). The approach used to determine the fair

value of receivables is the Discounted Cash Flow Model, i.e. the discounting of expected future cash flows at a risk free rate for the same maturity, increased by a spread representative of the counterparty's risk of default plus a liquidity premium.

As for the receivables portfolio of the NPL segment, which purchases and manages non-performing receivables mainly due from individuals, the Discounted Cash Flow Model is used to calculate fair value. In this case, the expected net cash flows are discounted at a market rate. The market rate is calculated without considering a credit spread, since the credit risk of the individual counterparties is already incorporated in the statistical model used to estimate future cash flows with regard to collective management (non-judicial operations). The model projects the relevant cash flows based on historical evidence concerning the recovery of positions in the Bank's portfolio. As for individual management (judicial operations), the projections of future cash flows are based on an internal algorithm or defined by the manager according to how the underlying receivable is being processed. As for acquired tax receivables, the Bank believes their amortised cost can be used as an approximation of fair value. The only element of uncertainty concerning these receivables due from tax authorities is the time required for collecting them; currently, there are no significant differences in the time it takes for the tax authorities to repay their debts. It should also be noted that Banca IFIS is one of the leading players in this operating segment, which makes it a price maker in the case of sales.

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

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

Measurement processes and sensitivity

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

Fair value hierarchy

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

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

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

- observable inputs became available during the period (e.g. prices for identical assets and liabilities defined in comparable transactions between independent and knowledgeable parties). In this case, they are reclassified from level 3 to level 2;

- inputs directly or indirectly observable used in measuring them are no longer available or current (e.g. no recent comparable transactions or no longer applicable multiples). In this case, the entity shall use valuation techniques incorporating unobservable inputs.

Quantitative disclosure

Fair value hierarchy

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

Type of financial instrument (in thousands of Euro)	30.06.2018		
	L1	L2	L3
1. Financial assets at fair value through profit or loss			
a) financial assets held for trading	-	*30.625*	-
b) financial assets designated as at fair value	-	-	-
c) other financial assets mandatorily measured at fair value	-	*15.208*	*115.312*
2. Financial assets at fair value through other comprehensive income	420.838	11.614	1.375
4. Hedging derivatives	-	-	-
5. Property, plant and equipment	-	-	-
6. Intangible assets	-	-	-
Total	**420.838**	**57.447**	**116.687**
1. Financial liabilities held for trading	-	38.627	-
2. Financial liabilities at fair value	-	-	-
3. Hedging derivatives	-	-	-
Total	**-**	**38.627**	**-**

Key

L1= Level 1: fair value of a financial instrument quoted in an active market;
L2= Level 2: fair value measured using valuation techniques based on observable market inputs other than the financial instrument's price;
L3= Level 3: fair value calculated using valuation techniques based on inputs not observable in the market.

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis (in thousands of Euro)	30.06.2018			
	BV	L1	L2	L3
1. Financial assets measured at amortised cost	8.278.499	12.941	-	8.508.045
2. Property, plant and equipment held for investment purpose	-	-	-	-
3. Non-current assets and disposal groups	-	-	-	-
Total	**8.278.499**	**12.941**	**-**	**8.508.045**
1. Financial liabilities measured at amortised cost.	7.819.032	88.525	1.007.943	6.712.379
2. Liabilities associated with non-current assets	-	-	-	-
Total	**7.819.032**	**88.525**	**1.007.943**	**6.712.379**

Key

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

Group equity and income situation

For comparison purposes, the line items of the statement of financial position presented in this section are compared with those at 1 January 2018, whereas in the case of the income statement, the comparative information has been re-aggregated to ensure accounting consistency with the corresponding amounts at 30 June 2018.

Statement of financial positions items

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2018	01.01.2018	ABSOLUTE	%
Financial assets mandatorily measured at fair value through profit or loss	130.520	58.758	71.762	122,1%
Financial assets at fair value through other comprehensive income	433.827	442.073	(8.246)	(1,9)%
Due from banks	1.568.042	1.759.780	(191.738)	(10,9)%
Loans to customers	6.710.457	6.401.686	308.771	4,8%
Property, plant and equipment and intangible assets	155.214	152.364	2.850	1,9%
Tax assets	400.773	439.972	(39.199)	(8,9)%
Other assets	333.910	308.641	25.269	8,2%
Total assets	**9.732.743**	**9.563.274**	**169.469**	**1,8%**
Due to banks	882.324	791.977	90.347	11,4%
Due to customers	4.840.864	5.293.188	(452.324)	(8,5)%
Debt securities issued	2.095.844	1.639.994	455.850	27,8%
Provisions for risks and charges	22.603	24.610	(2.007)	(8,2)%
Tax liabilities	50.519	43.125	7.394	17,1%
Other liabilities	467.506	398.720	68.786	17,3%
Equity	1.373.083	1.371.660	1.423	0,1%
Total liabilities and equity	**9.732.743**	**9.563.274**	**169.469**	**1,8%**

Financial assets mandatorily measured at fair value through profit or loss

The line item essentially includes the loans and debt securities that did not pass the SPPI test, equity securities represented by equity instruments, and UCITS units, pursuant to the new accounting standard IFRS 9. The increase compared to 1 January 2018 was mainly attributable to the purchase of 55,6 million Euro worth of UCITS units during the period, as well as the 11,3 million Euro revaluation of an equity instrument. 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	
	30.06.2018	01.01.2018	ABSOLUTE	%
Debt securities	2.103	955	1.148	120,2%
Equity securities	11.266	-	11.266	n.a.
UCITS units	69.318	13.729	55.589	404,9%
Loans	47.833	44.074	3.759	8,5%
Total	**130.520**	**58.758**	**71.762**	**122,1%**

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income totalled 433,8 million Euro at 30 June 2018, down 1,9% from 1 January 2018, 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 30 June 2018 **debt securities** amounted to 417,7 million Euro, down 2,3% from 1 January 2018. This was largely due to the change in fair value for the period, which more than offset the increase arising from the purchase of securities issued by banks.

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	29.991	-	-	108.105	273.258	411.354
% of total	*7,2%*	-	-	*25,9%*	*65,4%*	*98,5%*
Banks	-	-	-	-	6.308	6.308
% of total	-	-	-	-	*1,5%*	*1,5%*
Other issuers	-	-	-	-	-	-
% of total	-	-	-	-	-	-
Total	**29.991**	**-**	**-**	**108.105**	**279.566**	**417.662**
% of total	***7,2%***	**-**	**-**	***25,9%***	***66,9%***	***100,0%***

This line item includes also **equity securities** relating to non-controlling interests, amounting to 16,2 million Euro (+9,6% compared to 1 January 2018). The change was largely attributable to the fair value adjustment of the securities in the portfolio.

Due from banks

At 30 June 2018, **receivables due from banks** totalled 1.568,0 million Euro, compared to 1.759,8 million Euro at 1 January 2018. 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 6.710,5 million Euro, up 4,8% from 6.401,7 million Euro at 1 January 2018.

The change was positive across all the Group's segments: specifically, the Enterprises, NPL, and Governance & Services segments reported a 2,5%, 6,5%, and 85,2% increase in exposures, respectively. As for the latter, the rise was attributable to the purchase of a 87,4 million Euro senior tranche backed by the Italian government's state-guarantee scheme for NPL-backed securities (GACS)

at 30 June 2018, as well as the acquisition of both the subsidiary Cap.Ital.Fin. S.p.A., which contributed 20,7 million Euro, and two performing retail portfolios totalling 20,5 million Euro at 30 June 2018, 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 was up 2,5%.

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	
	30.06.2018	01.01.2018	ABSOLUTE	%
Enterprises	5.599.703	5.462.239	137.464	2,5%
- *of which non-performing*	*368.142*	*337.927*	*30.215*	*8,9%*
NPL	851.417	799.436	51.981	6,5%
- *of which non-performing*	*850.441*	*798.720*	*51.721*	*6,5%*
Governance & Services	259.337	140.011	119.326	85,2%
- *of which non-performing*	*33.969*	*23.668*	*10.301*	*43,5%*
Total loans to customers	**6.710.457**	**6.401.686**	**308.771**	**4,8%**
- of which non-performing	***1.252.552***	***1.160.315***	***92.237***	***7,9%***

Total net **non-performing exposures**, which are significantly affected by the receivables of the NPL segment, amounted to 1.252,6 million Euro at 30 June 2018, compared to 1.160,3 million Euro at 1 January 2018 (+7,9%).

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 amounted to 24,8 million Euro, up from 24,5 million Euro at 1 January 2018 (+1,4%) because of the investments made during the period, which more than offset the amortisation for the first six months of the year.

The line item included 22,2 million Euro worth of software, 0,8 million Euro in goodwill arising from the consolidation of the investment in IFIS Finance Sp.Z o.o.., and 0,7 million Euro in the provisionally estimated goodwill arising from the acquisition of the subsidiary Cap.Ital.Fin. S.p.A..

Property, plant and equipment and investment property totalled 130,4 million Euro, up from 127,9 million Euro at 1 January 2018 mainly due to the acquisition of the building in Mondovì, which houses the Leasing area's offices, as well as the investments in IT equipment.

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 46,4 million Euro (-34,9% from 1 January 2018), mainly included 22,9 million Euro in IRES/IRAP credits claimed in the tax return and 21,3 million Euro in credits acquired from third parties.
Deferred tax assets, totalling 354,3 million Euro (-3,5% from 1 January 2018), included 214,7 million Euro in impairment losses on receivables that can be deducted in the following years, 73,4 million Euro in past tax losses, 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 merged entity IFIS Leasing (15,8 million Euro).

Current tax liabilities, amounting to 8,7 million Euro, represent the tax burden for the period (1,5 million Euro at 1 January 2018).

Deferred tax liabilities totalled 41,8 million Euro, up 8,3% from 1 January 2018 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 30 June 2018:

- the “deferred tax assets that rely on future profitability and do not arise from temporary differences” are deducted from CET1; at 30 June 2018, the 100% deduction—as the transitional regime (art. 478 of the CCR) expired—amounted to 95,8 million Euro, in addition to 52,4 million Euro

  referring to the Banking Group's holding: 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 30 June 2018, these assets, which amounted to 36,6 million Euro, were offset by the corresponding deferred tax liabilities;
- 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 30 June 2018, the corresponding weight totalled 214,7 million Euro;
- “current tax assets”, amounting to 46,3 million Euro, receive a 0% weight as they are exposures to the Central Government.

Overall, the Tax Assets recognised at 30 June 2018 and 100% deducted from Own Funds resulted in an expense amounting to 1,91% as a proportion of CET1, which will decline in the future as said assets are utilised against taxable income.

Other assets and liabilities

Other assets amounted to 303,3 million Euro at 30 June 2018 (+11,1% compared to 1 January 2018).

The line item included 108,8 million Euro in receivables due from the parent company La Scogliera S.p.A. (including 55,1 million Euro as a result of the tax consolidation regime and 53,7 million Euro in

tax credits claimed by the latter for excess tax payments from prior years); 8,2 million Euro in funds placed in an escrow account pending the resolution of a dispute; 13,0 million Euro in net receivables due from tax authorities for payments on account (stamp duty); and 30,7 million Euro in VAT credits claimed. Finally, the line item included 25,8 million Euro in deferred costs associated with the NPL segment's positions with a pending garnishment order (38,3 million Euro at 1 January 2018).
At the end of the period, other liabilities totalled 421,1 million Euro (+19,3% from 1 January 2018). The most significant items referred largely to amounts due to customers that have not yet been credited.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2018	01.01.2018	ABSOLUTE	%
Due to banks	**882.324**	**791.977**	**90.347**	**11,4%**
- Eurosystem	*696.869*	*699.585*	*(2.716)*	*(0,4)%*
- Other payables	*185.455*	*92.392*	*93.063*	*100,7%*
Due to customers	**4.840.864**	**5.293.188**	**(452.324)**	**(8,5)%**
- Rendimax and Contomax	*4.475.744*	*4.948.386*	*(472.642)*	*(9,6)%*
- Other term deposits	*170.519*	*104.675*	*65.844*	*62,9%*
- Other payables	*194.601*	*240.127*	*(45.526)*	*(19,0)%*
Debt securities issued	**2.095.844**	**1.639.994**	**455.850**	**27,8%**
Total funding	**7.819.032**	**7.725.159**	**93.873**	**1,2%**

Total funding, which amounted to 7.819,0 million Euro at 30 June 2018, up 1,2% compared to 1 January 2018, is represented for 61,9% by **Payables due to customers** (compared to 68,5% at 1 January 2018), for 11,3% by **Payables due to banks** (compared to 10,3% at 1 January 2018), and for 26,8% by **Debt securities issued** (21,2% at 1 January 2018).

Payables due to customers at 30 June 2018 totalled 4.840,9 million Euro (-8,5% compared to 1 January 2018). This was essentially because retail funding (Rendimax and Contomax) declined by 9,6% from 1 January 2018 to 4.475,7 million Euro.

Payables due to banks totalled 882,3 million Euro (compared to 792,0 million Euro at 1 January 2018), up 11,4% essentially because of the increase in term deposits at other banks: these amounted to 185,5 million Euro, compared to 92,4 million Euro at 1 January 2018 (+100,7%).

Debt securities issued amounted to 2.095,8 million Euro. The item included 1.000,0 million Euro (850,0 million Euro at 1 January 2018) 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 596,9 million Euro (including interest) senior bond that Banca IFIS issued in the first half of 2017 as well as the 410,5 million Euro (including interest) Tier 2 bond. The rest of debt securities issued at 30 June 2018 included 87,9 million Euro in bond loans and 0,5 million 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	
	30.06.2018	01.01.2018	ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	2.524	3.544	(1.020)	(28,8)%
Legal disputes	13.792	13.820	(28)	(0,2)%
Other provisions	6.287	7.246	(959)	(13,2)%
Total provisions for risks and charges	**22.603**	**24.610**	**(2.007)**	**(8,2)%**

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.

Provisions for credit risk related to commitments and financial guarantees granted

At 30 June 2018, this line item amounted to 2,5 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.

Legal and tax disputes

At 30 June 2018, the Group had set aside 13,8 million Euro in provisions. This amount included 7,3 million Euro for 22 disputes concerning the Trade Receivables segment (the plaintiffs seek 29,3 million Euro in damages), 101 thousand Euro (the plaintiffs seek 201 thousand Euro in damages) for 9 disputes concerning the NPL segment, 3,5 million Euro (the plaintiffs seek 50,4 million Euro in damages) for 10 disputes concerning the former Interbanca, and 2,8 million Euro (the plaintiffs seek 6,3 million Euro in damages) for 46 lawsuits associated with the Leasing area.

Other provisions for risks and charges

At 30 June 2018, the Group had set aside 6,3 million Euro in provisions, including 1,3 million Euro for expenses related to employees of the former Interbanca, 3,2 million Euro in allowances for customers of the Leasing area, 0,9 million Euro in the provision for complaints, and 0,4 million for the restoration of third-party assets.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 30 June 2018. Based on the opinion of the legal advisers assisting the subsidiaries, they are considered possible, and therefore they are only disclosed.

Legal disputes

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. 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 in favour of the former Interbanca by the court of first instance with a ruling that is now final.

In the first-instance trial of the other defendants and the former Interbanca, which is still pending only for the remaining requests for indemnification, the court-appointed expert witness has filed his report, concluding that the three debtors have no right to seek damages from the defendants; the case has been adjourned to 12 June 2019.

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 agreements with the plaintiff, which withdrew the lawsuit and all claims against the former Interbanca—concerning both the damages resulting from the spin-off and the alleged environmental damage caused.

The appeal proceedings are still pending: the Ministries have asked to overturn the ruling that ordered them to pay the legal fees of the defendants. At the hearing held on 20 June 2018, the parties clarified their conclusions.

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 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, Rome's Regional Administrative Court upheld the former Interbanca's appeal and cancelled said order. On 15 July 2016, the Ministry of the Environment and the Protection of the Territory and the Sea appealed against the decision. At the hearing held on 14 June 2018, the Attorney General's Office did not ask to discuss the case, which is now to be decided. The Group looks forward to the publication of the ruling.

Tax dispute

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

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

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

Therefore, for the years between 2007 and 2012, the Italian Revenue Agency assessed approximately 72,5 and 44,6 million Euro in additional withholding taxes against the former Interbanca S.p.A. and the former 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 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 and Regional Tax Commissions 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 (former GE Capital Interbanca Group)

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 2004/2012, the Agency assessed 750 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 (former GE Capital Interbanca Group)

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.

Consolidated equity

At 30 June 2018, consolidated **Equity** totalled 1.373,1 million Euro, up +0,3% 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	
	30.06.2018	31.12.2017	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	102.052	101.864	188	0,2%
Valuation reserves:	(14.478)	(2.710)	(11.768)	434,2%
- Securities	*(7.946)*	*2.275*	*(10.221)*	*(449,3)%*
- Post-employment benefits	*75*	*20*	*55*	*275,0%*
- exchange differences	*(6.607)*	*(5.005)*	*(1.602)*	*32,0%*
Reserves	1.168.592	1.038.155	130.437	12,6%
Treasury shares	(3.103)	(3.168)	65	(2,1)%
Profit for the period	66.209	180.767	(114.558)	(63,4)%
Equity	**1.373.083**	**1.368.719**	**4.364**	**0,3%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2017	**1.368.719**
Change in opening balances	**2.941**
Increases:	**66.473**
Profit for the period	66.209
Sale/grant of treasury instruments	209
Change in valuation reserve:	55
- Post-employment benefits	55
Decreases:	**65.050**
Dividends distributed	53.234
Change in valuation reserve:	11.816
- Securities	10.214
- exchange differences	1.602
Equity at 30.06.2018	**1.373.083**

The change in the opening balances referred 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	
	30.06.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	864.063	859.944
Tier 1 Capital (T1)	921.471	898.356
Total own funds	**1.200.232**	**1.191.097**
Total RWA	**7.777.732**	**7.376.306**
Common Equity Tier 1 Ratio	11,11%	11,66%
Tier 1 Capital Ratio	11,85%	12,18%
Ratio - Total Own Funds	**15,43%**	**16,15%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds include the profits generated during the period net of estimated dividends.

Consolidated own funds, risk-weighted assets and prudential ratios at 30 June 2018 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 (FTA) 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 30 June 2018, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 168 thousand Euro, net of the tax effect. Therefore, in accordance with the transitional arrangements—"dynamic approach"—the Group included 159 thousand Euro in Common equity Tier 1 (CET1) capital.

The 9,1 million Euro increase in Own Funds compared to 31 December 2017 was largely attributable to:

- 17,6 million Euro arising from the inclusion of the profit for the period attributable to the Group and calculated for regulatory purposes, net of the estimated dividend;

- 7,3 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 148,3 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 more than 400 million Euro, in line with the increase in assets at risk, and specifically exposures to customers. The increase in risk-weighted assets, combined with the negative impact on Own Funds of the end of the transitional regime (CRR – Part Ten)—caused the Total capital ratio to amount to 15,43% at 30 June 2018, down from 16,15% at 31 December 2017; similarly, the CET1 ratio declined from 11,66% to 11,11%.

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	4.675.418	854.318	557.071	6.086.807
Off-balance-sheet exposures: payable, guarantees granted				344.010
Other assets: sundry receivables, suspense accounts				249.825
Tax assets				214.656
Market risk				2.371
Operational risk (basic indicator approach)				861.657
Credit valuation adjustment risk on derivatives				18.406
Total RWAs				**7.777.732**

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 material 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	
	30.06.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	863.904	859.944
Tier 1 Capital (T1)	921.471	898.356
Total own funds	**1.200.073**	**1.191.097**
Total RWA	**7.777.943**	**7.376.306**
Common Equity Tier 1 Ratio	11,11%	11,66%
Tier 1 Capital Ratio	11,85%	12,18%
Ratio - Total Own Funds	**15,43%**	**16,15%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds include the profits generated during the period net of estimated dividends.

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 BANKING GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	30.06.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	1.175.684	1.152.603
Tier 1 Capital (T1)	1.175.684	1.152.603
Total own funds	**1.575.684**	**1.552.792**
Total RWA	**7.769.825**	**7.369.921**
Common Equity Tier 1 Ratio	15,13%	15,64%
Tier 1 Capital Ratio	15,13%	15,64%
Total Own Funds Capital Ratio	**20,28%**	**21,07%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds include the profits generated during the period net of estimated dividends.

Income statements items

Formation of net banking income

Net banking income totalled 201,3 million Euro, down 3,7% from 209,0 million Euro in the prior-year period.

This change was largely attributable to the 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 former GE Capital Interbanca Group over time. As expected, this made a lower contribution to the result compared to the first half of 2017 (57,8 million Euro at 30 June 2017 to 44,1 million Euro at 30 June 2018).

Meanwhile, the Trade Receivables and Leasing business areas made a positive contribution to net banking income (+1,9% and +7,0%, respectively).

NET BANKING INCOME (in thousands of Euro)	1st HALF		CHANGE	
	2018	2017	ABSOLUTE	%
Net interest income	152.756	157.368	(4.612)	(2,9)%
Net commission income	39.774	34.364	5.410	15,7%
Dividends and similar income	301	40	261	652,5%
Net profit (loss) from trading	(352)	(309)	(43)	13,9%
Gains (losses) on sale or buyback of financial assets or liabilities	1.997	17.577	(15.580)	(88,6)%
Net result of other financial assets and liabilities at fair value through profit or loss	6.820	-	6.820	n.a.
Net banking income	**201.296**	**209.040**	**(7.744)**	**(3,7)%**

Net interest income declined from 157,4 million Euro at 30 June 2017 to 152,8 million Euro at 30 June 2018 (-2,9%), mainly because of the reasons previously discussed with reference to net banking income.

Net commission income amounted to 39,8 million Euro, up 15,7% from 30 June 2017, largely thanks to the strong performance of the Trade Receivables and Leasing areas.

Commission income, totalling 46,9 million Euro (compared to 41,2 million Euro at 30 June 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 7,1 million Euro compared to 6,9 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.

The net result of other financial assets and liabilities measured at fair value with an impact on the income statement, positive for 6,8 million, includes the positive change in fair value of a capital stock for 11,3 million, partially offset by the negative change in fair value of debt securities for 4,5 million.

Formation of net profit from financial activities

The Group's **net profit from financial activities** totalled 238,1 million Euro, compared to 265,3 million Euro at 30 June 2017 (-10,3%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	1st HALF		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	201.296	209.040	(7.744)	(3,7)%
Net credit risk losses/reversal on:	36.785	56.288	(19.503)	(34,6)%
a) financial assets measured at amortised cost	37.069	56.963	(19.894)	(34,9)%
b) financial assets at fair value through other comprehensive income	(284)	(675)	391	(57,9)%
Net profit (loss) from financial activities	**238.081**	**265.328**	**(27.247)**	**(10,3)%**

Net reversals of credit risk losses totalled 36,8 million Euro, compared to 56,3 million Euro at 30 June 2017. This line item includes the impact of the changes in estimated cash flows from the NPL segment's receivables, which, pursuant to IFRS 9, are included within “POCI” (“Purchased or originated credit-impaired”) loans. For more details, please see Accounting Policies in these Notes. Said impact totalled 76,8 million Euro at 30 June 2018, compared to 44,2 million Euro in the prior-year period (+73,9%). Specifically, the increase was due to the impact of the introduction of the new model for estimating cash flows from the positions undergoing judicial operations (31,5 million Euro) and the

update to the collective model used for receivables undergoing non-judicial operations (3,1 million Euro).

Excluding the component related to the NPL segment, the Group recognised 40,0 million Euro in net credit risk losses at 30 June 2018, compared to 12,8 million Euro in net reversals in the prior-year period. The change was largely attributable to the higher amount of individual provisions set aside on bad loans and unlikely to pay, referring to an individually significant position, as well as the fact that the first half of 2017 saw 26,7 million Euro in net reversals largely associated with successful restructuring transactions.

Formation of net profit for the period

FORMATION OF NET PROFIT (in thousands of Euro)	1st HALF		CHANGE	
	2018	2017	ABSOLUTE	%
Net profit (loss) from financial activities	**238.081**	**265.328**	**(27.247)**	**(10,3)%**
Operating costs	(144.176)	(119.455)	(24.721)	20,7%
Pre-tax profit (loss) for the period from continuing operations	**93.905**	**145.873**	**(51.968)**	**(35,6)%**
Income taxes for the period relating to continuing operations	(27.696)	(42.211)	14.515	(34,4)%
Profit (Loss) for the period attributable to non-controlling interests	-	5	(5)	(100,0)%
Profit (loss) for the period attributable to the Parent company	**66.209**	**103.657**	**(37.448)**	**(36,1)%**

OPERATING COSTS (in thousands of Euro)	1st HALF		CHANGE	
	2018	2017	ABSOLUTE	%
Personnel expenses	55.451	49.484	5.967	12,1%
Other administrative expenses	95.085	69.852	25.233	36,1%
Net allocations to provisions for risks and charges	(948)	(1.276)	328	(25,7)%
Net impairment losses/reversals on property, plant and equipment and intangible assets	5.925	5.942	(17)	(0,3)%
Other operating income/expenses	(11.337)	(4.547)	(6.790)	149,3%
Operating costs	**144.176**	**119.455**	**24.721**	**20,7%**

Personnel expenses totalled 55,5 million Euro, up 12,1% (49,5 million Euro in June 2017). At 30 June 2018, the Group's employees numbered 1.577, up 12,3% from the prior-year period (1.404 units).

Other administrative expenses totalled 95,1 million Euro, up 36,1% from 69,9 million Euro at 30 June 2017. This was the result of the reclassification to profit or loss of 14,8 million Euro in previously deferred costs as a result of the application of the new pre-garnishment order collective model to the NPL segment (for more details, please refer to the paragraph Contribution of operating segments to Group results); in addition, there was an increase in judicial debt collection costs associated with the higher number of positions for which judicial operations have ended compared to the prior-year period.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	1st HALF		CHANGE	
	2018	2017	ABSOLUTE	%
Expenses for professional services	33.596	25.090	8.506	33,9%
Legal and consulting services	24.297	12.094	12.203	100,9%
Auditing	409	325	84	25,8%
Outsourced services	8.890	12.671	(3.781)	(29,8)%
Direct and indirect taxes	25.555	11.314	14.241	125,9%
Expenses for purchasing goods and other services	35.934	33.448	2.486	7,4%
Customer information	7.981	6.276	1.705	27,2%
Software assistance and hire	7.993	5.955	2.038	34,2%
Postage and archiving of documents	4.664	3.118	1.546	49,6%
Property expenses	3.561	3.598	(37)	(1,0)%
FITD and Resolution fund	2.255	2.457	(202)	(8,2)%
Car fleet management and maintenance	1.885	1.823	62	3,4%
Advertising and inserts	1.761	1.494	267	17,9%
Telephone and data transmission expenses	1.682	1.347	335	24,9%
Employee travel	1.602	1.507	95	6,3%
Securitisation costs	761	639	122	19,1%
External business trips and transfers	105	653	(548)	(83,9)%
Transitional services agreement	-	2.064	(2.064)	(100,0)%
Other sundry expenses	1.684	2.517	(833)	(33,1)%
Total administrative expenses	**95.085**	**69.852**	**25.233**	**36,1%**

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 (11,2 million Euro at 30 June 2018). 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 5,0 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**", amounting to 25,6 million Euro (11,3 million Euro at 30 June 2017), included 18,7 million Euro 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, as well as 4,4 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 provisions for risks and charges showed 0,9 million Euro in net reversals (compared to 1,3 million Euro in provisions at 30 June 2017), largely because of the reduction in the provision for commitments and guarantees granted.

Other net operating income totalled 11,4 million Euro (4,6 million Euro at 30 June 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 4,6 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 93,9 million Euro, compared to 145,9 million Euro at 30 June 2017.

Income tax expense amounted to 27,7 million Euro, compared to 42,2 million Euro at 30 June 2017. The Group's tax rate declined from 28,9% at 30 June 2017 to 29,5% at 30 June 2018.

The net profit for the period attributable to the Parent amounted to 66,2 million Euro.

Information on Risks and Risk Management Policies

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

Concerning risk governance, the Group regularly reviews the strategic guidelines set out in the so-called Risk Appetite Framework. Meanwhile, the second pillar of the provisions includes the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) processes, pursuant to which the Group autonomously assesses, respectively, its own current and expected capital adequacy in relation to both so-called first-pillar risks (credit risk, counterparty risk, market risk and operational risk) and other risks (banking book interest rate risk, concentration risk, etc.), and its adequacy as far as the governance and management of liquidity risk and funding is concerned.

This examination accompanied the preparation and submission to the Supervisory Body of the annual ICAAP and ILAAP Report as at 31 December 2017.

In May 2018, again with reference to 31 December 2017 and in compliance with the obligations in the relevant provisions, Banca IFIS published information on its capital adequacy, its exposure to risks, and the general characteristics of the systems it has put in place to identify, measure and manage these risks. This document has been published on Banca IFIS's website www.bancaifis.it in the 'Investor relations' section.

With reference to the above and as per Circular 285 of 17 December 2013 as amended - Supervisory Provisions for banks - the Banca IFIS Group has set up an Internal Control System that aims to guarantee a reliable and sustainable generation of value in a context of sensible risk control and taking, so as to protect the Group's capital adequacy as well as its financial position and performance.

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

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

Audits involve all personnel to varying degrees and constitute an integral part of day-to-day operations. They can be classified according to the relevant organisational structures. Some types of audits are highlighted below:

- Line audits aim to ensure operations are carried out correctly. These audits are carried out by the operational structures themselves, incorporated in procedures, or performed as part of back office operations. The operational structures are primarily responsible for the risk management process: as part of their day-to-day operations, they shall identify, measure or assess, monitor, mitigate, and report the risks arising from ordinary operations in accordance

with the risk management process; they shall comply with the operational limits assigned to them in accordance with the risk objectives and the procedures that form part of the risk management process;

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

The role of the different players involved in the Internal Control System (the Board of Directors, the Control and Risks Committee, the Executive Director in charge of the Internal Control System, the Supervisory Body as per Legislative Decree no. 231, the Internal Audit Function, the Corporate Accounting Reporting Officer, the Risk Management Function, the Compliance Function, and the Anti-Money Laundering Function) are described in detail in the ‘Report on Corporate Governance and Shareholding Structure’, prepared pursuant to the third paragraph of article 123 bis of Italian Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance) as amended. The latest edition of the Report was approved by the Board of Directors on 6 March 2018 and published on the Bank’s website in the Corporate Governance section.

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

a) credit risk;

b) market risks:

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

c) liquidity risk;

d) operational risks.

Credit risk

Qualitative information

General aspects.

In accordance with the guidelines approved by the Parent's Governing Body and the changes in the supervisory regulatory framework, the Group seeks to strengthen its competitive position in the market for lending to Italian small and medium businesses. The aim is to increase its market share in the following segments: trade receivables, leasing, tax receivables, distressed loans, salary-backed loans, and salary or pension deductions.
The banking group currently operates in the following fields:

- Short-term trade receivable financing and acquisition of receivables due from the Public Administration (Factoring operations)
- Corporate lending and structured finance (Lending operations)
- Finance and long-term leases
- Unsecured loans to retail entrepreneurs
- Purchasing and managing non-performing loan portfolios
- Purchasing and managing tax receivables
- Market for securities and equity investments
- Salary-backed loans and salary deductions for retail customers

Specifically:

- the factoring business is characterised by the direct assumption of risks related to granting advances and loans, as well as guarantees, if any, on trade receivables of mainly small- and medium-sized enterprises. As part of its operations, the factoring segment purchases receivables due from public health service and local authorities outright;
- corporate lending and structured finance operations focus on offering secured and unsecured products to support companies operating in Italy in their organic or inorganic growth through extraordinary operations to reposition or expand their business, establish alliances or pursue integrations, promote restructuring processes, or introduce new investors and partners into the company. The clients of this segment are usually corporations;
- the leasing segment targets mainly small economic operators as well as small- and medium-sized businesses (SMEs). In general, finance leases help independent contractors and businesses finance company cars and commercial vehicles as well as facilitate equipment investments for businesses and resellers. Meanwhile, long-term leases mainly focus on equipment finance—specifically on office and IT products and, to a lesser extent, industrial and healthcare equipment;
- the acquisition of distressed retail loans or non-performing loans, mainly from retail customers, refers to the set of actions aimed at collecting (through both judicial and non-judicial actions) the distressed loans acquired;
- the operations of the tax receivables segment consist in managing receipts of direct and indirect taxes as well as collecting tax receivables arising mainly from insolvency proceedings;
- Besides maintaining a position in the market for investments in debt securities, which mainly consists of Italian government bonds, the Group also trades to a lesser extent in equity markets, investing in non-controlling interests in unlisted companies to support their growth, in the market for mutual funds, and in third-party securitisation transactions;

- the inclusion within the segment of loans to retail customers, including through the definition and refinancing of transferred distressed loans, to be settled through salary- or pension-backed loan schemes.

Given the particular business of the Group's companies, credit risk is the most important element to consider as far as the general risks assumed by the Group are concerned. Maintaining an effective credit risk management is a strategic objective for the Banca IFIS Group, pursued by adopting integrated tools and processes that ensure proper credit risk management at all stages (preparation, lending, monitoring and management, and interventions on troubled loans).

Credit risk management policies.

Organisational aspects

Overall, despite some differences deriving from the various products/portfolios, the lending process follows a shared organisational approach with various operational stages and roles, responsibilities, and controls at different levels. During 2018, in accordance with the new organisational structure of the Banca IFIS Group, the Parent reorganised the lending process, creating new Business Units dedicated to different activities.

Therefore, Banca IFIS's organisational structure consists of the following Business Units:

- **Trade Receivables**, the organisational unit that provides financing services for Italian companies;
- **Pharma**, the organisational unit dedicated to purchasing receivables due from local health agencies and hospitals;
- **Pharmacies**, the organisational unit that provides financing services for Italian pharmacies;
- **International**, the organisational unit that provides financing services for Italian exporters as well as foreign companies;
- **Tax Receivables**, the organisational unit dedicated to purchasing tax receivables, mainly from companies in insolvency proceedings or liquidation;
- **Corporate Finance**, the organisational unit dedicated to structured finance transactions or investments in performing non-financial companies and intermediaries;
- **Special Situations**, the organisational unit responsible for identifying and assessing new opportunities for lending to Italian companies that, despite reporting positive operating profits, have gone through or are recovering from financial distress;
- **Leasing**, the organisational unit dedicated to offering and managing leasing products;
- **Non Performing Loans**—operational within the Bank until 30 June 2018—the organisational unit dedicated to purchasing, servicing and selling distressed loan portfolios—mainly retail unsecured ones—originated by financial institutions and banks. Starting from 1 July 2018, these operations are transferred entirely to the new wholly-owned subsidiary **IFIS NPL S.p.A.**, into which Banca IFIS spun off its NPL Area.

Finally, at the reporting date, the lending process includes the lending operations of the subsidiaries **Cap.Ital.Fin. S.p.A.**, specialising in salary-backed loans, **IFIS Finance Sp. Zo.o**., a factoring company operating in Poland, and **IFIS Rental Service S.r.l.**, an unregulated entity specialising in operating leases.

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

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

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

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

In carrying out their operations, the subsidiaries can independently take certain decisions within the operational and organisational limits defined by the Parent Company Banca IFIS. In this regard, please note that CapItalFin Spa has its own system of delegated powers, granting lending authority to both the appraiser and the general manager.

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

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

- origination: the Bank identifies the counterparties from which it plans to purchase the portfolios and assesses the economic expediency of said transactions;
- due diligence, as part of which highly-skilled analysts assess the quality of the portfolio being transferred and the relevant organisational impact. Once the due diligence is completed, the Group sets the terms and conditions for offering/acquiring the receivables portfolio and how to manage it (individual or collective method), assessing the relevant impact on operating structures;
- approval: this stage includes the preparation of the file, the decision-making process, and the implementation of the approval by the competent decision-making body;
- finalisation: the parties prepare and finalise the purchase agreement, and the relevant consideration is paid.

The operational management of receivables, carried out for performing customers, mainly consists in the **monitoring** and **collection** activities conducted by specific units within the individual business units. These are responsible for constantly and pro-actively reviewing borrowers (first line of defence); specifically, the Parent's Credit Monitoring organisational unit is responsible for constantly monitoring credit positions with the aid of the reference manager and/or the evaluation structures of the Bank and the Group's companies in order to identify counterparties with performance problems as well as any changes compared to the assessments carried out during the underwriting stage or the most recent review of the position. The goal is to anticipate problems and provide adequate reporting to the competent decision-making bodies. If there is objective evidence of repayment problems, the position is transferred to specific functions specialising in the management of non-performing transactions within the supporting unit Troubled Loans Area or, in the case of leasing products, the organisational

unit Debt Collection. The monitoring unit also reviews the position on a regular basis to ensure the mitigation actions taken by the managers within the business units/group companies concerned are correctly implemented.

Cap.Ital.Fin has set up a separate structure, named Collection, whose mission is to monitor whether instalments are paid on a regular basis, investigate the reasons behind any defaults, and determine the credit rating to be assigned to borrowers or the transferred third-party entities. In addition, as far as positions in default are concerned, Collection seeks to define more effective and efficient collection actions to protect the rights of the intermediary—including by filing insurance claims if possible.

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

Management, measurement and control systems

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

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

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

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

Credit risk exposures to Italian companies are assigned an internal rating based on a model developed in-house that was updated in December 2017. The Bank is currently working on a project to evolve the current counterparty rating model for Italian companies in light of the Group's expanded scope and the product range. Starting from January 2018, the new rules for the classification and measurement of financial assets as per the new accounting standard *IFRS9* apply to the entire Group.

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

Concerning credit risks, the Risk Management function:

- oversees, monitors and assesses credit risks, carrying out audits and analysis in accordance with the relevant guidelines; specifically, it: i) assesses credit quality, ensuring compliance with lending strategies and guidelines by monitoring credit risk indicators on an ongoing basis; ii)

constantly monitors the exposure to credit risk as well as compliance with the operational limits assigned to the different structures with reference to the assumption of credit risk; iii) ensures, through second line of defence controls, that the performance of individual exposures, and specifically non-performing ones, is properly monitored, and assesses the consistency of the classifications as well as the level of provisions; iv) monitors the exposure to concentration risk as well as the performance of Major Exposures;

- performs quantitative analyses to support the business units in using risk measures;
- oversees the supervision of the value of collateral as well as personal and financial guarantees.

The Banca IFIS Group pays particular attention to the concentration of credit risk with reference to all the Group’s companies, both at an individual and consolidated level. Banca IFIS’s Board of Directors has delegated the Top Management to take action to contain major risks. In line with the Board of Directors’ instructions, all positions at risk which significantly expose the Group are systematically monitored.

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

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

Measurement of expected credit losses

IFRS 9 introduces stage allocation as a fundamental concept, based on which the calculation of expected credit losses on a financial instruments is tied to the so-called “stage” it is allocated, determined according to a “significant” increase in credit risk since initial recognition. To identify the significant increase in credit risk, the Banca IFIS Group applies the following quantitative and qualitative transfer criteria to the loan portfolio according to the type of counterparty defined by segmenting receivables into portfolios.

Quantitative transfer criteria

- Significant Deterioration

To identify the “significant increase in credit risk” on exposures within rated portfolios (Italian companies), the Group used an approach backed by quantitative analyses, under which the exposure is allocated to stage 2 if the change in the one-year PD between the origination and the measurement date exceeds a given threshold.

Qualitative transfer criteria

- Rebuttable presumption – 30 days past due

The Standard establishes that, regardless of how the entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The entity can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not increased significant since initial recognition even though the contractual payments are more than 30 days past due. However, the Banca IFIS Group has not pursued this option.

- Forbearance

According to the "Forbearance" transfer criteria, a financial instrument is allocated to stage 2 when the Group classifies the exposure as forborne.

- Watchlist

The "Watchlist" transfer criteria identifies qualitative deterioration criteria defined by the Group as part of the process for defining especially risky positions during credit monitoring.

According to IFRS 9, an entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date, that is:

- it has a low risk of default;
- the borrower is considered, in the short term, to have a strong capacity to meet its obligations; and
- the lender expects, in the longer term, that adverse changes in economic and business conditions might reduce the ability of the borrower to fulfil its obligations.

The expected credit loss described according to IFRS 9 has a different prospective outlook compared to collective impairment under IAS 39. Pursuant to IFRS 9, the measurement of expected credit losses (ECLs) accounts for cash shortfalls, the probability of default, and the time value of money. Specifically, the Group measures the loss allowance for the financial instrument as:

- 12-month expected credit losses, for exposures that have not had a significant increase in credit risk (so-called stage 1); in this case, it estimates the cash shortfalls resulting from default events that are possible within the next 12 months, weighted by the probability of that default occurring;
- Lifetime expected credit losses, for exposures that have had a significant increase in credit risk (so-called stage 2); in this case, it estimates the cash shortfalls resulting from default events that are possible over the expected life of the financial instrument, weighted by the probability of that default occurring and discounted at the measurement date (ECL).

To ensure its collective impairment calculations are in the closest possible compliance with regulatory requirements, the Group has defined a specific methodological framework. This involved developing quantitative methods and analyses based on proprietary datasets as well as qualitative methods and analyses to essentially model the following risk parameters and the methodological aspects relevant to the calculation of impairment under IFRS 9:

- Estimated Probability of Default (PD)
- Estimated Loss Given Default (LGD)
- Estimated Exposure at Default (EAD)
- Definition of the Stage allocation transfer logic
- Calculation of the expected credit losses including point-in-time factors[1].

Concerning the exposures to Banks, Central Governments, and Public-Sector Entities (low default portfolios), the Group used default rates associated with migration matrices provided by Moody's.

As for the securities portfolio, considering the methodological complexity associated with developing a dedicated model, the Bank decided to outsource the calculation of impairment under IFRS 9 (i.e. estimating risk parameters, calculating the stage allocation and ECLs). Specifically, the formula used to calculate the impairment of the tranches allocated to stage 1 and stage 2 is consistent with the

[1] The Group will consider including forward-looking information during 2018.

approach to credit exposures. The stage allocation of performing debt securities requires using an external rating of the issue or, if this is not available, the issuer; in short, the securities are allocated to the different stages based on specific transfer criteria associated with this type of portfolio. Exposures are allocated to stage 3 if credit risk has deteriorated to the point that the security is considered impaired, i.e. classified as non-performing, including in the case of financial instruments in default.

In developing the above methods, the Group has considered multiple solutions, the current and prospective complexity of its portfolio, as well as how to maintain and update risk parameters.

A multi-period approach to risk parameters has been developed exclusively for the Probability of Default; the other credit risk parameters (LCD and CCF) are applied on a constant basis until maturity. The Group estimates LGD based on historical proprietary evidence, except in the case of Banks, Central Governments, and Local Administrations (excluding municipalities), for which, in the absence of objective historical data, the Group used a regulatory LGD of 45% borrowed from the Foundation IRB approach.

For stage 3 exposures that are not individually tested for impairment, the Group defines a lifetime provision in line with the concept of expected credit loss. Specifically concerning LGD, to calculate the collective provisions for stage 3 exposures (mainly past due and unlikely-to-pay), the Group made certain adjustments to ensure consistency with the measures used for performing loans.

Credit risk mitigation techniques

As part of factoring operations, when the type and/or quality of factored receivables do not fully satisfy requirements or, more generally, the invoice seller is not sufficiently creditworthy, the bank’s established practice is to hedge the credit risk assumed by the Group by obtaining additional surety bonds from the shareholders or directors of the invoice seller.

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

As for the Lending sector, based on the peculiarities of its products, it demands adequate collateral according to the counterparty's standing as well as the term and type of the facility. Said collateral includes mortgage guarantees, liens on plant and equipment, pledges, surety bonds, credit insurance, and collateral deposits. In 2017, the Bank activated a new subsidised financing service for SMEs with the support of the Italian Ministry of Economic Development’s Guarantee Fund. The goal is twofold: allow the company to obtain financing without pledging additional collateral (and therefore without paying for bank sureties or insurance policies) to the extent of the Fund's guarantee, and enable the Bank to mitigate the credit risk for the guaranteed exposure.

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

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

Salary-backed loans certainly have low risk, considering the particular characteristics of this product: it requires having insurance against the customer's risk of death and/or employment as well as imposing a lien on the Post-employment benefits earned by the customer as additional collateral for the loan.

The Bank's Risk Management function constantly monitors the quality and adequacy of the procedures for assessing collateral, which were reviewed during 2017, to provide central oversight over the assessment and monitoring of collateral for the Banca IFIS Group's loan portfolio.

Non-performing loans

Management strategies and policies

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

The positions that have deteriorated or present significant problems are handled directly by the supporting unit Troubled Loans Area, which:

- assesses the counterparty's willingness and ability to repay the debt in order to establish the most appropriate recovery strategy;
- manages judicial and non-judicial proceedings concerning debt collection operations;
- defines potential modifications to the administrative status as well as the quantification of “doubtful individual outcomes” for the positions assigned to it, submitting them to the competent decision maker;
- provides advice on transactions to which the benefits set out in applicable bankruptcy laws apply;
- monitors the amount of exposures classified as bad loans and the relevant debt collection operations.

Concerning the operations of the Leasing Business Unit, the debt collection process is handled by the tier 2 organisational unit Debt Collection with the support of debt collection companies and, if necessary, the organisational unit Troubled Loans Area.

Write off

A receivable is derecognised when it is considered unrecoverable and the Bank forfeits the legal right to collect it. For instance, this occurs when insolvency proceedings are settled, the borrower dies without heirs, a court issues a final ruling that the debt does not exist, etc.

As for total or partial derecognitions without a forfeiture of the right to collect the receivable, to avoid continuing to recognise receivables that, even though they are still managed by debt collection structures, are highly unlikely to be recovered, at least every six months, the Bank identifies the exposures to be derecognised that have all of the following characteristics:

- the receivable has been written off;
- the receivable has been classified as a bad loan for more than 5 years;
- the counterparty has filed for bankruptcy, been put into administrative liquidation, or is subject to any insolvency proceedings.

In the first six months of the year, the Bank derecognised 220,5 million Euro (nominal amount) worth of exposures entirely written off without forfeiting the right to collect the receivable.

Purchased or originated credit impaired financial assets

“Purchased or Originated Credit Impaired (POCI) Financial Assets” means the exposures that were impaired at the date they were acquired or originated.

POCI financial assets include also the exposures acquired as part of sales (of either individual assets or portfolios) and business combinations.

Based on the Business Model within which the asset is managed, POCI financial assets are classified as either Financial assets at fair value through other comprehensive income or Financial assets measured at amortised cost. As previously mentioned, interest is accounted for by applying a credit-adjusted effective interest rate, i.e. the rate that, upon initial recognition, discounts all the asset's estimated future cash receipts at amortised cost considering also lifetime expected credit losses.

The Bank regularly reviews said expected credit losses, recognising impairment losses or gains through profit or loss. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if said lifetime ECLs are lower than those incorporated into cash flow estimates at initial recognition.

“Purchased or Originated Credit Impaired Financial Assets” are usually allocated to Stage 3 at initial recognition.

If, as a result of an improvement in the counterparty's credit standing, the assets become “performing”, they are allocated to Stage 2.

These assets shall never be allocated to Stage 1, as the expected credit loss must always be calculated over a time horizon equal to their remaining useful life.

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

As for non-performing exposures purchased and not yet collected, the overall outstanding book value of the portfolio was approximately 12.897 million Euro. At the time of purchase, the historical book value of these receivables was approximately 13.190 million Euro, and they were acquired for approximately 651 million Euro, i.e. an average price equal to approximately 4,9% of the historical book value. In the first half of 2018, approximately 70 million Euro were acquired for approximately 10 million Euro, i.e. an average price equal to 14,28%.

Furthermore, it should be noted that at the end of the first half of 2018 there were approximately 22 million Euro in outstanding bills of exchange (the amount does not include nearly 457 million Euro in outstanding settlement plans).

In the first six months of the year, the Bank completed three sales of portfolios to leading players whose business is purchasing NPLs. Overall, Banca IFIS sold receivables with an outstanding book value of nearly 115 million Euro, consisting of approximately 22 thousand positions, for an overall consideration of about 2 million Euro.

Future cash flows from non-judicial operations are simulated using a statistical model, based on the proprietary portfolio's historical evidence, segmented by different drivers (the model is based on curves of breakdown over time calculated using proprietary historical technical bases). During the prediction process, the model already incorporates the counterparty's risk of default, i.e. the fact that historically cash receipts have fallen short of expectations because a certain percentage of counterparties do not honour their debts.

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.

As for individual operations, the cash flows are in part the result of the cash receipts estimated by the manager and in part calculated using a statistical model that the Group developed in the first quarter of 2018 and applied to some of the positions undergoing judicial collection operations. Specifically, it uses the new statistical model to estimate the cash flows of all the positions for which a writ has been issued starting from 1 January 2018. Exclusively for the positions for which a court has issued a Garnishment Order, cash flows are estimated using a statistical model based on the data gathered from the proceedings. As in the case of collective operations, these estimates account for credit risk.

In addition, this line item includes the non-performing exposures acquired with the acquisition of the former GE Capital Interbanca Group on 30 November 2016 and Cap.Ital.Fin. S.p.A. on 2 February 2018. These exposures totalled 105,6 million Euro at 30 June 2018 (including 99,7 million Euro worth of non-performing exposures), resulting in a nominal exposure of 599,7 million Euro. These receivables are managed on an individual basis in line with the previously described credit risk management strategies and policies.

Finally, during the period, as part of the NPL segment's ordinary purchasing operations, which often concern also mixed portfolios, the Bank acquired 4,5 million Euro worth of non-performing exposures, resulting in a nominal exposure of 11,5 million Euro.

Financial assets subject to business renegotiations and forborne exposures

Throughout the life of the financial assets, and specifically of receivables, the parties to the agreement subsequently agree to modify the original contractual terms. When, during the life of an instrument, the contractual terms are modified, the Group shall assess whether the original asset must continue to be recognised or, conversely, the original instrument must be derecognised and a new financial instrument recognised in its place.

Generally, modifications of a financial asset result in its derecognition and the recognition of a new asset when they are “substantial”. The “substantiality” of the modification shall be assessed considering both qualitative and quantitative factors. In some cases, it will become apparent, without conducting complex analyses, that the changes introduced substantially modify the characteristics and/or contractual cash flows of a specific asset, whereas in other cases, additional analyses (including quantitative analyses) will be required to appreciate their impact and assess whether to derecognise the asset and recognise a new financial instrument.

The (quali-quantitative) analyses aimed at defining the “substantiality” of the contractual modifications made to a financial asset shall therefore consider:

- the purposes for which the modifications where made: for instance, renegotiations for business reasons and forbearance measures due to the counterparty's financial difficulties:

- the former, intended to “retain” the customer, involve a borrower that is not in financial distress. This case includes all renegotiations aimed at adjusting the cost of debt to market conditions. These transactions result in changes to the original contractual terms, usually at the request of the borrower, that concern aspects associated with the cost of debt, giving rise to an economic benefit for the borrower. Generally, the Bank believes that, whenever it enters into a renegotiation in order to avoid losing the client, this renegotiation shall be considered as substantial, since, in its absence, the customer could obtain financing from another intermediary and the bank would see estimated future revenue decline;
- the latter, offered for “credit risk reasons” (forbearance measures), are part of the bank's attempt to maximise the recovery of the original receivable's cash flows. Following the modifications, usually the underlying risks and rewards have not been substantially transferred: therefore, the accounting presentation that provides the most relevant information

to users of the financial statements (expect for the following discussion about objective factors) is the one made through “modification accounting”—whereby the difference between the carrying amount and the present value of modified cash flows discounted at the original interest rate is recognised through profit or loss—rather than derecognition;

- the existence of specific objective factors affecting the substantial modifications of the characteristics and/or contractual cash flows of the financial instrument (including, but not limited to, the modification of the type of counterparty risk the entity is exposed to) that are believed to require derecognising the asset because of their impact (estimated to be significant) on the original contractual cash flows.

The modifications due to credit risk reasons amounted to 218,7 million Euro at 30 June 2018, including 32,9 million Euro referring to performing exposures. During the quarter, the Bank received 13,0 million Euro from forborne positions, including 2,7 million Euro referring to performing positions.

Quantitative information

The gross exposures reported in the following tables account for 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.

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

Portfolio/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing exposures	Total
1. Financial assets measured at amortised cost	663.417	425.310	163.826	7.025.946	8.278.499
2. Financial assets at fair value through other comprehensive income	-	-	-	417.662	417.622
3. Financial assets designated as at fair value	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	45.101	-	4.835	49.936
5. Financial assets under disposal	-	-	-	-	-
Total 30.06.2018	**663.417**	**470.411**	**163.826**	**7.448.443**	**8.746.097**

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

Distribution of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall impairment losses/reversals	Net exposure	Overall partial write-offs	Gross exposure	Overall impairment losses/reversals	Net exposure	
1. Financial assets measured at amortised cost	1.872.562	620.009	1.252.553	3.289.304	7.059.679	33.733	7.025.946	**8.278.499**
2. Financial assets at fair value through other comprehensive income	-	-	-	-	417.662	-	417.662	**417.662**
3. Financial assets designated as at fair value	-	-	-	-	X	X	-	**-**
4. Other financial assets mandatorily measured at fair value	45.101	-	45.101	-	X	X	4.835	**49.936**
5. Financial assets under disposal	-	-	-	-	-	-	-	**-**
Total 30.06.2018	**1.917.663**	**620.009**	**1.297.654**	**3.289.304**	**7.477.341**	**33.733**	**7.448.443**	**8.746.097**

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

Portfolio/Quality	Low credit quality assets		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	2.909	1.042	29.583
2. Hedging derivatives	-	-	-
Total 30.06.2018	**2.909**	**1.042**	**29.583**

Prudential consolidation - Distribution of financial assets by past due buckets (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	171.432	56.342	153.716	80	4.406	11.428	22.066	34.368	1.032.678
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 30.06.2018	**171.432**	**56.342**	**153.716**	**80**	**4.406**	**11.428**	**22.066**	**34.368**	**1.032.678**

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

Types of loans/amounts	Gross exposure		Overall impairment losses/reversals and overall provisions	Net exposure	Overall partial write-offs
	Non-performing	Performing			
A. On-balance-sheet credit exposures					
a) Bad loans	1.109.651	X	446.421	663.230	232.251
- of which: forborne exposures	31.184	X	26.382	4.802	18.260
b) Unlikely to pay	633.004	X	145.491	487.513	3.041.885
- of which: forborne exposures	246.253	X	70.465	175.788	242.687
c) Non-performing past due exposures	177.005	X	14.467	162.538	13.808
- of which: forborne exposures	5.807	X	528	5.279	141
d) Performing past due exposures	X	337.338	3.333	334.005	-
- of which: forborne exposures	X	5.651	465	5.186	-
e) Other performing exposures	X	5.427.019	29.566	5.397.453	-
- of which: forborne exposures	X	28.621	956	27.665	-
Total (A)	**1.919.660**	**5.764.357**	**639.278**	**7.044.739**	**3.287.944**
B. Off-balance-sheet credit exposures					
a) Non-performing	42.852	X	1.313	41.539	-
b) Performing	X	631.465	2.472	628.993	-
Total (B)	**42.852**	**631.465**	**3.785**	**670.532**	**-**
Total (A+B)	**1.962.512**	**6.395.822**	**643.063**	**7.715.271**	**3.287.944**

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

Concentration and distribution of credit exposures

Prudential Consolidation - Distribution of on- and off-balance-sheet exposures to customers by segment

Exposures/counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	4.766	4.102	2.648	11.105	-	-	101.975	370.734	553.841	60.480
- of which: forborne exposures	-	-	770	8.321	-	-	4.013	18.055	19	6
A.2 Unlikely to pay	2.559	481	37.743	15	-	-	181.036	136.126	266.175	8.869
- of which: forborne exposures	1.632	356	37.690	5	-	-	77.613	67.656	58.853	2.448
A.3 Non-performing past due exposures	60.151	2.968	72	59	-	-	87.882	5.808	14.433	5.632
- of which: forborne exposures	-	-	-	-	-	-	4.602	191	677	337
A.4 Performing exposures	1.145.885	701	315.956	2.278	-	-	3.821.824	23.818	447.793	6.102
- of which: forborne exposures	51	-	540	6	-	-	23.471	631	8.789	784
Total (A)	**1.213.361**	**8.252**	**356.419**	**13.457**	**-**	**-**	**4.192.717**	**536.486**	**1.282.242**	**81.083**
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	39.223	1.261	2.316	52
B.2 Performing exposures	-	-	9.147	85	-	-	610.996	2.333	8.850	54
Total (B)	**-**	**-**	**9.147**	**85**	**-**	**-**	**650.219**	**3.594**	**11.166**	**106**
Total at 30.06.2018 (A+B)	**1.213.361**	**8.252**	**365.566**	**13.542**	**-**	**-**	**4.842.936**	**540.080**	**1.293.408**	**81.189**

Prudential Consolidation - Geographical distribution of on- and off-balance-sheet exposures to customers

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	663.072	444.735	136	187	8	-	8	-	6	1.499
A.2 Unlikely to pay	480.886	140.982	6.613	4.509	8	-	1	-	5	-
A.3 Non-performing past due exposures	154.169	14.095	6.943	307	1.426	65	-	-	-	-
A.4 Performing exposures	5.327.141	29.377	297.159	2.410	85.020	936	21.671	172	467	4
Total (A)	**6.625.268**	**629.189**	**310.851**	**7.413**	**86.462**	**1.001**	**21.680**	**172**	**478**	**1.503**
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	41.529	1.313	10	-	-	-	-	-	-	-
B.2 Performing exposures	557.920	2.233	70.397	239	-	-	651	-	25	-
Total (B)	**599.449**	**3.546**	**70.407**	**239**	**-**	**-**	**651**	**-**	**25**	**-**
Total at 30.06.2018 (A+B)	**7.224.717**	**632.735**	**381.258**	**7.652**	**86.462**	**1.001**	**22.331**	**172**	**503**	**1.503**

Major exposures

		30.06.2018	31.12.2017
a)	Carrying amount	2.476.887	2.614.678
b)	Weighted amount	465.514	495.050
c)	Number	3	3

The overall weighted amount of major exposures at 30 June 2018 consisted of 222,7 million Euro in tax assets and 242,8 million Euro in exposures to equity investments not included in the prudential scope of consolidation.

Disclosure regarding Sovereign Debt

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

Pursuant to said communication, please note that at 30 June 2018 the exposures to sovereign debt entirely consisted of Italian government bonds; their carrying amount—recognised under "Financial assets at fair value through other comprehensive income"—totalled 411,3 million Euro, net of the negative 16,8 million Euro valuation reserve and 0,5 million Euro in impairment losses as per IFRS 9.

These securities, with a par value of 423 million Euro, are included within the banking book and have a weighted residual average life of approximately 66 months.

The fair values used to measure the exposures to sovereign debt securities at 30 June 2018 are considered to be level 1.

Pursuant to the CONSOB Communication, besides the exposure to sovereign debt, it is also necessary to consider receivables due from the Italian National Administration, which at 30 June 2018 totalled 802 million, including 98,6 million Euro relating to tax receivables.

Securitisation transactions

Qualitative information

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

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

IFIS ABCP Programme securitisation

On 7 October 2016, Banca IFIS launched a three-year revolving securitisation of trade receivables due from account debtors. After Banca IFIS (originator) initially reassigned the receivables for 1.254,3 million Euro, the vehicle named IFIS ABCP Programme S.r.l. issued 850 million Euro worth of senior notes subscribed for by the investment vehicles owned by the banks that co-arranged the transaction. The above amount rose to 1.000 million Euro in the second quarter of 2018. An additional tranche of senior notes, with a maximum par value of 150 million Euro—of which investors initially subscribed for 19,2 million Euro, and that was subsequently adjusted based on the composition of the assigned portfolio—was subscribed for by Banca IFIS, which will use them as collateral in refinancing operations with third parties. At 30 June 2018, the amount subscribed for by the Bank reached the maximum limit

of 150 million Euro. The difference between the value of the receivables portfolios and the senior notes issued represents the credit granted to the notes' bearers, which consists in a deferred purchase price.

Banca IFIS acts as servicer, performing the following tasks:

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

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

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

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

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

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

At 30 June 2018, the interest on the senior notes recognised in profit or loss amounted to 4,2 million Euro.

Third-party securitisation transactions

At 30 June 2018, the Group held 33,6 million Euro in notes deriving from third-party securitisation transactions categorised within the banking book portfolio. Banca IFIS owns 74,9 million Euro worth of senior notes and 1,9 million Euro worth of junior notes.

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

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

- "San Marco" Securitisation: this is a securitisation of a non-performing secured portfolio of mortgage loans with an overall par value of approximately 160 million Euro and maturity in September 2022. The Parent participates as Senior Noteholder and Sponsor, subscribing for

100% of the senior tranches (totalling 21,8 million Euro at 30 June 2018) and 5% of the junior tranches (0,7 million Euro), which were issued by the special purpose vehicle Tiberio SPV S.r.l.;

- "Cinque V" Securitisation: launched in late November 2017, this securitisation through the special purpose vehicle Ballade SPV S.r.l. only has a *mutuo fondiario* classified as bad loan as the underlying asset, with a par value of 20 million Euro and maturity in October 2020. Also in this case, the Parent participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior notes (2,1 million Euro) and 5% of the junior notes (44 thousand Euro);
- "Project Firenze" Securitisation: this is a securitisation of a non-performing portfolio consisting of secured bank loans, largely to SMEs, with an overall par value of approximately 264 million Euro and maturity in 2023. As part of this securitisation, the notes were issued by the special purpose vehicle Orione SPE S.r.l., and the Parent participated as Senior Noteholder and Sponsor, subscribing for 100% of the senior tranches (38,4 million Euro at 30 June 2018) as well as 5% of the junior tranches (1,2 million Euro).
- "Elite Basket Bond (EBB)" Securitisation: the special purpose vehicle EBB S.r.l. issued Asset Backed Securities (ABS) at a price equal to the par value, amounting to 122 million Euro, in a single tranche with maturity in December 2027 and a Basket of minibonds issued by 11 Italian listed companies as the underlying asset. These notes are unsecured senior bonds but carry a Credit Enhancement equal to 15% of the transaction's overall amount (24 million Euro), to be used in the event the issuers default on interest and/or principal payments on the minibonds. The Parent participates in this transaction only as underwriter, subscribing for 6,0 million Euro worth of notes of the above tranche.

Disclosure on structured entities (other than securitisation vehicles)

There were no unconsolidated structured entities at 30 June 2018.

Disposals

Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised refer to securitised receivables.

Market risks

Generally, as the Banca IFIS Group does not usually trade in financial instruments, its financial risk profile refers mainly to the banking book. The activity of purchasing bonds, given that these are classified as assets measured at FVOCI, falls within the scope of the banking book and does not, therefore, constitute new market risks. In the first half of 2018, the Group diversified its portfolio by purchasing units in UCITS whose underlying assets mainly consist of debt securities with a short-term duration. Since this type of investment is part of the trading book, it is measured at FVTPL.

At 30 June 2018, the Group recognised a currency swap with a mark-to-market value negative to the tune of 105 thousand Euro. The classification of these derivatives under financial assets or liabilities held for trading does not reflect the aim of the transaction, which is to mitigate the impact of potential movements in the reference exchange rates. It should be noted that the difference between the spot price and the forward price, although this was recognised in profit or loss under item 80 Net result from trading as an exchange difference, includes also a component of interest.

At 30 June 2018, in line with internal policies forbidding any kind of trading for speculative purposes, the trading book consisted entirely of residual transactions from the Corporate Desk operations of the former Interbanca S.p.A. that were discontinued in 2009, as part of which clients were offered derivative contracts hedging the financial risks they assumed. In order to remove market risk, all outstanding transactions are hedged with “back to back” trades, in which the Bank assumes a position opposite to the one sold to corporate clients with independent market counterparties.

Interest rate risk and price risk – supervisory trading book

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

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

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

Interest rate risk and price risk – banking book

As a general principle, the Group does not assume significant interest rate risks. The main funding source is still the online savings account “rendimax”. Customer deposits on the “rendimax” and “contomax” products are at a fixed rate for the fixed-term part, while on demand and call deposits are at a non-indexed floating rate the Bank can unilaterally revise without prejudice to legal and contractual provisions. In the first half of 2018, the Group continued pursuing the strategy to diversify its funding sources; to this end, it expanded wholesale funding by issuing senior bonds reserved for institutional investors as part of the “EMTN” programme and increased the financed amount from the floating-rate securitisation with the factoring portfolio as the underlying asset (3-year revolving programme).

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

As for the operations concerning distressed retail loans (carried out by the NPL BU), for which the business model focuses on acquiring receivables at prices lower than their book value, there is a potential interest rate risk associated with the uncertainty about when the receivables will be collected.

At 30 June 2018, the bond portfolio mainly consisted of inflation-indexed bonds (excluding the repurchases of notes from self-securitisation transactions). The average duration of this portfolio is approximately 50 months.

The interest rate risk associated with funding operations carried out by the Parent Company’s Treasury Department in accordance with the strategy defined by ALM & Capital Management is assumed according to the limits and policies set by the Board of Directors, with precise delegations of power limiting the autonomy of those authorised to operate within the Bank’s Treasury Department.

The business functions responsible for ensuring interest rate risk is managed correctly are: ALM & Capital Management, which, in line with the defined risk appetite, defines the actions required to pursue it; the Treasury Department, which manages the bond portfolio; the Risk Management function, responsible for proposing the risk appetite, selecting the most appropriate risk indicators, and monitoring assets and liabilities with reference to pre-set limits; and, lastly, the Top Management, which every year shall make proposals to the Board regarding policies on lending, funding and the management of interest rate risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Bank.

The Risk Management function periodically reports to the Bank’s Board of Directors on the interest rate risk position by means of a quarterly Dashboard prepared for the Bank’s management.

The interest rate risk falls under the category of second-pillar risks. In the final document sent to the Supervisory Body, as per the relevant regulations (Circular 285 of 17 December 2013 as amended), the interest rate risk has been specifically measured in terms of capital absorption and potential impact on net interest income. Monitoring is performed the consolidated level.

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

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

The classification of the bonds held as Available for sale financial assets introduces the risk that the Group's reserves may fluctuate as a result of the change in their fair value. However, this risk is considered moderate given the relatively small size of the portfolio in proportion to total assets (approximately 6%) and its composition, as it mostly consists of government bonds.

The Risk Management function is responsible for monitoring the price risk that the Group assumes while conducting its business.

Fair value hedging

There are no fair value hedges.

Cash flow hedging

There are no cash flow hedges.

Currency risk

Qualitative information

A. General aspects, management procedures and measurement methods concerning the currency risk

The assumption of currency risk, intended as an operating element that could potentially improve treasury performance, represents a speculative instrument: in principle, therefore, it is not part of the Group's policies. Banca IFIS's foreign currency operations largely involve collections and payments associated with factoring operations. In this sense, the advances in foreign currency granted to customers are generally hedged with deposits and/or loans from other banks in the same currency, thus eliminating for the most part the risk of losses associated with exchange rate fluctuations. In some cases, synthetic instruments are used as hedging instruments.

Concerning the foreign currency transactions carried out as part of corporate banking operations, they consist in medium/long-term loans (mostly in USD) for which the currency risk is neutralised right from their inception by securing funding denominated in the same currency.

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

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

Currency risk related to the Bank's business is assumed and managed according to the risk policies and limits set by the Parent Company's Board of Directors, with precise delegations of power limiting

the autonomy of those authorised to operate, as well as especially strict limits on the daily net currency position.

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

Furthermore, the Risk Management function periodically reports to the Bank's Board of Directors on the currency risk position by means of a quarterly Dashboard prepared for the Bank's management.

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

With the acquisition of the Polish subsidiary, Banca IFIS has assumed the currency risk represented by the initial investment in IFIS Finance's share capital for an amount of 21,2 million Zloty and the subsequent share capital increase for an amount of 66 million Zloty.

Furthermore, Banca IFIS owns a 5,57% interest in India Factoring and Finance Solutions Private Limited, worth 20 million Indian rupees and with a market value of 3.044 thousand Euro at the historical exchange rate. In 2015 the Bank tested said interest for impairment, recognising a 2,4 million Euro charge in profit or loss. Starting from 2016, the fair value was revalued by 663,7 million Euro through equity, bringing the value of the equity interest to 1.334,9 million Euro.

B. Currency risk hedging

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

Derivative financial instruments

The Banca IFIS Group has applied for and obtained authorisation to provide investment services to customers, mainly for the purposes of hedging interest and exchange rate risks assumed by customers by offering plain-vanilla derivative trades. To date, the Group has carried out no such trades.

Banca IFIS often uses financial derivatives to hedge currency exposures. At 31 December 2017, the Bank recognised a foreign exchange derivative with a negative fair value of 105 thousand euro. As for the transactions entered into, it should be noted that the Group never undertakes speculative transactions.

The trading book consisted of residual transactions from Corporate Desk operations of the former Interbanca S.p.A. that were discontinued in 2009, in which clients were offered derivative contracts hedging the financial risks they assumed. In order to remove market risk, all outstanding transactions are hedged with “back to back” trades, in which the subsidiary assumes a position opposite to the one sold to corporate clients with independent market counterparties.

Banking group – Liquidity risk

Qualitative information

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

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

In the first half of 2018, the Group continued with its strategy to diversify its funding sources with the main goal of reducing its reliance on retail funding.

At 30 June 2018, the main funding sources were the Bank's equity, online retail funding—consisting of on-demand and term deposits—medium/long-term bonds issued as part of the EMTN programme, funding from the Eurosystem (TLTRO), and the revolving securitisation of the factoring portfolio.

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

As for the Group’s operations concerning the NPL Area and the purchases of tax receivables arising from insolvency proceedings, the characteristics of the business model imply a high level of variability concerning both the amount collected and the date of actual collection. Therefore, the timely and careful management of cash flows is particularly important. To ensure expected cash flows are correctly assessed, also with a view to correctly pricing the transactions undertaken, the Group carefully monitors the trend in collections compared to expected flows.

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

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

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

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

As part of the continuous process to update procedures and policies concerning liquidity risk, and taking into account the changes in the relevant prudential regulations, the Parent uses an internal liquidity risk governance, monitoring, and management framework at the Group level.

In compliance with supervisory provisions, the Bank also has a Contingency Funding Plan aimed at protecting the banking Group from losses or threats arising from a potential liquidity crisis and guaranteeing business continuity even in the midst of a serious emergency arising from its own internal organisation and/or the market situation.

The Risk Management function periodically reports to the Bank’s Board of Directors on the liquidity risk position by means of a Dashboard prepared for the Bank’s management.

With reference to the Polish subsidiary, treasury operations are co-ordinated by the Parent company.

Self-securitisation transactions

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

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

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

In the third quarter of 2017, the parent Banca IFIS S.p.A. repurchased all the senior notes issued by the vehicle. Therefore, at 30 June 2018 the Banca IFIS Group had subscribed for all the notes issued by the vehicle.

It should be noted that, pursuant to the terms and conditions of the operation, there is no substantial transfer of all the risks and rewards relating to the transferred assets (receivables).

Securitisation transactions

As for the securitisations outstanding at the end of June 2018 and their purpose, see the comments in the section on credit risks.

Exposure to high risk instruments – disclosure

Considering the goals it pursues and the technical aspects of the securitisation described above, the Banca IFIS Group faces no exposure or risks arising from the trading or holding of structured credit products, whether carried out directly or through unconsolidated special purpose vehicles or entities. In particular, it is important to stress that the securitisation has not removed any risk from the Group’s total assets, since the derecognition requirements were not met. Meanwhile, the underwriting of the securities arising from the securitisation has not added any risk nor changed the presentation of the assets involved in the securitisation in the financial statements compared to the past. With reference to the Recommendation set out in the Report of the Financial Stability Forum of 7 April 2008, Appendix B, we can state that there are no exposures to instruments deemed highly risky by the market or implying a risk greater than previously expected.

Operational risks

Qualitative information

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

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

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

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

The Loss Data Collection process has now been consolidated, also thanks to Risk Management's constant efforts to disseminate a culture of pro-actively managing operational risks among the various structures, and therefore to raise awareness about the Loss Data Collection process.

In the first half of 2018, the Group completed the periodic Risk Self Assessment campaign launched in the final quarter of 2017, which included the scope at the end of the year. Following this campaign, the Group identified the main operational issues and subsequently defined and launched specific mitigation measures to bolster operational risk controls.

In addition, according to its operational risk management framework, the Group defines a set of risk measures that can promptly identify the presence of vulnerabilities in the exposure of the Bank and its subsidiaries to operational risks. These measures are continuously monitored and disclosed in periodic reports that are shared with the competent structures and bodies: events such as the breach of certain thresholds or the emergence of anomalies trigger specific escalation processes aimed at defining and implementing appropriate mitigation actions.

Concerning the Companies of the Banca IFIS Group, please note that currently the management of operational risks is guaranteed by the strong involvement of the Parent Company, which makes decisions in terms of strategies and risk management.

In addition, the Bank has started integrating the overall operational risk management framework, defining a single methodological approach at the Group level as far as the subsidiary Cap.Ital.Fin. S.p.A. is concerned. Specifically, in the first half of 2018, said entity organised and provided specific training to all structures on operational risks and the use of the loss data collection software. In addition, as for the monitoring of risk measures, the subsidiary Cap.Ital.Fin. S.p.A. has started rolling out the measures defined by the Parent, and the subsidiary's Risk Management has conducted a series of specific analyses to monitor the company's exposure to certain issues associated with operational risks (e.g. measures on the quality of the network, measures on early repayments and renewals).

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

Risks of the other entities

There were no additional material risks for the other entities included in the scope of consolidation that are not part of the Banking Group other than those reported in the section dedicated to the Banking Group.

Business Combinations

Transactions carried out during the period

In the first quarter of 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.

COMPANY NAME	TRANSACTION DATE	(1)	(2)	(3)	(4)
Cap.Ital.Fin. S.p.A.	2 February 2018	2.100	100%	(2.555)	(1.906)

Key:

(1) = cost of the transaction, subject to a price adjustment mechanism
(2) = Percentage interest acquired carrying voting rights in the annual general meeting
(3) = Profit/loss from operations.
(4) = Net profit/(loss) for the year

Below are the financial highlights at the date control was acquired:

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.06.2018
Financial assets measured at amortised cost	38.774
Tax assets	1.674
Financial liabilities measured at amortised cost.	(27.117)
Other liabilities	(2.762)

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.

Transactions carried out after the end of the period

On 2 July 2018, the Group finalised the acquisition of a controlling interest in Credifarma S.p.A., a company specialising in pharmacy lending. The deal was finalised through Banca IFIS's acquisition of the combined 32,5% stake of UniCredit and BNL – BNP Paribas Group as well as the acquisition of part of Federfarma's current interest in the company, amounting to 21,5%. Finally, the lender finalised a capital increase reserved for Banca IFIS to provide Credifarma with a robust financial position for regulatory purposes as well as to pursue future growth plans. The deal requires an overall investment—including the capital increase—of approximately 8,8 million Euro.

Retrospective adjustments

Despite the mentioned business combination as per IFRS 3, during the period the Bank did not make any retrospective adjustments.

Related-party transactions

In compliance with the provisions of Consob resolution no. 17221 of 12 March 2010 (as subsequently amended by means of Resolution no. 17389 of 23 June 2010) and the provisions of Circular 263/2006 (Title V, Chapter 5) of the Bank of Italy, Banca IFIS prepared the procedure relating to transactions with “related parties”. The latest version was approved by the Board of Directors on 29 June 2018. This document is publicly available on Banca IFIS’s website, www.bancaifis.it, in the ‘Corporate Governance' Section.

During the first half of 2018, no significant transactions with related parties were undertaken.

At 30 June 2018, the Banca IFIS Group S.p.A. was owned by La Scogliera S.p.A. and consisted of the Parent company Banca IFIS S.p.A., the wholly-owned subsidiaries IFIS Finance Sp. Z o. o., IFIS Rental Services S.r.l., Cap. Ital. Fin. S.p.A., IFIS NPL S.p.A., and Two Solar Park 2008 S.r.l..

The types of related parties, as defined by IAS 24, that are relevant for the Banca IFIS Group include:

- the parent company;
- key management personnel;
- close relatives of key management personnel and the companies controlled by (or associated to) them or their close relatives.

Here below is the information on the remuneration of key management personnel as well as transactions undertaken with the different types of related parties.

1. Information on the remuneration of key management personnel

The definition of key management personnel, as per IAS 24, includes all those persons having authority and responsibility for planning, directing and controlling the activities of Banca IFIS, directly or indirectly, including the Bank's directors (whether executive or otherwise).

In compliance with the provisions of the Bank of Italy’s Circular no. 262 of 22 December 2005 (4th update of 16 December 2015), key management personnel also include the members of the Board of Statutory Auditors.

Key management personnel

Short-term employee benefits	Post employment benefits	Other long-term benefits	Termination benefits	Share-based payments
2.441	-	105	43	252

The above information includes fees paid to Directors (1,7 million Euro, gross amount) and Statutory Auditors (152 thousand Euro, gross amount).

2. Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 30 June 2018, broken down by type of related party pursuant to IAS 24.

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Financial assets at fair value through other comprehensive income	-	-	6.757	**6.757**	1,6%
Loans to customers	-	265	5.448	**5.713**	0,1%
Other assets	108.768	-	-	**108.768**	35,9%
Total assets	**108.768**	**265**	**12.205**	**121.238**	**1,2%**
Due to customers	-	39	3.871	**3.910**	0,1%
Reserves	-	-	190	**190**	0,0%
Total liabilities	**-**	**39**	**4.061**	**4.100**	**0,0%**

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	-	135	**135**	0,1%
Interest expense	-	(1)	(2)	**(3)**	0,0%
Commission income	-		1	**1**	0,0%
Other administrative expenses	-	-	(5)	**(5)**	0,0%

The transactions with the **parent company** concern the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree 917/86. Transactions between these companies were regulated by means of a private written agreement between the parties, signed in the month of April 2016. This agreement will lapse after three years. Banca IFIS has an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company. Under this tax regime, the taxable income of Banca IFIS and the subsidiary IFIS Rental Services is transferred to La Scogliera S.p.A., which is responsible for calculating the overall group income. As a result, at 30 June 2018 Banca IFIS recognised net receivables due from the parent company and IFIS Rental Services S.r.l. amounting to 105,1 million Euro and 3,7 million Euro, respectively.

Transactions with **key management personnel** relate almost entirely to loans or Rendimax or Contomax savings accounts.

Transactions with **other related parties** that are part of Banca IFIS's ordinary business are conducted at arm's length.

During the year, the Bank continued its factoring operations in favour of one company headed by close relatives of executive members of the Board of Directors: the Banca IFIS Group's exposure at 30 June 2018 amounted to 0,4 million Euro.

There was a net 1 million Euro exposure classified under bad loans towards a company backed by close relatives of members of the Board of Directors.

There were also transactions with two entities in which Banca IFIS owns an equity interest of more than 20% and recognised as available for sale financial assets amounting to 6,8 million Euro.

The transactions are related to 4 million Euro worth of loans.

Venice - Mestre, 3 August 2018

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Giovanni Bossi

Declaration of the Corporate Accounting Reporting Officer

Certification on the consolidated half year simplified financial statements at June 30th; 2018 pursuant to the provisions of art. 154-bis, paragraph 5, of the legislative decree 58 of February 24, 1998 and art. 81 ter of Consob Regulation no. 11971 of 14 May 1999 as amended

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

   of the administrative and accounting procedures for the preparation of Banca IFIS's consolidated half year simplified financial statements, over the course of the period from January 1st, 2018 to June 30th, 2018.

2. The adequacy of the administrative and accounting procedures in place for preparing the consolidated half year simplified financial statements at June 30th, 2018 has been assessed through a process established by Banca IFIS S.p.A. on the basis of the guidelines set out in the *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission* (CoSO), an internationally accepted reference framework.

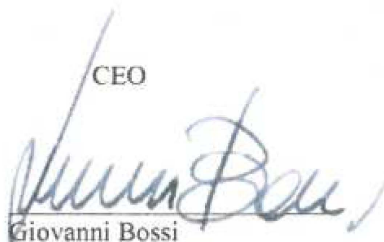
3. The undersigned further confirm that:

   3.1 the consolidated half year simplified financial statements as at June 30th, 2018:
   a) are prepared in compliance with International Accounting Standards, endorsed by the European Commission as for European regulation no. 1606/2002 of the European Parliament and Council of July 19th, 2002;
   b) correspond to the related books and accounting records;
   c) provide a true and correct representation of the financial position of the issuer and the group of companies included in the scope of consolidation.

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

Venice, August 3rd, 2018

CEO



Giovanni Bossi

Manager charged with preparing the Company's financial reports

Mariacristina Taormina

Report of the Independent Auditors limited to the Condensed consolidated interim financial statements at 30 June 2018

The attached report of the independent auditors and the consolidated financial statements, to which the report refers, conform to those which will be deposited at the registered office of Banca IFIS S.p.A. and published pursuant to the law; subsequent to the date of the report, EY S.p.A. did not carry out any audit work aimed at updating its contents.

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Building a better working world

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Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

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

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet as of June 30, 2018, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows for the period then ended and the related explanatory notes of Banca IFIS S.p.A. and its subsidiaries (the "Banca IFIS Group"). The Directors of Banca IFIS S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca IFIS Group as of June 30, 2018 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Verona, August 3, 2018

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

This report has been translated into the English language solely for the convenience of international readers.

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