3Q18

BANCA IFIS
VALUE TO YOUR BUSINESS

CONSOLIDATED INTERIM REPORT AT 30 SEPTEMBER 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

Contents

Corporate Bodies

Board of Directors

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

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

General Manager	Alberto Staccione

Board of Statutory Auditors

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

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

BANCA IFIS
Fully paid-up share capital 53.811.095 Euro
Bank Licence (ABI) No. 3205.2
Tax Code and Venice Companies
Register Number: 02505630109
VAT No.: 02992620274
Enrolment in the Register of Banks No.: 5508
Registered and administrative office
Via Terraglio 63 – Mestre, 30174 – Venice, Italy
Website: www.bancaifis.it

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 this Consolidated Interim Report at 30 September 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 restated to ensure accounting consistency with the corresponding amounts at 30 September 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. For more details, please refer to the section "Contribution of operating segments to Group results".

- **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., 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 restated to ensure accounting consistency with the corresponding amounts at 30 September 2018.

- **Refinement of the method for estimating cash flows associated with the NPL segment's receivables**: in the first nine months 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 31 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 implementation of the new model allows to collectively estimate cash flows before the garnishment order is issued. 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 47,0 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 20,1 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”.
- **Sales of NPL portfolios**: In limited circumstances, and on an occasional (or opportunistic) basis, Banca IFIS disposes of NPL portfolios During the first nine months of 2018, the gains on the sale of NPL portfolios totalled 7,5 million Euro, down 57,4% from 17,7 million Euro in the prior-year period. Please refer to the comments in the paragraph dedicated to the Group's operating segments.
- **Trend in Net impairment losses/reversals on receivables:**[1]**:** this line item shifted from 11,0 million Euro in reversals at 30 September 2017 to 68,9 million Euro in impairment losses at 30 September 2018. Specifically, the first nine months of 2018 were negatively affected by the recognition of 41,3 million Euro in impairment losses referring to some individually significant counterparties, whereas in the first nine months of 2017 the Group recognised a reversal on an individually significant position as a result of a successful 19 million Euro restructuring (in addition to 2 million Euro recognised under net banking income).
- **Measurement of equity instruments at fair value through profit or loss**: in the first nine months of 2018, the Group recognised 11,3 million Euro in profit or loss arising from the measurement at fair value of an equity instrument as a result of the company's positive performance.
- **Acquisition of Cap.Ital.Fin. S.p.A.**: on 2 February 2018, the Banca IFIS Group finalised the acquisition of 100% of Cap.Ital.Fin. S.p.A., a company operating across Italy and specialising in salary-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees. 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 130 “Intangible

[1] Reclassified line item: 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.

assets”. Under IFRS 3, the allocation of the cost of the business combination must be quantified within 12 months of the acquisition date. The Group expects to complete this task by the end of the current year.

- **Acquisition 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 Group finalised a 4,3 million Euro 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, bringing its stake in the company to 70%. Relative to an overall 8,8 million Euro investment, the consolidation process resulted in a gain on bargain purchase provisionally estimated at 3,9 million Euro, which was recognised under Other operating income.

Results and Strategy

Comment by the CEO

In the first nine months of the year, the Bank was extremely active against a gradually deteriorating macroeconomic backdrop. The tensions associated with funding costs (and therefore asset prices) that characterised the Italian sovereign debt market have spread to other asset classes—from the more liquid ones, such as corporate or bank bonds and equities, to less liquid assets such as loans to businesses and non-performing loan portfolios.

This issue mainly concerns Italy, rather than Europe as a whole. While financial markets have been facing global challenges as a result of events with far-reaching consequences (international trade tensions, rising dollar interest rate), other problems were attributable to how international investors see the political situation in Italy. This is the only possible explanation for the increase in interest rates in Italy while base indices (Euribor, IRS) have remained largely unchanged—despite expectations that the ECB will end its QE programme.

The material decline in the prices of Italian government bonds, of which several banks have large holdings relative to their equity, combined with the climbing funding costs for these financial institutions—in line with the increase in Italy's public borrowing costs—puts the system in a more challenging situation compared to past quarters. Generally, banks are seeing their Regulatory Capital ratios deteriorate as a result of the fall in government bond prices, and they cannot always pass on the expected increase in funding costs to customers in a timely manner—also because most loans are indexed to the Euribor and therefore remain largely unchanged, as this benchmark is based on a European survey.

Concerning specifically Banca IFIS, the two issues roiling the Italian banking system (declining Equity because of falling government bond prices; challenges in passing higher funding costs on to customers) have only a very limited impact: Banca IFIS has one of the smallest holdings of Italian government bonds among financial institutions in Italy, totalling approximately 29% as a proportion of Equity. In addition, the Bank has the contractual ability to revise the terms offered to customers for a significant portion of its loans, and it can rely on liquidity in excess of its needs, resulting in a liquidity coverage ratio (LCR) of over 2.000%, compared to a minimum regulatory requirement of 100%. Therefore, the Bank is best positioned to tackle the challenges facing Italy's economy thanks to its strong financial position and performance, a range of products designed for and tailored to struggling small businesses and households, and its continuing ability to innovate and promptly meet needs as they arise. The lack of strategic legacy burdens and the positioning in markets largely overlooked by the conventional business models of other Financial Institutions represent additional advantages.

The determination to consciously play an increasingly crucial role in supporting Italy's economy, in the interest of both market participants and the Bank's growth, continues to guide day-to-day operations.

In the first nine months of the year, the Bank has been very active in each segment, growing the individual businesses and supporting companies that can now work with more confidence and sustainable business models. Special emphasis was placed on supporting the working capital of SMEs, expanding volumes as well as the number of customers served even though the market remained highly competitive—especially in the first half of the year. The Bank maintained a selective approach to medium-term financing, keeping credit risk under control also through guarantees, and continued looking for opportunities in the structured finance segment, achieving robust results in terms of profitability and credit quality control. It 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 the Bank to replace its technological platform in order to improve and streamline all operational processes.

Banca IFIS obtained control over a new company, Credifarma, included in the scope of consolidation as of the third quarter, to bolster its presence in the pharmacy lending market. In addition, in the first half of the year it announced the acquisition of FBS, a non-performing loan servicer. The acquisition—which is pending approval from the Supervisory Authority—should close over the next few months. In February, the Group finalised the acquisition of 100% of Cap.Ital.Fin., thus entering the salary-backed loan business to support the NPL segment. Finally, in July Banca IFIS launched a new initiative in the insurance sector.

As for NPLs, in July the Group finalised the acquisition of non-performing loan portfolios with a par value of nearly 600 million Euro. As expected, the Italian NPL market is undergoing structural changes that Banca IFIS duly takes into consideration. On the one hand, the pressure on portfolio prices seen in early 2018 is abating, giving rise to a more interesting competitive landscape characterised by falling prices. This is the result of market participants' newfound focus on avoiding purchases at any cost and regardless of actual collection prospects. Another factor is the already mentioned "interest rate" effect, which requires rational players to take into account the rise in interest rates on the Italian market (and this holds true also for international entities) when calculating the Net Present Value of the expected cash flows from the portfolios being acquired. The declining prices and the scarcity of buyers are tipping the scales in favour of the latter, restricting the sellers' room for manoeuvre. From another point of view, the ability to effectively service the positions acquired, i.e. to obtain the expected cash flows by converting delinquent positions into performing ones, becomes especially crucial. Against this backdrop, Banca IFIS waited out the bidding war that characterised the first half of the year, limiting new purchases and focusing collection efforts on the significant stock of non-performing exposures it already holds. This proved to be the right choice, as prices have recently slowed down—allowing to reactivate a number of agreements. The Bank remains firmly focused on making delinquent borrowers reperforming; the rising cash flows generated by these conversions is evidence of its success in this area.

In the third quarter, its performance was affected by a particularly material adverse event that is unlikely to happen again with the same intensity, i.e. the impact of the prudential adjustments required by the deteriorating creditworthiness of a long-standing counterparty (the relationship dates back to over 15 years ago) operating in the Italian infrastructure industry, which concerned the country's entire banking system. The Bank promptly reclassified the position and calculated an impairment loss deemed appropriate based on currently available information. That said, the overall financial performance for the third quarter and the first nine months of 2018 remains positive, and—based on current evidence—the continuing operations in the last quarter allow to confirm the positive expectations for the Bank as a whole as well as each individual business area.

Highlights - reclassified data

Net impairment losses/reversals 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.

Net banking income totalled 403,6 million Euro, +7,5% from 265,4 million Euro in the first nine months of 2017 (375,3 million Euro at 30 September 2017). The NPL segment was up 55,3% year-on-year thanks to the strong performance in the management of existing portfolios, resulting in better payment arrangements, and the value derived from part of the judicial portfolio previously recognised at cost, as detailed below. The Enterprises segment's net banking income was down -7,3% year-on-year, as the growth reported by the Trade Receivables business area (+12,6% compared to 30 September 2017) was offset by the lower contribution of the reversal PPA[2] in the Corporate Banking area compared to the prior-year period, which had been mainly affected by some early repayments.

Net impairment losses totalled 68,9 million Euro, compared to 11,0 million Euro in net reversals of impairment losses at 30 September 2017. The change (-79,9 million Euro) was largely attributable to 41,3 million Euro worth of individual provisions set aside on bad loans and unlikely to pay, referring to two long-standing counterparties (the relationships date back to over 15 years go) with individually significant exposures, as well as the absence of a number of net reversals recognised in the first nine months of 2017 following the successful completion of restructuring transactions.

Operating costs totalled 208,9 million Euro (180,7 million Euro at 30 September 2017, +15,6%). The **cost/income ratio** stood at 51,8%, compared to 50,1% in the prior-year period.

Personnel expenses amounted to 83,3 million Euro (73,8 million Euro in September 2017, 12,9%). At the end of September, the Group's employees numbered 1.622, compared to 1.433 at 30 September 2017 (+13,2%). 87 employees were acquired following the inclusion of the subsidiaries Cap.Ital.Fin. S.p.A. and Credifarma S.p.A in the Group's scope.

Other administrative expenses amounted to 133,8 million Euro, up 28,5% from 104,1 million Euro in the prior-year period. The line item included 20,1 million Euro in costs associated with NPLs previously recognised at cost and reclassified to amortised cost in the first nine months of 2018, as well as 1,6 million Euro in expenses related to the new subsidiaries.

The Bank reported 8,2 million Euro in other net operating income at 30 September 2018, compared to 2,8 million Euro in net operating costs at 30 September 2017; this change was attributable to the recovery of 7,0 million Euro worth of stamp duty costs for retail funding, which are charged back to customers as from 1 January 2018, as well as the gain on bargain purchase arising[3] from the acquisition of Credifarma, provisionally estimated at 3,9 million Euro.

At 30 September 2018, the **Group net profit for the period** totalled 89,0 million Euro, down 40,3% from 149,1 million Euro at 30 September 2017.

As for the contribution of individual segments to the operating and financial results at 30 September 2018, here below are the highlights:

- **The Enterprises segment's net banking income**, which accounted for 59,9% of the total, amounted to 241,6 million Euro, down 7,3% in the first nine months of 2018 from 260,6 million Euro in 2017, as the growth of the business areas included within this segment was offset by the lower contribution of the reversal PPA in Corporate Banking (50,1 million Euro at 30 September 2018, -30,1% from 30 September 2017).

  The Enterprises segment's receivables totalled 5.669,5 million Euro at 30 September 2018, up 3,8% from the restated amount at 1 January 2018.

  Specifically, **Trade Receivables** generated 123,6 million Euro in net banking income (109,8 million Euro at 30 September 2017, +12,6%); turnover rose to 9,5 billion Euro (+20,0% from 30 September 2017), and the number of corporate customers was up 9,9% compared to the prior-year period. Outstanding loans in the Trade Receivables segment amounted to 3,4 billion Euro, in line with 1 January 2018.

2 "Reversal PPA" means 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.

3 Gain on bargain purchase means the difference between the consideration paid and the fair value of the assets acquired and liabilities assumed. Said amount is recognised through profit or loss at the time of the business combination.

- **Corporate Banking** generated 70,4 million Euro in net banking income, down 30,2 million Euro largely because of the inevitably lower contribution of the reversal PPA. Lending was up 8,4% in the first nine months of 2018 compared to the prior-year period. The Corporate Banking segment's outstanding loans totalled 801,8 million Euro, up 18% from 1 January 2018—mainly because of the growth in new lending in the Structured Finance area.
- Over the first nine months of 2018, the new financing extended by the **Leasing** business unit was up 8% from the prior-year period (503 million Euro in the first 9 months of 2018 compared to 466 million Euro in the first 9 months of 2017). The main drivers were the Equipment Leasing and Capital Market segments, while Auto Leasing maintained its market position despite the contraction in car sales. Loans to customers totalled approximately 1.346 million Euro, up 5,9% from 1 January 2018. Net banking income amounted to 38,4 million Euro, essentially in line (+0,6%) with 30 September 2017. The rise in loans offset the decline in profitability caused by increased competition and the fact that old and more profitable portfolios reached maturity.
- The **NPL segment**, dedicated to acquiring and converting non-performing loans into sustainable and mostly unsecured settlement plans, reported 168,2 million Euro in net banking income (108,4 million Euro in 2017, +55,3%). This was the Group's fastest-growing segment, thanks to the higher number of court-issued garnishment orders (+72,8% compared to 3Q2017) as well as the strong performance in converting existing portfolios. In addition, during the reporting period the Bank further refined the statistical models for measuring expected cash flows, especially concerning the positions undergoing judicial operations in the pre-garnishment order stage—which were previously recognised at cost with no contribution to profit or loss. This allowed to reclassify these positions to amortised cost, causing the segment to recognise approximately 47 million Euro through profit or loss in the first nine months of 2018.

  At 30 September 2018, the nominal amount of outstanding receivables totalled 14,7 billion Euro, and their net value was 945 million Euro. Cash receipts rose from nearly 84,4 million Euro in the first nine months of 2017 to approximately 125,7 million Euro in the first nine months of 2018; the sales of portfolios carried out during the reporting period generated an additional 8,0 million Euro in cash receipts.

  In the third quarter of the year, Banca IFIS seized upon favourable market opportunities and resumed buying NPL portfolios. It purchased unsecured portfolios for a gross book value of 1,8 billion Euro at a price of approximately 5%, bringing the net value of acquired portfolios in the first nine months of 2018 to 103 million Euro.

In 2018, the Bank continued with its strategy to consolidate wholesale funding, so as to strike a better balance with retail funding: the first half of the year saw a number of transactions with institutional investors on the debt market. At 30 September 2018, the Group's funding structure was as follows:

- 60,5% retail;
- 13,8% debt securities;
- 12,6% ABS;
- 8,8% TLTRO;
- 4,3% other.

As for the assets backing the collateralisation of part of the funding, at 30 September 2018 the Bank held 423 million Euro worth of government bonds (fair value: 405,6 million Euro, -5,1% from 1 January

2018) with limited duration, classified as financial assets at fair value through other comprehensive income.

The fair value loss on said bonds had a negative 20 bps impact on CET1 (8 bps in the 3rd quarter of 2018 alone).

Below is the breakdown of **net non-performing exposures in the Enterprises segment** (totalling 361,9 million Euro):

- net bad loans amounted to 74,5 million Euro, compared to 62,9 million Euro at 1 January 2018 (+18,5%); the net bad-loan ratio was 1,3%, up slightly from 1,2% at 1 January 2018. The coverage ratio stood at 70,7% (71,0% at 1 January 2018)
- the balance of **net unlikely to pay** was 165,0 million Euro, +1,2% from 163,1 million Euro at 1 January 2018; the coverage ratio rose to 33,9% from 26,5% at 1 January 2018;
- net non-performing past due exposures totalled 122,4 million Euro, compared to 112,0 million Euro at 1 January 2018 (+9,3%). The coverage ratio of net non-performing past due exposures stood at 10,7%, compared to 10,6% at 1 January 2018.

At the end of the period, the **Group's consolidated equity** totalled 1.397,4 million Euro, compared to 1.371,7 million Euro at 1 January 2018.

The **consolidated Common Equity Tier 1 (CET1) and Total Own Funds Ratios** of the Banca IFIS Group alone, excluding the effect of the consolidation in the Parent Company La Scogliera[4] at 30 September 2018, amounted to 14,63%, compared to 15,64% at 31 December 2017, while the consolidated Total Own Funds Ratio amounted to 19,6%, compared to 21,07% at 31 December 2017.

The **consolidated Common Equity Tier 1 (CET1) and Total Own Funds Ratios** including the effect of the prudential consolidation in La Scogliera at 30 September 2018, amounted to 10,67% (compared to 11,66% at 31 December 2017), while the consolidated Total Own Funds Ratio amounted to 14,74% (compared to 16,15% 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 September 2018 were calculated based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were transposed in the Bank of Italy's Circulars no. 285 and 286 of 17 December 2013. Article 19 of the CRR requires to include the unconsolidated holding of the banking Group in prudential consolidation.

Highlights

In the following statements, 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	
	30.09.2018	01.01.2018	ABSOLUTE	%
Financial assets at fair value through other comprehensive income	428.253	442.073	(13.820)	(3,1)%
Due from banks	1.452.011	1.759.780	(307.769)	(17,5)%
Loans to customers	6.919.486	6.401.686	517.800	8,1%
Total assets	9.842.929	9.563.274	279.655	2,9%
Due to banks	837.565	791.977	45.588	5,8%
Due to customers	4.985.206	5.293.188	(307.982)	(5,8)%
Debt securities issued	2.094.785	1.639.994	454.791	27,7%
Equity	1.397.430	1.371.660	25.770	1,9%

CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	FIRST NINE MONTHS		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	**403.550**	**375.308**	**28.242**	**7,5%**
Net credit risk losses	(68.915)	10.969	(79.884)	(728,3)%
Net profit (loss) from financial activities	**334.635**	**386.277**	**(51.642)**	**(13,4)%**
Operating costs	(208.865)	(180.726)	(28.139)	15,6%
Pre-tax profit from continuing operations	125.770	205.551	(79.781)	(38,8)%
Net profit for the period attributable to the Parent company	**88.994**	**149.123**	**(60.129)**	**(40,3)%**

QUARTERLY CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	3rd QUARTER		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	**125.433**	**122.089**	**3.344**	**2,7%**
Net credit risk losses	(28.879)	(1.140)	(27.739)	2.433,2%
Net profit (loss) from financial activities	**96.554**	**120.949**	**(24.395)**	**(20,2)%**
Operating costs	(64.689)	(61.271)	(3.418)	5,6%
Pre-tax profit from continuing operations	31.865	59.678	(27.813)	(46,6)%
Net profit for the period attributable to the Parent company	**22.785**	**45.466**	**(22.681)**	**(49,9)%**

CONSOLIDATED COMPREHENSIVE INCOME (in thousands of Euro)	30.09.2018	30.09.2017
Profit (Loss) for the period	**89.049**	**149.130**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	2.018	745
Other comprehensive income, net of taxes, to be reclassified to profit or loss	(17.813)	3.793
Comprehensive Income	**73.254**	**153.668**
Total consolidated comprehensive income attributable to non-controlling interests	55	7
Total consolidated comprehensive income attributable to the Parent	**73.199**	**153.661**

GROUP KPIs	30.09.2018	31.12.2017
Ratio - Total Own Funds	14,74%	16,15%
Ratio - Common Equity Tier 1	10,67%	11,66%
Number of company shares (in thousands)	53.811	53.811
Number of shares outstanding at period end(1) (in thousands)	53.441	53.433
Book value per share	26,15	25,62
EPS	1,67	3,38

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

Results by business segments

In the following statements, 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 30.09.2018	-	-	31.937	31.937
Amounts at 01.01.2018	*-*	*-*	*35.614*	*35.614*
% Change	*-*	*-*	*(10,3)%*	*(10,3)%*
Financial assets mandatorily measured at fair value through profit or loss				
Amounts at 30.09.2018	83.994	-	49.671	133.665
Amounts at 01.01.2018	*58.758*	*-*	*-*	*58.758*
% Change	*42,9%*	*-*	*n.a.*	*127,5%*
Financial assets at fair value through other comprehensive income				
Amounts at 30.09.2018	12.694	-	415.559	428.253
Amounts at 01.01.2018	*13.297*	*-*	*428.776*	*442.073*
% Change	*(4,5)%*	*-*	*(3,1)%*	*(3,1)%*
Due from banks				
Amounts at 30.09.2018	-	-	1.452.011	1.452.011
Amounts at 01.01.2018	*-*	*-*	*1.759.780*	*1.759.780*
% Change	*-*	*-*	*(17,5)%*	*(17,5)%*
Loans to customers				
Amounts at 30.09.2018	5.669.492	944.657	305.337	6.919.486
Amounts at 01.01.2018	*5.462.239*	*799.436*	*140.011*	*6.401.686*
% Change	*3,8%*	*18,2%*	*118,1%*	*8,1%*
Due to banks				
Amounts at 30.09.2018	-	-	837.565	837.565
Amounts at 01.01.2018	*-*	*-*	*791.977*	*791.977*
% Change	*-*	*-*	*5,8%*	*5,8%*
Due to customers				
Amounts at 30.09.2018	-	-	4.985.206	4.985.206
Amounts at 01.01.2018	*-*	*-*	*5.293.188*	*5.293.188*
% Change	*-*	*-*	*(5,8)%*	*(5,8)%*
Debt securities issued				
Amounts at 30.09.2018	-	-	2.094.785	2.094.785
Amounts at 01.01.2018	*-*	*-*	*1.639.994*	*1.639.994*
% Change	*-*	*-*	*27,7%*	*27,7%*

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 30.09.2018	241.555	168.243	(6.248)	**403.550**
Amounts at 30.09.2017	*260.604*	*108.365*	*6.339*	***375.308***
% Change	*(7,3)%*	*55,3%*	*(198,6)%*	***7,5%***
Net profit (loss) from financial activities				
Amounts at 30.09.2018	173.112	168.243	(6.720)	**334.635**
Amounts at 30.09.2017	*270.744*	*108.365*	*7.168*	***386.277***
% Change	*(36,1)%*	*55,3%*	*(193,8)%*	***(13,4)%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Third quarter 2018	76.483	48.953	(3)	**125.433**
Third quarter 2017	*88.881*	*29.408*	*3.800*	***122.089***
% Change	*(13,9)%*	*66,5%*	*(100,1)%*	***2,7%***
Net profit (loss) from financial activities				
Third quarter 2018	47.006	48.953	595	**96.554**
Third quarter 2017	*87.511*	*29.408*	*4.030*	***120.949***
% Change	*(46,3)%*	*66,5%*	*(85,2)%*	***(20,2)%***

SEGMENT KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality (1)			
Amounts at 30.09.2018	1,60%	n.a.	n.a.
Amounts at 31.12.2017	*0,31%*	*n.a.*	*n.a.*
% Change	*1,29%*	*n.a.*	*n.a.*
Net bad loans/Loans to customers			
Amounts at 30.09.2018	1,3%	n.a.	4,2%
Amounts at 01.01.2018	*1,2%*	*n.a.*	*9,4%*
% Change	*0,1%*	*n.a.*	*(5,2)%*
Coverage ratio on gross bad loans			
Amounts at 30.09.2018	(70,7)%	n.a.	(8,4)%
Amounts at 01.01.2018	*(71,0)%*	*n.a.*	*(6,7)%*
% Change	*0,3%*	*n.a.*	*(1,7)%*
Net non-performing exposures/Net loans to customers			
Amounts at 30.09.2018	6,4%	99,8%	11,0%
Amounts at 01.01.2018	*6,2%*	*99,9%*	*16,9%*
% Change	*0,2%*	*(0,1)%*	*(5,9)%*
Gross non-performing exposures/Gross loans to customers			
Amounts at 30.09.2018	10,7%	99,8%	12,5%
Amounts at 01.01.2018	*9,9%*	*99,9%*	*19,2%*
% Change	*0,8%*	*(0,1)%*	*(6,7)%*
RWAs(2) (3)			
Amounts at 30.09.2018	4.707.582	950.378	562.789
Amounts at 01.01.2018	*4.450.750*	*801.915*	*424.484*
% Change	*5,8%*	*18,5%*	*32,6%*

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 investments in non-financial companies consolidated using the equity method and that are not part of the Banking Group for supervisory purposes.

Quarterly Evolution

In the following statements, 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			
	30.09	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	133.665	130.520	115.597	58.758	46.098	42.285	39.704
Financial assets at fair value through other comprehensive income	428.253	433.827	453.847	442.073	475.528	634.694	631.568
Due from banks	1.452.011	1.568.042	1.565.449	1.759.780	1.932.489	1.650.338	1.394.111
Loans to customers	6.919.486	6.710.457	6.457.208	6.401.686	5.922.069	6.047.860	5.803.700
Property, plant and equipment	131.247	130.399	127.005	127.881	128.243	109.566	109.675
Intangible assets	25.500	24.815	25.250	24.483	23.790	18.003	14.199
Tax assets	409.324	400.773	408.270	439.972	510.367	545.724	571.935
Other assets	343.443	333.910	368.176	308.641	324.664	380.100	274.960
Total assets	**9.842.929**	**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			
	30.09	30.06	31.03	01.01.2018	30.09	30.06	31.03
LIABILITIES AND EQUITY							
Due to banks	837.565	882.324	820.190	791.977	965.194	967.285	1.028.971
Due to customers	4.985.206	4.840.864	5.022.110	5.293.188	5.337.597	5.291.594	5.055.558
Debt securities issued	2.094.785	2.095.844	1.774.973	1.639.994	1.223.979	1.352.375	1.122.879
Tax liabilities	51.116	50.519	48.140	43.125	37.033	34.912	32.423
Other liabilities	476.827	490.109	442.400	423.330	460.712	489.343	346.383
Equity:	1.397.430	1.373.083	1.412.989	1.371.660	1.338.733	1.293.061	1.253.638
- Share capital, share premiums and reserves	*1.308.436*	*1.306.874*	*1.375.135*	*1.190.893*	*1.189.610*	*1.189.404*	*1.220.951*
- Profit for the period	*88.994*	*66.209*	*37.854*	*180.767*	*149.123*	*103.657*	*32.687*
Total liabilities and equity	**9.842.929**	**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			
	3rd Q.	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	**99.670**	**110.097**	**119.480**	**121.252**	**91.872**	**110.560**	**90.987**
Net commission income	**20.206**	**19.954**	**19.820**	**21.129**	**18.272**	**20.145**	**14.219**
Other components of net banking income	5.557	8.688	78	7.639	11.945	18.971	(1.663)
Net banking income	**125.433**	**138.739**	**139.378**	**150.020**	**122.089**	**149.676**	**103.543**
Net credit risk losses/reversals	(28.879)	(29.079)	(10.957)	(37.075)	(1.140)	14.277	(2.168)
Net profit (loss) from financial activities	**96.554**	**109.660**	**128.421**	**112.945**	**120.949**	**163.953**	**101.375**
Personnel expenses	(27.830)	(28.624)	(26.827)	(24.469)	(24.298)	(25.411)	(24.073)
Other administrative expenses	(38.734)	(48.460)	(46.625)	(48.511)	(34.257)	(38.718)	(31.134)
Net allocations to provisions for risks and charges	(6.254)	3.754	(2.806)	1.719	(2.922)	2.873	(1.597)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(3.148)	(3.116)	(2.809)	(2.688)	(2.822)	(2.483)	(3.459)
Other operating income/expenses	11.277	5.691	5.646	4.028	3.028	(72)	4.619
Operating costs	**(64.689)**	**(70.755)**	**(73.421)**	**(69.921)**	**(61.271)**	**(63.811)**	**(55.644)**
Pre-tax profit from continuing operations	**31.865**	**38.905**	**55.000**	**43.024**	**59.678**	**100.142**	**45.731**
Income taxes for the period relating to continuing operations	(9.025)	(10.550)	(17.146)	(11.387)	(14.210)	(29.168)	(13.043)
Profit for the period	**22.840**	**28.355**	**37.854**	**31.637**	**45.468**	**70.974**	**32.688**
Profit (Loss) for the period attributable to non-controlling interests	55	-	-	(7)	2	4	1
Profit for the period attributable to the Parent company	**22.785**	**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			
	3rd Q.	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**125.433**	**138.739**	**139.378**	**150.020**	**122.089**	**149.676**	**103.543**
Enterprises	*76.483*	*86.435*	*78.637*	*88.894*	*88.881*	*100.812*	*70.911*
NPL	*48.953*	*54.231*	*65.059*	*56.140*	*29.408*	*48.453*	*30.504*
Governance & Services	*(3)*	*(1.927)*	*(4.318)*	*4.986*	*3.800*	*411*	*2.128*
Net profit (loss) from financial activities	**96.554**	**109.660**	**128.421**	**112.945**	**120.949**	**163.953**	**101.375**
Enterprises	*47.006*	*58.471*	*67.634*	*56.274*	*87.511*	*114.939*	*68.294*
NPL	*48.953*	*54.231*	*65.059*	*56.140*	*29.408*	*48.453*	*30.504*
Governance & Services	*595*	*(3.042)*	*(4.273)*	*531*	*4.030*	*561*	*2.577*

Group historical data

In the following statements, 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)	30.09.2018	30.09.2017	30.09.2016	30.09.2015	30.09.2014
Financial assets at fair value through other comprehensive income (IFRS 9)	428.253	475.528	-	-	-
Available for sale financial assets (IAS 39)	-	-	1.026.744	3.677.850	414.768
Loans to customers	6.919.486	5.922.069	3.303.322	3.176.172	2.588.009
Due to banks	837.565	965.194	56.788	537.898	632.553
Due to customers	4.985.206	5.337.597	4.138.865	5.900.458	7.317.589
Debt securities issued	2.094.785	1.223.979	-	-	-
Equity	1.397.430	1.338.733	586.648	557.012	418.296
Net banking income	403.550	375.308	237.689	328.137	210.700
Net profit (loss) from financial activities	334.635	386.277	218.197	305.005	181.112
Profit (loss) for the period attributable to the Parent company	88.994	149.123	66.269	148.805	74.188
Cost/Income ratio	51,8%	50,1%	49,9%	24,6%	33,0%
Ratio - Total Own Funds	14,7%	16,5%	14,5%	16,0%	14,9%
Ratio - Common Equity Tier 1	10,7%	15,7%	13,5%	15,3%	14,6%

(1) For comparison purposes, the data for 2017 has been restated to ensure accounting consistency with the amounts at 30 September 2018 in order to account for the changes introduced by IFRS 9; the data for prior periods are those originally published. Restatement has not been applied to the calculation of comparative ratios which remain in line with previously published figures.

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.

Consistently with the structure used by the Head Office to analyse the Group's results, the reporting has been streamlined compared to the previous version 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. The segment's results include also the investee Credifarma, which joined the Group effective 2 July 2018;
- NPL Segment, dedicated to non-recourse acquisition and managing mostly unsecured distressed retail loans; it corresponds to the former NPL Area segment;
- Governance & Services Segment, which provides the segments operating in the Group's core businesses with the financial resources and services necessary to perform their respective activities. It includes also the Bank's growing business with individuals—and specifically the operations of the subsidiary Cap.Ital.Fin., which recently joined the Group and extends salary- or pension-backed loans, as well as portfolios of personal loans previously allocated to the Leasing segment.

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

In addition, 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 restated to ensure accounting consistency with the corresponding amounts at 30 September 2018.

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 30.09.2018	241.555	168.243	(6.248)	**403.550**
Amounts at 30.09.2017	*260.604*	*108.365*	*6.339*	***375.308***
% Change	*(7,3)%*	*55,3%*	*(198,6)%*	***7,5%***
Net profit (loss) from financial activities				
Amounts at 30.09.2018	173.112	168.243	(6.720)	**334.635**
Amounts at 30.09.2017	*270.744*	*108.365*	*7.168*	***386.277***
% Change	*(36,1)%*	*55,3%*	*(193,8)%*	***(13,4)%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Third quarter 2018	76.483	48.953	(3)	**125.433**
Third quarter 2017	*88.881*	*29.408*	*3.800*	***122.089***
% Change	*(13,9)%*	*66,5%*	*(100,1)%*	***2,7%***
Net profit (loss) from financial activities				
Third quarter 2018	47.006	48.953	595	**96.554**
Third quarter 2017	*87.511*	*29.408*	*4.030*	***120.949***
% Change	*(46,3)%*	*66,5%*	*(85,2)%*	***(20,2)%***

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 30.09.2018	-	-	31.937	31.937
Amounts at 01.01.2018	*-*	*-*	*35.614*	*35.614*
% Change	*-*	*-*	*(10,3)%*	*(10,3)%*
Financial assets mandatorily measured at fair value through profit or loss				
Amounts at 30.09.2018	83.994	-	49.671	133.665
Amounts at 01.01.2018	*58.758*	*-*	*-*	*58.758*
% Change	*42,9%*	*-*	*n.a.*	*127,5%*
Financial assets at fair value through other comprehensive income				
Amounts at 30.09.2018	12.694	-	415.559	428.253
Amounts at 01.01.2018	*13.297*	*-*	*428.776*	*442.073*
% Change	*(4,5)%*	*-*	*(3,1)%*	*(3,1)%*
Due from banks				
Amounts at 30.09.2018	-	-	1.452.011	1.452.011
Amounts at 01.01.2018	*-*	*-*	*1.759.780*	*1.759.780*
% Change	*-*	*-*	*(17,5)%*	*(17,5)%*
Loans to customers				
Amounts at 30.09.2018	5.669.492	944.657	305.337	6.919.486
Amounts at 01.01.2018	*5.462.239*	*799.436*	*140.011*	*6.401.686*
% Change	*3,8%*	*18,2%*	*118,1%*	*8,1%*
Due to banks				
Amounts at 30.09.2018	-	-	837.565	837.565
Amounts at 01.01.2018	*-*	*-*	*791.977*	*791.977*
% Change	*-*	*-*	*5,8%*	*5,8%*
Due to customers				
Amounts at 30.09.2018	-	-	4.985.206	4.985.206
Amounts at 01.01.2018	*-*	*-*	*5.293.188*	*5.293.188*
% Change	*-*	*-*	*(5,8)%*	*(5,8)%*
Debt securities issued				
Amounts at 30.09.2018	-	-	2.094.785	2.094.785
Amounts at 01.01.2018	*-*	*-*	*1.639.994*	*1.639.994*
% Change	*-*	*-*	*27,7%*	*27,7%*

SEGMENT KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality (1)			
Amounts at 30.09.2018	1,60%	n.a.	n.a.
Amounts at 31.12.2017	*0,31%*	*n.a.*	*n.a.*
% Change	*1,29%*	*n.a.*	*n.a.*
Net bad loans/Loans to customers			
Amounts at 30.09.2018	1,3%	n.a.	4,2%
Amounts at 01.01.2018	*1,2%*	*n.a.*	*9,4%*
% Change	*0,1%*	*n.a.*	*(5,2)%*
Coverage ratio on gross bad loans			
Amounts at 30.09.2018	(70,7)%	n.a.	(8,4)%
Amounts at 01.01.2018	*(71,0)%*	*n.a.*	*(6,7)%*
% Change	*0,3%*	*n.a.*	*(1,7)%*
Net non-performing exposures/Net loans to customers			
Amounts at 30.09.2018	6,4%	99,8%	11,0%
Amounts at 01.01.2018	*6,2%*	*99,9%*	*16,9%*
% Change	*0,2%*	*(0,1)%*	*(5,9)%*
Gross non-performing exposures/Gross loans to customers			
Amounts at 30.09.2018	10,7%	99,8%	12,5%
Amounts at 01.01.2018	*9,9%*	*99,9%*	*19,2%*
% Change	*0,8%*	*(0,1)%*	*(6,7)%*
RWAs(2) (3)			
Amounts at 30.09.2018	4.707.582	950.378	562.789
Amounts at 01.01.2018	*4.450.750*	*801.915*	*424.484*
% Change	*5,8%*	*18,5%*	*32,6%*

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 investments in non-financial companies consolidated using the equity method and that are 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 buys 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)	30.09.2018	30.09.2017	CHANGE	
			ABSOLUTE	%
Net interest income	172.693	188.656	(15.963)	(8,5)%
Net commission income	61.040	56.398	4.642	8,2%
Other components of net banking income	7.822	15.550	(7.728)	(49,7)%
Net banking income	**241.555**	**260.604**	**(19.049)**	**(7,3)%**
Net credit risk losses/reversals	(68.443)	10.140	(78.583)	(775,0)%
Net profit (loss) from financial activities	**173.112**	**270.744**	**(97.632)**	**(36,1)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	3rd Q. 2018	3rd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	57.019	56.152	867	1,5%
Net commission income	20.251	19.419	832	4,3%
Other components of net banking income	(787)	13.310	(14.097)	(105,9)%
Net banking income	**76.483**	**88.881**	(12.398)	(13,9)%
Net credit risk losses/reversals	(29.477)	(1.370)	(28.107)	2051,6%
Net profit (loss) from financial activities	**47.006**	**87.511**	(40.505)	(46,3)%

The organisational units that comprise the Enterprises segment contributed to the change in Net Banking Income as follows: Trade Receivables +13,8 million Euro, Corporate Banking -30,2 million Euro, Leasing +0,2 million Euro, and Tax Receivables -2,9 million Euro.

As for Corporate Banking, the decline in net banking income was largely attributable to the lower contribution from the positive impact of the "reversal PPA"[5], which fell from 71,6 million Euro at 30 September 2017 to 50,1 million Euro at 30 September 2018 (-30,1%). This decline was to be expected, as it is associated with the residual average life of the underlying loans; in addition, it was fuelled by the early repayments occurred in 2017.

The remainder of said difference amounted to 217,4 million Euro at 30 September 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.

Trade Receivables made a positive contribution to net banking income, growing by 13,2% over the prior-year period thanks to the rise in turnover (+20,0% from 30 September 2017) as well as the number of corporate customers (+9,9% compared to the prior-year period, without accounting for the positive contribution from the acquisition of Credifarma S.p.A. in July).

During the period, the Enterprises segment recognised 68,4 million Euro in credit risk losses, including 53,1 million Euro related to exposures of the Trade Receivables units, 7,5 million Euro to Corporate Banking, 7,7 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, referring to two long-standing counterparties (the relationships date back to over 15 years ago) with individually significant exposures. This largely refers to the impact of the prudential adjustments required by the deteriorating creditworthiness of two counterparties operating in the Italian infrastructure industry, which concerned the country's entire banking system. The Bank promptly reclassified the positions and calculated impairment losses deemed appropriate based on currently available information.

As for the change compared to the prior-year period, please consider that in the first nine months of 2017 Corporate Banking reported significant net reversals, including a 19 million Euro reversal on an individually significant position.

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

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.09.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Net non-performing loans	74.486	62.873	11.613	18,5%
Net unlikely to pay	164.984	163.068	1.916	1,2%
Net non-performing past due exposures	122.447	111.986	10.461	9,3%
Total net non-performing exposures to customers (stage 3)	**361.917**	**337.927**	**23.990**	**7,1%**
Net performing loans (stages 1 and 2)	5.307.575	5.124.312	183.263	3,6%
Total on-balance-sheet loans to customers	**5.669.492**	**5.462.239**	**207.253**	**3,8%**

[5] "Reversal PPA" means 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 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.

Specifically, the new write-off policies require derecognising—without forfeiting the right to collect the receivable—the positions 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 September 2018, the Bank had written off 220,5 million Euro worth of receivables.

In addition, 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 89,8 million Euro in gross non-performing exposures and 30,1 million Euro in gross performing exposures (stage 2) at 30 September 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
Impairment losses	737.961	165.822	15.453	**919.236**	44.866
Carrying amount	75.531	212.537	115.797	**403.865**	5.214.775
Coverage ratio	*90,7%*	*43,8%*	*11,8%*	***69,5%***	*0,9%*
Gross NPE ratio	*12,4%*	*5,7%*	*2,0%*	***20,1%***	*n.a.*
Net NPE ratio	*1,3%*	*3,8%*	*2,1%*	***7,2%***	*n.a.*

Below are the changes made to the gross non-performing exposures of the Enterprises segment, also as a result of the previously mentioned factors:

NOMINAL AMOUNT OF NON-PERFORMING EXPOSURES - ENTERPRISES: RECONCILIATION	(in thousands of Euro)
Nominal amount of non-performing exposures at 31.12.2017	**1.323.101**
Decreases:	**864.389**
Ptf allocation from Enterprises segment to Governance & Services segment	75.381
reclassification of receivables at fair value	59.322
receivables subject to write off	220.512
interest on arrears subject to write off	75.905
POCI nominal amount	433.269
Nominal amount of non-performing exposures at 01.01.2018 excluding POCI	**458.712**
Increases:	**105.557**
net POCI amount	105.557
Nominal amount of non-performing exposures at 01.01.2018	**564.269**

The following table shows the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category.

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 30.09.2018					
Nominal amount	254.394	249.411	137.186	**640.991**	5.336.282
Impairment losses	(179.908)	(84.427)	(14.739)	**(279.074)**	(28.707)
Carrying amount	74.486	164.984	122.447	**361.917**	5.307.575
Coverage ratio	*70,7%*	*33,9%*	*10,7%*	***43,5%***	*0,5%*
Gross NPE ratio	*4,3%*	*4,2%*	*2,3%*	***10,7%***	*n.a.*
Net NPE ratio	*1,3%*	*2,9%*	*2,2%*	***6,4%***	*n.a.*
AT 01.01.2018					
Nominal amount	217.142	221.895	125.232	**564.269**	5.152.491
Impairment losses	(154.269)	(58.827)	(13.246)	**(226.342)**	(28.179)
Carrying amount	62.873	163.068	111.986	**337.927**	5.124.312
Coverage ratio	*71,0%*	*26,5%%*	*10,6%*	***40,1%***	*0,5%*
Gross NPE ratio	*3,8%*	*3,9%*	*2,2%*	***9,9%***	*n.a.*
Net NPE ratio	*1,2%*	*3,0%*	*2,1%*	***6,2%***	*n.a.*

The Enterprises segment's net non-performing exposures totalled 361,9 million Euro at 30 September 2018, up 24,0 million Euro from 1 January 2018 (337,9 million Euro): Bad loans rose by 11,6 million Euro (+18,5%), unlikely to pay by 1,9 million Euro (+1,2%), and past due exposures by 10,5 million Euro (+9,3%).

Gross non-performing exposures accounted for 10,7% of total exposures at 30 September 2018, compared to 20,1% at 31 December 2017 (originally published data).

At 30 September 2018, net bad loans amounted to 74,5 million Euro, resulting in a net bad-loan ratio of 1,3%.

KPI	30.09.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Cost of credit quality (1)	1,60%	0,31%	-	1,29%
Net bad loans/Loans to customers	1,3%	1,2%	-	0,1%
Coverage ratio on gross bad loans	(70,7)%	(71,0%)	-	0,3%
Net non-performing exposures/Net loans to customers	6,4%	6,2%	-	0,2%
Gross non-performing exposures/Gross loans to customers	10,7%	9,9%	-	0,8%
Total RWA per segment	4.707.582	4.450.750	256.832	5,8%

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.

The cost of credit under the new standard IFRS 9 totalled 160 bps in the first nine months of 2018, reflecting the previously mentioned impact of the specific provisions set aside on two individually significant positions; excluding these, the cost of credit would have amounted to 65 bps. At 31 December 2017, the cost of credit calculated under IAS 39 totalled 31 bps, as it was positively affected by the reversals recognised in the prior year.

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)	30.09.2018	30.09.2017	CHANGE	
			ABSOLUTE	%
Net interest income	77.798	68.732	9.066	13,2%
Net commission income	45.824	41.099	4.725	11,5%
Net banking income	**123.622**	**109.831**	**13.791**	**12,6%**
Net credit risk losses/reversals	(54.531)	(16.025)	(38.506)	240,3%
Net profit (loss) from financial activities	**69.091**	**93.806**	**(24.715)**	**(26,3)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	3rd Q. 2018	3rd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	27.013	17.064	9.949	58,3%
Net commission income	16.302	13.963	2.339	16,8%
Net banking income	**43.315**	**31.027**	**12.288**	**39,6%**
Net credit risk losses/reversals	(25.916)	(3.005)	(22.911)	762,4%
Net profit (loss) from financial activities	**17.399**	**28.022**	**(10.623)**	**(37,9)%**

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 nine months of 2018—as well as, for the sake of consistency, the prior-year period—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 addition, starting from the third quarter of 2018, the segment includes the contribution of the newly acquired subsidiary Credifarma S.p.A., which joined the Group effective 2 July 2018.

In the first three quarters of the year, the Trade Receivables Area contributed 123,6 million Euro (43,3 million Euro in the third quarter of 2018) to the Enterprises Segment's net banking income, up 12,6% from the prior-year period.

Net interest income rose by 13,2% (+9,1 million Euro) compared to the first nine months of 2017, and net commission income was up 11,5% (+4,7 million Euro).

Net impairment losses/reversals on receivables amounted to 54,5 million Euro (including 25,9 million Euro in the third quarter of 2018), up 38,5 million Euro from 16,0 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, which referred to two individually significant positions.

Therefore, net profit from financial activities amounted to 69,1 million Euro, down 24,7 million Euro (-26,3%).

The change in net banking income during the reporting 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 nine months of 2018 turnover totalled 9,5 billion Euro, up 1,5 billion Euro (+20,0%) from the prior-year period. The nominal amount of outstanding receivables at the end of September 2018 exceeded 3,8 billion Euro, up nearly 403 million Euro (+11,8%) from September 2017. As for medium/long-term financing, in the first nine months of 2018 the Group extended 152,9 million Euro in new loans, compared to 132,9 in the prior-year period (+15,0%).

The net receivables of the commercial lending segment totalled 343,9 million Euro.

At 30 September 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 30.09.2018					
Nominal amount	201.619	168.615	117.811	**488.045**	3.153.948
Impairment losses	(164.527)	(71.482)	(5.759)	**(241.768)**	(14.051)
Carrying amount	37.092	97.133	112.052	**246.277**	3.139.897
Coverage ratio	*81,6%*	*42,4%*	*4,9%*	***49,5%***	*0,4%*
AT 01.01.2018					
Nominal amount	166.292	128.577	109.463	**404.332**	3.179.765
Impairment losses	(134.924)	(46.540)	(5.598)	**(187.062)**	(14.645)
Carrying amount	31.368	82.037	103.865	**217.270**	3.165.120
Coverage ratio	*81,1%*	*36,2%*	*5,1%*	***46,3%***	*0,5%*

Leasing

INCOME STATEMENT DATA (in thousands of Euro)	30.09.2018	30.09.2017	CHANGE	
			ABSOLUTE	%
Net interest income	29.725	29.107	618	2,1%
Net commission income	8.704	9.104	(400)	(4,4)%
Other components of net banking income	-	(6)	6	(100,0)%
Net banking income	**38.429**	**38.205**	**224**	**0,6%**
Net credit risk losses/reversals	(7.693)	(4.970)	(2.723)	54,8%
Net profit (loss) from financial activities	**30.736**	**33.235**	**(2.499)**	**(7,5)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	3rd Q. 2018	3rd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	10.566	10.794	(228)	(2,1)%
Net commission income	1.695	2.957	(1.262)	(42,7)%
Other components of net banking income	-	(1)	1	(100,0)%
Net banking income	**12.261**	**13.750**	**(1.489)**	**(10,8)%**
Net credit risk losses/reversals	(2.741)	(2.868)	127	(4,4)%
Net profit (loss) from financial activities	**9.520**	**10.882**	**(1.362)**	**(12,5)%**

The Leasing segment's net banking income totalled 38,4 million Euro, up 0,6% (+0,2 million Euro in absolute terms) compared to 30 September 2017. The increase was the result of the 0,6 million Euro rise in net interest income and the 0,4 million Euro decline in net commission income.

In the first nine months of 2018, the segment extended 503 million Euro in new financing, up 37 million Euro (+8,0%) from the first nine months of 2017.

Net impairment losses on receivables amounted to 7,7 million Euro, up 2,7 million Euro from the prior-year period. This increase was largely attributable to the higher provisions set aside for non-performing exposures and unlikely to pay; 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 30,7 million Euro (-7,5% compared to the prior-year period) to the net profit from financial activities of the Enterprises segment.

At 30 September 2018, the Area's total net loans amounted to 1.346 million Euro, up 5,9% from 1.271 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 30.09.2018					
Nominal amount	17.971	14.354	18.910	**51.235**	1.334.300
Impairment losses	(15.381)	(9.049)	(8.980)	**(33.410)**	(6.397)
Carrying amount	2.590	5.305	9.930	**17.825**	1.327.903
Coverage ratio	*85,6%*	*63,0%*	*47,5%*	***65,2%***	*0,5%*
AT 01.01.2018					
Nominal amount	21.937	11.814	14.853	**48.604**	1.265.275
Impairment losses	(19.345)	(10.038)	(7.641)	**(37.024)**	(6.112)
Carrying amount	2.592	1.776	7.212	**11.580**	1.259.163
Coverage ratio	*88,2%*	*85,0%*	*51,4%*	***76,2%***	*0,5%*

Corporate Banking

INCOME STATEMENT DATA (in thousands of Euro)	30.09.2018	30.09.2017	CHANGE	
			ABSOLUTE	%
Net interest income	56.039	78.775	(22.736)	(28,9)%
Net commission income	6.512	6.204	308	5%
Other components of net banking income	7.822	15.556	(7.734)	(49,7)%
Net banking income	**70.373**	**100.535**	**(30.162)**	**(30,0)%**
Net credit risk losses/reversals	(6.102)	31.350	(37.452)	(119,5)%
Net profit (loss) from financial activities	**64.271**	**131.885**	**(67.614)**	**(51,3)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	3rd Q. 2018	3rd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	16.446	25.053	(8.607)	(34,4)%
Net commission income	2.252	2.501	(249)	(10,0)%
Other components of net banking income	(786)	13.311	(14.097)	(105,9)%
Net banking income	**17.912**	**40.865**	**(22.953)**	**(56,2)%**
Net credit risk losses/reversals	(824)	4.572	(5.396)	(118,0)%
Net profit (loss) from financial activities	**17.088**	**45.437**	**(28.349)**	(62,4)%

The Corporate Banking segment's net banking income totalled 70,4 million Euro, down 30,2 million Euro compared to 30 September 2017. This decline was attributable to the inevitably lower contribution from the “reversal PPA” , down 21,5 million Euro compared to the prior-year period.

At 30 September 2018, the area extended 225 million Euro in new financing, up 17,5 million Euro (+8,4%) from the first nine months of 2017.

Net impairment losses on receivables amounted to 6,1 million Euro, compared to the considerable net reversals recognised in the prior-year period—including as a result of an individually significant reversal on receivables, amounting to 19 million Euro.

The Corporate Banking area contributed 64,3 million Euro to the Enterprises segment's net profit from financial activities, down 51,3% 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 September 2018, the Area's total net loans amounted to 801,8 million Euro, up 18,2% 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 30.09.2018					
Nominal amount	34.804	66.442	465	**101.711**	712.261
Impairment losses	-	(3.896)	-	**(3.896)**	(8.259)
Carrying amount	34.804[6]	62.546	465	**97.815**	704.002
Coverage ratio	*0,0%*	*5,9%*	*0,0%*	***3,8%***	*1,2%*
AT 01.01.2018					
Nominal amount	28.913	81.504	916	**111.333**	576.880
Impairment losses	-	(2.249)	(7)	**(2.256)**	(7.422)
Carrying amount	28.913[2]	79.255	909	**109.077**	569.458
Coverage ratio	*0,0%*	*2,8%*	*0,8%*	***2,0%***	*1,3%*

Tax Receivables

INCOME STATEMENT DATA (in thousands of Euro)	30.09.2018	30.09.2017	CHANGE	
			ABSOLUTE	%
Net interest income	9.131	12.042	(2.911)	(24,2)%
Net commission income	-	(9)	9	(100,0)%
Net banking income	**9.131**	**12.033**	**(2.902)**	**(24,1)%**
Net credit risk losses/reversals	(117)	(215)	98	(45,6)%
Net profit (loss) from financial activities	**9.014**	**11.818**	**(2.804)**	**(23,7)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	3rd Q. 2018	3rd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	2.993	3.240	(247)	(7,6)%
Net commission income	2	(1)	3	(300,0)%
Net banking income	**2.995**	**3.239**	**(244)**	**(7,5)%**
Net credit risk losses/reversals	4	(69)	73	(105,8)%
Net profit (loss) from financial activities	**2.999**	**3.170**	**(171)**	**(5,4)%**

The Tax Receivables Area contributed 9,1 million Euro to the Enterprises segment's net banking income, down 24,1% from 30 September 2017.

6 This line item includes only receivables classified as POCI – Purchased or originated credit-impaired, whose amounts already incorporate the impact of lifetime ECLs, in accordance with the new accounting standard IFRS 9.

The decrease was essentially attributable to the reduction in receipts, which totalled 44,4 million Euro—down approximately 12% from 50,4 million Euro in the first nine months of 2017.

Concerning volumes, during the reporting period the area acquired receivables with a par value of 44,9 million Euro, compared to 55 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 September 2018, the Area's total net loans amounted to 135,7 million Euro, up 4% from 130,6 million Euro at 1 January 2018. The segment's receivables by their nature are classified as "performing loans" within stage 1 and 2.

NPL

This is the Banca IFIS Group's business area dedicated to non-recourse acquisition 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. Under these two methods, the Bank pursues multiple activities and goals.

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 168,5 million Euro, is the result of 72,3 million Euro in interest income from amortised cost and 96,2 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" presented below.

NPL Segment Portfolio (in thousands of Euro)	Outstanding nominal amount	Carrying amount	Carr. amount / Out. nom. amount	Impact through profit or loss	2018 collections	Main method of accounting
"Staging" positions	1.818.115	94.349	5%	0	0	Acquisition cost
Other positions undergoing non-judicial processing ("collective" operations)	9.148.147	163.318	2%	-9.079	9.352	Cost = NPV of flows from model
Non-judicial operations: positions with formalised bills of exchange or settlement plans	592.810	145.273	25%	54.878	50.820	Cost = NPV of individual flows
Positions undergoing judicial processing ("pre-garnishment order collective model")	378.745	93.758	25%	46.971	274	Cost = NPV of flows from model
Other positions undergoing judicial processing	2.240.125	265.397	12%	13.033	14.553	Acquisition cost
Judicial operations: positions with order for the garnishment of one-fifth of pension benefits or wages	498.496	182.562	37%	62.670	50.678	Cost = NPV of individual flows
Total	**14.676.437**	**944.657**	**6%**	**168.472**	**125.677**	

Post-acquisition management

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 (94,3 million Euro at 30 September 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 (163,3 million Euro at 30 September 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 (145,3 million Euro at 30 September 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. At 31 March 2018, 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 observed 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 47,0 million Euro positive impact recognised through profit or loss—summarised in the category "Positions undergoing judicial processing ("pre-garnishment order collective model") in the above table—amounting to 93,8 million Euro at amortised cost at 30 September 2018.

The remaining positions undergoing judicial processing are measured at cost and included in the category "Other positions undergoing judicial processing" in the previous table: at 30 September 2018, they amounted to 265,4 million Euro. This category also includes immaterial portfolios originated in corporate banking or real estate segments that are measured either individually or at cost.

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 182,6 million Euro at 30 September 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.

* * *

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.

INCOME STATEMENT DATA (in thousands of Euro)	30.09.2018	30.09.2017	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	72.264	44.902	27.362	60,9%
Other components of net interest income	96.208	60.815	35.393	58,2%
Funding costs	(7.747)	(13.678)	5.931	(43,4)%
Net interest income	**160.725**	**92.039**	**68.686**	**74,6%**
Net commission income	(13)	(1.377)	1.364	(99,1)%
Other components of net banking income	7.531	17.703	(10.172)	(57,5)%
Net banking income	**168.243**	**108.365**	**59.878**	**55,3%**
Net profit (loss) from financial activities	**168.243**	**108.365**	**59.878**	**55,3%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	3rd Q. 2018	3rd Q. 2017	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	26.479	17.806	8.673	48,7%
Other components of net interest income	19.387	16.636	2.751	16,5%
Funding costs	(2.749)	(5.036)	2.287	(45,4)%
Net interest income	**43.117**	**29.406**	**13.711**	**46,6%**
Net commission income	263	(76)	339	(446,1)%
Other components of net banking income	5.573	78	5.495	7.044,9%
Net banking income	**48.953**	**29.408**	**19.545**	**66,5%**
Net profit (loss) from financial activities	**48.953**	**29.408**	**19.545**	**66,5%**

"Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, was up 60,9% from 44,9 million Euro to 72,3 million Euro, largely thanks to 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. Please note that the receivables for which legal proceedings have commenced include those subject to the new pre-garnishment order collective modelling, which generated approximately 7 million Euro in interest income from amortised cost.

"Other components of net interest income", up 58,2%, included the economic impact of the change in expected cash flows based on the higher or lower actual or estimated cash receipts compared to forecasts and/or a change in collection times.

Specifically, it included the 39,9 million Euro impact of the introduction of the new pre-garnishment order collective model; in addition, the Bank recognised 7 million Euro in interest income from amortised cost, bringing the total amount recognised through profit or loss to 47,0 million Euro.

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, as well as commission income received as brokerage fees.

The net profit from financial activities of the NPL segment amounted to 168,2 million Euro (108,4 million Euro at 30 September 2017, +55,3%). 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 84,4 million Euro in the first nine months of 2017 to nearly 125,7 million Euro in the first nine months of 2018, up 49%.

Below is the breakdown of net loans by supervisory risk category.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	30.09.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Bad loans	675.763	528.226	147.537	27,9%
Unlikely to pay	266.356	270.050	(3.694)	(1,4)%
Non-performing past due exposures	933	444	489	110,1%
Total net non-performing exposures to customers (stage 3)	**943.052**	**798.720**	**144.332**	**18,1%**
Net performing loans (stage 2)	1.605	716	889	124,2%
Total on-balance-sheet loans to customers	**944.657**	**799.436**	**145.221**	**18,2%**

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	30.09.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	14.676.437	13.074.933	1.601.504	12,2%
Total RWA per segment	950.378	801.915	148.463	18,5%

NPL SEGMENT LOAN PERFORMANCE	30.09.2018	FY 2017
Opening loan portfolio	**799.436**	**562.146**
Purchases	102.855	239.276
Sales	(7.960)	(55.408)
Gains on sales	7.531	19.020
Interest income from amortised cost	72.264	60.614
Other components of net interest income from change in cash flow	96.208	102.096
Collections	(125.677)	(128.308)
Closing loan portfolio	**944.657**	**799.436**

The Bank purchased 102,9 million Euro in receivables during the period. Although this result was down from the prior year, in line with the decline in the number of transactions on the market, there are tentative signs of recovery. As expected, the Italian NPL market is undergoing structural changes that the Group duly takes into consideration. On the one hand, the pressure on portfolio prices seen in early 2018 is abating, giving rise to a more interesting competitive landscape characterised by falling prices. This is the result of market participants' newfound focus on avoiding purchases at any cost and regardless of actual collection prospects. Another factor is the "interest rate" effect, which requires rational players to take into account the rise in interest rates on the Italian market (and this holds true also for international entities) when calculating the Net Present Value of the expected cash flows from the portfolios being acquired. The declining prices and the scarcity of buyers are tipping the scales in favour of the latter, restricting the sellers' room for manoeuvre. From another point of view, the ability to effectively service the positions acquired, i.e. to obtain the expected cash flows by converting delinquent positions into performing ones, becomes especially crucial. Against this backdrop, the Group waited out the bidding war that characterised the first half of the year, limiting new purchases and focusing collection efforts on the significant stock of non-performing exposures it already holds. This proved to be the right choice, as prices have recently slowed down—allowing to reactivate a number of agreements. The Group remains firmly focused on making delinquent borrowers reperforming; the rising cash flows generated by these conversions is evidence of its success in this area.

The line item "Sales" included 8,0 million Euro in cash receipts from the sale of portfolios completed in the first nine months 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 (219,3 million Euro compared to 199,9 million Euro in the previous year).

The garnishment orders obtained by the Group rose steadily in the first nine months of 2018 and concerned nearly 14.000 debtors (compared to 8.100 in the first nine months of 2017).

At the end of the period, the portfolio managed by the NPL segment included 1.567.000 positions, for a par value of 14,7 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 September 2018, the segment's total net loans amounted to 305,3 million Euro, with net receivables up approximately 165,3 million Euro from 1 January 2018 (+118%).

The main contribution to the increase in lending was attributable to the subscription of senior notes related to a securitisation backed by the Italian government's state-guarantee scheme for NPL-backed securities (GACS) in the first three-month period of the year. At 30 September 2018, the net amount of these notes was 82,8 million Euro. Compared to the prior-year period, the segment reported an additional 50,4 million Euro relating to repurchase agreements with Cassa Compensazione. The rest of the change was attributable to the acquisition of the subsidiary Cap.Ital.Fin. S.p.A.'s receivables, which contributed 20,6 million Euro at 30 September 2018, as well as 20,0 million Euro worth of other performing retail portfolios at 30 September 2018. 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)	30.09.2018	30.09.2017	CHANGE	
			ABSOLUTE	%
Net interest income	(4.174)	12.724	(16.898)	(132,8)%
Net commission income	(1.046)	(2.385)	1.339	(56,1)%
Other components of net banking income	(1.028)	(4.000)	2.972	(74,3)%
Net banking income	**(6.248)**	**6.339**	**(12.587)**	**(198,6)%**
Net credit risk losses/reversals	(472)	829	(1.301)	(156,9)%
Net profit (loss) from financial activities	**(6.720)**	**7.168**	**(13.888)**	**(193,8)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	3rd Q. 2018	3rd Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	(469)	6.315	(6.784)	(107,4)%
Net commission income	(308)	(1.072)	764	(71,3)%
Other components of net banking income	774	(1.443)	2.217	(153,6)%
Net banking income	**(3)**	**3.800**	**(3.803)**	**(100,1)%**
Net credit risk losses/reversals	598	230	368	160,0%
Net profit (loss) from financial activities	**595**	**4.030**	**(3.435)**	**(85,2)%**

The segment reported a 6,7 million Euro net loss from financial activities, down from 30 September 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 May 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 nine months of 2018, the interest expense on the overall bond issues totalled approximately 22,4 million Euro.

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. In the reporting period, the interest expense arising from the securitisation transaction was down 1,4 million Euro from 2017.

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 4,4 million Euro contribution compared to 3,4 million Euro in the prior-year period. The liquidity held with the Bank of Italy at 30 September 2018 totalled 1.281,6 million Euro, down 4,9% from 31 December 2017 (1.347,4 million Euro).

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 6,7 million Euro contribution to net interest income.

At 30 September 2018, these securities, which back the collateralisation of part of the funding, had a fair value of 405,6 million Euro (-5,1% from 1 January 2018) and limited duration, and were classified as financial assets at fair value through other comprehensive income.

The fair value loss on said bonds had a negative 20 bps impact on CET1 (8 bps in the 3rd quarter of 2018 alone).

The following table shows the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category.

GOVERNANCE & SERVICES (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)
BALANCE AT 30.09.2018					
Nominal amount	15.017	18.109	7.388	**40.514**	274.735
Impairment losses	(2.207)	(3.899)	(715)	**(6.821)**	(3.091)
Carrying amount	12.810	14.210	6.673	**33.693**	271.644
Coverage ratio	*14,7%*	*21,5%*	*9,7%*	***16,8%***	*1,1%*
AT 01.01.2018					
Nominal amount	14.087	10.059	4.092	**28.238**	118.993
Impairment losses	(941)	(2.910)	(719)	**(4.570)**	(2.650)
Carrying amount	13.146	7.149	3.373	**23.668**	116.343
Coverage ratio	*6,7%*	*28,9%*	*17,6%*	***16,2%***	*2,2%*

Reclassified 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. In addition, net impairment losses on receivables of the NPL segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business for which net impairment losses represent an integral part of the return on the investment.

Reclassified Consolidated Statement of Financial Position

ASSETS (in thousands of Euro)	30.09.2018	31.12.2017
Cash and cash equivalents	52	50
Financial assets held for trading through profit or loss	31.937	35.614
Financial assets mandatorily measured at fair value through profit or loss	133.665	58.807
Financial assets at fair value through other comprehensive income	428.253	442.576
Due from banks	1.452.011	1.760.752
Loans to customers	6.919.486	6.392.567
Property, plant and equipment	131.247	127.881
Intangible assets	25.500	24.483
of which:		
- goodwill	*1.519*	*834*
Tax assets:	409.324	438.623
a) current	47.399	71.309
b) deferred	361.925	367.314
Other assets	311.454	272.977
Total assets	**9.842.929**	**9.554.330**

LIABILITIES AND EQUITY (in thousands of Euro)	30.09.2018	31.12.2017
Due to banks	837.565	791.977
Due to customers	4.985.206	5.293.188
Debt securities issued	2.094.785	1.639.994
Financial liabilities held for trading	36.069	38.171
Tax liabilities:	51.116	40.076
a) current	8.683	1.477
b) deferred	42.433	38.599
Other liabilities	403.032	352.999
Post-employment benefits	8.076	7.550
Provisions for risks and charges	29.650	21.656
Valuation reserves	(18.511)	(2.710)
Reserves	1.168.702	1.038.155
Share premiums	102.052	101.864
Share capital	53.811	53.811
Treasury shares (-)	(3.103)	(3.168)
Equity attributable to non-controlling interests (+ / -)	5.485	-
Profit (loss) for the period (+/-)	88.994	180.767
Total liabilities and equity	**9.842.929**	**9.554.330**

Reclassified Consolidated Income Statement

ITEMS (in thousands of Euro)	30.09.2018	30.09.2017
Net interest income	**329.247**	**293.419**
Net commission income	**59.980**	**52.636**
Other components of net banking income	14.323	29.253
Net banking income	**403.550**	**375.308**
Net credit risk losses/reversals	(68.915)	10.969
Net profit (loss) from financial activities	**334.635**	**386.277**
Administrative expenses:	(217.100)	(177.891)
a) personnel expenses	(83.281)	(73.782)
b) other administrative expenses	(133.819)	(104.109)
Net allocations to provisions for risks and charges	(5.306)	(1.646)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(9.073)	(8.764)
Other operating income/expenses	22.614	7.575
Operating costs	**(208.865)**	**(180.726)**
Pre-tax profit (loss) for the year from continuing operations	**125.770**	**205.551**
Income taxes for the period relating to continuing operations	(36.721)	(56.421)
Profit (Loss) for the period	**89.049**	**149.130**
Profit (Loss) for the period attributable to non-controlling interests	55	7
Profit (loss) for the period attributable to the Parent company	**88.994**	**149.123**

Consolidated Statement of Comprehensive Income

ITEMS (in thousands of Euro)	30.09.2018	30.09.2017
Profit (Loss) for the period	**89.049**	**149.130**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**2.018**	**745**
Equity securities designated as at fair value through other comprehensive income	1.931	570
Defined benefit plans	87	175
Other comprehensive income, net of taxes, to be reclassified to profit or loss	**(17.813)**	**3.793**
Exchange differences	(830)	805
Financial assets (other than equity securities) at fair value through other comprehensive income	(16.983)	2.988
Total other comprehensive income, net of taxes	**(15.795)**	**4.538**
Comprehensive Income	**73.254**	**153.668**
Total consolidated comprehensive income attributable to non-controlling interests	55	7
Total consolidated comprehensive income attributable to the Parent	**73.199**	**153.661**

Notes

Accounting Policies

Basis of preparation

This Consolidated Interim Report at 30 September 2018 of the Banca IFIS Group was prepared in accordance with Borsa Italiana's Rules for companies listed on the STAR segment (article 2.2.3 paragraph 3), which require publishing an interim report within 45 days of the end of each quarter, and considering Borsa Italiana's notice no. 7587 of 21 April 2016. Therefore, in accordance with said notice, concerning the contents of the Consolidated Interim Report, the Group made reference to the pre-existing paragraph 5 of article 154-ter of Italian Legislative Decree no. 58 of 24 February 1998.

The Consolidated Interim Report at 30 September 2018 has been drawn up in accordance with the IASs/IFRSs in force at said date issued by the International Accounting Standards Board (IASB), together with the relevant interpretations (IFRICs and SICs). These standards were endorsed by the European Commission in accordance with the provisions in article 6 of European Union Regulation no. 1606/2002. This regulation was transposed into Italian law with Legislative Decree no. 38 of 28 February 2005.

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

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

The criteria for, recognising, measuring and derecognising assets and liabilities and the methods for recognising revenue and costs adopted in preparing the Consolidated Interim Report at 30 September 2018 are unchanged from those used to prepare the Consolidated Interim Financial Statements at 30 June 2018, to which reference should be made for further details. For more details, please see the paragraphs “Impact of the first-time adoption of IFRS 9” and “Impact of the first-time adoption of IFRS 15” below.

Consolidation scope and methods

The Consolidated Interim Report has been drawn up on the basis of the accounts at 30 September 2018 prepared by the directors of the companies included in the consolidation scope. At 30 September 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., acquired on 2 February 2018, Two Solar Park 2008 S.r.l., and the 70%-owned subsidiary Credifarma S.p.A., over which the Group obtained control on 2 July 2018.

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 819 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 130 ‘Intangible assets’.

On 2 July 2018, the Group finalised the acquisition of a controlling interest in Credifarma S.p.A., a company specialising in pharmacy lending. Relative to an overall 8,8 million Euro investment, the consolidation process resulted in a gain on bargain purchase provisionally estimated at 3,9 million Euro, which was recognised under Other operating income.

These acquisitions require applying IFRS 3 “Business Combination”: this will be done within 12 months of the respective acquisition dates.

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%
Two Solar Park 2008 S.r.l.	Milan	Milan	1	Banca IFIS S.p.A.	100%	100%
Credifarma S.p.A.	Rome	Rome	1	Banca IFIS S.p.A.	70%	70%
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.

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.

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

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 reclassified Statement of Financial Position.

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

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

As for the reclassified 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 4,0 million Euro at 30 September 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 5,5 million Euro at 30 September 2017) was reclassified from "Net impairment losses/reversals on other financial transactions" to "Net allocations to provisions for risks and charges".

In addition, as showed in the financial statements presented in this document, net impairment losses on receivables of the NPL Area were reclassified to interest receivable and similar income to present more fairly this particular business for which net impairment losses represent an integral part of the return on the investment.

Below is the reconciliation of the reclassified Income Statement at 30 September 2017 and the reclassified income statement presented in accordance with the basis of presentation at 30 September 2018

INCOME STATEMENT ITEMS (in thousands of Euro)	AMOUNTS AT			INCOME STATEMENT ITEMS (in thousands of Euro)
	30.09.2017	Classification Impact	30.09.2017 RESTATED	
Net interest income	**289.425**	**3.994**	**293.419**	**Net interest income**
Net commission income	**52.636**	**-**	**52.636**	**Net commission income**
Other components of net banking income	29.253		29.253	Other components of net banking income
Net banking income	**371.314**	**3.994**	**375.308**	**Net banking income**
Net credit risk losses/reversals	20.427	(9.458)	10.969	Net credit risk losses/reversals
Net profit (loss) from financial activities	**391.741**	**(5.464)**	**386.277**	**Net profit (loss) from financial activities**
Administrative expenses:	(177.891)	-	(177.891)	Administrative expenses:
a) personnel expenses	(73.782)	-	(73.782)	a) personnel expenses
b) other administrative expenses	(104.109)	-	(104.109)	b) other administrative expenses
Net allocations to provisions for risks and charges	(7.110)	5.464	(1.646)	Net allocations to provisions for risks and charges
Net impairment losses/reversals on property, plant and equipment and intangible assets	(8.764)	-	(8.764)	Net impairment losses/reversals on property, plant and equipment and intangible assets
Other operating income/expenses	7.575	-	7.575	Other operating income/expenses
Operating costs	**(186.190)**	**5.464**	**(180.726)**	**Operating costs**
Pre-tax profit (loss) for the year from continuing operations	**205.551**	**-**	**205.551**	**Pre-tax profit (loss) for the year from continuing operations**
Income taxes for the period relating to continuing operations	(56.421)	-	(56.421)	Income taxes for the period relating to continuing operations
Profit (Loss) for the period	**149.130**	**-**	**149.130**	**Profit (Loss) for the period**
Profit (Loss) for the period attributable to non-controlling interests	7	-	7	Profit (Loss) for the period attributable to non-controlling interests
Profit (loss) for the period attributable to the Parent company	**149.123**	**-**	**149.123**	**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 reclassified consolidated statement of financial position at 31 December 2017 restated in accordance with the basis of presentation at 30 September 2018

ASSETS (in thousands of Euro)	AMOUNTS AT	IFRS 9 IMPACT		AMOUNTS AT
	31.12.2017 RESTATED	Measurement	Impairment	01.01.2018
Cash and cash equivalents	50	-	-	50
Financial assets held for trading at fair value through profit or loss	35.614	-	-	35.614
Financial assets designated as at fair value through profit or loss	-	-	-	-
Other financial assets mandatorily measured at fair value through profit or loss	58.807	(49)	-	58.758
Financial assets at fair value through other comprehensive income	442.576	-	(503)	442.073
Due from banks	1.760.752	-	(972)	1.759.780
Loans to customers	6.392.567		9.119	6.401.686
Property, plant and equipment and intangible assets	152.364	-	-	152.364
Tax assets	438.623	16	1.333	439.972
Other assets	272.977	-	-	272.977
Total assets	**9.554.330**	**(33)**	**8.977**	**9.563.274**

LIABILITIES (in thousands of Euro)	AMOUNTS AT 31.12.2017 RESTATED	IFRS 9 IMPACT		AMOUNTS AT 01.01.2018
		Measurement	Impairment	
Due to banks	791.977	-	-	791.977
Due to customers	5.293.188	-	-	5.293.188
Debt securities issued	1.639.994	-	-	1.639.994
Financial liabilities held for trading	38.171	-	-	38.171
Tax liabilities	40.076	-	3.049	43.125
Other liabilities	352.999	-	-	352.999
Post-employment benefits	7.550	-	-	7.550
Provisions for risks and charges for commitments and guarantees granted	590	-	2.954	3.544
Other provisions for risks and charges	21.066	-	-	21.066
Valuation reserves	(2.710)	(7)	-	(2.717)
Other Reserves	1.038.155	(26)	2.974	1.041.103
Share premium	101.864	-	-	101.864
Share capital	53.811	-	-	53.811
Treasury shares	(3.168)	-	-	(3.168)
Profit (Loss) for the period	180.767	-	-	180.767
Total liabilities and equity	**9.554.330**	**(33)**	**8.977**	**9.563.274**

Impact of the first-time adoption of IFRS 15

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

Risks and uncertainties related to estimates

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

Specifically, it made estimates concerning the carrying amounts of some items recognised in this consolidated interim report at 30 September 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 September 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 nine months 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 47,0 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 20,1 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”.

Group equity and income situation

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. In addition, net impairment losses on receivables of the NPL segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business for which net impairment losses represent an integral part of the return on the investment.

Statement of financial positions items

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.09.2018	01.01.2018	ABSOLUTE	%
Financial assets mandatorily measured at fair value through profit or loss	133.665	58.758	74.907	127,5%
Financial assets at fair value through other comprehensive income	428.253	442.073	(13.820)	(3,1)%
Due from banks	1.452.011	1.759.780	(307.769)	(17,5)%
Loans to customers	6.919.486	6.401.686	517.800	8,1%
Property, plant and equipment and intangible assets	156.747	152.364	4.383	2,9%
Tax assets	409.324	439.972	(30.648)	(7,0)%
Other assets	343.443	308.641	34.802	11,3%
Total assets	**9.842.929**	**9.563.274**	**279.655**	**2,9%**
Due to banks	837.565	791.977	45.588	5,8%
Due to customers	4.985.206	5.293.188	(307.982)	(5,8)%
Debt securities issued	2.094.785	1.639.994	454.791	27,7%
Provisions for risks and charges	29.650	24.610	5.040	20,5%
Tax liabilities	51.116	43.125	7.991	18,5%
Other liabilities	447.177	398.720	48.457	12,2%
Equity	1.397.430	1.371.660	25.770	1,9%
Total liabilities and equity	**9.842.929**	**9.563.274**	**279.655**	**2,9%**

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 and subscription of 56,1 million Euro worth of UCITS units, the 11,3 million Euro revaluation of an equity instrument, and the purchase and subscription of approximately 6,2 million Euro in loans measured at fair value. 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	
	30.09.2018	01.01.2018	ABSOLUTE	%
Debt securities	1.870	955	915	95,8%
Equity securities	11.467	-	11.467	n.a.
UCITS units	69.862	13.729	56.133	408,9%
Loans	50.466	44.074	6.392	14,5%
Total	**133.665**	**58.758**	**74.907**	**127,5%**

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income totalled 428,3 million Euro at 30 September 2018, down 3,1% 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.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.09.2018	01.01.2018	ABSOLUTE	%
Debt securities	414.496	427.330	(12.834)	(3,0)%
Equity securities	13.757	14.743	(986)	(6,7)%
Total	**428.253**	**442.073**	**(13.820)**	**(3,1)%**

Specifically, at 30 September 2018 **debt securities** amounted to 414,5 million Euro, down 3,0% 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	29.995	-	-	106.237	269.389	405.621
% of total	*7,2%*	-	-	*25,6%*	*65,0%*	*97,9%*
Banks	-	-	-	-	8.875	8.875
% of total	-	-	-	-	*2,1%*	*2,1%*
Total	**29.995**	**-**	**-**	**106.237**	**278.264**	**414.496**
% of total	***7,2%***	**-**	**-**	***25,6%***	***67,1%***	***100,0%***

This line item includes also **equity securities** relating to non-controlling interests, amounting to 13,8 million Euro (-6,7% compared to 1 January 2018). The change was largely attributable to the sale of a non-controlling interest, which was offset by the fair value adjustment of the securities in the portfolio.

Due from banks

At 30 September 2018, **receivables due from banks** totalled 1.452,0 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 6.919,5 million Euro, up 8,1% 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 3,8%, 18,2%, and 118,1% increase in exposures, respectively. As for the latter, the rise was attributable to the purchase of an 82,8 million Euro senior tranche backed by the Italian government's state-guarantee scheme for NPL-backed securities (GACS) at 30 September 2018, 50,4 million Euro worth of repurchase agreements entered into with Cassa Compensazione, as well as the acquisition of both the subsidiary Cap.Ital.Fin. S.p.A., which contributed 20,6 million Euro, and two performing retail portfolios totalling 20,0 million Euro at 30 September 2018.

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.

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	
	30.09.2018	01.01.2018	ABSOLUTE	%
Enterprises	5.669.492	5.462.239	207.253	3,8%
- *of which non-performing*	*361.917*	*337.927*	*23.990*	*7,1%*
NPL	944.657	799.436	145.221	18,2%
- *of which non-performing*	*943.052*	*798.720*	*144.332*	*18,1%*
Governance & Services	305.337	140.011	165.326	118,1%
- *of which non-performing*	*33.693*	*23.668*	*10.025*	*42,4%*
Total loans to customers	**6.919.486**	**6.401.686**	**517.800**	**8,1%**
- of which non-performing	***1.338.662***	***1.160.315***	***178.347***	***15,4%***

Total net **non-performing exposures**, which are significantly affected by the receivables of the NPL segment, amounted to 1.338,7 million Euro at 30 September 2018, compared to 1.160,3 million Euro at 1 January 2018 (+15,4%).

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 25,5 million Euro, up from 24,5 million Euro at 1 January 2018 (+4,2%) because of the investments made during the period, which more than offset the amortisation for the nine months to 30 September 2018.

The line item included 24,0 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 131,2 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 47,4 million Euro (-33,5% 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 361,9 million Euro (-1,8% from 1 January 2018), included 218,5 million Euro in impairment losses on receivables that can be deducted in the following years, 93,9 million Euro in past tax losses and excess 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—largely related to the Italian regional tax on productive activities (1,5 million Euro at 1 January 2018).

Deferred tax liabilities totalled 42,4 million Euro, up 1,9% 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 September 2018:

- the “deferred tax assets that rely on future profitability and do not arise from temporary differences” are deducted from CET1; at 30 September 2018, the 100% deduction—as the transitional regime (art. 478 of the CCR) expired—amounted to 90,8 million Euro, in addition to 52,3 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 September 2018, these assets, which amounted to 49,6 million Euro, were essentially 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 September 2018, the corresponding weight totalled 218,5 million Euro;
- “current tax assets”, amounting to 47,4 million Euro, receive a 0% weight as they are exposures to the Central Government.

Overall, the Tax Assets recognised at 30 September 2018 and 100% deducted from Own Funds resulted in an expense amounting to 1,77% 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, totalling 343,4 million Euro at 30 September 2018 (up 11,3% from 1 January 2018), included 31,9 million Euro in derivatives held for trading (-10,3% from 1 January 2018) and 311,5 million Euro in other assets (+14,1% from 1 January 2018).

Other assets included 109,2 million Euro in receivables due from the parent company La Scogliera S.p.A. (including 55,0 million Euro as a result of the tax consolidation regime and 54,2 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; 13,2 million Euro in net receivables due from tax authorities for payments on account (stamp duty); and 39,1 million Euro in VAT credits claimed. Finally, the line item included 27,4 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).

Other liabilities amounted to 447,2 million Euro at 30 September 2018 (+12,2% compared to 1 January 2018) and included 36,1 million Euro in derivatives held for trading (-5,5% compared to 1 January 2018), 8,1 million Euro in liabilities for post-employment benefits (+7,0% compared to 1 January 2018), and 403,0 million Euro in other liabilities (+14,2% compared to 1 January 2018). The latter largely referred to amounts due to customers that have not yet been credited as well as included a 6,6 million Euro payable to the parent company La Scogliera deriving from the tax consolidation regime.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.09.2018	01.01.2018	ABSOLUTE	%
Due to banks	**837.565**	**791.977**	**45.588**	**5,8%**
- Eurosystem	695.781	699.585	(3.804)	(0,5)%
- Other payables	141.784	92.392	49.392	53,5%
Due to customers	**4.985.206**	**5.293.188**	**(307.982)**	**(5,8)%**
- Rendimax and Contomax	4.666.886	4.948.386	(281.500)	(5,7)%
- Other term deposits	119.564	104.675	14.889	14,2%
- Other payables	198.756	240.127	(41.371)	(17,2)%
Debt securities issued	**2.094.785**	**1.639.994**	**454.791**	**27,7%**
Total funding	**7.917.556**	**7.725.159**	**192.397**	**2,5%**

Total funding, which amounted to 7.917,6 million Euro at 30 September 2018, up 2,5% compared to 1 January 2018, is represented for 63,0% by **Payables due to customers** (compared to 68,5% at 1 January 2018), for 10,5% by **Payables due to banks** (compared to 10,3% at 1 January 2018), and for 26,5% by **Debt securities issued** (21,2% at 1 January 2018).

Payables due to customers at 30 September 2018 totalled 4.985,2 million Euro (-5,8% compared to 1 January 2018). This was essentially because of the decline in retail funding (Rendimax and Contomax) from 4.948,4 million Euro at 1 January 2018 to 4.666,9 million Euro at 30 September 2018.

Payables due to banks totalled 837,6 million Euro (compared to 792,0 million Euro at 1 January 2018), up 5,8% essentially because of the increase in term deposits at other banks: these amounted to 141,8 million Euro, compared to 92,4 million Euro at 1 January 2018 (+53,5%). The remaining 695,8 million Euro referred to the TLTRO tranche obtained in 2017.

Debt securities issued amounted to 2.094,8 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 comprised 590,7 million Euro (including interest) in senior bonds issued by Banca IFIS, as well as the 415,2 million Euro (including interest) Tier 2 bond. The rest of debt securities issued at 30 September 2018 included 88,4 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	
	30.09.2018	01.01.2018	ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	3.305	3.544	(239)	(6,7)%
Legal disputes	14.730	13.820	910	6,6%
Other provisions	11.615	7.246	4.369	60,3%
Total provisions for risks and charges	**29.650**	**24.610**	**5.040**	**20,5%**

Below is the breakdown of the provision for risks and charges at the end of the period by type of dispute compared with the restated amounts for the prior year.

Provisions for credit risk related to commitments and financial guarantees granted

At 30 September 2018, this line item amounted to 3,3 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 September 2018, the Group had set aside 14,7 million Euro in provisions. This amount included:

- 7,4 million Euro for 25 disputes concerning the Trade Receivables segment (the plaintiffs seek 29,2 million Euro in damages);
- 101 thousand Euro (the plaintiffs seek 202 thousand Euro in damages) for 9 disputes concerning receivables of the subsidiary IFIS NPL;
- 3,5 million Euro (the plaintiffs seek 50,4 million Euro in damages) for 9 disputes concerning the former Interbanca;
- 2,3 million Euro (the plaintiffs seek 6,1 million Euro in damages) for 55 disputes concerning the Leasing area;
- 0,7 million Euro (the plaintiffs seek the same amount in damages) for a dispute concerning the investee IFIS Rental;
- 0,7 million Euro for 2 disputes concerning the newly acquired Credifarma (the plaintiffs seek the same amount in damages).

Other provisions for risks and charges

At 30 September 2018, the Group had set aside 11,6 million Euro in provisions, including 5,1 million Euro for the estimated contribution to Italy's Interbank Deposit Protection Fund, 1,6 million Euro in employee expenses, 3,2 million Euro in allowances for customers of the Leasing area, 1,3 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 September 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 (former GE Capital Interbanca Group)

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 nearly 168 million Euro in damages from the former Interbanca, among others. Said amount was subsequently reduced to 149 million Euro on appeal. 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 first-instance ruling was upheld on appeal and is now final. The first-instance trial of the other defendants and the former Interbanca is still pending only for the remaining requests for indemnification.

Legal proceedings concerning a lawsuit for damages resulting from an extraordinary operation involving an industrial company as well as environmental damage (former GE Capital Interbanca Group)

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, amounting to at least 388 million Euro, as well as 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. 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.

During the appeal process, the former Interbanca and its former employees entered into separate settlement agreements with the plaintiff, which withdrew the lawsuit and all claims. 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

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.

Rome's Regional Administrative Court upheld the former Interbanca's appeal and cancelled said order. The Council of State upheld the decision of the Administrative Court on appeal, but the ruling can still be appealed.

Therefore, even though a number of rulings are yet to become final, all the positions that could pose any risk to the Group have been essentially settled.

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%.

Regarding the above tax disputes, the Group, 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 September 2018, consolidated **Equity** totalled 1.397,4 million Euro, up +2,1% from 1.368,8 million Euro at 31 December 2017.
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	
	30.09.2018	31.12.2017	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	102.052	101.864	188	0,2%
Valuation reserves:	(18.511)	(2.710)	(15.801)	583,1%
- Securities	*(12.783)*	*2.275*	*(15.058)*	*(661,9)%*
- Post-employment benefits	*107*	*20*	*87*	*435,0%*
- exchange differences	*(5.835)*	*(5.005)*	*(830)*	*16,6%*
Reserves	1.168.702	1.038.155	130.547	12,6%
Treasury shares	(3.103)	(3.168)	65	(2,1)%
Equity attributable to non-controlling interests	5.485	-	5.485	n.a.
Profit for the period	88.994	180.767	(91.773)	(50,8)%
Equity	**1.397.430**	**1.368.719**	**28.711**	**2,1%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2017	**1.368.719**
Change in opening balances	**2.941**
Increases:	**94.885**
Profit for the period	88.994
Sale/grant of treasury instruments	319
Change in valuation reserve:	87
- Post-employment benefits	*87*
Equity attributable to non-controlling interests	5.485
Decreases:	**69.115**
Dividends distributed	53.234
Change in valuation reserve:	15.881
- Securities	*15.051*
- exchange differences	*830*
Equity at 30.09.2018	**1.397.430**

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	
	30.09.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	860.155	859.944
Tier 1 Capital (T1)	914.499	898.356
Total own funds	**1.188.984**	**1.191.097**
Total RWA	**8.063.664**	**7.376.306**
Common Equity Tier 1 Ratio	10,67%	11,66%
Tier 1 Capital Ratio	11,34%	12,18%
Ratio - Total Own Funds	**14,74%**	**16,15%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated at 30 June 2018 net of estimated dividends.

Consolidated own funds, risk-weighted assets and prudential ratios at 30 September 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 September 2018, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 616 thousand Euro, net of the tax effect. Therefore, in accordance with the transitional arrangements—"dynamic approach"—295 thousand Euro were included in the Common Equity Tier 1 (CET1) capital attributable to the Group.

The 2,1 million Euro decrease 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 at 30 June 2018 attributable to the Group and calculated for regulatory purposes, net of the estimated dividend;
- 20,7 million Euro arising from the decline in the proportion of eligible minority interests (Article 84 of the CRR), essentially because of 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 143,1 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 nearly 700 million Euro, in line with the increase in assets at risk—mostly associated with 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 14,74% at 30 September 2018, down from 16,15% at 31 December 2017; similarly, the CET1 ratio declined from 11,66% to 10,67%.

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	4.707.582	950.378	562.789	6.220.749
Off-balance-sheet exposures: payable, guarantees granted				458.300
Other assets: sundry receivables, suspense accounts				254.301
Tax assets				229.749
Market risk				6.814
Operational risk (basic indicator approach)				875.444
Credit valuation adjustment risk on derivatives				18.307
Total RWAs				**8.063.664**

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 5,4%;
- Tier 1 capital ratio of 9,0%, with a required minimum of 7,2%;
- Total Capital ratio of 11,3%, 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	
	30.09.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	859.860	859.944
Tier 1 Capital (T1)	914.205	898.356
Total own funds	**1.188.689**	**1.191.097**
Total RWA	**8.063.369**	**7.376.306**
Common Equity Tier 1 Ratio	10,66%	11,66%
Tier 1 Capital Ratio	11,34%	12,18%
Ratio - Total Own Funds	**14,74%**	**16,15%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated at 30 June 2018 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	
	30.09.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	1.178.658	1.152.603
Tier 1 Capital (T1)	1.178.658	1.152.603
Total own funds	**1.578.658**	**1.552.792**
Total RWA	**8.056.041**	**7.369.921**
Common Equity Tier 1 Ratio	14,63%	15,64%
Tier 1 Capital Ratio	14,63%	15,64%
Total Own Funds Capital Ratio	**19,60%**	**21,07%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated at 30 June 2018 net of estimated dividends..

Major exposures

		30.09.2018	31.12.2017
a)	Carrying amount	2.441.861	2.614.678
b)	Weighted amount	460.225	495.050
c)	Number	3	3

The overall weighted amount of major exposures at 30 September 2018 consisted of 228,7 million Euro in tax assets and 231,5 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 September 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 405,6 million Euro, net of the negative 21,8 million Euro valuation reserve.

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 September 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 September 2018 totalled 763 million, including 95 million Euro relating to tax receivables.

Income statements items

Formation of net banking income

Net banking income totalled 403,6 million Euro, up 7,5% from 375,3 million Euro in the prior-year period.

Specifically, the NPL segment was up 55,3% year-on-year thanks to the strong performance in the management of existing portfolios, resulting in better payment arrangements, and the value derived from part of the judicial portfolio previously recognised at cost, as detailed below. The Enterprises segment's net banking income was down 7,3% from the prior-year period: the growth reported by the Trade Receivables business area (+12,6% compared to 30 September 2017) was offset by the lower contribution from the “reversal PPA” in the Corporate Banking area, which inevitably declined compared to the first nine months of 2017 (50,1 million Euro at 30 September 2018, compared to 71,6 million Euro at 30 September 2017, -30,1%). Finally, the Governance & Services segment's net banking income was negative 6,2 million Euro, as the increase in interest expense on the Group's funding was not entirely offset by the chargeback to the other segments of the Group.

NET BANKING INCOME (in thousands of Euro)	FIRST NINE MONTHS		CHANGE	
	2018	2017	ABSOLUTE	%
Net interest income	329.247	293.419	35.828	12,2%
Net commission income	59.980	52.636	7.344	14,0%
Other components of net banking income	14.323	29.253	(14.930)	(51,0)%
Net banking income	**403.550**	**375.308**	**28.242**	**7,5%**

Net interest income rose from 293,4 million Euro at 30 September 2017 to 329,2 million Euro at 30 September 2018 (+12,2%) because of the reasons previously discussed with reference to net banking income.

Net commission income amounted to 60,0 million Euro, up 14,0% from 30 September 2017, largely thanks to the strong performance of the Trade Receivables and Leasing areas.

Commission income, totalling 69,9 million Euro (compared to 62,4 million Euro at 30 September 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 9,9 million Euro compared to 9,8 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 other components of net banking income included the gains on the sale or buyback of financial assets or liabilities, totalling 7,9 million Euro compared to 17,7 million Euro at 30 September 2017—largely referring to the NPL segment—and the net result of other financial assets and liabilities at fair value through profit or loss. The latter was positive 5,9 million Euro and included the 11,3 million Euro fair value gain on an equity instrument, which was partly offset by 5,4 million Euro in fair value losses on loans.

Formation of net profit from financial activities

The Group's **net profit from financial activities** totalled 334,6 million Euro, compared to 386,3 million Euro at 30 September 2017 (-13,4%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	FIRST NINE MONTHS		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	403.550	375.308	28.242	7,5%
Net credit risk losses/reversal on:	(68.915)	10.969	(79.884)	(728,3)%
Net profit (loss) from financial activities	**334.635**	**386.277**	**(51.642)**	**(13,4)%**

Net credit risk losses totalled 68,9 million Euro, compared to 11,0 million Euro in net reversals at 30 September 2017.

The change was largely attributable to the higher amount of individual provisions set aside on bad loans and unlikely to pay, referring to two individually significant positions, as well as the fact that the first nine months of 2017 saw considerable net reversals largely associated with the successful completion of restructuring transactions, including a 19 million Euro one.

Formation of net profit for the period

FORMATION OF NET PROFIT (in thousands of Euro)	FIRST NINE MONTHS		CHANGE	
	2018	2017	ABSOLUTE	%
Net profit (loss) from financial activities	**334.635**	**386.277**	**(51.642)**	**(13,4)%**
Operating costs	(208.865)	(180.726)	(28.139)	15,6%
Pre-tax profit (loss) for the period from continuing operations	**125.770**	**205.551**	**(79.781)**	**(38,8)%**
Income taxes for the period relating to continuing operations	(36.721)	(56.421)	19.700	(34,9)%
Profit (Loss) for the period	**89.049**	**149.130**	**(60.081)**	**(40,3)%**
Profit (Loss) for the period attributable to non-controlling interests	55	7	48	685,7%
Profit (loss) for the period attributable to the Parent company	**88.994**	**149.123**	**(60.129)**	**(40,3)%**

OPERATING COSTS (in thousands of Euro)	FIRST NINE MONTHS		CHANGE	
	2018	2017	ABSOLUTE	%
Administrative expenses:	217.100	177.891	39.209	22,0%
a) personnel expenses	83.281	73.782	9.499	12,9%
b) other administrative expenses	133.819	104.109	29.710	28,5%
Net allocations to provisions for risks and charges	5.306	1.646	3.660	222,4%
Net impairment losses/reversals on property, plant and equipment and intangible assets	9.073	8.764	309	3,5%
Other operating income/expenses	(22.614)	(7.575)	(15.039)	198,5%
Operating costs	**208.865**	**180.726**	**28.139**	**15,6%**

Personnel expenses totalled 83,3 million Euro, up 12,9% (73,8 million Euro in September 2017). At 30 September 2018, the Group's employees numbered 1.622, up 13,2% from the prior-year period (1.433 units). This increase included 87 employees acquired as a result of the inclusion of the subsidiaries Cap.Ital.Fin. S.p.A. and Credifarma S.p.A in the Group's scope.

Other administrative expenses totalled 133,8 million Euro, up 28,5% from 104,1 million Euro at 30 September 2017. This was the result of the reclassification to profit or loss of 20,1 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 (legal expenses and indirect taxes) 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)	FIRST NINE MONTHS		CHANGE	
	2018	2017	ABSOLUTE	%
Expenses for professional services	**47.545**	**35.762**	**11.783**	**32,9%**
Legal and consulting services	33.128	22.491	10.637	47,3%
Auditing	548	506	42	8,3%
Outsourced services	13.869	12.765	1.104	8,6%
Direct and indirect taxes	**34.825**	**17.555**	**17.270**	**98,4%**
Expenses for purchasing goods and other services	**51.449**	**50.792**	**657**	**1,3%**
Customer information	11.897	10.677	1.220	11,4%
Software assistance and hire	11.830	10.519	1.311	12,5%
Postage and archiving of documents	5.904	4.157	1.747	42,0%
Property expenses	5.128	5.034	94	1,9%
Car fleet management and maintenance	2.979	2.434	545	22,4%
Telephone and data transmission expenses	2.584	1.989	595	29,9%
Advertising and inserts	2.446	2.227	219	9,8%
Business trips and transfers	2.404	2.434	(30)	(1,2)%
FITD and Resolution fund	2.267	2.839	(572)	(20,1)%
Securitisation costs	1.109	1.412	(303)	(21,5)%
Transitional services agreement	-	2.625	(2.625)	(100,0)%
Other sundry expenses	2.901	4.445	(1.544)	(34,7)%
Total administrative expenses	**133.819**	**104.109**	**29.710**	**28,5%**

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 (14,6 million Euro at 30 September 2018 compared to 5,8 million Euro at 30 September 2017). 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 6,8 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).

"**Direct and indirect taxes**", amounting to 34,8 million Euro (17,6 million Euro at 30 September 2017), included 24,2 million Euro (7,0 million Euro at 30 September 2017) in registration fees paid for the expanded judicial debt collection operations and the refinement of the model used to estimate the NPL segment's positions undergoing judicial operations, as well as 7,0 million Euro in stamp duty costs for retail funding that are charged back to customers as from 1 January 2018.

The "**Transitional services agreement**" concerning the costs incurred during the merger of the former GE Capital Interbanca Group for the use of IT networks and services owned by the seller expired at the end of 2017.

Net allocations to provisions for risks and charges amounted to 5,3 million Euro (1,6 million Euro at 30 September 2017) and almost entirely referred to the provisions set aside in the third quarter of 2018 for the estimated contribution to Italy's Interbank Deposit Protection Fund.

Other net operating income totalled 22,6 million Euro (7,6 million Euro at 30 September 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 7,0 million Euro in chargebacks of stamp duty costs for retail funding, which the Bank continued bearing until 31 December 2017. Finally, the line item included the 3,9 million Euro gain on bargain purchase arising from the acquisition of a controlling interest in Credifarma S.p.A..

Pre-tax profit for the period stood at 125,8 million Euro, compared to 205,6 million Euro at 30 September 2017.

Income tax expense amounted to 36,7 million Euro, compared to 56,4 million Euro at 30 September 2017. The Group's tax rate declined from 27,4% at 30 September 2017 to 29,2% at 30 September 2018.

Excluding 55 thousand Euro in profit attributable to non-controlling interests, the **net profit for the period attributable to the Parent Company** totalled 89,0 million Euro (-40,3% compared to the prior-year period).

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 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 finalisation of the transaction, which was originally expected to close by September 2018 with the Group's acquisition of 90% of FBS for 58,5 million Euro, is pending approval from the Bank of Italy.

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

IFIS NPL S.p.A., the Banca IFIS Group company into which Banca IFIS spun off its NPL segment, became fully operational on 1 July 2018.

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.

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 required an overall investment—including the capital increase—of approximately 8,8 million Euro.

Fitch confirms BB+ rating, outlook stable

On 13 September 2018, Fitch Rating Inc. maintained the Long-term Issuer Default Rating (IDR) at 'BB+', outlook "Stable", originally issued in September 2017. The confirmation of Banca IFIS's rating and outlook testifies to its strength as well as the soundness of its growth and development plans. For more details, please see the ratings agency's press release, available at www.fitchratings.com.

Renewal of EMTN Programme for issues of up to 5 billion Euro

On 26 September 2018, the Group renewed the non-convertible bond issue programme named "EMTN - Euro Medium Term Notes Programme" launched in September 2017.

This allows Banca IFIS to continue seizing financing opportunities on the debt market in a timely and flexible manner through bond issues.

The programme has an overall issue limit of 5 billion Euro and is reserved exclusively for institutional investors in Italy and abroad except for the United States of America, in accordance with Regulation S of the United Securities Act of 1933.

Transactions involving the parent company La Scogliera S.p.A.

The holding company La Scogliera S.p.A. notified the Bank that it has planned a series of transactions intended to achieve regulatory results essentially equivalent to the abandoned reverse merger between the Bank and La Scogliera. In addition, La Scogliera S.p.A. informed that it has held early discussions about these transactions with the Bank of Italy and hopes that, subject to the approval of the competent authorities, the process will be completed ahead of the next meeting for the approval of the Bank's financial statements.

Significant subsequent events

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

Venice - Mestre, 8 November 2018

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Giovanni Bossi

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

The undersigned Mariacristina Taormina, Manager charged with preparing the financial reports of Banca IFIS S.p.A., pursuant to the provisions of Art. 154 bis, paragraph 2 of Italian Legislative Decree no.58 dated 24 February 1998, declares that the financial information included into the Consolidated Interim Report as at 30 September 2018 corresponds to the related books and accounting records.

Venice - Mestre, November 8th, 2018

Manager charged with preparing the Company's financial reports

Mariacristina Taormina

Mariacristina Taormina