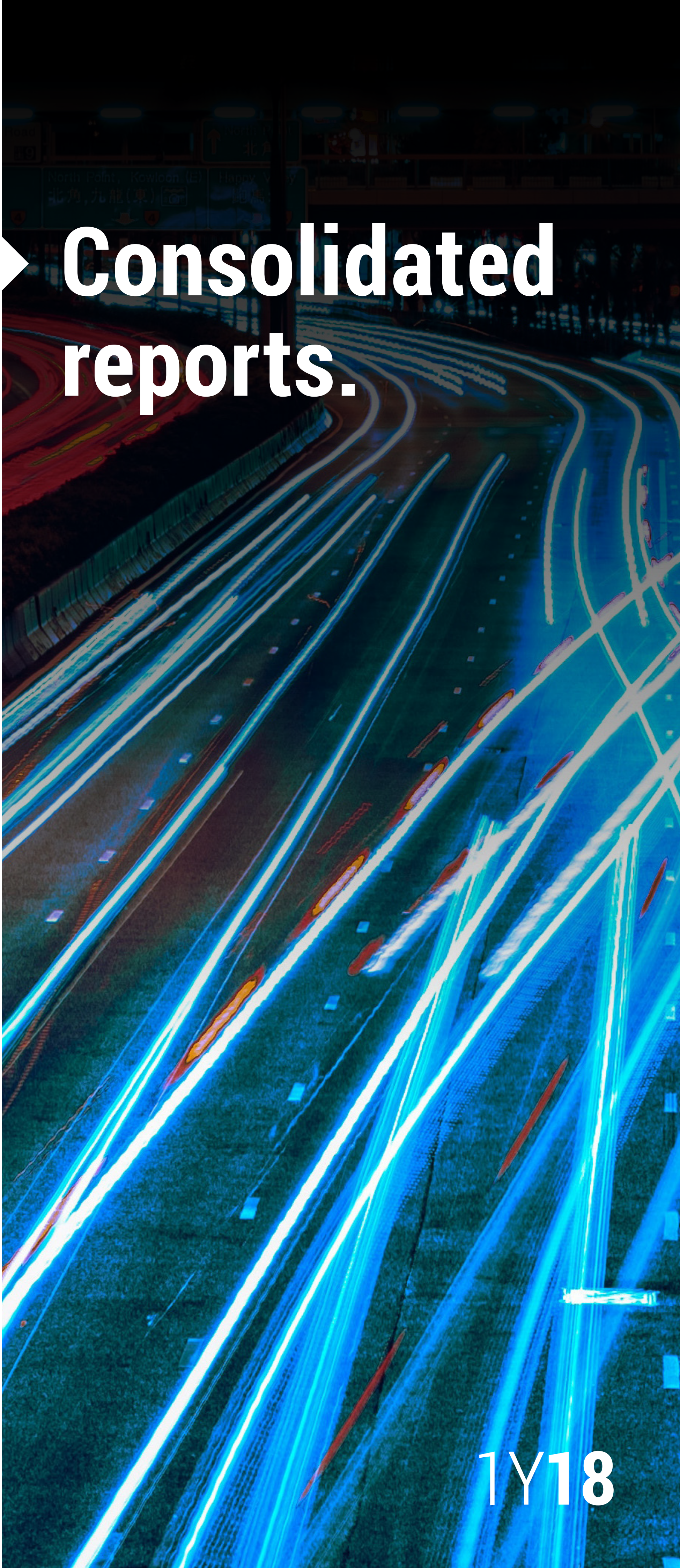
BANCA IFIS
Value to your business.

Consolidated reports.



1Y18

Banca IFIS Group

2018

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

www.bancaifis.it

Letter from the Chairman to Shareholders,

Sebastien Egon Fürstenberg
Chairman

Dear Shareholders,

2018 was a year that required expertise and sense of responsibility. The clouds that gradually gathered over the economy partially affected the behaviour of Italian banks, including, despite its distinctive peculiarities, Banca IFIS. However, we doggedly continued to lend to the real economy while keeping risks under control, aware that we are part of the solution to the problems. Italian businesses, and especially the smaller ones, require more credit; without it, it will be harder for them to make up the lost ground and start growing again.

It was also the year in which associates were merged into Banca IFIS, to the point that now over 1700 people participate in the Project: the Group added consumer lending, with salary-backed loans for struggling borrowers that want to settle their position in a sustainable manner; specialised lending for pharmacies; the servicing of non-performing exposures secured by collateral as well as corporate ones, which complements investing and servicing operations in the unsecured retail segment—with 1,2 million borrowers, the Bank has long been the leader in this market in Italy, which requires a responsible and careful approach.

As usual, the Bank's operations stand out for the robust control of profitability adjusted for risk, liquidity, and capital absorption. We will continue providing our customers with the solutions they need quickly, clearly, and transparently, ensuring the best possible experience in their relationship with the Bank. This is why digital services and streamlining efforts are crucial, and we are investing in them.

In addition, I should point out that the Bank is set to continue on its current gradual growth path in the medium/long term, as part of a process that involves consolidating the recent acquisitions and maximising the combined potential of the different areas that make up the Bank. Its plans go hand in hand with a proportionate and sensible increase in regulatory ratios.

Once again, we are raising our dividend—a testament to the strength we have built over time, which allows us to reward Shareholders.

Before handing over to the CEO, I would like to thank everyone who contributed to make Banca IFIS what it has become with their confidence and work: Shareholders, Customers, Suppliers, Employees, and Management. 2019 will be rife with new challenges and projects, and I wish the Banca IFIS Group a year of steady consolidation, full of hard work and high-quality results.

Sebastien Egon Fürstenberg, Banca IFIS Chairman

Letter from the CEO to Shareholders.

Giovanni Bossi
CEO

Dear Shareholders,

Over one year ago, in the early months of 2018, we could not imagine we would have witnessed such dramatic developments concerning Italy's economy. Since the summer, Italy's risk perception in international markets has changed just as monetary easing appeared to be on the way out and geopolitical uncertainty—from Brexit to concerns over bitter trade disputes—was on the rise.

In the second half of the year, Italian GDP shrank, albeit moderately, and this trend could continue into 2019. On the one hand, the Bank is supporting SMEs—an acronym that embodies our focus on Small and Medium Enterprises; on the other hand, it also recovers non-performing exposures by offering sustainable solutions to borrowers in distress. Both sectors have been and will be affected by the economic slowdown.

The Bank continues performing its role of supporting small firms and households and keeps on implementing new means and tools appropriate for the task, aware that it must be constantly perceived as a positive factor within the environment it engages with every day.

In 2018, we worked hard to provide our system and customers with new solutions and additional tools to do even better. In 2019, we will build on the work done so far and further develop our ability to represent a source of strength for the market, continuing to grow and improve.

The Group's goals for 2019 are once again consistent with the work already done: we will relentlessly seek to promote synergies, streamline operations, create value, and innovate.

We strived to grow while paying attention to our performance; the environment in which our actions materialise; and the growth of the people that share Banca IFIS's project and relentlessly endeavour to do their best. This team, these people, represent an asset and are key to our operations. The work, creativity, intelligence, and passion that you Banca IFIS people show every day has been, is, and will always be the most important driver of our growth.

Giovanni Bossi, Banca IFIS CEO

Contents

01

Consolidated Non-Financial Statement

Methodological background

Italian Legislative Decree 254/2016 (or Decree), which transposed Directive 2014/95/UE[1] into Italian law, introduced the requirement for large companies or groups and public-interest entities[2] in Italy to disclose information relating to environmental, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters that are material to each entity based on its business and characteristics.

These entities are required to prepare a Non-Financial Statement if they had more than 500 employees on average during the financial year and, at the reporting date, exceeded at least one of the following limits: total balance sheet exceeding 20 million Euro and/or total net revenue from sales and services exceeding 40 million Euro.

As a public-interest entity of a size that falls under the scope of said legislation, starting from the year 2017, the Banca IFIS Group publishes a consolidated Non-Financial Statement in accordance with the Decree.

This effort represents the next logical step in a process that has led the Group to voluntarily integrate information on its approach to sustainability into its reporting cycle starting with the introduction to the 2016 Consolidated Financial Statements.

The Non-Financial Statement for the year 2018 is prepared at the consolidated level by the Parent Banca IFIS S.p.A. and includes all entities consolidated line-by-line in the Consolidated Financial Statements[3] (for the purposes of this document, "Banca IFIS" or "Parent" means just the company Banca IFIS, whereas "Banca IFIS Group" or "Group" refers to the entire scope of consolidation).

Please see the Methodological Note in this document for more information on the reporting method, how indicators were calculated, any assumptions made, and the preparation process for the 2018 Non-Financial Statement.

[1] "Directive 2014/95/EU, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups"

[2] "Public-Interest Entities" means the entities set out in Article 16, paragraph 1, of Italian Legislative Decree no. 39 of 27 January 2010, that is: Italian issuers of securities admitted to trading on regulated markets in Italy and the European Union; banks, insurance undertakings as per Article 1, paragraph 1, letter u) of the Italian Code of Private Insurance; reinsurance undertakings as per Article 1, paragraph 1, letter cc) of the Italian Code of Private Insurance with registered office in Italy, and the Italian branch offices of non-EU reinsurance undertakings as per Article 1, paragraph 1, letter cc-ter) of the Italian Code of Private Insurance.

[3] For a detailed list of the entities included in the scope of consolidation, please see part A - Accounting Policies in the Notes to the Consolidated Financial Statements

01.1. The Banca IFIS Group

01.1.1. Group Profile

Group History

1983	BANCA IFIS IS FOUNDED IN GENOA.
1989	**BANCA IFIS SHARES ARE ADMITTED TO TRADING ON THE "MERCATO RISTRETTO"** IN GENOA, AND THEN THE ONE IN MILAN IN 1990.
2003	ONE YEAR AFTER THE START OF BANKING OPERATIONS, BANCA IFIS IS **ADMITTED TO MILAN'S MTA** (ELECTRONIC STOCK MARKET).
2004	BANCA IFIS IS ADMITTED TO THE **STAR SEGMENT OF THE MTA MARKET**.
2008	**LAUNCH OF RENDIMAX**, BANCA IFIS'S ONLINE SAVINGS ACCOUNT.
2011	**TOSCANA FINANZA** (WHICH WILL LATER BECOME BANCA IFIS'S NPL AREA) **AND FAST FINANCE** BECOME DIVISIONS OF THE BANCA IFIS GROUP.
2016	WITH THE ACQUISITION OF THE FORMER GE **CAPITAL INTERBANCA** GROUP, THE BANK ENTERS THE LEASING AND CORPORATE BANKING MARKETS.
2017	**MERGERS OF IFIS FACTORING AND INTERBANCA INTO THE BANCA IFIS GROUP.** THE BANK SUCCESSFULLY COMPLETES ITS FIRST TIER 2 BOND ISSUE, RECEIVES AN ISSUER RATING FROM FITCH, AND SIGNS THE AGREEMENT FOR THE ACQUISITION OF CAP.ITAL.FIN. S.P.A.
2018	THE BANK FINALISES THE **ACQUISITION OF CAP.ITAL.FIN. S.P.A.**, WHICH SPECIALISES IN SALARY AND PENSION-BACKED LOANS. **IFIS LEASING S.P.A. IS MERGED** INTO THE BANCA IFIS GROUP. **ACQUISITION OF CREDIFARMA S.P.A.**, WHICH OPERATES IN THE MARKET FOR PHARMACY LENDING. **THE BANK ENTERS THE INSURANCE SEGMENT WITH RENDIMAX ASSICURAZIONI**, THE EASY, DIGITAL AND PAY-PER-USE INSURANCE E-COMMERCE. THE GROUP SIGNS THE **AGREEMENT TO ACQUIRE FBS S.P.A.**

2018 Highlights

BANCA IFIS

1.638
EMPLOYEES

100.000
CORPORATE CUSTOMERS

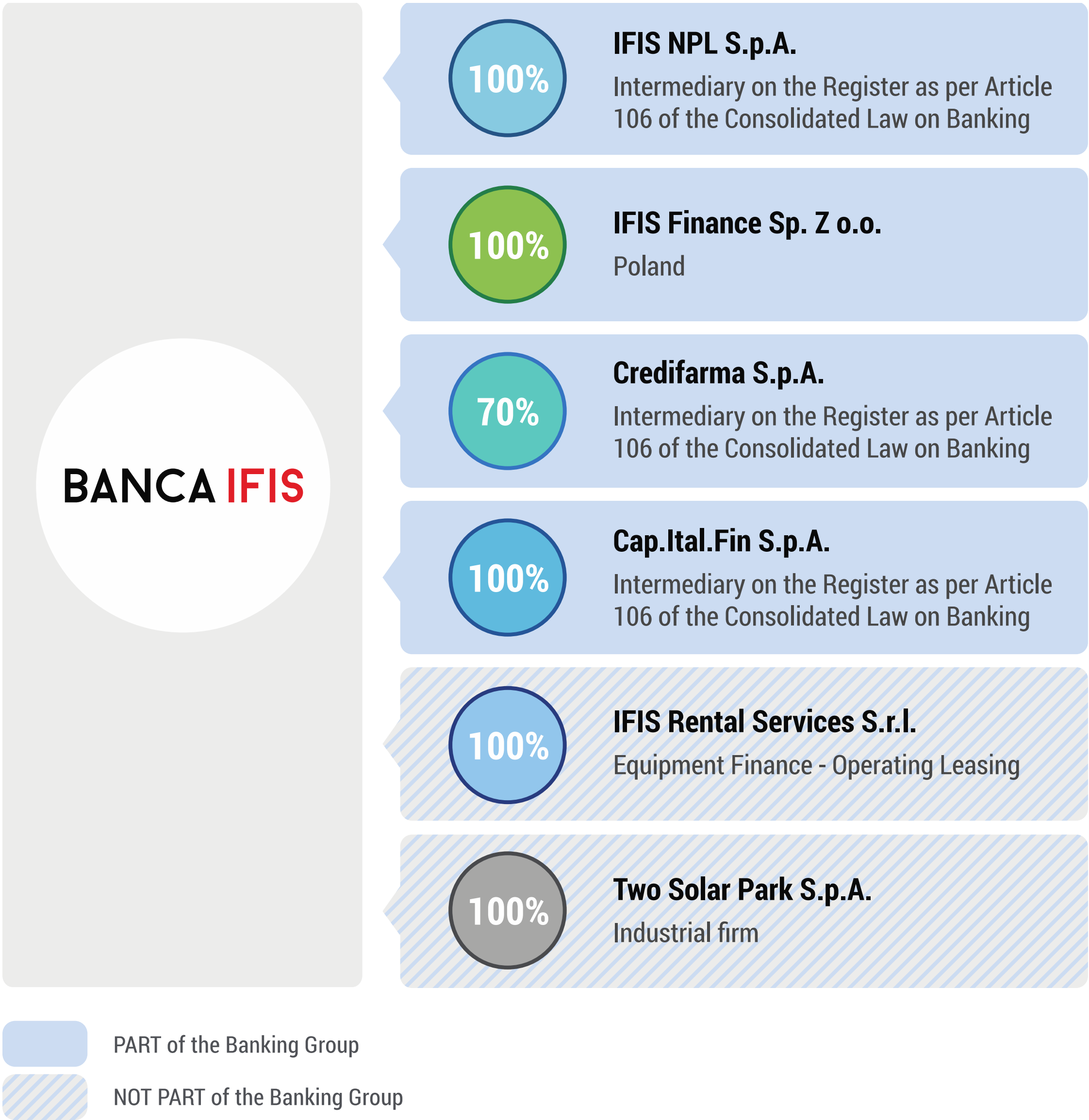
27
COMMERCIAL OFFICES

NPL PORTFOLIO
15,8
Mn €

NET PROFIT FOR THE YEAR
146,8
Mn €

NET BANKING INCOME
576,5
Mn €

Company structure at 31/12/2018



Businesses and brands

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

Banca IFIS Impresa, the Banca IFIS Group's entity that supports the growth of Small, Medium, and Micro Italian Enterprises with specialist lending solutions: factoring, leasing, medium- and long-term loans, and corporate finance. It operates both in Italy and abroad—especially in Poland, through the subsidiary IFIS Finance, which specialises in factoring services (import/export).

Banca IFIS Pharma, dedicated to supporting local health services' suppliers, i.e. companies with receivables due from Italy's National Health Service that seek to protect themselves from the risk of late payments through non-recourse factoring.

Credifarma S.p.A. is the leading lender for pharmacies. Born from an idea of Federfarma (the National Federation of Italian Pharmacy Owners), it combines the latter's experience with the Banca IFIS Group's expertise. Since 1987, it has been providing pharmacies with advances on DCRs (*Distinta Contabile Riepilogativa*, a report summarising monthly prescription sales) and other instruments to meet their financing needs and grow their business. Credifarma is 70%-owned by the Banca IFIS Group and 30%-owned by Credifarma.

IFIS NPL S.p.A. is the Banca IFIS Group company dedicated to acquiring and servicing non-performing loan portfolios, either on its own or on behalf of third parties. IFIS NPL's goal is to convert the largest possible number of assets into reperforming positions by operating through multiple channels and leveraging the many years of know-how that reflects in its work.

IFIS NPL represents the evolution of the Banca IFIS Group's NPL segment, which became a Joint-Stock Company effective 1 July 2018—a strategic organisational change that will allow seizing even more business opportunities in the future.

Credifamiglia is IFIS NPL's area dedicated to converting financial payables through non-judicial operations thanks to the skills and outstanding professional expertise of its agents. The goal is to provide personalised advice and support in order to identify the most sustainable solution for settling debts through: call centre, in-house network, external network.

Cap. Ital. Fin. S.p.A. is a financial intermediary that is part of the Banca IFIS Group and specialises in salary- or pension-backed loans, salary or pension deductions, and the distribution of financial products such as mortgages and personal loans. Capitalfin S.p.A. is registered as a financial intermediary pursuant to Article 106 of Italian Legislative Decree no. 385/93 under the number 212. Banca IFIS S.p.A. Is the company's sole member;

Fast Finance focuses on operations associated with tax receivables: it collects direct and indirect taxes and tax receivables either performing or arising from insolvency proceedings.

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

Rendimax assicurazioni is an e-commerce platform that provides pay-per-use and innovative insurance solutions that can be purchased entirely online. The products currently available concern: travel, sports, mountaineering, city life, home, and pets.

01.1.2. Business model

The Banca IFIS Group is a specialty finance player with over 1.600 employees. Its core businesses include business lending services and solutions, and acquiring/servicing non-performing loan portfolios.

Established in 1983 by the current Chairman Sebastien Egon Fürstenberg, Banca IFIS has been listed on the STAR segment of the Italian Stock Exchange (IF:IM) since 2003.

Banca IFIS has evolved from a factoring specialist through a programme to diversify its funding sources into a relationship-focused bank that meets the financing and servicing needs of small and medium firms. The strategy to expand its product range has led the Group to entering the market for distressed loans, currently managed by IFIS .p.A.

With the acquisition of GE Capital Interbanca, the Banca IFIS Group has also entered the leasing, medium-term lending and structured finance business.

Vision and values

IFIS Vision

Banca IFIS believes only a bank that adds value to the operations of all economic players and is able to earn a fair profit from its work has the ability to look forward and plan its future. Banca IFIS's operations are built around three key pillars that form the basis of the Group's work and all its businesses: control of profitability adjusted for risk, liquidity, and capital absorption.

IFIS Mission

Making the best possible use of the Bank's capital and liquidity to allow businesses and households, even in distress, to optimise their financial resources. Becoming Italy's reference provider of financial support to micro, small and medium Italian businesses—including at the international level. Allowing the largest possible number of borrowers to become once again creditworthy. Creating value from the savings of individuals and businesses with transparent and reliable proposals.

Values

Strategy

The Banca IFIS Group seeks to strengthen its competitive position in the market for lending to small and medium businesses. The aim is to increase its market share in the following segments: trade receivables—including for entities with specialist needs such as pharmacies—leasing, tax receivables, and distressed loans, providing high-quality and highly customisable financial services while keeping credit risk under control and profitability in line with the level of quality offered. From an organisational perspective, having already streamlined its corporate structure with the merger of IFIS Factoring, Interbanca, and IFIS Leasing, the Bank will continue with the plan to gradually make it more efficient.

As for the acquiring and servicing of distressed loans, Banca IFIS has spun off its entire NPL area into IFIS NPL S.p.A.. Following the acquisition of the servicer FBS S.p.A. in January 2019, a non-performing loan hub is now taking shape, capable of offering a comprehensive range of services and investments in the sector. The Banca IFIS Group's goal is to continue growing in the market for acquiring and servicing non-performing loans, also by expanding into new segments or areas where it previously had no or little presence, creating value by improving the servicing of non-performing portfolios. The Group thus intends to act as a systemically important Italian private Asset Management Company open to partnerships and integrations. To complement its offerings, the Group is also implementing products and services for debtors looking to settle their position in a sustainable manner through Cap.Ital.Fin S.p.A.—a company acquired in 2018 that operates in the retail lending market by providing pension- or salary-backed loans and salary or pension deductions.

SOLIDITY

- PROTECTING CAPITAL
- MAINTAINING HIGH LEVELS OF SOLVENCY
- ENSURING AN PPROPRIATE CAPITALISATION TO SUSTAIN THE BANK'S GROWTH

LIQUIDITY

- DIVERSIFYING FUNDING SOURCES
- FUNDING ASSOCIATED WITH RETAIL DEPOSITS AND THE ASSETS ELIGIBLE FOR REFINANCING OPERATIONS WITH THE EUROSYSTEM
- MATCHING THE MATURITY OF FUNDING TO THE MATURITY OF LENDING

SUSTAINABLE PROFITABILITY

- LENDING WITH HIGH RISK-ADJUSTED RETURNS
- GROWING PROFITABILITY IN ABSOLUTE TERMS ACROSS ALL THE BANK'S SEGMENTS
- CHOOSING WHERE TO ALLOCATE RESOURCES BASED ON RISK-ADJUSTED RETURNS

Governance and risk management

BOARD OF DIRECTORS AND COMMITTEES

CHAIRMAN
Sebastien Egon Fürstenberg

DEPUTY CHAIRMAN
Alessandro Csillaghy de Pacser

CEO*
Giovanni Bossi

INDEPENDENT DIRECTOR (LID)**
Giuseppe Benini

INDEPENDENT DIRECTOR**
Francesca Maderna

INDEPENDENT DIRECTOR**
Antonella Malinconico

DIRECTOR
Riccardo Preve

DIRECTOR
Marina Salamon

INDEPENDENT DIRECTOR**
Daniele Santosuosso

● Control and Risks Committee ● Appointments Committee ● Remuneration Committee

* The CEO has powers for the ordinary management of the Company. / ** Independent Directors based on the Corporate Governance Code and the Consolidated Law on Finance.

BREAKDOWN OF THE BOARD OF DIRECTORS BY GENDER.

Men 6
Women 3

Under 30 years old 0
30-50 years old 1
Over 50 years old 8

GENERAL MANAGER

Alberto Staccione

INDEPENDENT AUDITORS

EY S.P.A.

BOARD OF STATUTORY AUDITORS

CHAIRMAN
Giacomo Bugna

STANDING STATUTORY AUDITOR
Massimo Miani

STANDING STATUTORY AUDITOR
Giovanna Ciriotto

SUBSTITUTE STATUTORY AUDITOR
Valentina Martina

SUBSTITUTE STATUTORY AUDITOR
Guido G. Berlingieri

Independent auditors based on the Corporate Governance Code.

MANAGER

CORPORATE ACCOUNTING REPORTING OFFICER
Mariacristina Taormina

Governance

Banca IFIS is the parent company of the Banca IFIS Group and adopts the traditional administration & control model, considering it to be the most suited for ensuring the efficiency of operations and effectiveness of controls given its specific characteristics.

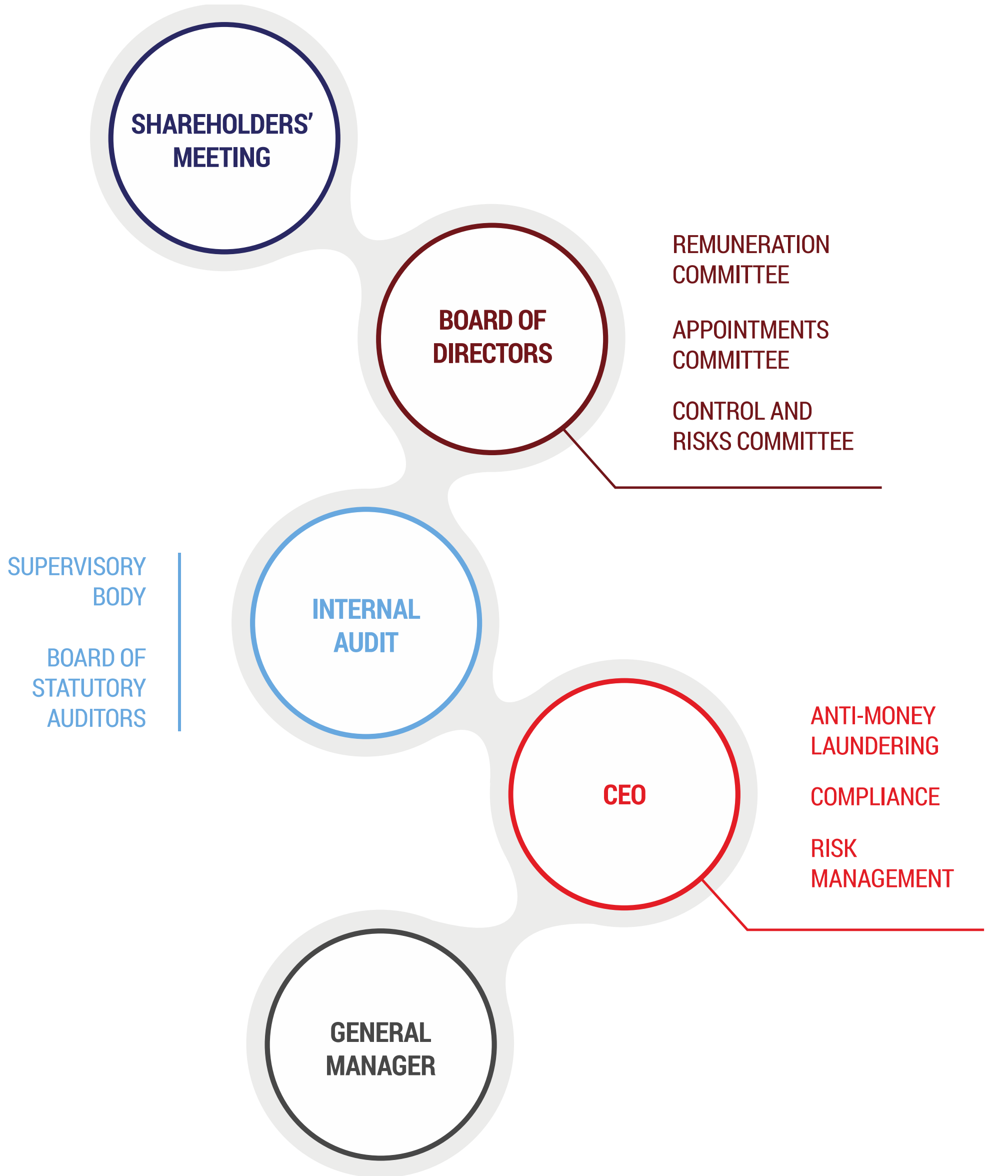
Under the model adopted by Banca IFIS:

- strategic supervision is performed by the Board of Directors;
- the CEO is responsible for the company's operations, and is aided by the General Manager;
- control is performed by the Board of Statutory Auditors.

For more details on the composition and responsibilities of the corporate bodies and the relevant policies, please see the 2018 Report on Corporate Governance and Shareholding Structure.

Internal control and risk management system

The Banca IFIS Group's internal control system consists of rules, procedures and organisational structures aimed at ensuring, among other things, adherence to the business strategies, the effectiveness and efficiency of business processes, and compliance of operations with the law, supervisory regulations, and the policies, procedures and codes of conduct adopted by the Group. All business operations are subject to audits by the functions or business Areas that own the various processes and operations (line controls or first line of defence), as well as by second line of defence functions (Risk Management, Compliance and Anti-Money Laundering) and third line of defence functions (Internal Audit).



Risk Management identifies the risks the Parent and the Group companies are exposed to and measures and monitors them on a regular basis through specific risk indicators, planning potential actions to mitigate material risks. The goal is to provide a holistic and comprehensive view of the risks the Group is exposed to, ensuring an adequate reporting to governance bodies. Risk Management regularly reports to corporate bodies on its operations through the Dashboard—as well as, if required, to the Bank of Italy and Consob (Italy's stock market watchdog).

The Group's overall risk governance and management structure is governed by the Risk Appetite Framework and the relevant documents, which are constantly updated based on the evolution of the Group's strategic framework. Concerning the changes in the Group's scope, Banca IFIS promptly aligns and integrates risk governance and management methods while taking into account the peculiarities of each business.

Specifically, Banca IFIS has prepared a Taxonomy of Risks describing how it identifies the existing and/or potential risks the Group could be exposed to in pursuing its strategic goals as well as the tools for preventing and mitigating each type of risk.

The Parent carries out an initial identification of risks based on the list of the minimum risks laid down by supervisory regulations, adding any additional material risks emerged during the analysis of the business model and reference markets in which the Group's companies operate, the strategic outlook, operational methods, and the characteristics of loans and funding sources.

Identifying risks and regularly updating the relevant taxonomy is the result of the joint work of second line of defence functions (Risk Management, Compliance, Anti-Money Laundering) and third line of defence functions (Internal Audit), which meet once a year to discuss whether to introduce new risk events and/or review the assessment of potential risks based on the risk management outcomes of the previous year. The Supervisory Body is responsible for identifying and adequately monitoring the existing or potential risks as per Italian Legislative Decree 231/2001 relative to actual business processes, constantly updating the mapping of risk areas and "sensitive processes".

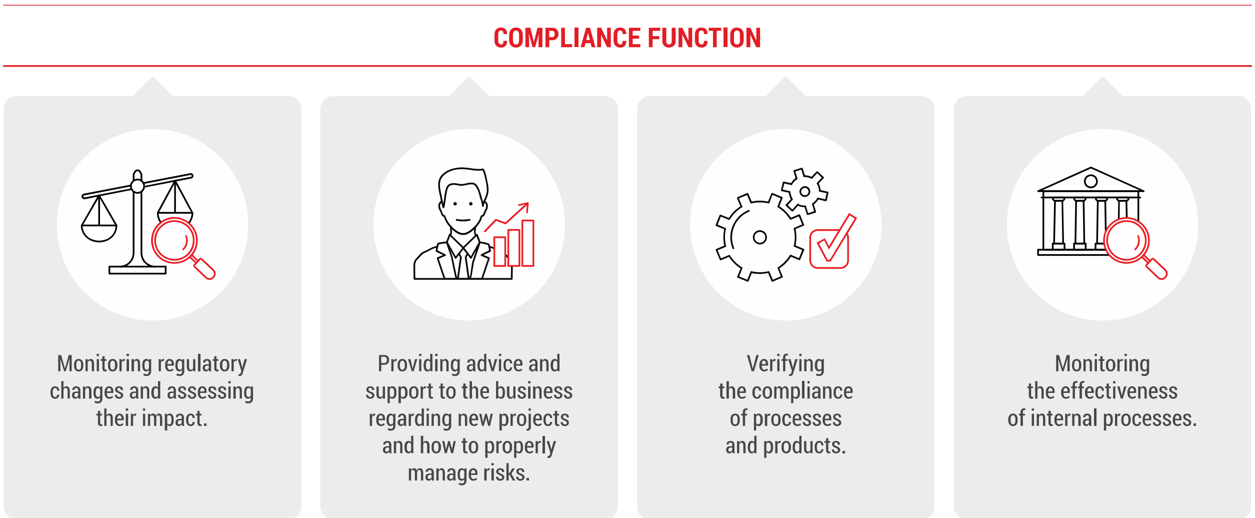
The Control and Risks Committee, composed of members of the Board of Directors selected from among non-executive Directors, most of whom are independent, is responsible for supporting the Board of Directors in making assessments and decisions concerning the internal control and risk management system based on preliminary analyses.

The audit work performed by **Compliance** (systematic audits and inspections) is based on the plans approved by the Board of Directors and seeks to evaluate the effectiveness of the required, proposed or implemented organisational measures intended to manage the risk of non-compliance. Therefore, these audits apply to all areas for which said risk exists. The audit findings are formally presented in reports shared with the relevant business structures, which must provide feedback on the remedial actions identified and the relevant implementation timeline. The function monitors compliance with these requirements and regularly reports to the corporate bodies through the Dashboard—as well as, if required, to the Bank of Italy and Consob.

Concerning the regulations for which there is specialised supervision (e.g.: occupational safety or personal data processing), the responsibilities of Compliance can be adjusted, for instance by making the organisational unit responsible for coordinating methods, so that it can provide the Corporate Bodies with a comprehensive view of the exposure to the risk of non-compliance. In any case, Compliance, at a minimum and together with the relevant specialised structures, is responsible for defining non-compliance risk assessment methods, identifying the relevant procedures, and reviewing whether these are adequate.

Compliance operates using two types of approaches:

- ex ante: the function provides advice to support the business either as planned, on regulatory topics that are identified and updated under a risk-based approach and in line with the Group's Strategic Plan, or when called upon for specific needs (e.g. New products or operations)
- ex post: the function conducts compliance audits in accordance with the Annual Compliance Plan as well as systematic inspections, whose findings are shared with the functions concerned, reported to the BoD through the Dashboard, and notified to the Bank of Italy.



In addition, when starting a major project (such as acquisitions or the launch of new products or operations), the Compliance function actively participates by providing operational and other recommendations on how to properly manage the risk of non-compliance, for instance in terms of precautions and controls to be implemented, regulations to consider, and monitoring actions to be taken.

To promote a culture of respect for the law at all organisational levels, in 2018 the Group provided refresher courses and training programmes to employees to make sure they acquire and develop the knowledge necessary to comply with the law, internal rules, and industry regulations. Compliance informs the structures concerned of any regulatory changes deemed significant, and either provides training or encourages more comprehensive training initiatives by involving Human Resources.

Anti-Money Laundering performs systematic second line of defence audits concerning the risk of money-laundering to ensure the relevant procedures are properly applied to operational processes, and develops Key Risk Indicators representing the most significant risk factors to be monitored. The function shares the audit findings and the action plan with the relevant Management. These audits and indicators are also displayed in the Dashboard on a quarterly basis and reported to the Board of Directors as well as, if required, to the Bank of Italy.

The audit work performed by **Internal Audit** concerns all processes and consists in regularly monitoring the application of all the Bank's operational policies, procedures and practices to identify potential anomalies or violations of internal rules as well as evaluate the effectiveness of the internal control system as a whole.

Internal Audit operates based on the plans approved by the Board of Directors and conducts unplanned audits if required. Audit findings are shared with the relevant organisational unit as well as second line of defence functions, which are involved because of either their expertise or their responsibilities on a case-by-case basis, and submitted to the Board of Statutory Auditors as well as the Control and Risks Committee. Internal Audit reports to the Corporate Bodies, specifically by presenting specific reports (Annual reports and Quarterly Dashboards) that, if required, are also submitted to the Bank of Italy or Consob.

The value of ethics: Code of Ethics

Banca IFIS conforms to the purposes and guidelines of the Corporate Governance Code for Companies Listed on the Italian Stock Exchange, and its governance system is aligned with the principles contained therein, the relevant recommendations issued by Consob, and, in general, best practices, which are intended to ensure an appropriate separation of responsibilities and powers by striking the right balance between operational and control functions.

Pursuant to Italian Legislative Decree 231/2001 on the “Rules for the administrative liability of legal entities, companies and associations, including those without legal status”, the Banca IFIS Group makes the Code of Ethics and the Supervisory Body's Regulations publicly available.

The Code of Ethics, which was most recently updated on 22 December 2016, outlines the set of rights, duties and responsibilities of the Group's companies towards all the parties it works with, establishing rules of conduct to be kept in mind during day-to-day operations as well as reference standards and behavioural norms aimed at strengthening business decision-making processes and guiding the conduct of all employees.

In accordance with the principles laid down in the Code of Ethics, all Group employees must behave ethically in their relationships with colleagues, customers, debtors, suppliers, competitors, and public institutions. Illegal or unethical behaviour, including with reference to legal provisions, codes and regulations adopted by the Group, is not acceptable.

Business model

Banca IFIS seeks to ensure conditions of transparency and fairness in conducting its business, so as to safeguard its institutional role and image as well as meet the expectations of shareholders and of those who work for and with the Bank: to this end, it has decided to adopt the organizational and management model as per Italian Legislative Decree 231/2001.

This is a complex set of principles, rules, provisions, and organisational charts with the relevant duties and responsibilities allowing to establish and duly manage a system to control and monitor sensitive operations in order to prevent the risk of committing the offences set out in Italian Legislative Decree 231/2001. The Model—adopted in 2004 and constantly aligned with the latest regulatory changes—is part of a broader control system that consists mainly of the Internal Control Systems and Corporate Governance rules of Banca IFIS. The Group's companies adopt or are currently adopting the same approach.

In addition, viewing its organisational and management model as a key company policy tool, Banca IFIS extends the organisational instruments that form part of the Organisational Model adopted by the Bank to its subsidiaries as applicable. To this end, the Parent's Organisation Unit provides specific methodological support to all the Group's Supervisory Bodies in order to standardise the organisational models in place or being adopted at the subsidiaries, update or draft the Regulations of Supervisory Bodies and monitor any significant regulatory changes, as well as assist the Parent's Supervisory Body in providing guidance and coordination on liability as per Italian Legislative Decree 231/2001 to the other companies of the Group.

Among other offences, the Organisational, Management and Control Model as per Italian Legislative Decree 231/2001 covers also crimes strictly related to non-financial topics, such as corporate offences (corruption and bribery), crimes of manslaughter and negligently causing serious or grievous bodily harm committed with breach of occupational health and safety regulations, as well as environmental offences and crimes associated with human trafficking and exploitation and the employment of illegal immigrants.

Organisational Model - Responsibilities

Monitoring the functioning of, and compliance with, the Organisational Models is the responsibility of the Parent's Supervisory Body and the Supervisory Bodies of the subsidiaries, if any, which have their own independent powers of initiative and control.

Banca IFIS 's Head of Internal Audit is a member of all Supervisory Bodies and currently plays a crucial role in coordinating, integrating and maintaining the information flows required from the Supervisory Bodies of the Group's companies.

01.2. Materiality analysis

According to the principle of "materiality", the topics potentially relevant for the purposes of non-financial reporting are those that reflect the economic, social, and environmental impacts of an organisation and/or can substantively influence the decisions of its stakeholders[1].

The process to update the materiality analysis was conducted in order to fully comply with the requirements of the GRI Standard and regulatory guidelines, chief among them those in Italian Legislative Decree 254/2016 (or Decree) and the European Commission Communication "Guidelines on non-financial reporting" (2017/C 215/01).

The materiality analysis is divided into three stages:

- identifying material topics;
- prioritising topics and defining the materiality matrix;
- validating the materiality matrix.

Identifying material topics

The Banca IFIS Group has updated the 2017 "long list" of topics material to the Banca IFIS Group, also based on a benchmark analysis of material topics reported in 2017 by leading Italian and international banking players.

Specifically, as in the previous year, the topics were divided into six macro-areas, of which five match those set out in the Decree. The sixth area, which concerns "business topics", includes the topics that, although not expressly required by the Decree, were found to be potentially material for the purposes of the non-financial statement from both an internal and external perspective. Finally, the topics are related to Banca IFIS's four sustainability pillars, which correspond to the subsequent sections of this statement.

Compared to the previous year—as part of a gradual process that seeks to create a materiality matrix capable of representing the Group's strategies and operations, as well as the relevant impacts, as effectively as possible—the 44 material topics identified in 2017 were grouped into 20 macro-topics. The topics associated with the governance and internal control system were considered key to ensuring a sound and prudent management of the Group: therefore, they were not considered individually as part of the materiality analysis, and are instead described in the NFS.

Prioritising topics and defining the materiality matrix

According to the European Commission's Communication, each company assesses, among the topics potentially material to its business, which ones are relevant for the purposes of non-financial disclosure, based on its analysis of how important that information is in understanding its development, performance, position, and impact. This materiality assessment should take into account internal and external factors.

The GRI Sustainability Reporting Standards also suggest considering a combination of internal and external factors when assessing the materiality of the different topics, and recommend several "materiality tests" to take into account.

In line with these references, in order to prioritise the potentially material topics and identify those to be addressed in the 2018 Non-Financial Statement, the Group gathered different types of data in order to assess two dimensions of materiality:

- Internal materiality, assessed through meetings with the main corporate functions in order to evaluate their strategic materiality to the Banca IFIS Group and their potential impacts;
- External materiality, conducting an "indirect assessment" of the interests and expectations of key stakeholders through meetings with the main corporate functions that most engage with them (Customers; Employees; Shareholders, investors and analysts; Agents; Supervisory Authorities; Communities), including by analysing the outcomes of previous listening and engagement initiatives;

1 GRI 101 Foundation

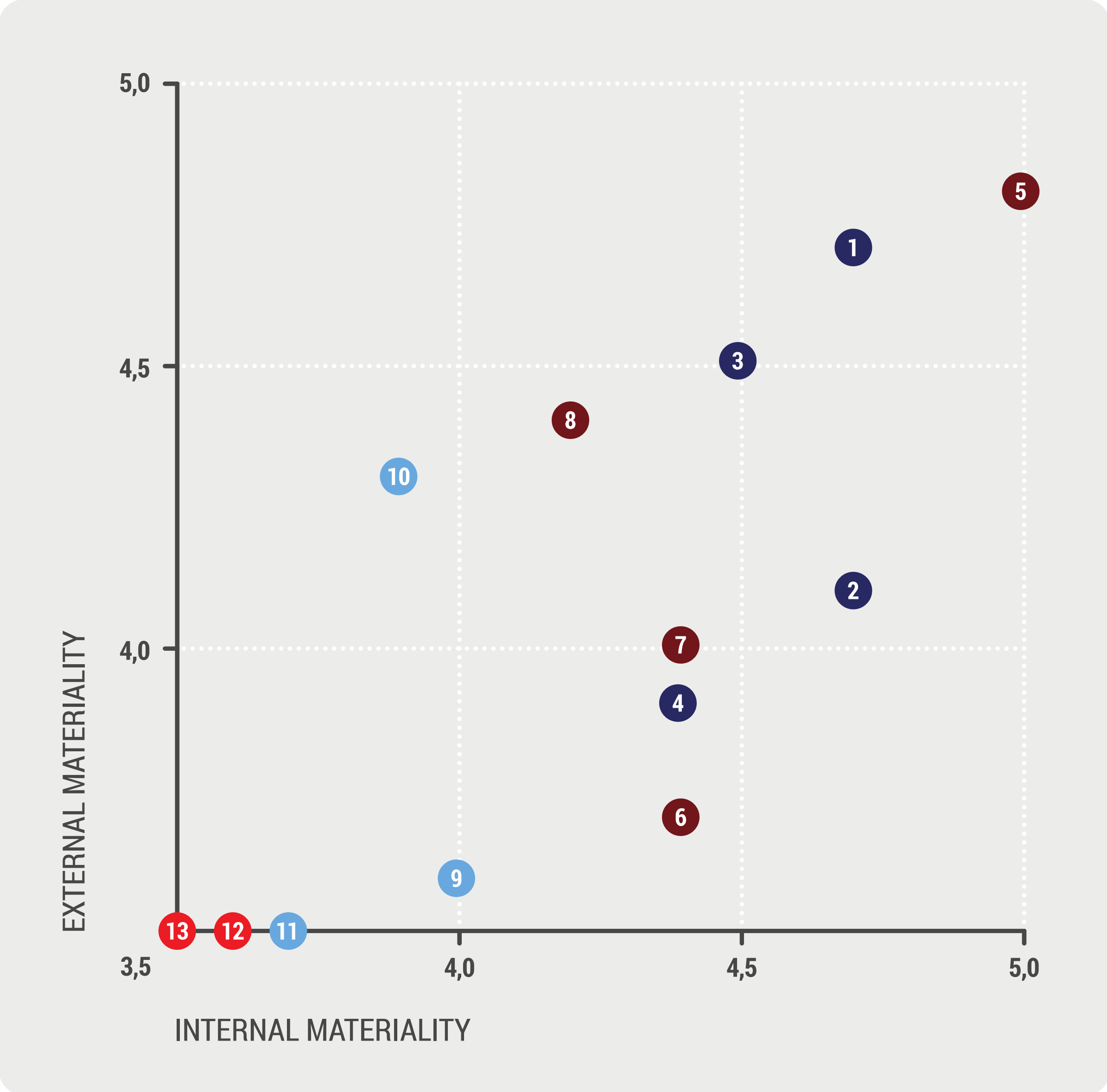
In both cases, the topics were scored on a 1-5 scale, where 1 is little interest in the topic and 5 is extremely high interest.

Furthermore, in accordance with European Commission Communication 2017/C 215/01: «Guidelines on non-financial reporting», which recommends considering several factors when identifying and assessing material topics, in addition to the internal and external materiality assessment, the Group conducted the following desk analyses to complement the direct assessments of Banca IFIS's managers («weighting»). Specifically, it analysed:

- policies, formalised procedures, organisational safeguards;
- main risks associated with non-financial topics;
- topics considered by the main competitors;
- emerging industry trends;
- public policies / regulatory changes concerning the industry.

The findings of this process were subsequently condensed into a "Materiality matrix" that plots the internal materiality assessment on the y axis and the external materiality assessment on the x axis, representing the 13 "material" topics (i.e. those scoring at least 3,5/5).

Below is the Banca IFIS Group's 2018 Materiality matrix:



IFIS Integrity

1. CORPORATE INTEGRITY AND ANTI-CORRUPTION
2. CREDIT QUALITY
3. DATA PROTECTION
4. BRAND REPUTATION

IFIS Customers

5. SUPPORT TO ENTREPRENEURSHIP AND FINANCIAL INCLUSION
6. DIGITAL INNOVATION
7. QUALITY OF PRODUCTS AND SERVICES
8. TRANSPARENCY OF INFORMATION ON PRODUCTS AND SERVICES

IFIS People

9. EMPLOYEE WELL-BEING
10. PROMOTION AND DEVELOPMENT OF EMPLOYEES
11. DIVERSITY AND INCLUSION

IFIS Responsibility

12. RESPONSIBLE LENDING
13. COMMITMENT TO LOCAL COMMUNITIES

Below is the reconciliation of the Banca IFIS Group's material topics to the areas set out in the Decree.

MATERIAL TOPICS		TOPICS AS PER LEG. DECREE 254/16				
		ENVIRONMENTAL	SOCIAL	EMPLOYEES	ANTI-CORRUPTION	HUMAN RIGHTS
IFIS Integrity	1. CORPORATE INTEGRITY AND ANTI-CORRUPTION				●	
	2. CREDIT QUALITY*					
	3. DATA PROTECTION		●			
	4. BRAND REPUTATION*					
IFIS Customers	5. SUPPORT TO ENTREPRENEURSHIP AND FINANCIAL INCLUSION		●			
	6. DIGITAL INNOVATION		●			
	7. QUALITY OF PRODUCTS AND SERVICES		●			
	8. TRANSPARENCY OF INFORMATION ON PRODUCTS AND SERVICES		●			
IFIS People	9. EMPLOYEE WELL-BEING			●		
	10. PROMOTION AND DEVELOPMENT OF EMPLOYEES			●		
	11. DIVERSITY AND INCLUSION			●		●
IFIS Responsibility	12. RESPONSIBLE LENDING	●	●			●
	13. COMMITMENT TO LOCAL COMMUNITIES		●			

* BUSINESS TOPICS

The materiality analysis carried out did not find direct environmental impacts to be material to understanding the company's operations, development, performance, and impact. The Banca IFIS Group decided nonetheless to disclose the main environmental impacts (energy consumption an emissions) of its operations in this document.

Validating the materiality matrix

The resulting materiality matrix was submitted to the Chief Executive Officer and subsequently approved by the Board of Directors on 20 December 2018.

01.2.1. Main risks associated with non-financial topics

For each material topic, the Banca IFIS Group has identified the nature of the relevant risks as well as the main risks and how they are currently managed. The findings are summarised in the following table.

BANCA IFIS TOPICS	NATURE OF RISK	MAIN RISKS	MAIN SAFEGUARDS/MITIGATING ACTIONS
Corporate integrity and anti-corruption	Reputational; Compliance/ Operational	· Internal fraud, perpetrated by the Group's employees and Agents that work together with the Group · Aggressive debt collection practices/instances of abnormal conduct on the part of collectors · Involving, even unwittingly, the Group in money-laundering and terrorist financing	· Code of Ethics · Organisational, Management and Control Model as per Italian Legislative Decree 231/2001 · Whistleblowing · Specific safeguards for the Group's agents · Systematic anti-money laundering and terrorist financing monitoring · Employee training
Credit quality	Credit	· Insolvency or deteriorating creditworthiness of the counterparties the Group is exposed to · Failure to collect receivables due from counterparties in default	· Preliminary individual creditworthiness assessment processes and system for the delegation of risk-taking · Systems for scoring prospective lessees (leasing) · Mechanisms to confirm in advance whether the loans being acquired can be processed (NPL) · Credit monitoring procedures
Data protection	Reputational; Compliance/ Operational	· Loss or misuse of the Group's data deriving from internal or external threats involving employees or IT systems	· Centralised organisational structure to manage the Group's Privacy and Security · Organisational measures to handle personal data · Organisational measures to ensure business continuity · Procedures for dealing with IT incidents · Employee training
Brand reputation	Reputational	· Negative coverage in local, national, or international media; negative comments on social networks · Loss of trust among depositors · Loss of market share and decline in the share price · Complaints, legal disputes, administrative/ civil/ criminal penalties	· Corporate information handling policy and relevant organisational control units · Listening to and engaging with key stakeholders · Timely communication to the markets and the press · Monitoring reputational risk indicators
Support to entrepreneurship and financial inclusion	Reputational; Compliance/ Operational; Credit	· Failures and mistakes in operations related to financial inclusion initiatives, giving rise to reputational impacts or credit risk	· Credit management policy and subsidised financing procedures · Local information/training initiatives

	Digital innovation	Reputational; Compliance/ Operational	· Malfunctioning or non-operational new technology · Customer dissatisfaction, potentially leading to customer complaints or loss	· ICT strategic planning policy · Digital solutions to improve the customer experience and monitoring
	Quality of products and services	Reputational	· Rising customer dissatisfaction, leading to negative turnover · Lower perceived reliability and security of the Bank and the services it provides	· Process for approving new products and services, starting new operations, and entering new markets · Constant efforts to make operational processes more efficient in order to reduce customer service response times
	Transparency of information on products and services	Reputational; Compliance/ Operational	· Operational risks and ensuing reputational impacts in terms of transparency, eligibility, disclosure, and fiduciary relationship with customers	· Centralised organisational structure to manage communications with customers · Grievance mechanisms
	Employee well-being	Reputational; Compliance/ Operational	· Employee workplace injury · Occupational diseases · Injuries attributable to insufficient safety and/or health of work places and tools	· Integrated Safety and Environment Manual · Training on health and safety practices and procedures
	Promotion and development of employees	Reputational	· Lawsuits against the Group related to the handling of the employment relationship or recruitment and concerning remuneration, job levels	· Group employee management policy · Remuneration and incentive policies · Occupational welfare system
	Diversity and inclusion	Compliance/ Operational; Reputational	· Claims for all kinds of discrimination based on gender identity, disability, age, religion, nationality, race, personal beliefs, etc. · Defamation disputes with employees · Harassment and mobbing disputes with employees	· Code of Ethics · *Whistleblowing* · Remuneration and incentive policies
	Responsible lending	Reputational; Credit	· Reputational consequences of negative events concerning the company (operating in sectors with high environmental and/or social impacts) financed by the Group · Insolvency or deteriorating creditworthiness of the counterparties the Group is exposed to.	· Leasing: excluded business sectors · Identifying the sectors that pose the greatest reputational risk as part of the policy for Significant Transactions
	Commitment to local communities	Reputational	· Reputational consequences of negative events that generate social impacts and concern beneficiaries of donations made by the Group	· Code of Ethics · Centralised organisational structure to manage initiatives

The following sections describe in detail how the Group addresses the main risks.

01.3. IFIS integrity

01.3.1. Corporate integrity and anti-corruption

Policies and other reference documentation

- Code of Ethics
- Organisational, Management and Control Model as per Italian Legislative Decree 231/2001
- Group policy for managing the risk of money laundering and terrorist financing
- Group Anti-Money Laundering (AML) Regulations
- Anti-Money Laundering (AML) risk self assessment
- Technical-operational manual Certification of positions by matching with anti-money laundering and anti-terrorist blacklists
- Group Whistleblowing Policy
- Credifamiglia Agent Manual (IFIS NPL)
- Credifamiglia Debt Collection Company Manual (IFIS NPL)
- Organisational Procedure Management of distressed loan non-judicial collector network (Banca IFIS, IFIS NPL)
- Organisational Procedure Due diligence and customer profiling by risk class (Banca IFIS)
- Organisational Procedure Due diligence and NPL customer profiling by risk class (IFIS NPL)
- Anti-Money Laundering Manual (Banca IFIS)
- Operational manual "Embargo and anti-terrorism: Checks on incoming and outgoing bank transfers" (Banca IFIS)
- Organisational Procedure for Managing tax receivables (Banca IFIS)
- Organisational Procedure Contomax activation (Banca IFIS)
- Organisational Procedure Rendimax (Banca IFIS)

The way Banca IFIS conducts its business is closely watched by stakeholders. The Banca IFIS Group is committed to developing and disseminating its corporate culture and values both within and without the organisation, as well as compete with integrity and in accordance with all areas of regulatory compliance, and specifically anti-corruption.

The Code of Ethics is the "manifesto" of the corporate culture of Banca IFIS and the other Group companies. It is intended to provide information/training to Employees as well as promote said culture among all stakeholders. Making sure that the Organisational Model and the Code of Ethics are effective requires promoting a "culture of control" among all employees and raising the awareness of all structures concerned. This is why the Group trains employees on the contents of the Organisational Model pursuant to Italian Legislative Decree 231/01 and the Code of Ethics.

As far as the Code of Ethics is concerned, the Supervisory Body is responsible for, among other things, monitoring compliance with it and its implementation, taking disciplinary action if required, coordinating the drafting of rules and procedures to implement it, promoting a regular review of the Code and its implementation mechanisms, and reporting to the Board of Directors on the work carried out and the problems concerning the implementation of the Code of Ethics.

MONITORS COMPLIANCE WITH AND APPROVAL OF THE CODE OF ETHICS

SANCTIONS UNACCEPTABLE BEHAVIOUR

COORDINATES THE PREPARATION OF REGULATIONS AND PROCEDURES

PROMOTES THE PERIODIC REVIEW OF THE CODE OF ETHICS

Anti-corruption

In order to prevent the risk of committing corruption and bribery, the Banca IFIS Group has adopted guidelines laid down in the Code of Ethics and the Organisational, Management and Control Model as per Italian Legislative Decree 231/2001. This was updated in 2018 to:

- incorporate the regulatory changes introduced by Article 6 of the mentioned Italian Legislative Decree on whistleblowing channels. In this regard, the Group complemented the existing channel for reporting directly to the Supervisory Body with the additional tools set out in the “Group Whistleblowing Policy”;
- align the Organisational Model with the Bank's new organisational structure resulting from the mergers;
- align the Organisational Model with the company's regulatory framework, incorporating additional internal regulatory documents approved since the last update into the organisational safeguards described therein.

Integrity of the conduct of the Group's agents

Besides establishing rules of conduct for its employees, the Banca IFIS Group considers it key to ensure the agents of the Leasing area and the subsidiary Cap.Ital.Fin, as well as IFIS NPL's debt collection agents companies, conduct themselves with integrity.

For instance, the Group takes several precautions to ensure the integrity of the behaviour of debt collection agents and companies, including:

- requiring them to abide by the Code of Ethics and the Organisational Model as per Italian Legislative Decree 231/01 at the time the agreement is signed;
- controlling the number of mandates: agents can have up to three mandates, and only for non-competing activities;
- adopting an incentive scheme that discourages agents from engaging in inappropriate or persistent behaviour.

Concerning IFIS NPL's call centre dedicated to phone collection operations, in 2018 the Bank continued with the project to strengthen the service by increasing the number of available resources, improving the internal organisation of work, and using tools to constantly monitor and analyse performance. One of the objectives is to contain the risk of "aggressive" behaviour or unfair business practices on the part of employees. IFIS NPL uses different methods to evaluate the effectiveness of the adopted management approach: inquiries by the "monitoring" call centre—separate from the one dedicated to collection operations—which contacts all customers that have successfully repaid their debts thanks to the proposed settlement plans, as well as a sample of customers with whom an agreement has not been finalised, so as to ensure the members of the network acted with fairness and integrity; requiring agents to prepare a "Meeting report" at the end of each visit with a customer describing what transpired during the meeting and any agreements reached. This report must be signed by the customer, so as to keep a transparent and objective record of any agreements reached; reviewing any rejected complaints on a quarterly basis to identify potential emerging problems or issues of increasing interest to customers, so as to define the necessary corrective actions; constantly monitoring the Bank's social channels; interviewing customers that have successfully repaid their debts; constantly listening to the grievances and needs of network agents.

The Code of Ethics specifies that, when dealing with the Italian Public Administration, it is prohibited to promise or offer government officials or employees payments or benefits to promote or advance the interests of the Group when finalising agreements, for the purposes of the award or management of authorisations, when collecting receivables—including due from tax authorities—during inspections or audits, or as part of judicial proceedings. Anyone either asked for or offered benefits by government officials shall immediately consult with their supervisor and the Supervisory Body.

Banca IFIS's Organisational, Management and Control Model as per Italian Legislative Decree 231/2001 covers the following corruption-related offences:

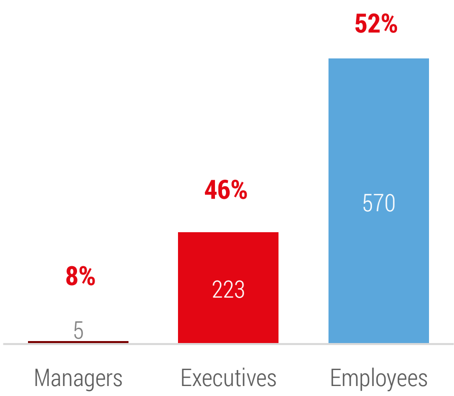
- Bribery of office.
- Corruption for an act contrary to official duties.
- Corruption in judicial proceedings.
- Corruption of the person in charge of a public service.
- Bribery, undue inducement to give or promise money or other advantages and corruption.
- Corruption between private individuals.
- Solicitation to commit corruption between private individuals.

The Organisational, Management and Control Model as per Italian Legislative Decree 231/2001 of Banca IFIS specifies that the structures responsible for monitoring the commission of potential corruption-related offences are the second and third line of defence functions, the Supervisory Body, and the Board of Statutory Auditors.

The Board of Directors is briefed on the Group's anti-corruption procedures at the time it approves the Group's Code of Ethics. All employees are required to know and comply with anti-corruption rules, including with reference to the table attached to the Model that specifically governs potential sensitive activities as well as the main structures and safeguards put into place in terms of policies, internal rules, and control structures. In addition, all the Group's employees can access internal regulations, and specifically the Code of Ethics, the Organisational and Management Model, and the relevant protocols and procedures using the company Intranet.

The Group ensures that all employees receive adequate training on the anti-corruption policies and procedures set out in the Organisational, Management and Control Model as per Italian Legislative Decree 231/2001 on a regular basis and in case of regulatory changes. The following table lists the employees that received anti-corruption training during 2018 (49% of the total); the rest of employees already received it in prior years.

NUMBER OF EMPLOYEES THAT HAVE RECEIVED ANTI-CORRUPTION TRAINING, BROKEN DOWN BY EMPLOYEE CATEGORY		2018 [1]
Senior managers	No.	5
Middle managers	No.	223
Clerical staff	No.	570
Total	**No.**	**798**



To date, the Banca IFIS Group has not provided specific training modules on corruption-related offences reserved for Directors. However, in 2018 the members of the Board approved the update to the Organisational, Management and Control Model as per Italian Legislative Decree 231/2001, which includes provisions to prevent the risk of committing corruption and bribery.

As already mentioned, the Group takes several precautions to ensure debt collection agents and companies conduct themselves with integrity: among other things, it requires them to abide by the Code of Ethics and the Organisational Model as per Italian Legislative Decree 231/01 at the time the agreement is signed.

Finally, concerning the Bank's stakeholders, the Code of Ethics and the “General Part” of the Organisational and Management Model as per Italian Legislative Decree 231/01 are published on the Group's website.

1 The Group considered the employees who completed at least one of the following courses:
E-learning course "Administrative liability of legal entities: risk profiles for the bank 2016 ed.", made available in the first half of 2018
E-learning course "Administrative liability of legal entities 2018 ed.", made available starting from July 2018. This update incorporates the latest regulatory changes on this issue and superseded the previous version of the course.
An external training course (only one employee attended it).
Therefore, an employee that completed more than one of the courses listed here was counted only once.

As in the previous year, during 2018 there were no incidents of corruption or legal cases brought against the employees of the Group or the external networks.

Anti-money laundering and terrorist financing

Preventing the risk of money laundering is key for protecting the Bank's financial strength and, more generally, its reputation, and reflects its constant effort to actively co-operate with Supervisory Authorities. The Group refuses to do business, either directly or indirectly, with individuals or companies that are known or suspected members of organisations engaging in criminal or illicit activities. Therefore:

- the Leasing segment examines negative press reports using an automated system integrated with the auto-decision making procedure: if there are any matches, the position is put on hold and marked for a manual assessment, involving also Anti-Money Laundering. Following these checks, the position is assigned a risk profile that serves as the basis for activating an approval process at different hierarchical levels;
- in the Trade Receivables segment, the above checks are integrated with master data management procedures. Also in this case, based on the matches found, the counterparty is assigned a specific level of money laundering risk, and the decision of whether to open/maintain the relationship is left to the appropriate hierarchical level;
- the NPL segment conducts a review at the time the receivables portfolio is acquired as well as subsequent checks on individual counterparties when defining settlement plans.

If a relationship with a customer classified as high risk is activated, the position is subject to stricter and more frequent reviews in terms of updates and monitoring operations, and any decision is escalated to higher levels.

Anti-Money Laundering helps define the contents of mandatory anti-money laundering training, especially for those employees that are in direct contact with customers.

Besides being required by law, training is key for raising awareness and promoting a culture among employees of preventing the risk of unwittingly involving the Bank in this kind of incidents.

Whistleblowing

As the Parent company, Banca IFIS, in accordance with industry regulations and best practices, has established an internal system allowing to report actions, events or omissions potentially in violation of laws and internal procedures governing the operations of the Parent and its Subsidiaries with the guarantee that the personal data of the complainant and the alleged offender will remain confidential. The whistleblowing system is governed by the Group Whistleblowing Policy, which is part of Banca IFIS's Organisational Model and adopted by the Group companies. The Banca IFIS Group's employees, its collaborators, and licensed independent contractors working with the Group on a regular basis can file a report. This report may concern any action or omission in breach of the rules governing the Group's operations that causes or could cause harm to the Banca IFIS Group. This includes, for instance, actions or omissions, either committed or attempted, related to criminal conduct or incidents in violation of laws and regulations, codes of conduct such as the Code of Ethics, or other company provisions that could result in disciplinary action and cause pecuniary damage to the Group, endanger the health and safety of employees or customers, or negatively affect the environment. The reports can be submitted using different channels and are handled by the Head of Internal Audit, who examines and investigates them based on the principles of impartiality, privacy, dignity of the employee and protection of personal data. After completing the investigation, the Head of Internal Audit formally submits his or her assessment to the Chief Executive Officer and the General Manager (or the Chairman of the Board of Statutory Auditors in the event of potential incompatibilities), who will decide what corrective actions need to be carried out.

Internal Audit prepares an annual report on the proper implementation of the process, including aggregate information on the findings of the audits carried out based on the complaints received, that is approved by the Board of Directors and made available to employees. In 2018, no reports were filed through the Whistleblowing system.

WHISTLEBLOWING

PEOPLE WHO CAN SUBMIT A REPORT:

- EMPLOYEES
- PARTNERS
- FREELANCE PROFESSIONALS WHO WORK MAINLY AND ON A CONTINUOUS BASIS FOR THE GROUP

REPORTS CAN BE SUBMITTED THROUGH

- Dedicated email address
- Second-class post or internal mail
- In person to the Head of Internal Audit
- Dedicated application available on the company's portal as well as the website

THE HEAD OF INTERNAL AUDIT EXAMINES AND INVESTIGATES THE REPORTS.
AFTER COMPLETING THE INVESTIGATION, HE OR SHE FORMALLY SUBMITS HIS OR HER ASSESSMENT TO:

- CEO
- GENERAL MANAGER
- CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS

ANNUAL REPORT

01.3.2. Credit quality

Policies and other reference documentation

- Group system of delegation of authority to manage credit risk
- Group policy for managing significant transactions
- Group policy for reviewing business operations
- Group impairment policy
- Ordinary credit management policy (Banca IFIS)
- Policy for managing portfolios of receivables purchased outright and due from Public Administration entities
- Ordinary debt collection and monitoring policy (Banca IFIS, Credifarma)
- Methodological manual: individual evaluation of non-performing loans (Banca IFIS)
- Organisational Procedure Management of tax receivables (Banca IFIS)
- NO 112 – Leasing BU - Leasing preparation process (Banca IFIS)
- NO 111 – Leasing BU - Redemption assessment and setting process (Banca IFIS)
- NO 103 – Leasing BU - Subjective credit quality assessment (Banca IFIS)
- Leasing debt collection and monitoring policy (Banca IFIS)
- Policy for managing the acquisitions of distressed loan portfolios (IFIS NPL)
- Non-performing loan classification and management criteria (IFIS NPL)
- Procedure for Assigning NPLs to debt collection units (IFIS NPL)
- Organisational Procedure for Collecting debts through non-judicial actions (IFIS NPL)
- Organisational Procedure for Collecting debts through judicial actions (IFIS NPL)
- Organisational Procedure for Managing payments associated with distressed debt collection operations (IFIS NPL)
- Ordinary credit management policy (Cap.Ital.Fin.)
- Credit management policy (Credifarma)
- Organisational Procedure Management of distressed loan non-judicial collector network (Banca IFIS, IFIS NPL)

Credit quality is closely associated with financial strength, which is key for the sustainability of the Group's business model and represents one of the pillars of the Banca IFIS Group's strategy The quality of credit and counterparties can significantly affect the Bank's share price, credit rating, dividends, and financial position—all of which are material to shareholders, financial analysts, ratings agencies, lenders, and Supervisory Authorities—as well as customer trust in the Bank's ability to service its obligations—which is especially important for the retail customers of the Rendimax and Contomax business lines.

In the case of Trade Receivables, the Group's commitment to safeguarding its capital position and credit quality translates into three levels of counterparty checks, so as to prevent the risks of default as well as of involvement in transactions with potentially damaging reputational consequences:

Automated checks on both individuals and legal entities to determine whether the prospective customer is on watch lists (terrorism, embargoes, etc.) or lists of “Politically Exposed Persons”; based on the level of risk, Anti-Money Laundering also analyses press reports.

Individual Assessment by the Transaction Assessment and Counterparty Assessment Teams of the debtor, the invoice sellers, and the factored exposure; system of delegation of authority to assume credit risk based on the amounts and risk classes involved.

Constant dialogue with the local network, which may provide reports and feedback on prospective customers.

As for salary- and/or pension-backed loans, the Group, in accordance with privacy regulations, considers also the family situation if relevant to assessing the reliability of customers.

The policies governing Leasing operations describe how to evaluate the future user of the asset based on reliability and credibility criteria through a scoring system and the preliminary work carried out by specialised teams. Specifically, these assess the soundness of the counterparty's credit position and whether the requested asset is consistent with its operations.

Credit monitoring as well as the monitoring of individual exposures are conducted on a regular basis using effective procedures that can provide timely warnings of potential issues and ensure the adequacy of impairment losses and write-offs. Risk Management ensures the credit monitoring of individual exposures, specifically non-performing ones, is properly carried out and evaluates the consistency of the classifications, the provisions set aside, and the adequacy of the debt collection process at the central and peripheral level.

Please see Part E of the Notes to the 2018 Consolidated Financial Statements for a description of risk management, monitoring and control policies and techniques, as well as the main segment KPIs included in the Directors' Report.

IFIS NPL, which specialises in acquiring and managing non-performing loans, focuses on assessing whether the receivables can be recovered and preparing settlement plans compatible with the specific debt situation by adopting several mechanisms throughout the various loan acquisition stages:

First, it verifies whether the loans being acquired can be recovered, so as to exclude non-existing or time-barred receivables and prevent the risk of non-payment as well as the reputational risk that trying to collect bad loans would entail. After establishing a first contact with the account debtors, it assesses the legitimacy of any complaints and, if these are based on reasonable grounds, writes off the position or seeks indemnification from the seller, if allowed by the contract.

It prepares settlement plans suited to the customer's finances and tailored to each individual case.

It assesses the probability the customer will actually settle its debts;

01.3.3. Data protection

Policies and other reference documentation

- Group IT security management policy
- Group IT risk assessment and management policy.
- Operational Procedure for managing IT security and privacy incidents
- Organisational Procedure Handling of privacy issues concerning the rights of data subjects and the relationship with the Italian Data Protection Authority
- Organisational Procedure Management of Personal Data Processors
- Methodological manual for data processing risk analysis and data protection impact assessment (DPIA)
- Privacy regulatory manual
- Technical regulations governing the use of company equipment
- Group business continuity policy
- Group ICT strategic planning policy (Banca IFIS)
- Group software and IT service procurement policy (Banca IFIS)
- ICT performance monitoring policy (Banca IFIS)
- Organisational Procedure for managing logs (Banca IFIS)
- Organisational Procedure for managing logical access (Banca IFIS)
- Group internet payment system policy (Banca IFIS)

The growing spread of ICT products and services based on processing personal data has made privacy and information security more and more strategic for companies over the years. In particular, 2018 saw the European General Data Protection Regulation (GDPR) enter into force.

The Banca IFIS Group considers the protection of personal data a mandatory principle that is key for building trust and developing a sense of security with customers as well as protecting the Group's reputation. The Group is also committed to preventing and managing information security incidents in a timely manner in order to protect the Bank's proprietary information, which includes, among other things, the data of customers, employees, suppliers, and any other party with which Banca IFIS does business.

> *Over time, the Bank has made considerable efforts to ensure the Privacy&Security function's approach is as cross-cutting as it ought to be within a structured Group such as Banca IFIS. Today, the organisational unit consists of ten people and deals with issues such as Privacy, Business Continuity, and Cyber Security.*
>
> *Laura Quaroni, Head of the Privacy & Security o. u., DPO, and BC Manager*

Information security

The Privacy & Security organisational unit constantly monitors information security and helps assessing IT risk through the Information Security Unit.

Raising awareness on cyber security among employees

In order to raise awareness on cyber security and the relevant regulatory changes among employees, in 2018 the Group hosted several events open to all the IFIS people concerned at its offices in Mestre and Milan. The meetings featured representatives of the mHACKeroni team, the Italian ethical hacking team born from the partnership between 4 universities— Politecnico di Milano, Ca'Foscari University of Venice, Rome's La Sapienza University, and the University of Padua. Banca IFIS sponsored the team's participation in the DEF CON Capture the Flag global cyber security competition held in Las Vegas.

In addition, as far as business continuity is concerned, it carries out an impact analysis on business processes and prepares the relevant plan through the Business Continuity Organisational Unit.

The information security incident management process is aimed at ensuring that any unusual events with potential repercussions on the Group's level of physical and logical security and the availability of IT Services are promptly recognised as information security incidents, and therefore addressed appropriately by the competent structures.

The warnings and events that can give rise to security incidents can originate from internal channels (other organisational units) or external ones (customers, suppliers, and institutional channels). The Information Security organisational unit manages such warnings in partnership with any other concerned and interested parties, based on the extent and type of the event.

Personal data protection

The main internal document governing personal data protection is represented by the Privacy Regulatory Manual approved by the Board of Directors. Said document and the privacy regulations and procedures make up the privacy management model as well as the set of guidelines and rules defining how data is protected within the organisation.

The Privacy & Security organisational unit, specifically through the unit dedicated to Privacy:

- prepares and updates the internal documents required by privacy regulations;
- monitors and regularly assesses compliance with regulations and the implementation of the security measures required by law;
- analyses the personal data processing methods adopted by the Bank and the relevant risks;
- assesses the privacy impacts that result from launching new products and services, starting new operations, entering new markets, and in all instances in which the Bank plans to internally develop or purchase new software;
- notifies the Bank's organisational units of any changes in privacy regulations concerning their respective areas of expertise and provides compliance support;
- supports Human Resources in developing an appropriate corporate privacy culture.

In 2018, the Group received 6 complaints concerning privacy breaches (compared to 144 in 2017), almost all associated with operational/human mistakes. In any case, no sensitive data was exposed.

During the year, the Group identified 8 thefts (specifically of paper forms) and leaks of data.

SUBSTANTIATED COMPLAINTS CONCERNING BREACHES OF CUSTOMER PRIVACY AND LOSSES OF CUSTOMER DATA	2018	2017
Total number of substantiated complaints received concerning breaches of customer privacy	6	144
from third parties and substantiated by the organisation	6	144
from regulatory bodies	0	0
Total number of substantiated losses and thefts of customer data	8	7

01.3.4. Brand reputation

Policies and other reference documentation

- Investor Relations Policy
- Corporate Information Handling Policy
- Group operational and reputational risk management policy

The Banca IFIS Group has been growing steadily in recent years, also as a result of the gradual expansion of the business areas it operates in and the brands offered to customers—be they businesses or consumers.

Brand reputation has thus become increasingly strategic in order to ensure the Banca IFIS Group remains committed to its values in its dealings with stakeholders.

Transparency and engagement have always been the hallmarks of the process for communicating information about the Parent company and the other entities. The Bank engages with customers, investors, shareholders, and employees, identifying their different needs through, for instance, customer care services on social networks, websites, projects, and events. In addition, the Bank strives to do its best to provide the best possible experience to the parties it engages with as well as address doubts and requests for information as quickly as possible. Brand reputation is monitored also with specific dedicated tools.

Specifically, the Parent's Investor Relations maintains relationships with shareholders, investors, and analysts guided by the principles of fairness, transparency, collaboration, and absolute respect for the independence of their respective roles. The relationships and dialogue with the financial market are strategically key for the Group: the Bank ensures the timeliness and transparency of market disclosures and acts proactively towards it stakeholders by presenting and analysing short-term information, illustrating the Group's strategic guidelines, and developing trust with market participants and the business community. The most significant ways in which the function interacts with the financial community are: press releases, quarterly earnings conference calls, investor meetings, communications on the Bank's official website and social media pages, and the publication of the Group's financial statements in an interactive format to facilitate its understanding.

In 2018, as part of its Investor Relations efforts, Banca IFIS participated in 18 events, meeting approximately 290 investors.

The Group wants to become increasingly aware of what it stands for in the eyes of the different stakeholders today, and in 2019 it will launch an initiative aimed at understanding the perspective of the different types of stakeholder.

Reputational risk

Banca IFIS monitors and protects its reputation as well as that of the Group's companies.

To assess the level of reputational risk, the Group conducts a Risk Self Assessment taking into consideration both internal and external factors that could damage the reputation of the Group and the stakeholders concerned from time to time.

The main external factors include the materialisation of operational risk or other risks not adequately monitored (e.g.: market, liquidity, legal, strategic risks), the violation of laws and regulations and corporate governance rules (such as the Code of Ethics), an ineffective or incorrect management of internal or external communication, and the conduct of management, employees, and collaborators.

External factors can refer to comments and discussions in the media and on social networks, blogs, or other digital communication tools concerning information or opinions detrimental to the reputation of the Group or its Companies.

Reputational risk can affect different kinds of stakeholders. For instance:

- customers: potential erosion of trust in the Bank because of, for instance, inefficient operational practices or sales abuses;
- depositors: potential erosion of trust in the Bank, causing customers to withdraw part of their deposits;
- employees and collaborators: decline or loss of trust in/respect for the company among employees and collaborators;
- shareholders and investors: decline or loss of trust in/respect for the company among shareholders and market participants because of, for instance, the alleged inability to deliver satisfactory results, conduct inconsistent with ethical standards, perceived lack of managerial integrity, etc.;
- local community and society: decline or loss of trust in/respect for the company among local communities and opinion makers;
- Supervisory Authorities: decline or loss of trust in/respect for the company among Supervisory Authorities due to omissions or negligence deriving from the failure to comply with legal and regulatory obligations;
- suppliers and counterparties: decline or loss of trust in/respect for the company among suppliers and counterparties.

In addition, the Group has defined a set of indicators that can promptly identify the presence of vulnerabilities in the exposure of the Bank and its subsidiaries to reputational risks, as well as the relevant warning and alarm thresholds where necessary. The Group constantly monitors said risks and, if the predefined thresholds are violated, it considers from time to time whether to take any mitigating action.

01.4. IFIS customers

01.4.1. Support to entrepreneurship and financial inclusion of customers

Policies and other reference documentation

- Ordinary credit management policy (Banca IFIS)
- NO 112 – Leasing BU - Leasing preparation process (Banca IFIS)
- NO 111 – Leasing BU - Redemption assessment and setting process (Banca IFIS)
- NO 103 – Leasing BU - Subjective credit quality assessment (Banca IFIS)
- Policy for managing the acquisitions of distressed loan portfolios (IFIS NPL)
- Ordinary credit management policy (Cap.Ital.Fin.)
- Credit management policy (Credifarma)

As the largest independent player in Italy's specialty finance market, the Banca IFIS Group sees supporting entrepreneurship and the financial inclusion of its customers as a key goal. Specifically, 2018 saw several strategic transactions that enrich the brands and tools Banca IFIS uses to accomplish said goal.

The addition of Credifarma—a company specialising in lending to pharmacies, which it has been supporting for over 30 years now—alongside the Banca IFIS Impresa brand is intended to support pharmacy owners in a wide range of areas. The combination of Credifarma and the already established Pharmacies division makes the Banca IFIS Group the leader in terms of financial support as well as development and use of digital tools for the pharmaceutical industry.

Furthermore, the newly established IFIS NPL S.p.A., born from the spin-off of Banca IFIS's NPL Area, is dedicated to acquiring, transforming and selling non-performing exposure (NPE) portfolios as well as service secured and unsecured third-party portfolios in order to create value for its customers, the market, and the entire financial system. Another important addition was Cap.Ital.Fin S.p.A., a financial firm specialising in salary-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees. This led to the creation oforediQuintum, the instrument that gives many people the opportunity to regain access to credit.

Banca IFIS Impresa was born and operates specifically to help entrepreneurs by offering financial services and instruments that allow business customers to grow healthily, supporting them in day-to-day operations through local personnel.

Banca IFIS Impresa targets specifically SMEs and serves nearly 100.000 customers.

Customers can access the Bank's services through its sales network, which spans the entire country and is concentrated especially in Italy's main economic and industrial hubs: commercial offices, which are fully accessible to all customers in accordance with Italian laws; and cutting-edge online and digital services allowing the Bank to always remain in contact with its customers regardless of physical constraints.

The Bank has implemented a project to raise awareness about the opportunities offered by investment incentive schemes among SMEs—regardless of whether they are customers or not:

- Finance Leases associated with the New Sabatini Law incentive scheme: Concerning the New Sabatini Law incentive scheme, the Bank has implemented a training programme aimed at enabling the sales force to offer advisory services to businesses on how to qualify for this incentive, which can boost the competitiveness of Italian SMEs, spur new investments, and facilitate access to credit. Under the New Sabatini Law, the Italian Ministry of Economic Development gives SMEs an annual grant—for 5 years—related to equipment on leases or loans specifically intended for investing in capital goods. This incentive scheme, which the Bank accompanied with a leasing product featuring a specific contractual pack, was discontinued before 31 December 2018 because funding ran out. That said, at the reporting date the 2019 Budget Law had appropriated new funding for this tax relief.

At 31 December 2018, 1.048 applications totalling nearly €123mn had been finalised

- Financing backed by the SME Guarantee Fund: The SME Guarantee Fund allows to obtain credit thanks to a guarantee covering up to 80% of any financing arrangement, with a limit of 2,5 million Euro per applicant—be it a company or an independent contractor. The measure is intended to facilitate access to credit for borrowers that could not otherwise provide creditors with the necessary guarantees.

At 31 December 2018, 198 mortgages totalling approximately €40,6mn had been extended to SMEs.

Besides offering products and services, Banca IFIS focuses on disseminating information that allows entrepreneurs to know more about the financial instruments that can help their business.

The Group continued to provide information through the following portals in 2018:

MONDO LEASING

Mondoleasing: this blog dedicated to leasing features opinions and contributions from leading industry professionals and addresses the key issues associated with this topic;

MONDOPMI

MondoPMI, a blog dedicated to businesses that provides updates and information relevant to entrepreneurs, features contributions from experts in different fields.

In addition, the Group works on several local initiatives to be at the service of businesses, helping to promote a management culture and raise awareness on best practices as well as new technologies and tools supporting growth—chief among them digitisation.

In July 2018, the Group also signed an exclusive agreement with Federfarma, the National Federation of Italian Pharmacy Owners representing the over 16.000 private pharmacies that have special arrangements with Italy's National Health Service. Under the deal, Credifarma has entered into a sales partnership that, by identifying the requirements and needs of the local market for pharmacies, allows it to efficiently develop and promote the services it offers.

INNOVATION AND CRAFT SOCIETY	The project, which began in September 2017 and continued into 2018, is intended to represent a “club for high-end manufacturing companies”: it is a research and innovation hub, an observatory for the trends concerning the digitisation of manufacturing businesses, and a place where companies, researchers, institutions, and representatives of the financial industry can meet to exchange experiences and information. In 2018, the club presented an exhibition at La Triennale di Milano dedicated to the world-class companies that make up the Italian bicycle industry, placing special emphasis on manufacturing processes as well as research and innovation. The exhibition was accompanied by workshops offered in partnership with Confartigianato, a small-business association, which discussed key highlights of this specific industry and the relevant market. In late 2018, the club also launched an initiative dedicated to pharmacies that will continue throughout 2019: in partnership with Rome's La Sapienza University and the Politecnico di Milano, the Innovation and Craft Society set up specific focus groups dedicated to pharmacies in order to develop innovative projects and ideas supporting the business of this specific industry. These will be presented in 2019 as part of an exhibition that will be accompanied by workshops.

NEW TOUR PMI (SME TOUR)	In 2018, Banca IFIS Impresa, in partnership with the University of Padua and the Ca' Foscari University of Venice, introduced this project dedicated to select corporate customers. After carefully examining the peculiarities of each firm, work groups consisting of students from the Literature and Economics departments, under the supervision of their professors, developed projects specifically tailored to each company aimed at improving and expanding their organisation and the relevant business.
FINTECHNOLOGY COMMUNITY	Banca IFIS, in partnership with TEHA Ambrosetti, has created the FinTechnology Forum—a series of meetings held throughout the year that culminated in the Forum held in April 2018, where financial players and institutions discuss the impact of fintech on the market and the risks and opportunities associated with it.
FAST FINANCE EVENTS	Under the Fast Finance brand, in 2018 Banca IFIS once again sponsored events organised throughout Italy by professional and trade associations, Universities, and Research Centres on topics such as corporate crises, bankruptcy laws, and the relevant proceedings—contributing to the development of a business culture and raising awareness on specific issues.
MEETINGS ON CREDIT SPREADS FOR EMPLOYEES AND CORPORATE CUSTOMERS	In light of the interest generated by current news stories, during 2018 Banca IFIS hosted training events for its employees, but open also to corporate customers. at its offices in Mestre, Milan, Mondovì, Florence, and Rome, focusing on credit spreads and the factors that drive them.
INTERACTIVE DINNERS	During the year, Banca IFIS launched a new event format dedicated to the leasing business unit's partner companies (dealers and vendors). The participants at a dinner organised by the Bank are invited to express their opinion on certain market topics, promoting debate and the exchange of ideas and opinions in order to better understand the perspectives and demands of partners.
TRADE EVENTS	Banca IFIS contributed to disseminating information and know-how by having its representatives speak at events hosted by trade associations. The Bank's managers shared their expertise with said associations to promote an understanding of certain financial instruments, trends, or opportunities that may benefit their members.
CREDIFARMA ON THE ROAD	Under the Credifarma brand and in partnership with Federfarma, Banca IFIS hosts meetings all across Italy to present financial solutions tailored to pharmacies and discuss the main issues facing the industry.

The Banca IFIS Group sees the financial inclusion of individuals as a strategic goal, since it seeks to bring the largest possible number of insolvent customers, who therefore cannot currently access credit, back to the market.

> *Banking means running a business with a great sense of responsibility towards the public and the economic environment. Our mission is making a positive contribution to society. For years, we had been looking for a solution allowing to offer customers new opportunities to settle their position in a sustainable manner. The addition of Cap.Ital.Fin fulfils this need through salary-backed loans: today, we can recover consumer loans by offering borrowers the opportunity to become once again part of the financial community in a sustainable fashion. This is a beginning.*
>
> *Giovanni Bossi - Banca IFIS CEO*

The Credifamiglia brand's core business is the financial rehabilitation of debtors with no access to credit. Credifamiglia was born to facilitate the settlement of financial liabilities through a network of professionals (both internal and external) who offer suitable solutions compatible with the economic-financial situation of customers.

Thanks to the Bank's acquisition of Cap.Ital.Fin, the network of Credifamiglia advisors, acting as financial intermediaries, can propose salary-backed loans as a means to settle non-performing exposures. The CrediQuintum product was created specifically for all Credifamiglia customers.

Also in the case of the Credifamiglia brand, the Bank focuses on disseminating information to raise awareness about these specific topics, for instance by publishing video interviews with customers on its web and social channels as well as through a glossary with specific recommendations to raise awareness and share information on borrowing and other topics related to Credifamiglia.

01.4.2. Digital innovation

Policies and other reference documentation

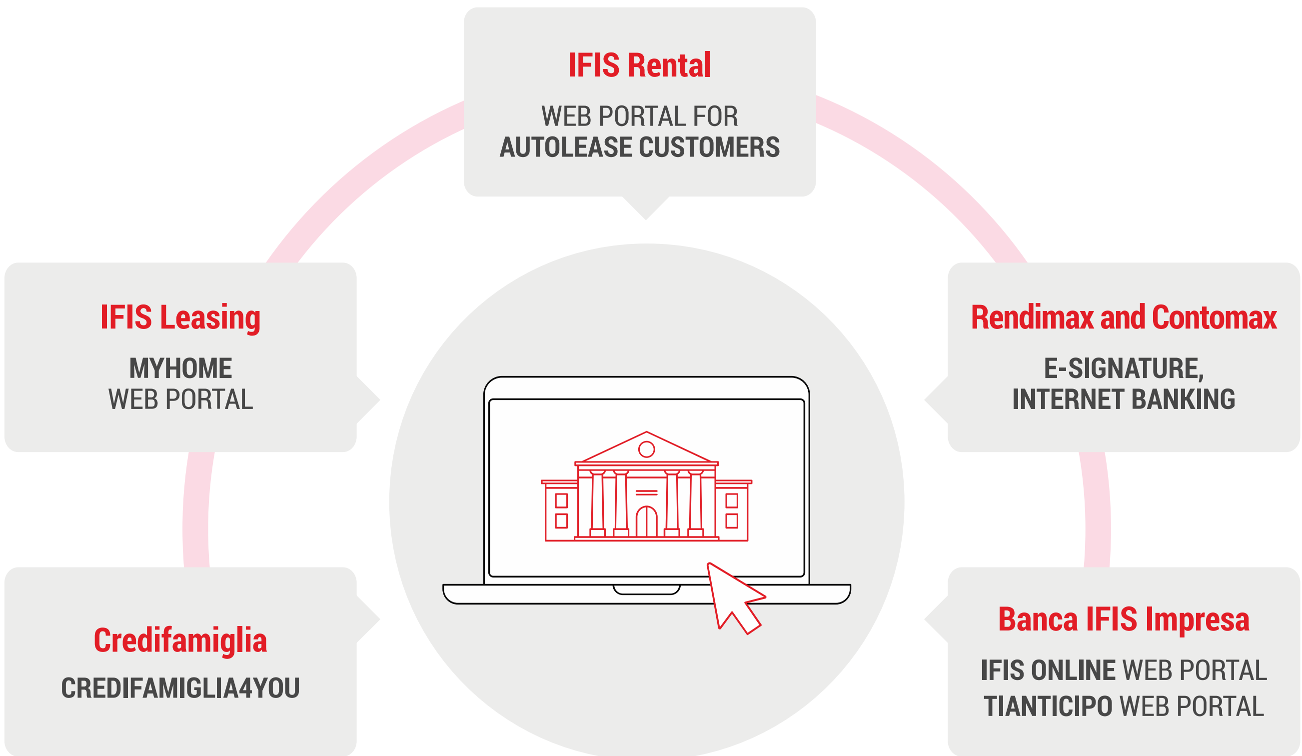
- Group ICT strategic planning policy

Given the digital transformation underway in the financial industry, each organisation must strive to digitally innovate its internal or external business processes.

Within the Banca IFIS Group, digital innovation is seen as a competitive advantage that offers significant opportunities for improving the service rendered to customers, making the access to intermediated services as well as the execution of customer transactions easy and immediate.

In addition, pursuing a digital strategy allows to boost competitiveness by making business processes—be they strictly internal or directly related to sales processes—more effective and efficient.

MAIN DIGITAL SOLUTIONS FOR OUR CUSTOMERS



Considering the importance of digital innovation to the financial industry, the Banca IFIS Group sets specific goals for the evolution of ICT infrastructure, in accordance with the Group ICT strategic planning policy.

The Group's strategy aims to expand the offering of the Bank's products to entirely digital sales channels, improve the user experience for all types of users, and streamline and digitise internal processes. In line with the initiatives carried out in 2017, in 2018 the Group pursued projects aimed at achieving the mentioned strategic goals.

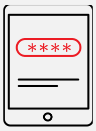
The Banca IFIS Group has always been operating across Italy through an extremely lean network of commercial offices. Sales processes are performed almost exclusively on-the-go or remotely.

Given this business model, digital solutions and the ability to foster innovation with technological solutions is key for success.

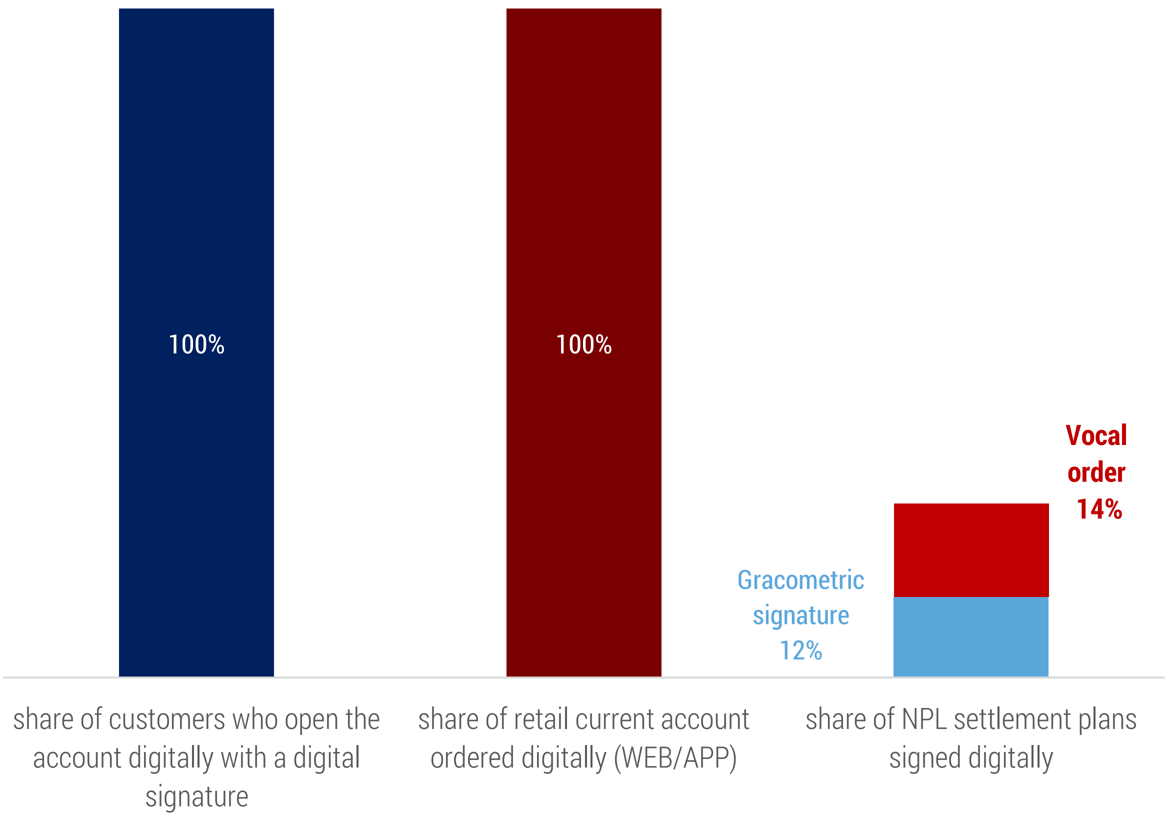
Today, the Bank already offers a series of digital tools and solutions that improve the customer experience. In 2018, it launched a number of initiatives seeking to enhance the quality of the customer relationship, be it in its early stages or long-standing. Below are the projects the Group sees as the most significant:

- as for Banca IFIS Impresa, the Group simplified and streamlined the way Leasing customer can log into their accounts. Today, both equipment and auto lessees can retrieve all information regarding their positions, from the initial documentation through fact sheets to digital invoices, using a single account;
- as for NPL customers, the Group evolved the "CrediFamiglia4You" portal (www.credifamiglia4you.it). This was launched in December 2017 and, besides allowing customers to monitor their debt position, now it also enables them to make online payments using different methods— using a credit card, a prepaid card, or a bank transfer. It is also possible to download the postal payment slip and make a payment using a QRCode at all Sisal or Poste Italiane locations.

Besides bolstering the solutions that ensure the customer's satisfaction, the Banca IFIS Group is committed to gradually digitising processes so as to boost efficiency, curb operational risk, and make the sales process more effective:

	As for the leasing market, the Group completed the roll-out of the digital signature via strong authentication with a "One Time Password" (OTP) for all customer segments (auto and equipment).
	Concerning IFIS NPL, in 2018 the over-the-phone contract signing process was completed: this allows the debtor to agree to a settlement plan over the phone with the Bank's digital signature, exact date, and electronic storage pursuant to the law.
	Starting with Banca IFIS Impresa (Trade Receivables and Corporate Banking), in 2018 the Group launched a project to evolve its Customer Relationship Management systems, so as to speed up sales origination processes. These will eventually cover also the loan application processing stage as well as business processes—be they strictly internal or directly related to sales processes.

Below are the entirely digital sales solutions made available to the Group and the relevant uptake in percentage terms:



As for the share of NPL settlement plans signed digitally, the uptake in percentage terms is in line with the Banca IFIS Group's expectations, considering that the project was launched only recently.

01.4.3. Quality of products and services

Policies and other reference documentation

- Code of Ethics
- Policy for approving new products and services, starting new operations, and entering new markets (Banca IFIS)
- Organisational Procedure for Collecting debts through non-judicial actions (IFIS NPL)
- Organisational Procedure Management of distressed loan non-judicial collector network (Banca IFIS, IFIS NPL)

The quality of the services and products offered has a significant impact on the perceived reliability and security of the Bank as well as those operating on its behalf, the sense of proximity perceived by customers, and the satisfaction with the service rendered.

Quality is therefore strategic for the Group, which seeks to consolidate its reputation in Italy and abroad through the transparency of its actions and the quality of the products and services it offers—as well as to study, design and test products and services that are always aligned with the market's needs and of the best possible quality.

Through a Policy for approving new products and services, starting new operations, and entering new markets, Banca IFIS sets the rules for developing and distributing new products in accordance with business strategies and objectives.

Specifically, in the Leasing area, during the preliminary phase of new business relationships with a potential supplier or partner, and before purchasing assets to be leased to customers, the Group performs a series of checks:

- in the case of potential affiliated partners/vendors, with which the bank intends to establish an on-going relationship, the activation of commercial agreements is subject to an investigation aimed at verifying the quality of the assets supplied and compliance with the criteria of reliability, credibility and soundness from a financial and reputational standpoint. A Code of Conduct must also be signed in order to conclude commercial agreements;
- in the case of occasional suppliers (for example, proposed directly by the customer for the purchase of a specific asset), the checks aim to verify the quality of the asset, the actual existence of the company and the possession of the main credentials, in order to prevent any fraud involving the brand and the customer.

In order to improve the quality of the service and the professionalism of the physical network, employees receive internal and external technical and product training through the "Leasing & Rental Academy".

BANCA IFIS IMPRESA LEVEL OF SERVICE

Banca IFIS Impresa is committed to providing customers with a high level of service through quick and timely responses that stand out on the market. Below are the results achieved in 2018 for leasing, factoring, and SME mortgage products:

Average lease application processing times:

- Cars, commercial and industrial vehicles: 1,5 days
- Equipment (industrial, IT and Office) < 250.000: 2 days
- Equipment > 250.000: 5 days

Leasing customer response times:

- Customer request processing time: 1,5 days (average)
- *Phone call abandon rate:* 4%
- *First Call Resolution:* 95%
- Deed of sale issuance at the end of the lease term: 2 days

Average factoring application processing times: 7 days

Average SME mortgage application processing times: 11 days

IFIS NPL promotes on-going operator-customer relationships to build trust over time, and implements various safeguards to guarantee the quality of the service provided by network operators (debt collection companies, agents, internal call centres), including:

- credentials and qualifications: all agents must be registered in the list of the OAM (Association of Credit Agents and Brokers). If they are not registered, the Parent accompanies operators throughout the certification process, from training up to the final exam (this applies also to agents promoting salary- and/or pension-backed loans). Before establishing the relationship, debt collection companies are assessed on their reliability, credibility, and financial soundness;
- incentives for agents and debt collection companies: the Group has stringent KPIs to monitor the quality of the positions processed, imposing penalties in the case of prolonged poor performance.

Model for monitoring debt collection agents and companies

The structure that manages non-judicial networks and the monitoring structure have defined a model for monitoring debt collection agents and companies based on different types of KPIs:

- **Behaviour KPIs**, such as, for example, grievances received, complaints, and abnormal conduct
- **Performance KPIs**, such as, for example, processing times, the quality of finalised settlement plans in terms of number and amounts, the amount of defaults on the plans collected

The above KPIs are monitored on a monthly basis and, if necessary, the Group starts a conversation with debt collection agents and companies in order to implement potential corrective actions.

In addition, on top of the usual inspections at debt collection companies, the Group may conduct specific audits to evaluate, among other things, the adequacy of the adopted collection processes compared to industry best practices. Every year, once the findings of said audits are available, the Group carries out a comprehensive assessment of debt collectors and, based on its outcome, identifies the most appropriate actions to be taken in order to protect the interests of the Banca IFIS Group and its customers.

In the case of risk events, the internal structures notify the organisational control units, and specifically the Risk Management responsible for operational and reputational risks.

To evaluate the effectiveness of the adopted management approach, the Business Areas that own each product or service verify whether those comply with the Bank's sales processes to make sure the customer's needs are met effectively, and the control functions can schedule and conduct reviews in accordance with the Bank's policy.

Specifically concerning the definition and introduction of new products and services:

- Compliance monitors the risk of non-compliance, for instance by assessing the adequacy of controls relative to applicable laws or verifying the compliance of the proposed advertising campaign, and, in partnership with the Human Resources function, evaluates the adequacy of employee training in raising awareness about the risks inherent in the new product and how to mitigate them.
- Anti-Money Laundering helps evaluate the risk that the new initiative could pose to the Bank concerning the potential for it to become involved in money-laundering and terrorist financing as a result of the new product.

01.4.4. Transparency of information on products and services

Policies and other reference documentation

- Code of Ethics
- Complaints Policy
- Organisational procedure for marketing communications to customers (Banca IFIS)
- Organisational Procedure for the Transparency of Banking Operations and Services (Banca IFIS)

Transparency towards customers impacts their trust in the Bank, which represents the basis for a healthy and long-lasting relationship—and therefore an asset to protect and develop. This concerns both the various communications issued by the physical network as well as specific contractual aspects within the different Business Lines.

The Group establishes direct relationships with its customers and operates guided by principles of professionalism, honesty, and transparency, providing detailed information on their mutual obligations and any potential risks inherent in the transactions carried out.

All contractual relationships, communications, and documents are written in a clear and comprehensible manner, ensuring customers fully understand the decisions they make.

The NPL segment has an additional mechanism in place to guarantee the transparency of the agent-customer relationship: at the end of each visit by the agent, the customer must sign a "*Meeting report*" describing what transpired during the meeting and any agreements made. Also when transmitting information to external parties, through advertising or other channels, the Group makes sure its communications are honest, true, clear, transparent, verifiable, and consistent with business policies and programmes.

The organisational units that report to Operations are responsible for managing transparency processes towards customers and the terms applicable to the products offered by the Bank at a centralised level, as well as for operations subject to transparency regulations (e.g. sending recurring documents to customers) and helping the Business Areas prepare customer communications. The Compliance function supervises the implementation of banking transparency regulations and is also involved in preparing communications about significant changes to the terms and conditions applicable to a product or service to ensure they are written clearly.

TOTAL NUMBER OF INCIDENTS OF NON-COMPLIANCE WITH REGULATIONS AND/OR VOLUNTARY CODES CONCERNING PRODUCT/SERVICE INFORMATION AND LABELLING	2018	2017
Incidents of non-compliance with regulations resulting in a fine or penalty	0	0
Incidents of non-compliance with regulations resulting in a warning	0	0
Incidents of non-compliance with voluntary codes	2	1

2018 saw 2 incidents of non-compliance with internal regulations on transparency, compared to 1 incident in 2017. Please note that these incidents have not resulted in complaints or penalties and were addressed and resolved in a timely manner.

As in the previous year, in 2018 there were no incidents of non-compliance concerning the transparency of marketing communications.

Grievance mechanisms

Banca IFIS adopts several mechanisms to receive feedback and grievances from key stakeholders, and especially employees, collaborators and professionals that work with the Group on a regular basis (including agents and other employees of the company IFIS NPL, the company Cap.Ital.Fin, and the Leasing segment), as well as through complaints from customers or debtors. These mechanisms help management identify potential inefficiencies, anomalies or issues concerning business processes. Therefore, along with the controls, they help evaluate the effectiveness of the management approach to the various topics.

Handling of complaints

The complaint represents not only a useful instrument to improve the quality of products, services, and customer relationships, but also a way to monitor the conduct of the business functions and those that act on behalf of the Group (such as the members of external networks), and thus keep the mutual trust between the Group and the Customer alive. Complaints can concern the quality of products and services, transparency, privacy, IT security, and multichannel instruments, as well as the respect for the principles of integrity and fairness on the part of the Group's employees or the members of the network, compliance with regulations, non-discrimination, and activities to support entrepreneurship and financial inclusion.

The complaints handling policy, applied at the Group level, sets the guidelines for handling the complaints received by the Group's companies in an appropriate and timely manner based on the principle of the fair treatment of customers and in accordance with applicable laws.

The goal of the complaints handling process is to handle in an appropriate and timely manner any grievance received from customers unsatisfied with the products and services provided or offered, taking corrective and preventive actions to prevent any problem from recurring in the future. These actions can consist in specific initiatives addressing the individual complaint or the activation of general solutions to address the causes underlying the individual complaint or multiple complaints concerning the same area.

The Group has set up an office dedicated to handling complaints (Complaints Office). This receives complaints and duly and impartially handles them, informing the business units concerned from time to time. The Complaints Office has a dotted-line reporting relationship to Compliance and operates according to the guidelines set by the latter.

01.5. IFIS people

Creating new job opportunities is a priority for the Banca IFIS Group: its vision stresses the Bank's active role in contributing to the economy in which it operates, promoting employment and the creation of social value.

The Bank is aided in this role by the continued growth registered by its historic businesses (servicing non-performing loans and financing SMEs), which required strengthening both business and governance structures over the years.

The commitment to maintaining and increasing the number of employees has remained constant at the behest of Management, inspiring also the acquisitions carried out in 2018.

Those dedicated to work for which there was a diminished requirement as a result of the various corporate restructuring efforts were reallocated within the same functions or to functions where they could put their specific skills and expertise to good use through appropriate professional training and retraining courses.

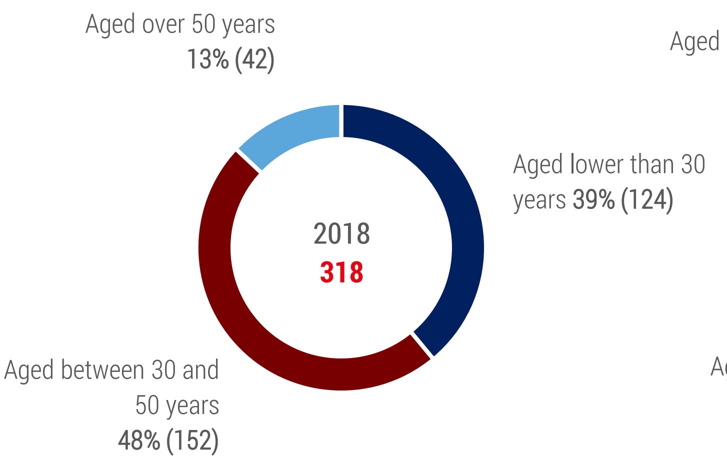
In addition, because of the acquisitions and other transactions that concerned the Group, the Human Resources and Communication functions worked on a project to integrate the employees of Banca IFIS and those of the legal entities acquired to standardise work methods, processes and tools as well as promote the objectives and values of the new banking Group.

One of the most significant initiatives implemented throughout the year to help employees get to know each other was the Onboarding session dedicated to the new employees acquired, held at the Head Office in Mestre in the first few weeks after they formally joined the Group. Moreover, in late 2018 the Banca IFIS Group carried out its first Group climate survey in partnership with Doxa. Overall, 82% of employees completed the survey. The results will be processed in the first few months of 2019 and become available following the publication of this NFS.

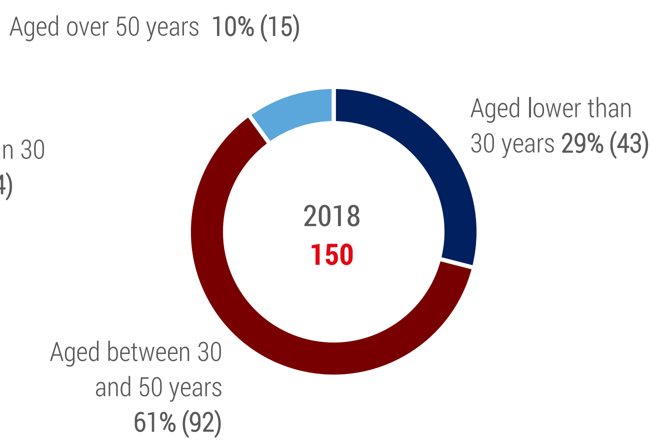
As for the **breakdown of employees** at 31 December 2018, the Group's staff numbered 1.638, compared to 1.470 at the end of 2017, rising by 168 units (nearly 11%) year-on-year—also as a result of the acquisitions made during 2018 (45 resources from Cap.Ital.Fin. and 40 from Credifarma) and new hiring.

As in the previous year, the rate of new employee hires (19%) was higher than the turnover rate (9%). Specifically, 318 employees joined the Banca IFIS Group during the year, and approximately 40% of them were less than 30 years old—evidence of the Group's focus on facilitating the involvement and inclusion of young people into the labour market as well as its interest in introducing new talents into the organisation.

New employee hires by age group



Employee turnover by age group



As for the differences between genders, 54% of the Group's employees are women, and these specifically account for 40% of management personnel (Senior and Middle Managers).

Employees by gender

In addition, nearly all employees are on permanent contracts, which is testament to the Group's commitment to ensuring job stability and security.

For more information on employees, see the tables at the end of this section.

01.5.1. Employee well-being

Policies and other reference documentation

- Code of Ethics
- Group employee management policy
- Integrated Safety and Environment Manual

Promoting the physical and psychological well-being of employees, workplace health and comfort, occupational welfare policies and schemes, work flexibility, and work-life balance—these are just some of the issues that may positively contribute to the organisational well-being as well as to improving the organisation’s performance, for instance in terms of reduced turnover, increased productivity, and fewer workplace injuries.

The programmes and initiatives intended to promote the well-being of employees apply to all Banca IFIS Group companies. Some of the initiatives implemented in 2018 sought to extend the existing occupational welfare schemes to the companies that recently joined the Group.

Occupational health and safety

First and foremost, all the Group's operations must meet adequate safety standards at all times. Through the Safety Policy included in the Integrated Safety and Environment Manual, Banca IFIS sets out and communicates the fundamental principles and criteria that guide decisions on occupational health and safety as far as the offences described in Italian Legislative Decree 231/2001 are concerned.

In accordance with applicable laws, the Group's companies guarantee an adequate work environment from the perspective of health and safety. The Group's employees must thoroughly comply with health and safety provisions as well as attend mandatory training programmes. In 2018, the Group provided 2.498 hours of mandatory training on health and safety practices and procedures.

Responsibility for health and safety lies with the Head of the Prevention and Protection Service (RSPP, *Responsabile Servizio Prevenzione e Protezione* in Italian), the Prevention and Protection Service Officer (ASPP, *Addetto al Servizio di prevenzione e protezione* in Italian), and the Human Resources and General Services functions, as delegated by the Employer, each within the scope of their responsibilities. Specifically, General Services organises and supervises operations as well as manages facilities and equipment at the Group's headquarters and commercial offices concerning health and safety. Ultimate responsibility for identifying and managing measures to protect employee health and safety lies with the Employer.

To evaluate the effectiveness of the adopted management approach, General Services conduct environmental monitoring and surveys to assess the internal well-being of work environments, performing air quality and electromagnetic field analyses, among others, at the Group's main locations. As part of its continuous improvement effort, the Group monitored noise levels and microclimate conditions, and this led to adopting several improvements. The Prevention and Protection Service conducts safety audits on a regular basis, especially at newly opened locations or offices, in the event of significant changes to the layout of work environments or during annual evacuation drills.

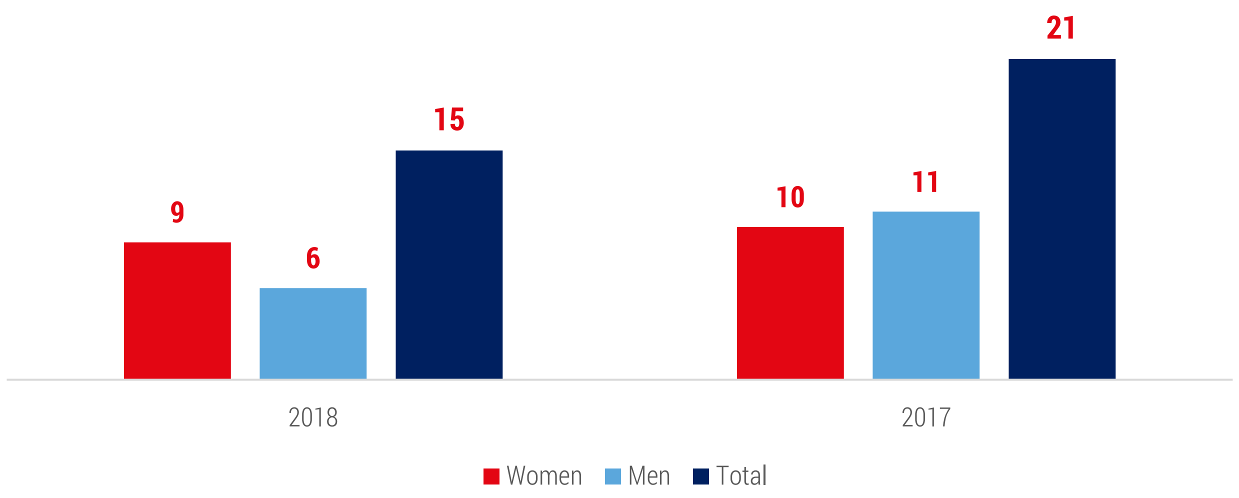
The Employee Safety Representatives, whose number is proportionate to the size of the company pursuant to collective bargaining agreements, represent 78% of the Group's employees. IFIS NPL and IFIS Rental Services are currently excluded as a result of the organisational changes occurred during the year.

The company and employees discuss occupational health and safety at regular meetings as well as other consultative meetings held by the Group's companies throughout the year.

The following safety indicators are produced in accordance with the standard UNI 7249 and concern the number of injuries (including commuting accidents), the injury rate, and the lost day rate.

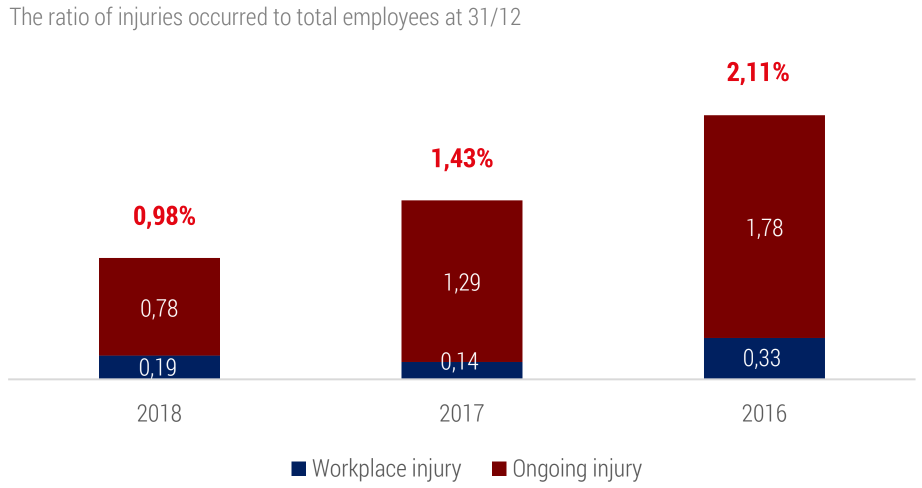
Both the number and rate of injuries declined in 2018 compared to previous years, as the following table shows. Specifically, in 2018 there were only 3 workplace injuries and 12 commuting accidents. Commuting accidents (rear-end collisions in general) represent the most frequent type of injury.

Number of injuries by gender (No.)



The data does not include the following companies: Credifarma Spa, Cap.Ital.Fin. SpA. In addition, the data on international employees is not included.

Injury rate* by type (%)



INJURY AND LOST DAY RATES BY GENDER (2018 DATA) [NO.]	TOTAL	MEN	WOMEN
Injury rate	**5,21**	4,53	5,80
Lost day rate	**0,10**	0,13	0,08

Injury rate = no. of injuries x 1.000.000 / no. of working hours
Lost day rate = no. of lost days x 1.000 / no. of working hours

There were no fatalities associated with injuries nor occupational diseases in 2018.

Lost days totalled 291 (171 men and 121 women), while the absentee rate was 2,08% (1,40% Men and 2,68% Women). Lost days are calculated based on the date the accident occurs and considering calendar days.

The breakdown by gender is not available for all workers (excluding employees) whose work, or workplace, is controlled by the organisation.

Workplace health and comfort

Since 2016, Banca IFIS has been overhauling its offices to make them more flexible and sustainable—including in environmental terms.

Each space of the new offices in Florence and Rome, inaugurated in 2016 and 2017, respectively, was designed and built to offer functional and comfortable environments, placing special emphasis on the design. Offices, meeting rooms, and common areas feature furnishings and new technologies that promote the exchange and sharing of information.

The building that houses the Florence office has been completely renovated to the highest eco-friendly and environmental sustainability standards and features a large solar array. The Rome office is located in the Eur district, inside a modern building surrounded by greenery—a structure that combines design, innovation, and space efficiency.

Occupational welfare policies

The Group signed a two-fold agreement with trade unions in September 2018 to introduce innovative bonus policies and schemes as well as expand the existing occupational welfare system. The new proposal stemmed from listening to the people that work at the Bank every day, with the awareness that only by promoting a healthy work-life balance the Group can help employees realize and develop their full potential as well as create shared value consistently over time.

Working at the Bank means... giving value to its historical heritage

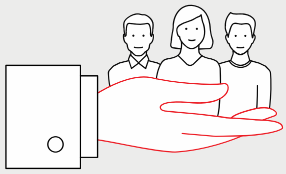
Working at the Bank can mean living every day in a pleasant environment—including from an architectural and aesthetic perspective. Banca IFIS's Head Office is located inside the 19th-century Villa Fürstenberg in the Province of Venice, between Mestre and Mogliano Veneto, where the Republic of Saint Mark formally surrendered to the Austrians in 1849 (at the time, the property was still owned by the Padadopoli family). An epigraph on the façade of the villa commemorates this historical event, and a small studio inside the building is still named after the Austrian field marshal «Radetzky». The Villa—which still maintains most of the noble area, including the Theatre and the Winter Garden—is surrounded by a large garden open to the Bank's employees.

Furthermore, in 2016 Banca IFIS acquired the former GE Capital Interbanca Group along with the two historical buildings in Milan's historic centre where its offices are located. The office in Corso Venezia is located inside a building of great architectural value that is under the supervision of the Bureau for Environmental and Architectural Heritage at the Italian Ministry of Cultural Heritage and Activities. Specifically, the Italian Ministry of Culture classified the property as a protected monument because the façade—which was designed and built in the early 20th century and survived air strikes during World War II—is deemed to have significant historical value.

The office in Via Borghetto, originally built for residential use, underwent a restyling between 2014 and 2015: the spaces and furnishings were reimagined to create comfortable, modern, and functional environments—including with energy saving technologies. Both the offices in Milan feature locker rooms for the employees who want to exercise at the nearby Indro Montanelli park.

The agreement establishes new variable compensation mechanisms (for the employee categories concerned) in order to involve employees more in accomplishing the Group's goals while boosting profitability, productivity, competitiveness, and efficiency. The new eligibility criteria are based on the position, the achievement of profitability target, and the performance review. The bonus is contingent on the 2018 net profit from financial activities growing at a faster pace year-on-year than any potential increase in operating costs compared to 2017.

Starting from 1 January 2019, Banca IFIS will allow employees to choose from a range of goods and services designed around individual and family needs. These opportunities, divided into the areas required by the law (education expenses, supplementary pension schemes, mortgages, healthcare fund, public transportation, leisure time, and vouchers), are available to employees and their relatives, either as a "redemption" or a direct purchase or payment. This scheme complements the wide range of benefits offered to employees.



The corporate bodies and employees have access to benefits that vary in accordance with their role and/or service.

- HEALTH INSURANCE
- OCCUPATIONAL AND NON-OCCUPATIONAL INSURANCE
- LIFE INSURANCE
- LUNCH VOUCHERS
- COMPANY VEHICLE
- EMPLOYER CONTRIBUTION TO SUPPLEMENTARY PENSION PLANS
- SUBSIDIZED FIRST-HOME MORTGAGE LOANS
- ACCESS TO TAX ADVISORY SERVICES TO FILL IN THE 730 TAX RETURN

EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS	UOM	2018	2017
Employees covered by collective bargaining agreements	No.	1.613	1.457
As a percentage of total employees (Total)	%	98%	99%

The figure represents all employees based in Italy. The remaining 2% are employees based abroad and subject to local laws, which do not envisage collective bargaining

01.5.2. Promotion and development of employees

Policies and other reference documentation

- Code of Ethics
- Group employee management policy
- Remuneration report (Remuneration and incentive policies)

These are challenging times for the Bank and the entire credit industry, requiring dramatic changes in terms of new technologies as well as skills. Banca IFIS strives to develop training plans based on the concept of continuous learning and dynamically managing the skills and careers of human resources. Another key aspect is guaranteeing transparent performance review systems and professional growth plans for the Group's entire population, allowing all employees to work to the best of their abilities.

Training

Training is of paramount importance to the Banca IFIS Group, as it is key for constantly upgrading employee skills—which is crucial for growing the business and retaining talent. An adequate training positively impacts the performance and effectiveness of employees as well as external agents, the dissemination of the corporate culture, and engagement. This has positive implications also for customers, as complying with professional standards, promoting a culture of preventing risks, and empowering the members of the network influence the quality of the service rendered. Mandatory training required by law also plays a crucial role, as it prevents employees and the Bank from committing, including unwittingly, acts that could constitute criminal offences.

Banca IFIS commits to providing training to all employees and promoting participation in refresher courses and training programmes in order to help each individual fully realise his or her skills and expectations, and thus contribute towards the Group's goals.

Every year, based on the result of the performance appraisal process and the qualitative gaps identified by the Human Resources Strategic Plan, Banca IFIS designs, prepares and implements a Training Plan for all employees. Said Plan is proposed by the Human Resources Development organisational unit and approved by the General Manager.

IFIS *WEEK UP*

In 2018, the Group launched IFIS *week up*, a weekly podcast produced by the Bank's Communication Office that helps employees stay up to date in a pragmatic, informal, and unconventional manner with financial and non-financial news events, using the latest digital tools to make the podcast available anytime, anywhere.

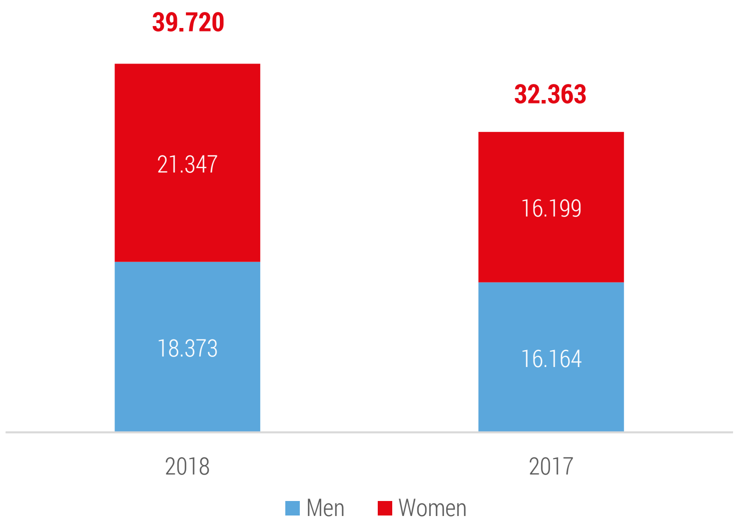
IFIS *Educational*

This is a video column that raises awareness among employees about the topics that most interest them, explaining products (e.g. salary-backed loans), new regulations (GDPR), businesses, and everything that concerns the Group and its services through interviews with colleagues.

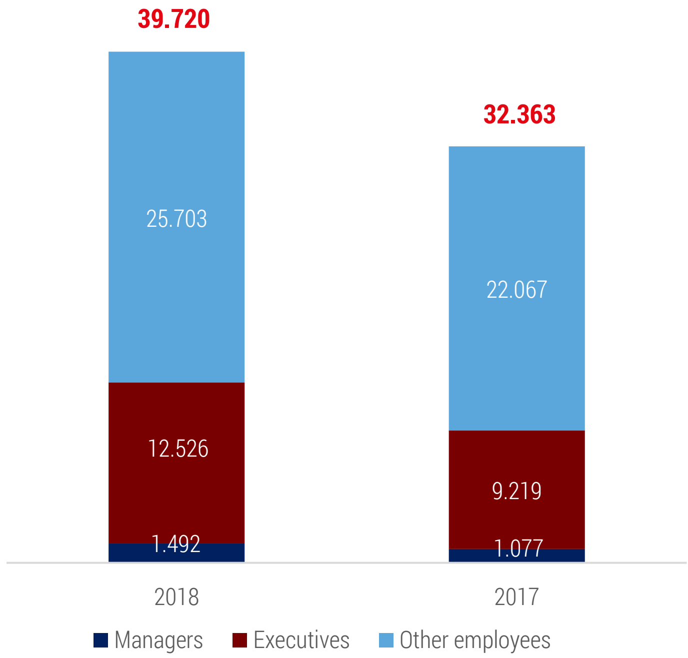
The Group supports its employees' professional growth through:

- basic training, aimed at providing general information about the company's operations, products, services, and procedures;
- career mobility, intended to build specialist, business, and management skills;
- specific professional growth projects tailored to the different types of positions / employee categories or clusters.

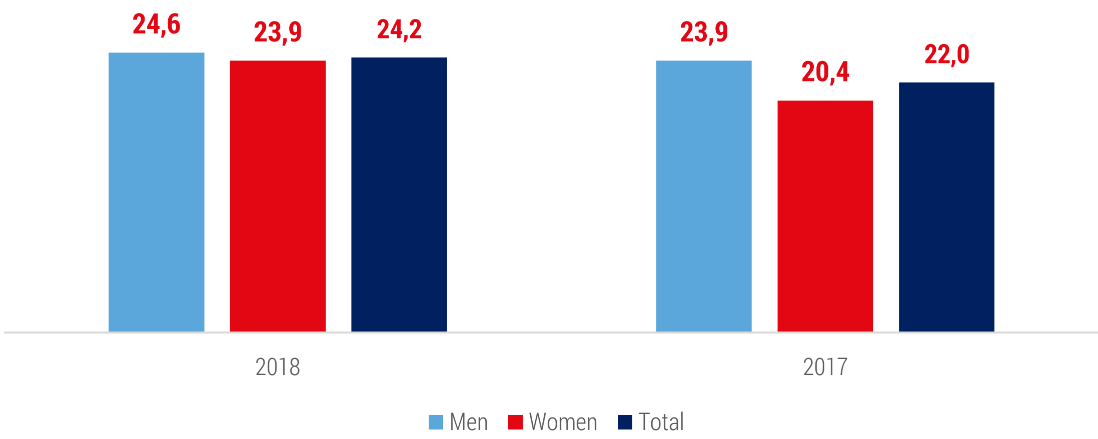
Total training hours by gender



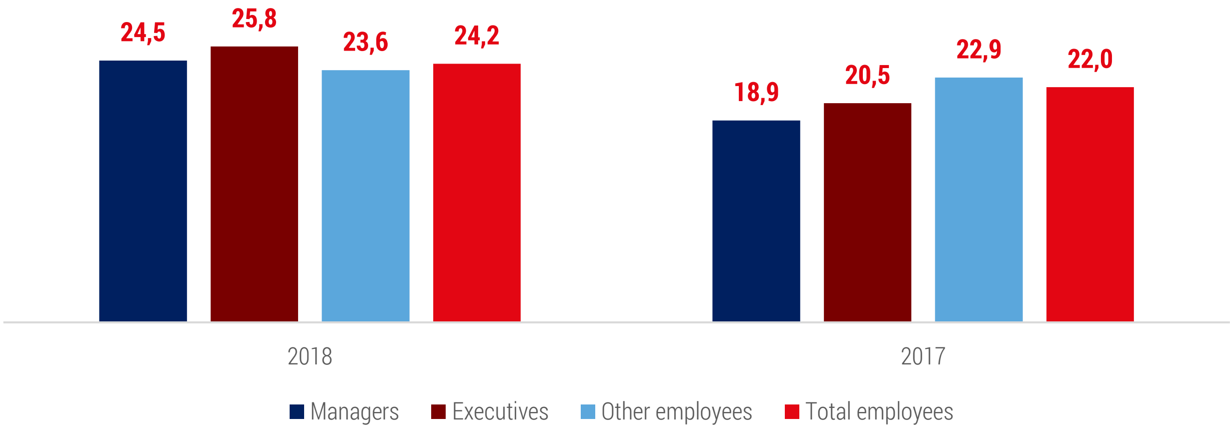
Total training hours by employee category



Training hours per employee by gender



Training hours per employee by employee category



TOTAL TRAINING COST [€]	2018	2017
Total cost	**982.566**	**1.105.703**

The Group incurred significant costs during 2017 because it made considerable investments in: Training initiatives concerning the new IT systems; individual coaching; Management Development programmes for the Heads of Business Development. In particular, the last two were scheduled back in 2017 but had a significant impact also throughout 2018.

TRAINING PROGRAMMES FOCUS ON THREE MACRO-AREAS

Management, behavioural and technical training based on the performance appraisal process.

Mandatory training concerning administrative liability as per Italian Leg. Decree 231.2001, transparency in banking operations and services, anti-money laundering and terrorist financing, occupational health and safety, IT security, privacy.

Training courses for contingent or emerging needs, such as organisational and regulatory changes or new business priorities requiring deep dives into certain topics in order to acquire specific skills in a short period of time.

TOTAL TRAINING HOURS PROVIDED BY TYPE/AREA [HOURS]	2018	2017
Total training hours	39.720	32.363
Total training hours about Health and Safety	2.498	2.820
Total training hours about anti-corruption policies and procedures	1.314	630
Total training hours - Other	35.908	28.913

The hours dedicated to "anti-corruption" and "other" rose as a result of the sharp increase in mandatory management and language training hours.

Specifically, the Bank has developed two tools to help employees improve their English:

- The e-Learning platform, which employees can use to take Business English courses online, including with a dedicated app, according to their level.
- The Mini MBA, a language-management training programme designed for the Bank's middle management by the Human Resources Development Office. The programme is offered in English and is intended to help employees build their management soft skills.

Based on the topic to explore and the target level of knowledge, the Human Resources Development organisational unit identifies the most effective and efficient training method among such options as management and behavioural training workshops (in-house and external), specialised technical training (in-house and external), on-line courses, external seminars / conferences, training on the job, coaching, and one-to-one training. The Human Resources Development organisational unit assesses the level of satisfaction with, and the effectiveness of, training courses by conducting random surveys.

There is a specific “Onboarding Process” for new hires and the employees of the companies acquired during the year: this consists in a series of individual and/or group meetings starting from the first 30 days at the company until the end of the first year of service. These meetings are aimed at integrating new hires into the Bank’s organisation and their respective structures.

In-company language training programmes

Working at Banca IFIS means also dealing every day with different cultures, a constantly evolving environment, and an international setting. Being proficient in English is key: the Bank has therefore implemented several employee training initiatives aimed at improving language skills at all levels.

147 new hires participated in the process during 2018. The Group offered also specific one-day Onboarding sessions for the employees of the companies acquired (Cap.Ital.Fin. and Credifarma). 80 employees participated in these editions.

The Group does not offer transition assistance and career-end management programmes.

Performance review

IFIS Talent

For a company that innovates, placing emphasis on the development of people and the actions that can support human potential is key. This is why Banca IFIS created the Talent Management System IFIS Talent—a platform designed to improve the recruitment process as well as the development and management of employees in accordance with the current and future needs of each one of them as well as the organisation.

IFIS Talent was launched in 2017 to fulfil some fundamental needs of the Bank as well as the employees that share its goals and values. This project offers employees a single platform for all Human Resources Development processes where they can find the tools necessary to continue their professional growth. The platform also marks an additional step forward in the Bank's relentless digitisation process. IFIS Talent is custom made for IFIS People—immediate, intuitive, and easy to use.

With just one click, employees can enter “their world” and become more aware and in control of their progression within the Bank. It is also an innovative tool for managers, allowing them to view and learn more about the “history” of their employees. It thus represents an outstanding opportunity for developing the Bank's professional and management potential. The digitisation of Human Resources Development continues to evolve. In 2018, the Group implemented a series of tools/processes associated with the annual career review, the opportunity to strengthen the relationship between HR and employees, and «Continuous Feedback», one of the most recent HR evolutions and innovations that promotes a steady personal and organisational growth in a “social” manner. It does not end here. In 2019, the Bank will work on new projects focused on Compensation policies, talent mapping, and the launch of the mobile app that will open the door to Mobile Learning (remote learning with mobile electronic devices). In addition, it will also implement the onboarding process for new hires.

People are key to accomplishing the Banca IFIS Group's goals. Therefore, human resources management seeks to promote the competencies and skills of each individual by providing opportunities to fulfil their potential.

To this end, clear and transparent performance review systems directly impact the extent to which all the Group's employees are integrated and can make the most of their talents within the new corporate organisation as well as the level of recognition of specific personal skills perceived by each individual, contributing to a sense of belonging and engagement. Banca IFIS thoroughly reviews the performance of its employees on a regular basis in accordance with the Group Employee Management Policy. Besides the proper discharge of their duties, it considers factors such as integrity, professionalism, dedication, fairness, availability, and initiative.

The performance review process is handled by the Human Resources Development organisational unit and conducted by ensuring the assessments are fair as well as simply and clearly represented.

Every year, the head of each organisational unit formally reviews the performance of the people assigned to their structure.

The effectiveness of the management approach is evaluated through analyses conducted by the Human Resources Office: these focus on assessing whether the expected reviews are distributed correctly and the managers have fulfilled their contractual obligation to review the performance of their employees.

EMPLOYEES WHO RECEIVED A PERFORMANCE REVIEW DURING THE REPORTING YEAR, BY GENDER [NO.]	2018	2017
Total employees who received a performance review	1.226	941
Men	572	420
Women	654	521

EMPLOYEES WHO RECEIVED A PERFORMANCE REVIEW DURING THE REPORTING YEAR, BY GENDER [%]	2018	2017
Total employees who received a performance review	75%	64%
Men	77%	62%
Women	73%	66%

EMPLOYEES WHO RECEIVED A PERFORMANCE REVIEW DURING THE REPORTING YEAR, BY EMPLOYEE CATEGORY [NO.]	2018	2017
Total employees who received a performance review	1.226	941
Senior managers	16	7
Middle managers	451	218
Clerical staff	759	716

EMPLOYEES WHO RECEIVED A PERFORMANCE REVIEW DURING THE REPORTING YEAR, BY EMPLOYEE CATEGORY [%]	2018	2017
Total employees who received a performance review	75%	64%
Senior managers	26%	12%
Middle managers	93%	48%
Clerical staff	70%	74%

01.5.3. Diversity and Inclusion

Policies and other reference documentation

- Code of Ethics
- Remuneration report (Remuneration and incentive policies)
- Group Whistleblowing Policy

Ensuring fairness in recruitment and employee management and remuneration processes, as well as promoting diversity and equal opportunity in the workplace, is key to spreading the culture of social inclusion and maximising people's potential.

The Group firmly condemns any discrimination against employees or applicants based on gender, age, religious or political beliefs and trade union affiliation, as well any form of nepotism and preferential treatment.

As the Code of Ethics—the Group's main reference for standards of conduct and ethics—clearly states, all Group employees shall maintain the highest standard of conduct, respecting the dignity and moral personality of everyone. These rules apply also to Collaborators.

It is possible to report any conduct contrary to these principles, with the guarantee that the personal data of the complainant and the alleged offender will remain confidential, through the Whistleblowing mechanism, which is available to employees as well as collaborators and independent contractors working with the Group on a regular basis. No incidents of discrimination were reported in 2018.

Adequately remunerating skills is one of the main levers for attracting and retaining top talent—which is key for growing the business.

Banca IFIS's remuneration and incentive policies are defined in accordance with the Group's culture and values, long-term strategies, and prudent risk management policies, consistently with the provisions concerning the prudential control process.

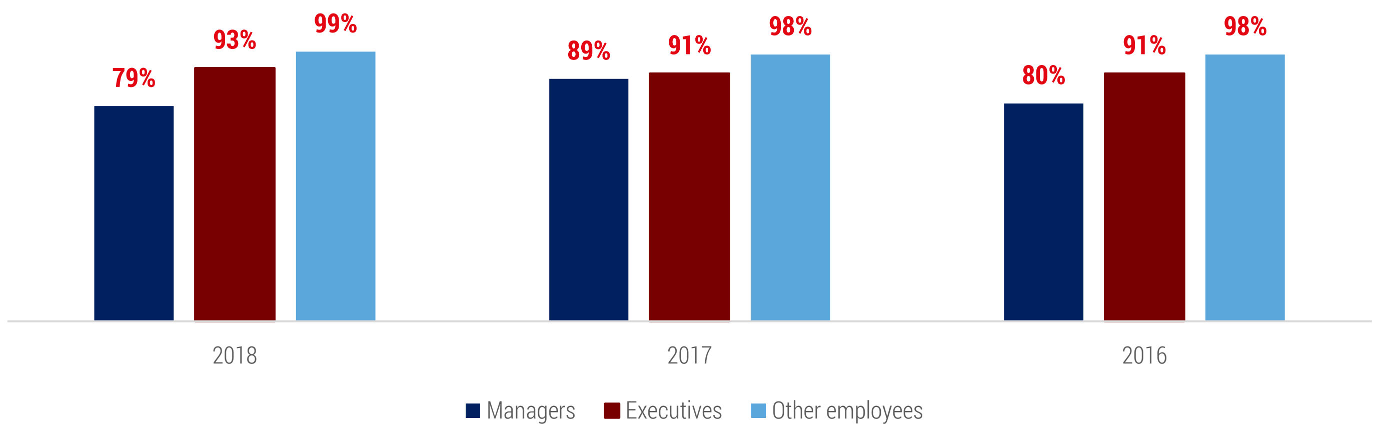
The Banca IFIS Group's remuneration and incentive scheme aims to balance competitiveness and the achievement of objectives with the sound governance of the Group, promoting a healthy and effective risk management, maintaining transparent and fair customer relationships, and seeking to align the interests of the different stakeholders as much as possible.

The Banca IFIS Group has an annual bonus scheme in place that follows the performance review as well as incentive schemes focused mainly on the sales force with bonuses contingent on achieving pre-set goals and awarded on a regular basis. Pursuant to the provisions of the Remuneration Report, which is approved annually by the Board of Directors and then the Shareholders' Meeting, the Group has a specific incentive scheme in place for employees considered to be Material Risk Takers.

In addition, the corporate bodies and employees have access to a number of benefits that vary in accordance with their role and/or service, such as insurance policies, lunch vouchers, company vehicles, and employer contributions to supplementary pensions plans.

The remuneration policy and the annual Remuneration Report are subject to review by the Internal Audit and Compliance functions (the review concerns the consistency of the incentive scheme with internal policies and regulations, and the comprehensiveness of the disclosures in the Report relative to regulatory requirements, respectively). The findings and any potential anomalies are reported to the Remuneration Committee, the Board of Directors, and the competent functions, allowing them to take corrective actions as needed, as well as, in condensed form, to the Shareholders' Meeting convened for the approval of the Financial Statements.

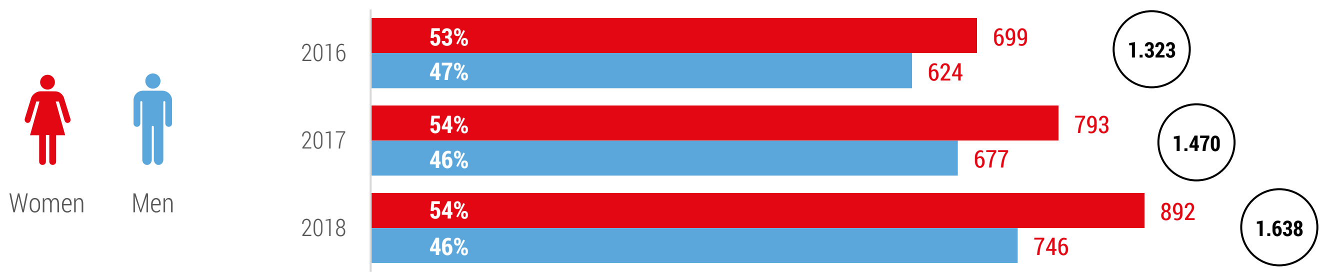
Ratio of basic salary of women to men by employee category (%)



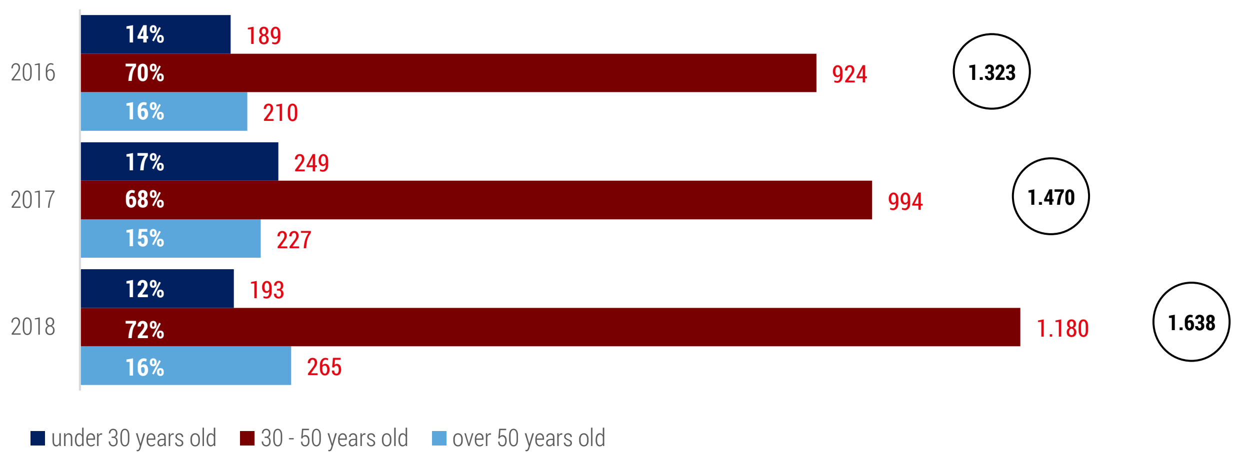
Concerning the ratio of the basic salary of women to men, there is substantial equality within the Clerical Staff category and a limited difference for Middle and Senior Managers. As for the latter category, the difference between 2017 and 2018 was attributable to the organisational changes resulting from the strategic transactions that concerned the Banca IFIS Group in 2018.

Additional information on employees

Breakdown of employees by gender



Breakdown of employees by age group



New employee hires and employee turnover by gender and age group

NEW EMPLOYEE HIRES BY GENDER [NO.]	2018	2017
Total new employee hires	318	282
Men	145	148
Women	173	134

NEW EMPLOYEE HIRES BY GENDER [%]	2018	2017
Total new employee hires	19%	19%
Men	19%	22%
Women	19%	17%

NEW EMPLOYEE HIRES BY AGE GROUP [NO.]	2018	2017
Total new employee hires	318	282
Under 30 years old	124	153
30-50 years old	152	126
Over 50 years old	42	3

NEW EMPLOYEE HIRES BY AGE GROUP [%]	2018	2017
Total new employee hires	19%	19%
Under 30 years old	64%	61%
30-50 years old	13%	13%
Over 50 years old	16%	1%

EMPLOYEE TURNOVER BY GENDER [NO.]	2018	2017
Total employee turnover	150	135
Men	76	95
Women	74	40

EMPLOYEE TURNOVER BY GENDER [%]	2018	2017
Total employee turnover	9%	9%
Men	10%	14%
Women	8%	5%

EMPLOYEE TURNOVER BY AGE GROUP [NO]	2018	2017
Total employee turnover	150	135
Under 30 years old	43	15
30-50 years old	92	80
Over 50 years old	15	40

EMPLOYEE TURNOVER BY AGE GROUP [%]	2018	2017
Total employee turnover	9%	9%
Under 30 years old	22%	6%
30-50 years old	8%	8%
Over 50 years old	6%	18%

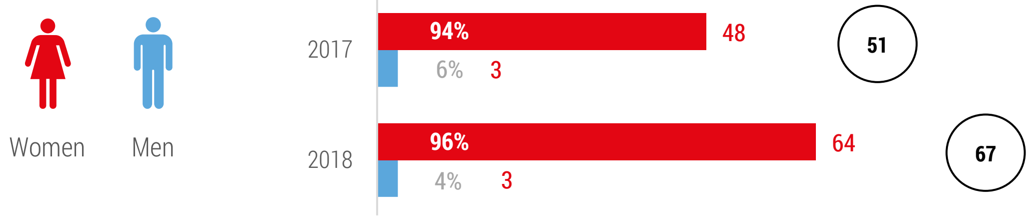
Breakdown of employees by employment contract

EMPLOYEES BY EMPLOYMENT CONTRACT AND GENDER [NO.]	2018	2017	2016
Total employees on open-ended contracts	1.549	1.367	1.200
Men	708	621	543
Women	841	746	657
Total employees on fixed-term contracts	89	103	123
Men	38	56	81
Women	51	47	42

EMPLOYEES BY EMPLOYMENT CONTRACT AND GENDER [%]	2018	2017	2016
Total employees on open-ended contracts			
Men	46%	45%	45%
Women	54%	55%	55%
Total employees on fixed-term contracts			
Men	43%	54%	66%
Women	57%	46%	34%

Full-time employees by gender

Part-time employees by gender



Breakdown of employees by employee category, gender and age group

EMPLOYEES BY EMPLOYEE CATEGORY AND GENDER [NO.]	2018	2017	2016
SENIOR MANAGERS	61	57	61
Men	47	44	48
Women	14	13	13
MIDDLE MANAGERS	486	450	393
Men	282	262	232
Women	204	188	161
CLERICAL STAFF*	1.091	963	869
Men	417	371	338
Women	674	592	531

*The INTERNATIONAL population (25 employees, 15 women and 10 men) was included in the CLERICAL STAFF category, as it cannot be classified otherwise in accordance with Italian law.

EMPLOYEES BY EMPLOYEE CATEGORY AND GENDER [%]	2018	2017	2016
SENIOR MANAGERS			
Men	77%	77%	79%
Women	23%	23%	21%
MIDDLE MANAGERS			
Men	58%	58%	59%
Women	42%	42%	41%
CLERICAL STAFF			
Men	38%	39%	39%
Women	62%	61%	61%

EMPLOYEES BY EMPLOYEE CATEGORY AND AGE GROUP [NO.]	2018	2017	2016
SENIOR MANAGERS	**61**	**57**	**61**
Less than 30 years old	0	0	0
Between 30 and 50 years old	32	29	33
More than 50 years old	29	28	28
MIDDLE MANAGERS	486	450	393
Less than 30 years old	3	5	2
Between 30 and 50 years old	340	310	263
More than 50 years old	143	135	128
CLERICAL STAFF*	1.091	963	869
Less than 30 years old	190	244	187
Between 30 and 50 years old	808	655	628
More than 50 years old	93	64	54

*The INTERNATIONAL population (25 employees, 15 women and 10 men) was included in the CLERICAL STAFF category, as it cannot be classified otherwise in accordance with Italian law.

EMPLOYEES BY EMPLOYEE CATEGORY AND AGE GROUP [%]	2018	2017	2016
SENIOR MANAGERS			
Less than 30 years old	0%	0%	0%
Between 30 and 50 years old	52%	51%	54%
More than 50 years old	48%	49%	46%
MIDDLE MANAGERS			
Less than 30 years old	1%	1%	1%
Between 30 and 50 years old	70%	69%	67%
More than 50 years old	29%	30%	33%
CLERICAL STAFF			
Less than 30 years old	17%	25%	22%
Between 30 and 50 years old	74%	68%	72%
More than 50 years old	9%	7%	6%

INDIVIDUALS FROM MINORITY OR VULNERABLE GROUPS [NO]	2018
Less than 30 years old	**5**
Men	4
Women	1
Between 30 and 50 years old	**51**
Men	18
Women	33
More than 50 years old	16
Men	4
Women	12

01.6. IFIS responsibility

01.6.1. Commitment to local communities

Policies and other reference documentation

• Code of Ethics

The Banca IFIS Group places special emphasis on strengthening its relationship with the communities in which it operates as well as regional and national stakeholders—evidence of its commitment to not only promoting entrepreneurship and a business culture, but also supporting charitable entities and associations, working on projects with schools and Universities, and hosting initiatives and events for the public or the business community on its premises.

The Communication organisational unit plans and organises the Group's events, initiatives and charitable donations in these areas, ensuring compliance with the principles and rules of conducts set out in the Code of Ethics as far as transparency, compliance with the law, the selection of recipients, and the accounting for the payments made are concerned.

Here below are the main initiatives carried out during 2018.

Raccontami Italia

In 2018, Banca IFIS Impresa celebrated the beauty of Italy and its cities through the new initiative #RaccontamItalia. The project aims to promote Italy by placing emphasis on the local businesses that represent one of the strengths of its economy through storytelling in local dialects and aerial drone footage. The videos were published on the Bank's social media pages and website. #RaccontamItalia has unveiled the secrets of Italy's communities, showcasing their peculiarities through regional products, local craftsmanship, traditions and idioms. The videos featured 19 cities and have received over 200.000 views as well as extensive coverage in local media.

Donations and Sponsorships

Metti in Banca il tuo Cuore (Put your Heart in the Bank)

Banca IFIS has been working for several years now with Associazione Amici del Cuore, a non-profit organisation that promotes initiatives concerning preventive healthcare, secondary rehabilitation and healthcare education as well as supports research in cardiovascular diseases. Once again in 2018, Banca IFIS supported the organisation with a donation and celebrated the World Heart Day, an event that promotes preventive healthcare organised by the Association in partnership with the Municipality of Venice.

Charitable Christmas

Banca IFIS decided to make the Christmas holidays an opportunity for charity by reserving part of the budget usually dedicated to company parties for a charitable project Specifically, for Christmas 2018, Banca IFIS decided to make a donation to UNICEF to support the "Lost in Education" project, which seeks to curb school dropout rates among immigrant or poor adolescents. The project spans the entire country, involving several schools across 7 regions and 17 municipalities.

Banca IFIS for schools

The importance of people's development for Banca IFIS has led the Group to promote access to information technology in schools in order to improve teaching and, therefore, learning. As in 2017, last year the Bank donated a number of company PCs: specifically, it donated 40 PCs to two schools in Treviso and Milan based on recommendations by employees. The Bank installed open-source operating systems and software on the devices—which, although no longer used, are fairly recent and in good condition—to make them immediately ready for use.

Relationships with schools, universities, and the public

Dual training

Banca IFIS has given 8 students from 7 different high schools in Milan the opportunity to attend a two-week training programme (approximately 80 hours) at the Bank. Specifically, the students attended group sessions where internal speakers explained the topics of the programme as well as spent time within the individual functions working on a mini-project assigned to them.

Banca IFIS and Universities

Banca IFIS's commitment to building relationships with young students at local Universities, with their ideas and skills, led a number of students to be involved in specific projects as well as the Bank to support various initiatives at several institutions. Specifically, in 2018 Banca IFIS sponsored the Journal of Law, Finance and Accounting Conference hosted by the University of Padua; the International Conference of the Journal of International Accounting Research (JIAR) at Venice's Ca Foscari University; and the mHACKeroni team, the Italian ethical hacking team born from the partnership between 4 universities—Politecnico di Milano, Ca'Foscari University of Venice, Rome's La Sapienza University, and the University of Padua—that are part of the National Cybersecurity Laboratory at the Italian Interuniversity Consortium for Informatics. Thanks to Banca IFIS's sponsorship, the team was able to participate in the DEF CON Capture the Flag global cybersecurity competition held in Las Vegas.

Festival of Politics

Once again in 2018, Banca IFIS sponsored Mestre's "Festival of Politics", which seeks to promote a discussion about the main Italian and international political, economic and social issues.

01.6.2. Responsible lending

Policies and other reference documentation

- Code of Ethics
- Group policy for managing significant transactions
- NO 112 – Leasing BU - Leasing preparation process (Banca IFIS)

The Group is sensitive to the indirect social and environmental impacts its operations may cause—also in accordance with the principles set out in the Code of Ethics.

The Banca IFIS Group addresses the **indirect social and environmental impacts associated with lending by regulating the sectors in which it operates** with reference to the type of products and services it offers through its Business Areas, considering also the potential reputational repercussions of any negative events on the Group.

As for leases, which involve providing assets to several industrial sectors, some of which have potentially negative social and environmental impacts, the Group has **counterparty and transaction criteria in place governing its operations** as part of the creditworthiness assessment process, such as:

- counterparty criteria: sectors in which the Group has decided not to operate or to carefully examine each individual case, according to processes involving the competent structures within Banca IFIS Impresa (e.g. transportation of hazardous materials and asbestos, nuclear waste disposal, gambling, etc.);
- transaction criteria: specific assets that the Group has decided to exclude from its operations because they negatively impact the environment (e.g. Production machinery and equipment such as treatment plants).

During 2018, the Banca IFIS Group expanded the scope of the operations subject to mechanisms for managing social and environmental impacts to include the so-called **significant transactions**, i.e. transactions with a high risk profile for the Group.

Specifically, it defined a **list of sectors applicable to all transactions carried out by the Group's entities** with potential environmental or social impacts that qualify as significant transactions. The financing arrangements with counterparties that operate in such sectors are subject to a more stringent assessment process that involves an assessment of their creditworthiness by the competent bodies as well as an analysis by Risk Management, which expresses its opinion.

01.6.3. Direct environmental impacts

All Employees must fully and substantially comply with legal provisions concerning the environment, as set out in the Code of Ethics. To this end, each Employee carefully assesses the environmental consequences of how they conduct themselves in the discharge of their duties in terms of resources consumed as well as emissions and waste generated.

As part of the implementation of the Organisational Model pursuant to Italian Legislative Decree 231/01 and in order to prevent criminal offences, Banca IFIS has adopted the "Integrated Safety and Environment Manual" (originally issued in 2009 and most recently updated in 2019), which was approved by the Board of Directors. The Manual is regularly updated by incorporating:

- changes to applicable laws,
- changes in the Group's structure and the positions responsible for the environment and safety.

The manual brings together all the procedures for managing environmental (as per Italian Legislative Decree no. 152 of 3 April 2006), health and safety impacts. The Employer is responsible for setting out, communicating and promoting the fundamental principles and criteria that guide decisions related to protecting the environment so as to prevent environmental offences, published through the Environmental Policy—which is regularly updated. Meanwhile, the Environment and Safety Office, which is part of the Tier-1 Organisational Unit General Services, is responsible for monitoring compliance with the Policy's principles as far as the environment is concerned through the implementation of the procedures in Manual.

The Banca IFIS Group endeavours to disseminate and consolidate a culture of environmental protection, raising awareness of environmental issues and promoting responsible practices, providing adequate information and training, and requiring employees to report any deficiencies or failures to comply with applicable regulations in a timely manner.

The Group manages the impacts generated by its operations in accordance with the Integrated Manual and applicable laws. The most material direct environmental impacts are the electricity consumed to power office equipment, the natural gas consumed for heating, and the emissions generated by the Group's vehicle fleet.

BREAKDOWN OF ENERGY CONSUMPTION BY SOURCE	UOM	**2018**
Natural gas consumption for central heating	GJ	5.887
Gasoline consumption for the vehicle fleet	GJ	146
Diesel consumption for the vehicle fleet	GJ	20.420
Consumption of purchased electricity (non-renewable)	GJ	13.711
Consumption of energy from solar panels (renewable)	GJ	269
TOTAL	**GJ**	**40.433**

GREENHOUSE GAS EMISSIONS	UOM	2018
Scope 1	**Ton. CO2 eq.**	**1.855**
Scope 2 (location based)	**Ton. CO2 eq.**	**1.229**

As for the reduction of energy consumption, the office located in Via Mercadante in Florence was built to eco-friendly standards and allows to curb energy consumption by self-generating electricity from solar panels.

Finally, Banca IFIS places special emphasis on protecting the plant and animal life of the Villa Fürstenberg garden—a 22-hectare green area that surrounds the Parent's historical headquarters (and current head office) in Mestre, Venice.

Methodological Note

Reporting method

The Non-Financial Statement has been prepared in accordance with the "Global Reporting Initiative Sustainability Reporting Standards" (hereinafter referred to as GRI Standards), issued in 2016 by the Global Reporting Initiative, following the "GRI-referenced" approach and referring to the select GRI Standards listed in the table below.

Specifically, for each material topic, the policies implemented and the due diligence processes were described based on Italian Legislative Decree 254/2016 and the "Disclosure on Management Approach" requirements in the GRI Standards, while performance indicators were selected from among those proposed by the GRI based on their materiality and representativeness relative to the Group's situation and businesses.

The following table lists the GRI Standards selected for the purposes of the Non-Financial Statement, including the "GRI G4 Financial Services Sector Disclosure:"

Chapters	Material Topic	GRI Standards referred to in the 2018 Non-Financial Statement		Notes
General information		102-1	Name of the organisation	Full
		102-2	Activities, brands, products, and services	Partial (a)
		102-3	Location of headquarters	Full (Via Terraglio 63 30174 Mestre-Venice, Italy)
		102-4	Location of operations	Full
		102-5	Ownership and legal form	Full
		102-6	Markets served	Full
		102-7	Scale of the organisation	Full
		102-8	Information on employees and other workers	Full
		102-10	Significant changes to the organisation and its supply chain	Full
		102-11	Precautionary principle or approach	Full
		102-16	Values, principles, standards, and norms of behaviour	Full
		102-18	Governance structure	Partial (a)
		102-41	Collective bargaining agreements	Full
		102-45	Entities included in the consolidated financial statements	Full
		102-46	Defining report content and topic boundaries	Partial (a)

		102-47	List of material topics	Full
		102-48	Restatements of information	Full
		102-49	Changes in reporting	Full
		102-50	Reporting period	Full (The report refers to the period from 1 January 2018 to 31 December 2018)
		102-51	Date of most recent report	Full (March 2018)
		102-52	Reporting cycle	Full (Annual)
		102-53	Contact point for questions regarding the report	Full (investor.relations@bancaifis.it)
		102-54	Claims of reporting in accordance with the GRI Standards	Full
		102-55	GRI content index	Full
		102-56	External assurance	Full
IFIS Integrity	Corporate integrity and anti-corruption	103	Management approach	Full
		205-2	Communication and training about anti-corruption policies and procedures	Full
		205-3	Confirmed incidents of corruption and actions taken	Full
	Credit quality	103	Management approach	Full
	Data protection	103	Management approach	Full
		418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Full
	Brand reputation	103	Management approach	Full
		102-15	Key impacts, risks, and opportunities	Full
IFIS Customers	Support to entrepreneurship and financial inclusion of customers	103	Management approach	Full
		FS16	Initiatives to enhance financial literacy by type of beneficiary	Full
	Digital innovation	103	Management approach	Full
	Quality of products and services	103	Management approach	Full
		FS15	Policies for the fair design and sale of financial products and services	Full

	Transparency of information on products and services	103	Management approach	Full
		417-2	Incidents of non-compliance concerning product and service information and labelling	Full
		417-3	Incidents of non-compliance concerning marketing communications	Full
IFIS People	Employee well-being	103	Management approach	Full
		401-1	New employee hires and employee turnover	Full
		401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Full (The definition of "significant locations of operations" refers to the Banca IFIS Group: the benefits reserved exclusively for permanent employees (which account for nearly all the Group's employees) are defined as a result of decisions that apply to the Group as a whole.)
		403-1	Workers representation in formal joint management-worker health and safety committees	Full
		403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Full
		405-1	Diversity of governance bodies and employees	Full
	Promotion and development of employees	103	Management approach	Full
		404-1	Average hours of training per year per employee	Full
		404-2	Programmes for upgrading employee skills and transition assistance programmes	Full
		404-3	Percentage of employees receiving regular performance and career development reviews	Full
	Diversity and inclusion	103	Management approach	Full
		405-2	Ratio of basic salary of women to men	Partial – limited to basic salary

		406-1	Incidents of discrimination and corrective actions taken	Full
IFIS Responsibility	Commitment to local communities	103	Management approach	Full
	Responsible lending	103	Management approach	Full
		FS2	Procedures for assessing and screening environmental and social risks in business lines	Full
	Direct environmental impacts (topic not found to be material but that was nonetheless reported in the NFS)	103	Management approach	Full
		302-1	Energy consumption within the organisation	Full
		305-1	Direct (Scope 1) GHG emissions	Full
		305-2	Energy indirect (Scope 2) GHG emissions	Full

*In all cases, the Global Reporting Initiative (GRI) disclosures refer to the standards issued in 2016.

Reporting process and calculation methods

As for the process, the business functions and the main Business Areas have been involved in both identifying the topics to focus the reporting on and gathering the qualitative and quantitative data necessary to prepare the Statement. Information was gathered through a centralised process as part of which Banca IFIS's functions consolidated the data received from all subsidiaries under the supervision of the Finance function.

The Non-Financial Statement is prepared annually and includes a comparison with the information provided in previous years.

The data is sourced from accounting and non-accounting records as well as the other IT systems in use at the competent functions, and validated by the relevant department heads.

The Non-Financial Statement is audited only to a limited extent by an independent auditor, EY S.p.A., which audits also the Banca IFIS Group's financial statements.

Concerning environmental data, the Group used the following calculation methods:

The conversion factor is taken from the Italian Banking Association's guidelines on the application of the GRI (Global Reporting Initiative) Environmental Indicators, version GRI standards - December 2018, for banks.

Emission factors and the global warming potential (GWP) are taken from the Italian Banking Association's guidelines on the application of the GRI (Global Reporting Initiative) Environmental Indicators [version GRI Standards – December 2018] for banks.

The Gases included in the calculation—and specified in the guidance—are CO2, CH4, and N20.

As for scope 2 emissions, the emission factors set out in the guidance were used as proxies to calculate emissions according to the “market based” method: the calculation of emissions using the “location based” method therefore coincides with the “market based” method.

Materiality analysis method

The materiality analysis was based on the methodological references set out in the GRI 2016 Sustainability Reporting Standards and the Communication 2017/C 215/01 from the European Commission (“Guidelines on non-financial reporting”). In addition, the Group also considered the GRI's Financial Services Sector Supplement and the Guidelines issued by the Italian Banking Association (ABI, *Associazione*

Bancaria Italiana) on the application of the GRI's indicators and the Social Reporting Standards of the GBS Association (*Gruppo di Studio per il Bilancio Sociale*) to the bank.

For the purposes of the 2018 materiality analysis, the Group considered the topics found to be "potentially material" in 2017, which were updated based on a benchmark analysis of the material topics reported in 2017 by leading Italian and international banking players.

This led to updating the "long list" of topics potentially material to the Banca IFIS Group. The topics were divided into six macro-areas, of which five coincide with those set out in Italian Legislative Decree 254/2016. The sixth area, which concerns "business topics", includes the topics that, although not expressly required by the Decree, were found to be potentially material for the purposes of the non-financial statement from both an internal and external perspective.

According to the European Commission's "Guidelines on non-financial reporting", each company assesses, among the topics potentially material to its business, which ones are relevant for the purposes of non-financial disclosure, based on its analysis of how important that information is in understanding its development, performance, position, and impact. This materiality assessment should take into account internal and external factors.

The GRI Sustainability Reporting Standards also suggest considering a combination of internal and external factors when assessing the materiality of the different topics, and recommend several "materiality tests" to take into account.

The materiality factors or "tests" may include:

- the company's mission, strategy, main risks and opportunities;
- existing management approaches and systems;
- environmental, social and governance challenges considered by other companies in the same sector;
- concerns, requests, and expectations expressed by stakeholders concerning either the company or, more broadly, the sector or businesses in general;
- existing or potential commitments in light of the adoption of voluntary standards or compliance with regulatory constraints.

In line with these references, in order to prioritise the potentially material topics and identify those to be addressed in the 2018 Non-Financial Statement, the Group gathered different types of data in order to assess two dimensions of materiality:

- internal materiality: materiality of the topics to the Banca IFIS Group based on its strategy and impacts;
- external materiality: materiality of the topics to stakeholders.

The methods of inquiry have been refined compared to 2017—including by upgrading the process in line with the best practices used by other industry players:

- internal materiality, assessed through meetings with the main corporate functions in order to evaluate their strategic materiality to Banca IFIS's Business and their potential impacts;
- to assess external materiality, the Group conducted an "indirect assessment" of the interests and expectations of key stakeholders through meetings with the main corporate functions that most engage with key stakeholders (e.g. customers, investors, etc.), including by analysing the outcomes of previous listening and engagement initiatives;

In accordance with Communication 2017/C 215/01 from the European Commission: «Guidelines on non-financial reporting», which recommends considering several factors when identifying and assessing material topics, in addition to the internal and external materiality assessment, the Group conducted the following "desk" analyses to complement the direct assessments of Banca IFIS's managers («weighting»).

Specifically, it analysed:

- policies, formalised procedures, organisational safeguards;
- main risks associated with non-financial topics;
- topics considered by the main competitors;
- emerging industry trends;
- public policies / regulatory changes concerning the industry.

The final step consisted in condensing all analyses and assessments carried out in order to determine the overall materiality of the topics considered, and thus identify the most material ones to be included in the 2018 Non-Financial Statement. The internal and external materiality scores were subsequently arranged in a matrix.

Finally, with the approval of the Finance function as well as the Chief Executive Officer, the Group set a materiality threshold of 3,5 for the purposes of the 2018 Non-Financial Statement, capable of representing in a significant manner the strategic importance of the topics to Banca IFIS's Business as well as the needs and expectations of its stakeholders.

Indipendent auditors' report on the Non-Financial Statement

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

EY S.p.A.
Via Isonzo, 11
37126 Verona

Tel: +39 045 8312511
Fax: +39 045 8312550
ey.com

Independent auditors' report on the consolidated disclosure of non-financial information in accordance with Article 3, par. 10, of Legislative Decree 254/2016 and with Article 5 of CONSOB Regulation adopted with Resolution n. 20267 of January 2018
(Translation from the original Italian text)

To the Board of Directors of
Banca IFIS S.p.A.

We have been appointed to perform a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of CONSOB Regulation adopted with Resolution 20267/2018, on the consolidated disclosure of non-financial information of Banca IFIS S.p.A. and its subsidiaries (hereinafter the "Group") for the year ended December 31, 2018 in accordance with article 4of the Decree approved by the Board of Directors on March 7, 2019 (hereinafter "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Standards" published in 2016 by GRI - Global Reporting Initiative ("GRI Standards") identified by them as reporting standard, with reference to selected GRI Standards as illustrated in the DNF section "Methodological Note".
The Directors are also responsible, within the terms provided by law, for that part of internal control, that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or not intentional behaviors or events.
The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the "Global Reporting Initiative Sustainability Reporting Standards" published in 2016 by GRI - Global Reporting Initiative ("GRI Standards"), with reference to selected GRI Standards as illustrated in the DNF section "Methodological Note".. Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This principle requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with y's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;

2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;

3. comparison of the economic and financial data and information included in the DNF with those included in the Banca IFIS Group's consolidated financial statements;

4. understanding of the following aspects:
   - Group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
   - policies adopted by the Group related to the matters indicated in art. 3 Decree, results achieved and related key performance indicators;
   - main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

   With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 5. a) below.

5. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.

   In particular, we have conducted interviews and discussions with the management of Banca IFIS S.p.A. and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

   Furthermore, at group level, for significant information, considering the Group activities and characteristics:

   - at Group level (Banca IFIS S.p.A. and its subsidiaries):
     a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
     b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
   - We have selected IFIS NPL S.p.A., Cap.Ital.Fin S.p.A. based on their activity, relevance to the consolidated performance indicators and location; we have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that DNF of the Banca IFIS Group for the year ended December 31, 2018has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the “Global Reporting Initiative Sustainability Reporting Standards” published in 2016 by GRI - Global Reporting Initiative (“GRI Standards”), with reference to selected GRI Standards.

Other Information

The comparative information presented in the DNF for the year ended December 31, 2017 have been examined.

Verona, March 25, 2019
EY S.p.A.
Signed by: Marco Bozzola, Partner

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

02

Directors' Report

02.1. Introductory notes on how to read the data

Here are the events that should be considered when comparing the data to previous years:

- **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 with the new accounting categories and the relevant measurement bases introduced by the new standard. The impact of the restatement of the carrying amounts at 1 January 2018 has been recognised in initial retained earnings and in other reserves included in other comprehensive income. For more details, please refer to the paragraph Accounting Policies in the Notes to the Consolidated Financial Statements at 31 December 2018.
  For comparison purposes, the line items of the statement of financial position presented in this Directors' Report are compared with those at 1 January 2018, whereas in the case of the income statement, the comparative information has been conventionally reconciled with the new line items set out in the 5th update to Circular 262.
  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 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 for the year 2017 has been conventionally reconciled with the new line items set out in the 5th update to Circular 262.
- **Refinement of the method for estimating cash flows associated with the NPL segment's receivables**: in 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.

The application of this model to the positions that met the relevant requirements resulted in an approximately 67,6 million Euro positive impact recognised through profit or loss in 2018. In line with the change in positive cash flows, during the year 2018 the Group recognised 25,1 million Euro in previously deferred costs (legal expenses and registration fees) associated with judicial collection actions through profit or loss. For more details, please refer to the section "Contribution of operating segments to Group results".

- The line item **Net credit risk losses**[1] totalled 100,1 million Euro (compared to 26,1 million Euro at 31 December 2017) and was entirely related to the Enterprises segment. The increase in provisions was largely attributable to positions classified as bad loans or unlikely to pay in the construction segment, amounting to 60 million Euro. Two of them were related to long-standing counterparties (the relationships began nearly 15 years ago) operating in the Italian infrastructure industry, which concerned the country's entire banking system (50 million Euro for the two long-standing counterparties). For comparative purposes, please note that the data for 2017 reflected reversals of impairment losses resulting from the successful completion of restructuring transactions, including an individually significant transaction of 19,0 million Euro.
- **Acquisition of Cap.Ital.Fin. S.p.A.**: on 2 February 2018, the Banca IFIS Group acquired 100% of Cap.Ital.Fin. S.p.A., a company specialising in salary-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees. The cost incurred for the acquisition of the subsidiary Cap.Ital.Fin. S.p.A. was provisionally estimated at 710 thousand Euro, compared to the original 2,1 million Euro paid: the cost is still subject to adjustments under the agreement with the seller. The consolidation process has brought about 700 thousand Euro in goodwill, recognised under item 130 'Intangible assets'.
- **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 estimated at 3,9 million Euro, which was recognised under Other operating income.

[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.

02.2. Highlights

Reclassified 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2018	01.01.2018	ABSOLUTE	%
Financial assets at fair value through other comprehensive income	432.094	442.073	(9.979)	(2,3)%
Receivables due from banks measured at amortised cost	590.595	1.759.780	(1.169.185)	(66,4)%
Loans to customers measured at amortised cost	7.313.972	6.401.686	912.286	14,3%
Total assets	9.382.261	9.563.274	(181.013)	(1,9)%
Due to banks	785.393	791.977	(6.584)	(0,8)%
Due to customers	4.673.299	5.293.188	(619.889)	(11,7)%
Debt securities issued	1.979.002	1.639.994	339.008	20,7%
Equity	1.459.000	1.371.660	87.340	6,4%

CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	YEAR		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	**576.503**	**525.328**	**51.175**	**9,7%**
Net credit risk losses	(100.094)	(26.106)	(73.988)	283,4%
Net profit (loss) from financial activities	**476.409**	**499.222**	**(22.813)**	**(4,6)%**
Operating costs	(273.431)	(250.647)	(22.784)	9,1%
Pre-tax profit from continuing operations	202.978	248.575	(45.597)	(18,3)%
Net profit attributable to the Parent	**146.763**	**180.767**	**(34.004)**	**(18,8)%**

QUARTERLY CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	4th QUARTER		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	**172.953**	**150.020**	**22.933**	**15,3%**
Net credit risk losses	(31.179)	(37.075)	5.896	(15,9)%
Net profit (loss) from financial activities	**141.774**	**112.945**	**28.829**	**25,5%**
Operating costs	(64.566)	(69.921)	5.355	(7,7)%
Pre-tax profit from continuing operations	77.208	43.024	34.184	79,5%
Net profit attributable to the Parent	**57.769**	**31.644**	**26.125**	**82,6%**

02.3. Group KPIs

Reclassified 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.

GROUP KPIs	YEAR		CHANGE
	2018	2017[1]	
ROE	10,5%	13,9%	(3,4)%
ROA	2,2%	2,6%	(0,4)%
Cost/Income ratio	47,4%	49,3%	(1,9)%
Ratio - Total Own Funds	14,01%	16,15%	(2,1)%
Ratio - Common Equity Tier 1	10,30%	11,66%	(1,4)%
Number of company shares (in thousands)	53.811	53.811	0,0%
Number of shares outstanding at period end[2] (in thousands)	53.441	53.433	0,0%
Book value per share	27,30	25,62	6,6%
EPS	2,75	3,38	(18,6)%
Dividend per share	1,05[3]	1,00	5,0%
Payout ratio	38,2%	29,6%	8,6%

(1) Data 2017 are those originally published.

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

(3) Dividend proposed by Banca IFIS's Board of Directors.

02.4. Context

In today's globalised world, understanding the outlook for the Italian market necessarily requires looking at international economic trends. In recent months, the world economy has continued growing (+3,7% according to the IMF's latest global GDP growth estimate for 2018), but several advanced and emerging countries are now showing signs of deterioration. As a result, in January 2019 the IMF's macroeconomic outlook shaved 0,2 percentage points off world GDL growth, bringing it down to 3,5%. The global outlook is clouded by risks related to the uncertainty over trade negotiations between the United States and China, resurgent financial tensions in emerging countries, and how Brexit will play out. In particular, the outlook for the Chinese and American economies significantly affects global growth prospects. On the one hand, Chinese exports were hit by America's protectionist policy; on the other hand, the US consumer confidence index, tracked by the Conference Board, declined to its lowest level since July 2017, in part because of the government shutdown (a stop to administrative operations as a result of Congress's failure to approve the budget) but also due to slowing investments.

The global deceleration in the demand for capital goods weighed on the entire Euro Area and specifically the German economy, which is heavily reliant on them. This slump was confirmed also by the reduction in the Euro Area GDP growth forecast for 2018 from 1,9% to 1,3% (as recently issued by the European Commission as well as the IMF in its *World Economic Outlook*).

Based on this international scenario, the median projection for Italy's GDP is 0,6% according to both the Bank of Italy and the IMF. In both cases, the most significant aspect is the 0,4% reduction compared to the previous estimate. The -0,2% GDP growth for 2019 announced by ISTAT in January is in line with said projections. Both the scaling back of business investment plans and the slowdown in global trade caused the outlook to deteriorate. Despite monetary conditions that will remain accommodating, as the ECB announced at the December 2018 meeting, between 2019 and 2021 the expected rise in borrowing costs, the erosion of business confidence, and the reduction in tax incentives compared to the previous three-year period as per the 2019 Budget Law will weigh on investments. The downward slide in investments and slowing global trade immediately affected Italy's industrial output: even though it grew by 0,8% on average in 2018, thanks to the positive spillover effect from the previous year, it declined in each quarter. Specifically, in December 2018 it fell dramatically compared to both the previous month (-0,8%) and the prior-year period (-5,5%).

In Italy, the main risks of financial instability stem from the low GDP growth rate—attributable to the above factors—and the country's huge public debt. However, there are strengths capable of compensating for said risks: the limited level of private debt, one of the lowest across the Euro Area; the improvement in the balance of payments, driven by a large trade surplus; and the long average remaining maturity of public debt, capable of mitigating the risks associated with refinancing costs.

Reference markets

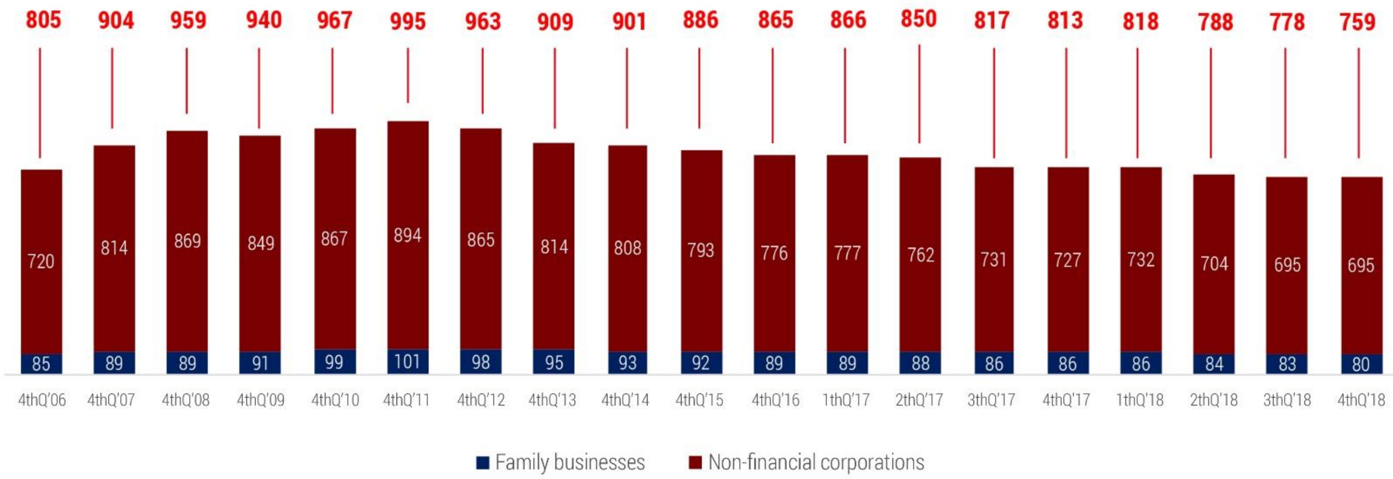
Enterprises

Italian companies are less bullish on the overall economic outlook, even compared to the autumn of 2018: Demand is expected to fall and investments to slow down compared to last year, even though they should remain in positive territory.

However, the downturn will hit a manufacturing industry that since 2012 has been seeing rising profitability and an improved financial situation. According to Banca IFIS's s internal analyses (*Market Watch PMI* of November 2018) of the most recent financial statements of small and medium businesses, turnover was up 8,2%, added value increased by 9,6%, and the number of employees rose by 8%. Meanwhile, investments have been growing steadily (fixed assets were up 6,5% in 2017)—which is even more striking when considering they outpaced the rise in borrowing (+4,8%) during the same period. This positive trend caused leverage (calculated as the ratio of the net financial position to gross operating margin) to decline by 0,23 percentage points from an average of 1,39 to 1,15 in 2017. Therefore, we can expect the balance sheet adjustments seen in recent years, together with persistently low interest rates, to mitigate the slump. In addition, businesses will be able to weather potential contractions in own funds thanks to the build-up of liquid assets: according to ISTAT, these now exceed 20% of Italian GDP, the highest level in 20 years. The analysis conducted by Banca IFIS's observatory on SMEs confirms this trend: the 2017 financial statements point to a 54% increase in cash and cash equivalents compared to 2014.

At the end of 2018, bank loans to businesses (financial companies and producer households) were down 6,6% from 2017 and nearly 24% from 995 billion Euro in December 2011.

Loans (amounts) - Non-financial companies and producer households (Billions of €)



Business borrowings vary significantly across risk classes and firm sizes. Financing appears to be growing only for robust and large companies, leaving the task of making up for the liquidity shortfall or supporting the investments of small and micro businesses to the lenders that will be able to do it.

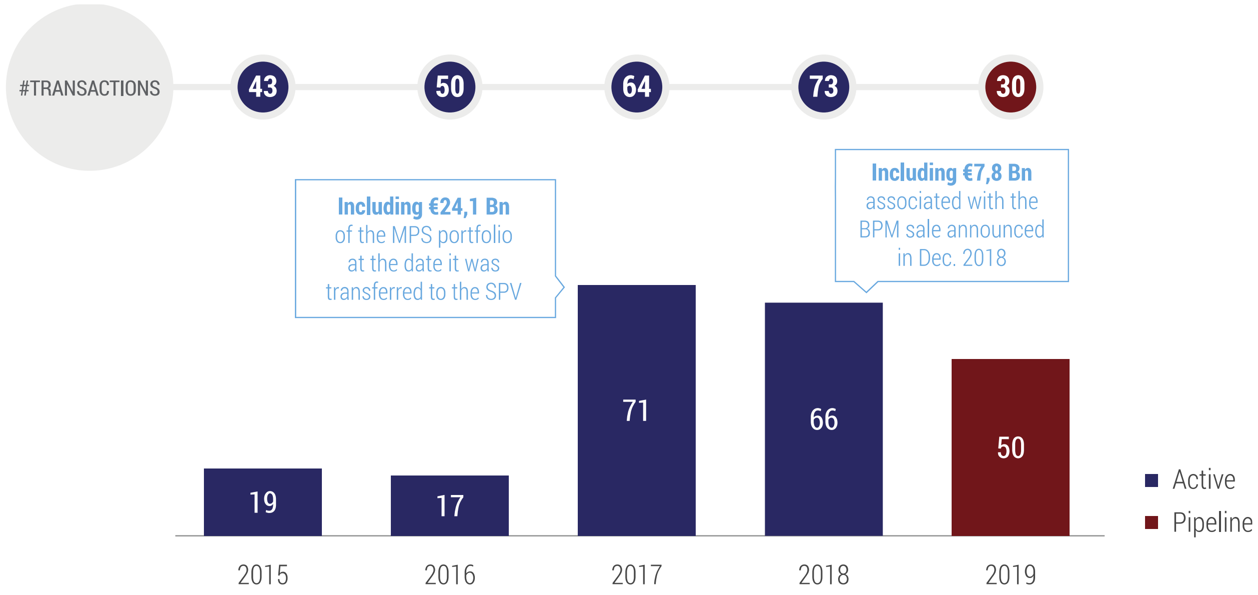
We can look at lending also from a different perspective, considering bank loans together with specialised credit products (factoring, leasing, bonds, and individual savings plans). The overall picture points to an 8,2% reduction in outstanding loans (from 1.114 billion Euro in 2008 to 1.023 billion Euro at September 2018). Notably, this more limited decline occurred at the same time as specialised forms of credit rose steadily, from 16,5% to 28,2% as a proportion of total loans, showing the growing interest in these products among firms. This trend is reflected in the growth of factoring turnover (+7,6% in 2018, amounting to 239 billion Euro) and new leasing volumes (+5,3% compared to 2017).

Non-Performing Exposures

In Italy, Non-Performing Exposures (NPEs) held by banks have fallen by 55 billion Euro from December 2017 (-21%) and 114 billion Euro from the end of 2016 (-35%). This was driven by the gradually increasing number of Bad Loans sold by banks and financial firms as well as the regulations introduced by the ECB, which, combined with the adoption of the accounting standard IFRS9 and a more careful management of non-performing exposures, caused the bad-loan coverage ratio to rise from 61,7% to 68,1%.

This scenario fuelled the growth of the market for NPL portfolios, which had already reached maturity in 2017 with 71 billion Euro worth of transactions, followed by 66 billion Euro in 2018 (as estimated by Banca IFIS's *Market Watch NPL*).

NPL Transactions – € Millions



	2015	2016	2017	2018	2019
% GACS	0%	3%	38%	44%	18%
% SECONDARY	31%	51%	4%	2%	39%

The growth of the market for NPL Transactions has been driven also by the adoption of the Italian government's state-guarantee scheme (GACS), which accompanied a significant portion of the volumes of NPL sold: 38% in 2017 and 44% last year.

A large number of major transactions in NPL portfolios is expected also for 2019. The main driver of this new trend will be the growth of the so-called secondary market: in 2019, transactions between investors (funds and specialist players) in portfolios already put on the market in previous years are estimated to account for 39% of the total.

After nearly 155 billion Euro worth of assets (excluding the secondary market) arrived on the market between 2015 and 2018, going forward the challenge will be servicing these NPL portfolios. According to our estimates, the bad loans to be managed in Italy at the end of 2018 totalled 266 billion Euro (Banca IFIS's *Market Watch NPL*). The focus on bad loans puts servicing front and centre. The servicing industry shows a significant concentration: eight servicers account for 45% of overall NPL volumes; of the remainder, only 11% are serviced by smaller players, while 44% are bad loans held by banks. Therefore, size seems to make a difference in delivering an adequate servicing performance, likely because of the considerable IT and organisational investments required. We should thus expect further transfers of NPLs, resulting in a concentration of portfolios and servicers.

02.5. Results by business segments

Reclassified 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.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Financial assets held for trading through profit or loss				
Amounts at 31.12.2018	-	-	29.809	**29.809**
Amounts at 01.01.2018	*-*	*-*	*35.614*	***35.614***
% Change	*-*	*-*	*(16,3)%*	***(16,3)%***
Other financial assets mandatorily measured at fair value through profit or loss				
Amounts at 31.12.2018	114.619	-	49.226	**163.845**
Amounts at 01.01.2018	*58.758*	*-*	*-*	***58.758***
% Change	*95,1%*	*-*	*n.a.*	***178,8%***
Financial assets at fair value through other comprehensive income				
Amounts at 31.12.2018	12.188	-	419.906	**432.094**
Amounts at 01.01.2018	*13.297*	*-*	*428.776*	***442.073***
% Change	*(8,3)%*	*-*	*(2,1)%*	***(2,3)%***
Receivables due from banks measured at amortised cost				
Amounts at 31.12.2018	-	-	590.595	**590.595**
Amounts at 01.01.2018	*-*	*-*	*1.759.780*	***1.759.780***
% Change	*-*	*-*	*(66,4)%*	***(66,4)%***
Loans to customers measured at amortised cost				
Amounts at 31.12.2018	5.918.496	1.092.799	302.677	**7.313.972**
Amounts at 01.01.2018	*5.462.239*	*799.436*	*140.011*	***6.401.686***
% Change	*8,4%*	*36,7%*	*116,2%*	***14,3%***
Due to banks				
Amounts at 31.12.2018	-	-	785.393	**785.393**
Amounts at 01.01.2018	*-*	*-*	*791.977*	***791.977***
% Change	*-*	*-*	*(0,8)%*	***(0,8)%***
Due to customers				
Amounts at 31.12.2018	-	-	4.673.299	**4.673.299**
Amounts at 01.01.2018	*-*	*-*	*5.293.188*	***5.293.188***
% Change	*-*	*-*	*(11,7)%*	***(11,7)%***
Debt securities issued				
Amounts at 31.12.2018	-	-	1.979.002	**1.979.002**
Amounts at 01.01.2018	*-*	*-*	*1.639.994*	***1.639.994***
% Change	*-*	*-*	*20,7%*	***20,7%***

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 31.12.2018	335.513	244.234	(3.244)	**576.503**
Amounts at 31.12.2017	*349.497*	*164.505*	*11.326*	***525.328***
% Change	*(4,0)%*	*48,5%*	*(128,6)%*	***9,7%***
Net profit (loss) from financial activities				
Amounts at 31.12.2018	238.075	244.234	(5.900)	**476.409**
Amounts at 31.12.2017	*327.017*	*164.505*	*7.700*	***499.222***
% Change	*(27,2)%*	*48,5%*	*(176,6)%*	***(4,6)%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Fourth quarter 2018	93.957	75.991	3.005	**172.953**
Fourth quarter 2017	*88.894*	*56.140*	*4.986*	***150.020***
% Change	*5,7%*	*35,4%*	*(39,7)%*	***15,3%***
Net profit (loss) from financial activities				
Fourth quarter 2018	64.963	75.991	821	**141.774**
Fourth quarter 2017	*56.274*	*56.140*	*531*	***112.945***
% Change	*15,4%*	*35,4%*	*54,6%*	***25,5%***

SEGMENT KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality (1)			
Amounts at 31.12.2018	1,70%	-	-
Amounts at 31.12.2017	*0,31%*	-	-
% Change	*1,39%*	-	-
Net bad loans/Loans to customers			
Amounts at 31.12.2018	1,1%	-	4,0%
Amounts at 01.01.2018	*1,2%*	-	*9,4%*
% Change	*(0,1)%*	-	*(5,4)%*
Coverage ratio on gross bad loans			
Amounts at 31.12.2018	73,0%	-	15,4%
Amounts at 01.01.2018	*71,0%*	-	*6,7%*
% Change	*2,0%*	-	*8,7%*
Net non-performing exposures/Net loans to customers			
Amounts at 31.12.2018	5,2%	99,6%	11,8%
Amounts at 01.01.2018	*6,2%*	*99,9%*	*16,9%*
% Change	*(1,0)%*	*(0,3)%*	*(5,1)%*
Gross non-performing exposures/Gross loans to customers			
Amounts at 31.12.2018	9,5%	99,6%	13,8%
Amounts at 01.01.2018	*9,9%*	*99,9%*	*19,2%*
% Change	*(0,4)%*	*(0,3)%*	*(5,4)%*
RWAs(2) (3)			
Amounts at 31.12.2018	4.793.273	1.584.420	657.733
Amounts at 01.01.2018	*4.450.750*	*801.915*	*424.484*
% Change	*7,7%*	*97,6%*	*54,9%*

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

(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.

(3) The Governance & Services sector's RWAs include the investments in non-financial companies consolidated using the equity method and that are not part of the Banking Group for supervisory purposes.

02.6. Reclassified 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			
	31.12	30.09	30.06	31.03
ASSETS				
Other financial assets mandatorily measured at fair value through profit or loss	163.845	133.665	130.520	115.597
Financial assets at fair value through other comprehensive income	432.094	428.253	433.827	453.847
Due from banks	590.595	1.452.011	1.568.042	1.565.449
Loans to customers	7.313.972	6.919.486	6.710.457	6.457.208
Property, plant and equipment	130.650	131.247	130.399	127.005
Intangible assets	23.277	25.500	24.815	25.250
Tax assets	395.084	409.324	400.773	408.270
Other assets	332.744	343.443	333.910	368.176
Total assets	**9.382.261**	**9.842.929**	**9.732.743**	**9.520.802**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2018			
	31.12	30.09	30.06	31.03
LIABILITIES AND EQUITY				
Due to banks	785.393	837.565	882.324	820.190
Due to customers	4.673.299	4.985.206	4.840.864	5.022.110
Debt securities issued	1.979.002	2.094.785	2.095.844	1.774.973
Tax liabilities	52.722	51.116	50.519	48.140
Other liabilities	432.845	476.827	490.109	442.400
Equity:	1.459.000	1.397.430	1.373.083	1.412.989
- Share capital, share premiums and reserves	*1.312.237*	*1.308.436*	*1.306.874*	*1.375.135*
- Profit for the period	*146.763*	*88.994*	*66.209*	*37.854*
Total liabilities and equity	**9.382.261**	**9.842.929**	**9.732.743**	**9.520.802**

CONSOLIDATED INCOME STATEMENT: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2018			
	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	**140.014**	**99.670**	**110.097**	**119.480**
Net commission income	**24.525**	**20.206**	**19.954**	**19.820**
Other components of net banking income	8.414	5.557	8.688	78
Net banking income	**172.953**	**125.433**	**138.739**	**139.378**
Net credit risk losses/reversals	(31.179)	(28.879)	(29.079)	(10.957)
Net profit (loss) from financial activities	**141.774**	**96.554**	**109.660**	**128.421**
Personnel expenses	(28.303)	(27.830)	(28.624)	(26.827)
Other administrative expenses	(42.707)	(38.734)	(48.460)	(46.625)
Net allocations to provisions for risks and charges	3.207	(6.254)	3.754	(2.806)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(3.685)	(3.148)	(3.116)	(2.809)
Other operating income/expenses	6.922	11.277	5.691	5.646
Operating costs	**(64.566)**	**(64.689)**	**(70.755)**	**(73.421)**
Pre-tax profit (loss) for the period from continuing operations	**77.208**	**31.865**	**38.905**	**55.000**
Income taxes for the period relating to continuing operations	(19.447)	(9.025)	(10.550)	(17.146)
Profit (Loss) for the period	**57.761**	**22.840**	**28.355**	**37.854**
Profit (Loss) for the period attributable to non-controlling interests	(8)	55	-	-
Profit (loss) for the period attributable to the Parent company	**57.769**	**22.785**	**28.355**	**37.854**

INCOME STATEMENT DATA BY SEGMENT: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2018			
	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**172.953**	**125.433**	**138.739**	**139.378**
Enterprises	*93.957*	*76.483*	*86.435*	*78.637*
NPL	*75.991*	*48.953*	*54.231*	*65.059*
Governance & Services	*3.005*	*(3)*	*(1.927)*	*(4.318)*
Net profit (loss) from financial activities	**141.774**	**96.554**	**109.660**	**128.421**
Enterprises	*64.963*	*47.006*	*58.471*	*67.634*
NPL	*75.991*	*48.953*	*54.231*	*65.059*
Governance & Services	*821*	*595*	*(3.042)*	*(4.273)*

02.7. Group historical data

Reclassified 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 during the last 5 years.

HISTORICAL DATA (1) (in thousands of Euro)	31.12.2018	31.12.2017	31.12.2016 RESTATED	31.12.2015	31.12.2014
Financial assets at fair value through other comprehensive income (IFRS 9)	432.094	-	-	-	-
Available for sale financial assets (IAS 39)	-	456.549	374.229	3.221.533	243.325
Loans to customers measured at amortised cost	7.313.972	6.435.806	5.928.212	3.437.136	2.814.330
Due to banks	785.393	791.977	503.964	662.985	2.258.967
Due to customers	4.673.299	5.293.188	5.045.136	5.487.476	5.483.474
Debt securities issued	1.979.002	1.639.994	1.488.556	-	-
Equity	1.459.000	1.368.719	1.218.783	573.467	437.850
Net banking income	576.503	519.643	325.971	407.958	284.141
Net profit (loss) from financial activities	476.409	504.827	299.366	373.708	249.631
Profit (loss) for the year attributable to the Parent	146.763	180.767	697.754	161.966	95.876
KPI:					
ROE	10,5%	13,9%	99,6%	30,4%	23,5%
ROA	2,2%	2,6%	8,4%	3,5%	1,7%
Total Own Funds Capital Ratio	14,01%	16,15%	15,39%	14,91%(2)	14,21%
Common Equity Tier 1 Ratio	10,30%	11,66%	14,80%	14,22%(2)	13,89%
Number of shares outstanding at period end(3) (in thousands)	53.441	53.433	53.431	53.072	52.924
Book value per share	27,30	25,62	22,99	10,81	8,27
EPS	2,75	3,38	13,13	3,05	1,81
Dividend per share	1,05(4)	1,00	0,82	0,76	0,66
Payout ratio	38,2%	29,6%	6,3%	24,9%	36,4%

(1) The data for periods prior to 1.1.2018 are those originally published.

(2) Total consolidated own funds (amounting to 486.809 thousand Euro) differ from the amount reported in the consolidated financial statements for the year ended 31 December 2015 (501.809 thousand Euro) due to the 15 million Euro dividend payout approved by the Shareholders' Meeting of the parent company La Scogliera S.p.A. on 23 March 2016. The consolidated supervisory reports at 31 December 2015, as well as the relevant capital adequacy ratios, had already been adjusted at the end of March 2016 to account for said dividend payout. The data on consolidated Own Funds and capital adequacy ratios account for the impact of said distribution.

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

(4) Dividend proposed by Banca IFIS's Board of Directors.

02.8. APM – Alternative Performance Measures

The Banca IFIS Group has defined a number of indicators, listed in the tables of the Group's KPIs, that provide Alternative Performance Measures ("APM") to help investors identify significant operational trends and financial ratios.

For a proper understanding of these APMs, please consider the following:

- these measures are based exclusively on the Group's historical data and are not indicative of the Group's future performance;
- APMs are non-IFRS measures and, although they are derived from the Group's consolidated financial statements, they are not audited;
- APMs are not intended as a substitute for IFRS measures;
- said APMs shall be considered in conjunction with the Group's financial information derived from its consolidated financial statements;
- since these are non-IFRS measures, the definitions of the measures used by the Group may differ from, and therefore not be comparable to, those used by other companies/groups;
- the APMs used by the Group are consistent across all reporting periods for which the Group has disclosed financial information in these financial statements. However, please note that, following the introduction of IFRS 9, the Group elected not to restate the comparative information in the year of initial application; therefore, the amounts for 2017, calculated under IAS 39, are not fully comparable. The comparative information for APMs presented here is thus the same as originally published.

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

ROE - Return on equity (in thousands of Euro)	YEAR	
	2018	2017
A. Net profit attributable to the Group	146.763	180.767
B. Average consolidated equity	1.402.244	1.299.098
ROE (A/B)	**10,5%**	**13,9%**

Average consolidated equity is calculated as the average for the periods presented below:

Consolidated equity (in thousands of Euro)	31.12.2017	31.03.2018	30.06.2018	30.09.2018	31.12.2018	2018 Average
Consolidated Equity	1.368.719	1.412.989	1.373.083	1.397.430	1.459.000	**1.402.244**

Consolidated equity (in thousands of Euro)	31.12.2016	31.03.2017	30.06.2017	30.09.2017	31.12.2017	2017 Average
Consolidated Equity	1.228.552	1.266.426	1.293.061	1.338.733	1.368.719	**1.299.098**

ROA - Return on assets (in thousands of Euro)	YEAR	
	2018	2017
A. Pre-tax profit from continuing operations	202.978	248.575
B. Total assets	9.382.261	9.569.859
ROA (A/B)	**2,2%**	**2,6%**

Reclassified cost/income ratio [1] (in thousands of Euro)	YEAR	
	2018	2017
A. Operating costs	273.431	256.284
B. Net banking income [1]	576.503	519.643
Reclassified cost/income ratio (A/B)	**47,4%**	**49,3**

(1) 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 for which net impairment losses represent an integral part of the return on the investment.

Book value per share (in thousands of Euro)	YEAR	
	2018	2017
A. Number of shares outstanding	53.440.983	53.433.266
B. Consolidated equity	1.459.000	1.368.719
Book value per share (B/A) Euro	**27,30**	**25,62**

Payout ratio (in thousands of Euro)	YEAR	
	2018	2017
A. Consolidated net profit for the year	146.763	180.767
B. Parent company dividends	56.113[1]	53.433
Payout Ratio (B/A)	**38,2%**	**29,6%**

(1) Dividend proposed by Banca IFIS's Board of Directors.

The Parent company's dividends are calculated as follows:

Parent company dividends	YEAR	
	2018	2017
A. Dividend per share Euro	1,05[1]	1,00
B. Number of shares outstanding	53.440.983	53.433.266
Parent company dividends (AxB)	**56.113.032**	**53.433.266**

(1) Dividend proposed by Banca IFIS's Board of Directors.

02.9. Impact of regulatory changes

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

- Effective 1 January 2018, the following international accounting standards became effective (the impact of their first-time adoption is detailed in the Notes to the Consolidated Financial Statements):
  - IFRS 9 “Financial Instruments”, issued by the IASB in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016, which superseded IAS 39 in governing the classification and measurement of financial instruments as well as the relevant impairment process; please refer to the paragraph Impact of the first-time adoption of IFRS 9;
  - IFRS 15 “Revenue from Contracts with Customers”, endorsed by the European Commission with Regulation no.1905/2016, which replaced IAS 18 “Revenue” and IAS 11 “Construction Contracts”; please refer to the paragraph Impact of the first-time adoption of IFRS 15;
- 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)—became effective on 1 January 2018. These 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.
- As of 1 January 2018, the transitional arrangements introduced by Regulation no. 575/2013 (CRR) for mitigating the deduction of “Deferred tax assets that rely on future profitability and do not arise from temporary differences” from CET1 (Article 478 CRR) and the partial eligibility of non-controlling interests (Article 480 CRR) no longer apply.
- In light of the clarifications issued by the EBA, with reference to Article 127 “Exposures in default” in Regulation no. 575/2013, acquired non-performing exposures are assigned a 150% risk weight as long as the risk adjustments recognised through profit or loss amount to less than 20% of the purchase price.
- Among the latest regulations on tax matters, the following impacted the determination of the Banca IFIS Group's income tax expense for 2018 the most. Specifically, please consider the following:
  - Italian Law no 96 of 21 June 2017 reduced the rate of return to be applied to the net change in equity for the calculation of the ACE (Aid for Economic Growth) benefit to 1,5% for 2018 (4,75% in 2016, 1,6% in 2017).
  - Italian Law no. 205 of 27 December 2017 (Article 1, paragraph 29) extended the so-called super-depreciation regime, increasing the depreciable cost by 30% (instead of the 40% applicable to investments made through 31 December 2017) for businesses and practitioners of crafts and professions.

02.10. 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, segment reporting is divided as follows:

- **Enterprises Segment**: it essentially corresponds to the former Trade Receivables, Corporate Banking, Leasing, and Tax Receivables segments, and represents the Group's commercial offerings for businesses. The segment's results include also the investee Credifarma S.p.A., which joined the Group effective 2 July 2018;
- **NPL Segment**, dedicated to non-recourse factoring and managing mostly unsecured distressed retail loans; it corresponds to the former NPL Area segment;
- **Governance & Services Segment**, which provides the segments operating in the Group's core businesses with the financial resources and services necessary to perform their respective activities. It includes also the Bank's growing business with individuals—and specifically the operations of the subsidiary Cap.Ital.Fin. S.p.A., which recently joined the Group and extends salary- or pension-backed loans and some 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 conventionally reconciled with the new line items set out in the 5th update to Circular 262.

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 31.12.2018	335.513	244.234	(3.244)	**576.503**
Amounts at 31.12.2017	*349.497*	*164.505*	*11.326*	***525.328***
% Change	*(4,0)%*	*48,5%*	*(128,6)%*	***9,7%***
Net profit (loss) from financial activities				
Amounts at 31.12.2018	238.075	244.234	(5.900)	**476.409**
Amounts at 31.12.2017	*327.017*	*164.505*	*7.700*	***499.222***
% Change	*(27,2)%*	*48,5%*	*(176,6)%*	***(4,6)%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Fourth quarter 2018	93.957	75.991	3.005	**172.953**
Fourth quarter 2017	*88.894*	*56.140*	*4.986*	***150.020***
% Change	*5,7%*	*35,4%*	*(39,7)%*	***15,3%***
Net profit (loss) from financial activities				
Fourth quarter 2018	64.963	75.991	820	**141.774**
Fourth quarter 2017	*56.274*	*56.140*	*531*	***112.945***
% Change	*15,4%*	*35,4%*	*54,6%*	***25,5%***

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Financial assets held for trading through profit or loss				
Amounts at 31.12.2018	-	-	29.809	**29.809**
Amounts at 01.01.2018	*-*	*-*	*35.614*	***35.614***
% Change	*-*	*-*	*(16,3)%*	***(16,3)%***
Other financial assets mandatorily measured at fair value through profit or loss				
Amounts at 31.12.2018	114.619	-	49.226	**163.845**
Amounts at 01.01.2018	*58.758*	*-*	*-*	***58.758***
% Change	*95,1%*	*-*	*n.a.*	***178,8%***
Financial assets at fair value through other comprehensive income				
Amounts at 31.12.2018	12.188	-	419.906	**432.094**
Amounts at 01.01.2018	*13.297*	*-*	*428.776*	***442.073***
% Change	*(8,3)%*	*-*	*(2,1)%*	***(2,3)%***
Receivables due from banks measured at amortised cost				
Amounts at 31.12.2018	-	-	590.595	**590.595**
Amounts at 01.01.2018	*-*	*-*	*1.759.780*	***1.759.780***
% Change	*-*	*-*	*(66,4)%*	***(66,4)%***
Loans to customers measured at amortised cost				
Amounts at 31.12.2018	5.918.496	1.092.799	302.677	**7.313.972**
Amounts at 01.01.2018	*5.462.239*	*799.436*	*140.011*	***6.401.686***
% Change	*8,4%*	*36,7%*	*116,2%*	***14,3%***
Due to banks				
Amounts at 31.12.2018	-	-	785.393	**785.393**
Amounts at 01.01.2018	*-*	*-*	*791.977*	***791.977***
% Change	*-*	*-*	*(0,8)%*	***(0,8)%***
Due to customers				
Amounts at 31.12.2018	-	-	4.673.299	**4.673.299**
Amounts at 01.01.2018	*-*	*-*	*5.293.188*	***5.293.188***
% Change	*-*	*-*	*(11,7)%*	***(11,7)%***
Debt securities issued				
Amounts at 31.12.2018	-	-	1.979.002	**1.979.002**
Amounts at 01.01.2018	*-*	*-*	*1.639.994*	***1.639.994***
% Change	*-*	*-*	*20,7%*	***20,7%***

SEGMENT KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality [(1)]			
Amounts at 31.12.2018	1,70%	-	-
Amounts at 31.12.2017	*0,31%*	-	-
% Change	*1,39%*	-	-
Net bad loans/Loans to customers			
Amounts at 31.12.2018	1,1%	-	4,0%
Amounts at 01.01.2018	*1,2%*	-	*9,4%*
% Change	*(0,1)%*	-	*(5,4)%*
Coverage ratio on gross bad loans			
Amounts at 31.12.2018	73,0%	-	15,4%
Amounts at 01.01.2018	*71,0%*	-	*6,7%*
% Change	*2,0%*	-	*8,7%*
Net non-performing exposures/Net loans to customers			
Amounts at 31.12.2018	5,2%	99,6%	11,8%
Amounts at 01.01.2018	*6,2%*	*99,9%*	*16,9%*
% Change	*(1,0)%*	*(0,3)%*	*(5,1)%*
Gross non-performing exposures/Gross loans to customers			
Amounts at 31.12.2018	9,5%	99,6%	13,8%
Amounts at 01.01.2018	*9,9%*	*99,9%*	*19,2%*
% Change	*(0,4)%*	*(0,3)%*	*(5,4)%*
RWAs[(2) (3)]			
Amounts at 31.12.2018	4.793.273	1.584.420	657.733
Amounts at 01.01.2018	*4.450.750*	*801.915*	*424.484*
% Change	*7,7%*	*97,6%*	*54,9%*

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

(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.

(3) The Governance & Services sector's RWAs 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)	31.12.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Net interest income	247.457	257.818	(10.361)	(4,0)%
Net commission income	85.432	75.511	9.921	13,1%
Other components of net banking income	2.624	16.168	(13.544)	(83,8)%
Net banking income	**335.513**	**349.497**	**(13.984)**	**(4,0)%**
Net credit risk losses/reversals	(97.438)	(22.480)	(74.958)	333,4%
Net profit (loss) from financial activities	**238.075**	**327.017**	**(88.942)**	**(27,2)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2018	4th Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	74.764	69.162	5.602	8,1%
Net commission income	24.392	19.113	5.279	27,6%
Other components of net banking income	(5.199)	619	(5.818)	(940,8)%
Net banking income	**93.957**	**88.894**	**5.063**	**5,7%**
Net credit risk losses/reversals	(28.994)	(32.620)	3.626	(11,1)%
Net profit (loss) from financial activities	**64.963**	**56.274**	**8.689**	**15,4%**

The organisational units that comprise the Enterprises segment contributed to the change in net banking income in 2018 as follows: Trade Receivables 170,0 million Euro (+22,9 million Euro compared to the prior year), Corporate Banking 100,3 million Euro (-35,1 million Euro), Leasing 51,6 million Euro (+0,3 million Euro), and Tax Receivables 13,6 million Euro (-2,0 million Euro).

Trade Receivables contributed to the increase in net banking income, growing by 15,6% compared to 2017 thanks to the rise in turnover (+13,9% from 31 December 2017) as well as the number of corporate customers (+11,6% compared to the prior year, without accounting for the positive contribution from the acquisition of Credifarma in July).

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"[1], which fell from 100,7 million Euro in 2017 to 77,8 million Euro in 2018 (-22,8%). 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 overall remainder of said difference related to the entire Enterprises Segment amounted to 185,8 million Euro at 31 December 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.

The Leasing area's net banking income was essentially in line with the previous year (+0,5%), as the rise in loans offset both the decline in profitability caused by increased competition and the fact that old and more profitable portfolios reached maturity.

In 2018, the Enterprises Segment recognised 97,4 million Euro in credit risk losses, of which 74,9 million Euro referred to exposures of the Trade Receivables units, 11,6 million Euro to Corporate Banking, 10,7 million Euro to Leasing, and 0,2 million Euro to Tax Receivables. The increase in provisions on Trade Receivables was largely attributable to positions classified as bad loans or unlikely to pay in the construction

[1] "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.

segment, amounting to 60 million Euro. Two of them were related to long-standing counterparties (the relationships began nearly 15 years ago) operating in the Italian infrastructure industry, which concerned the country's entire banking system (50 million Euro for the two long-standing counterparties).

In addition, as for the change compared to the prior year, please consider that in 2017 Corporate Banking reported significant net reversals, including a 19 million Euro reversal on an individually significant position.

The Enterprises segment's financial assets included 5.918,5 million Euro in Loans to customers (+8,4% from 1 January 2018), 114,6 million Euro in Other financial assets mandatorily measured at fair value through profit or loss (+95,1%), and 12,2 million Euro in Financial assets at fair value through other comprehensive income (-8,3%): the last two categories mainly referred to investments in UCITS units made as part of Corporate Banking operations as well as loans to customers that failed the SPPI test.

Below is the breakdown of non-performing loans to customers by risk category.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Net bad loans	67.947	62.873	5.074	8,1%
Net unlikely to pay	147.458	163.068	(15.610)	(9,6)%
Net non-performing past due exposures	94.953	111.986	(17.033)	(15,2)%
Total net non-performing exposures to customers (Stage 3)	**310.358**	**337.927**	**(27.569)**	**(8,2)%**
Net performing loans (Stages 1 and 2)	5.608.138	5.124.312	483.826	9,4%
Total on-balance-sheet loans to customers	**5.918.496**	**5.462.239**	**456.257**	**8,4%**

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;

and meet any of the following conditions:

- the counterparty has filed for bankruptcy, been put into administrative liquidation, or is subject to any insolvency proceedings;
- the positions are not subject to insolvency proceedings, all collection actions have been completed, and, after conducting a comprehensive assessment, the Group does not deem it possible to force the company into bankruptcy;
- the positions are not subject to proceedings and the Group has confirmed that no assets can be seized.

In addition, please note that the Enterprises segment comprises receivables that qualify as POCI, 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:

- 66,7 million Euro in gross non-performing exposures at 31 December 2018 (105,6 million Euro at 1 January 2018);
- 22,2 million Euro in gross performing exposures (stage 2) at 31 December 2018 (20,5 million Euro at 1 January 2018).

These amounts already incorporate the impact of lifetime expected credit losses, in accordance with the new accounting standard IFRS 9.

The following table details 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)	TOTAL
BALANCE AT 31.12.2018						
Nominal amount	251.456	233.526	107.108	**592.090**	5.637.795	**6.229.885**
Impairment losses	(183.509)	(86.068)	(12.155)	**(281.732)**	(29.657)	**(311.389)**
Book value	67.947	147.458	94.953	**310.358**	5.608.138	**5.918.496**
Coverage ratio	*73,0%*	*36,9%*	*11,3%*	***47,6%***	*0,5%*	***5,0%***
Gross ratio	*4,0%*	*3,7%*	*1,7%*	***9,5%***	*90,5%*	***100,0%***
Net ratio	*1,1%*	*2,5%*	*1,6%*	***5,2%***	*94,8%*	***100,0%***
BALANCE AT 01.01.2018						
Nominal amount	217.142	221.895	125.232	**564.269**	5.152.491	**5.716.760**
Impairment losses	(154.269)	(58.827)	(13.246)	**(226.342)**	(28.179)	**(254.521)**
Book value	62.873	163.068	111.986	**337.927**	5.124.312	**5.462.239**
Coverage ratio	*71,0%*	*26,5%*	*10,6%*	***40,1%***	*0,5%*	***4,5%***
Gross ratio	*3,8%*	*3,9%*	*2,2%*	***9,9%***	*90,1%*	***100,0%.***
Net ratio	*1,2%*	*3,0%*	*2,1%*	***6,2%***	*93,8%*	***100,0%.***

The Enterprises segment's net non-performing exposures totalled 310,4 million Euro at 31 December 2018, down 27,6 million Euro from 1 January 2018 (337,9 million Euro): Bad loans rose by 5,1 million Euro (+8,1%) while unlikely to pay declined by 15,6 million Euro (-9,6%), and past due exposures by 17,0 million Euro (-15,2%).

The coverage ratio of non-performing exposures declined from 40,1% at 1 January 2018 to 47,6% at 31 December 2018. At 31 December 2018, net bad loans amounted to 67,9 million Euro, resulting in a net bad-loan ratio of 1,1%.

KPI	31.12.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Cost of credit quality (1)	1,70%	0,31%	-	1,39%
Net bad loans/Loans to customers	1,1%	1,2%	-	(0,1)%
Coverage ratio	73,0%	71,0%	-	2,0%
Net NPE ratio	5,2%	6,2%	-	(1,0)%
Gross NPE ratio	9,5%	9,9%	-	(0,4)%
Total RWA per segment	4.793.273	4.450.750	342.523	7,7%

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 170 bps, reflecting the previously mentioned impact of the specific provisions set aside on positions in the construction segment; 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.

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	TOTAL
BALANCE AT 31.12.2017						
Nominal amount	813.492	378.359	131.250	**1.323.101**	5.259.641	**6.582.742**
Impairment losses	(737.961)	(165.822)	(15.453)	**(919.236)**	(44.866)	**(964.102)**
Book value	75.531	212.537	115.797	**403.865**	5.214.775	**5.618.640**
Coverage ratio	*90,7%*	*43,8%*	*11,8%*	***69,5%***	*0,9%*	***14,6%***
Gross ratio	*12,4%*	*5,7%*	*2,0%*	***20,1%***	*79,9%*	***100,0%***
Net ratio	*1,3%*	*3,8%*	*2,1%*	***7,2%***	*92,8%*	***100,0%***

Below are the changes made to the Enterprises segment's gross non-performing exposures at 1 January 2018, including as a result of the above:

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**
- allocation of portfolios 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**

To ensure a better understanding of the results for 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)	31.12.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Net interest income	106.690	90.839	15.851	17,4%
Net commission income	63.332	56.272	7.060	12,5%
Net banking income	**170.022**	**147.111**	**22.911**	**15,6%**
Net credit risk losses/reversals	(74.904)	(36.575)	(38.329)	104,8%
Net profit (loss) from financial activities	**95.118**	**110.536**	**(15.418)**	**(13,9)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2018	4th Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	28.892	22.107	6.785	30,7%
Net commission income	17.508	15.173	2.335	15,4%
Net banking income	**46.400**	**37.280**	**9.120**	**24,5%**
Net credit risk losses/reversals	(20.373)	(20.550)	177	(0,9)%
Net profit (loss) from financial activities	**26.027**	**16.730**	**9.297**	**55,6%**

Following the inclusion of medium-term products into the commercial offerings for SMEs, the results for the year 2018—as well as, for the sake of consistency, the prior year—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 2018, the Trade Receivables Area contributed 170,0 million Euro (46,4 million Euro in the fourth quarter of 2018) to the Enterprises Segment's net banking income, up 15,6% from the prior-year period.

Net interest income rose by 17,4% (+15,9 million Euro) compared to 2017, and net commission income was up 12,5% (+7,1 million Euro).

Net credit risk losses/reversals amounted to 74,9 million Euro (including 20,4 million Euro in the fourth quarter of 2018), up 38,3 million Euro from 36,6 million Euro in 2017. The increase was largely attributable to the individual provisions set aside on bad loans and unlikely to pay referring to individually significant positions in the construction segment. Therefore, net profit from financial activities amounted to 95,1 million Euro, down 15,4 million Euro (-13,9%).

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 2018 turnover totalled 13,3 billion Euro, up 1,6 billion Euro (+13,9%) from the prior year. The nominal amount of outstanding receivables at the end of 2018 exceeded 3,9 billion Euro, up nearly 172,6 million Euro (+4,6%) from 2017. As for medium/long-term financing, in 2018 the Group extended 226,9 million Euro in new loans, compared to 193,4 million Euro in the prior year (+17,3%).

The net receivables of the Commercial Lending segment totalled 360,7 million Euro.

At 31 December 2018, the Area's total net loans amounted to 3,6 billion Euro, up 6% from 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)	TOTAL
BALANCE AT 31.12.2018						
Nominal amount	209.948	170.319	89.198	**469.465**	3.377.558	**3.847.023**
Impairment losses	(171.287)	(72.581)	(4.620)	**(248.488)**	(14.418)	**(262.906)**
Book value	38.661	97.738	84.578	**220.977**	3.363.140	**3.584.117**
Coverage ratio	*81,6%*	*42,6%*	*5,2%*	***52,9%***	*0,4%*	***6,8%***
BALANCE AT 01.01.2018						
Nominal amount	166.292	128.577	109.463	**404.332**	3.179.765	**3.584.097**
Impairment losses	(134.924)	(46.540)	(5.598)	**(187.062)**	(14.645)	**(201.707)**
Book value	31.368	82.037	103.865	**217.270**	3.165.120	**3.382.390**
Coverage ratio	*81,1%*	*36,2%*	*5,1%*	***46,3%***	*0,5%*	***5,6%***

Net bad loans totalled 38,7 million Euro, rising 23,2% from 1 January 2018, with a coverage ratio of 81,6%, up compared to 1 January 2018. Unlikely to pay also increased by 19,1% to 97,7 million Euro, while the coverage ratio climbed to 42,6%. These changes are related to the mentioned impairment of positions in the construction sector.

Past due exposures totalled 84,6 million Euro, up 18,6% from 1 January 2018. Overall, non-performing exposures amounted to 221,0 million Euro, and the relevant coverage ratio rose from 46,3% at 1 January 2018 to 52,9%.

Leasing

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Net interest income	40.131	39.574	557	1,4%
Net commission income	11.487	11.770	(283)	(2,4)%
Other components of net banking income	-	(7)	7	(100,0)%
Net banking income	**51.618**	**51.337**	**281**	**0,5%**
Net credit risk losses/reversals	(10.700)	(5.606)	(5.094)	90,9%
Net profit (loss) from financial activities	**40.918**	**45.731**	**(4.813)**	**(10,5)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2018	4th Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	10.406	10.467	(61)	(0,6)%
Net commission income	2.783	2.666	117	4,4%
Other components of net banking income	-	(1)	1	(100,0)%
Net banking income	**13.189**	**13.132**	**57**	**0,4%**
Net credit risk losses/reversals	(3.007)	(636)	(2.371)	372,9%
Net profit (loss) from financial activities	**10.182**	**12.496**	**(2.314)**	**(18,5)%**

The Leasing segment's net banking income totalled 51,6 million Euro, up 0,5% (+0,3 million Euro in absolute terms) compared to 31 December 2017. The increase was the result of 0,6 million Euro in net interest income, partially offset by the 0,3 million Euro decline in net commission income.

In 2018, the segment extended 706,7 million Euro in new financing, up 46,3 million Euro (+7,0%) from 2017.

Net impairment losses on receivables amounted to 10,7 million Euro, up 5,1 million Euro from the prior-year period. The increase was largely attributable to the higher provisions set aside for non-performing exposures and included also an individually significant impairment loss totalling 1,3 million Euro.

At 31 December 2018, the Area's total net loans amounted to 1.399,9 million Euro, up 10,2% from 1.270,7 million Euro at 01 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)	TOTAL
BALANCE AT 31.12.2018						
Nominal amount	14.492	16.554	17.473	**48.519**	1.387.814	**1.436.333**
Impairment losses	(12.222)	(10.295)	(7.535)	**(30.052)**	(6.342)	**(36.394)**
Book value	2.270	6.259	9.938	**18.467**	1.381.472	**1.399.939**
Coverage ratio	*84,3%*	*62,2%*	*43,1%*	***61,9%***	*0,5%*	***2,5%***
BALANCE AT 01.01.2018						
Nominal amount	21.937	11.814	14.853	**48.604**	1.265.275	**1.313.879**
Impairment losses	(19.345)	(10.038)	(7.641)	**(37.024)**	(6.112)	**(43.136)**
Book value	2.592	1.776	7.212	**11.580**	1.259.163	**1.270.743**
Coverage ratio	*88,2%*	*85,0%*	*51,4%*	***76,2%***	*0,5%*	***3,3%***

Corporate Banking

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Net interest income	87.082	111.799	(24.717)	(22,1)%
Net commission income	10.601	7.481	3.120	42,0%
Other components of net banking income	2.624	16.175	(13.551)	(83,8)%
Net banking income	**100.307**	**135.455**	**(35.148)**	**(25,9)%**
Net credit risk losses/reversals	(11.592)	19.999	(31.591)	(158,0)%
Net profit (loss) from financial activities	**88.715**	**155.455**	**(66.740)**	**(42,9)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2018	4th Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	31.043	33.024	(1.981)	(6,0)%
Net commission income	4.089	1.277	2.812	220,1%
Other components of net banking income	(5.199)	620	(5.819)	(938,5)%
Net banking income	**29.933**	**34.921**	**(4.988)**	**(14,3)%**
Net credit risk losses/reversals	(5.489)	(11.351)	5.862	(51,6)%
Net profit (loss) from financial activities	**24.444**	**23.571**	**873**	**3,7%**

The Corporate Banking segment's net banking income totalled 100,3 million Euro, down 35,1 million Euro compared to 31 December 2017. This decline was largely attributable to the inevitably lower contribution from the "reversal PPA[1]", down 22,9 million Euro compared to the prior year.

The contribution from the other components of net banking income declined by 83,8% compared to 2017, when it had benefited from the settlement of a dispute concerning the exit of the former subsidiary Interbanca from the investment in a technology company: this was finalised by transferring the shares to the majority shareholder.

At 31 December 2018, the area extended 333 million Euro in new financing, up 80,8 million Euro (+32,0%) year-on-year.

Net impairment losses on receivables amounted to 11,6 million Euro, compared to the considerable net reversals recognised in the prior year—including an individually significant reversal amounting to 19 million Euro.

The Corporate Banking area contributed 88,7 million Euro to the Enterprises segment's net profit from financial activities, down 42,9% from the prior year—largely because of the previously mentioned increase in net impairment losses on receivables and the lower impact of the "reversal PPA"[1].

At 31 December 2018, the Area's total net loans to customers amounted to 798,2 million Euro, up 17,6% 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.

[1] "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.

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)	TOTAL
BALANCE AT 31.12.2018						
Nominal amount	27.016	46.191	437	**73.644**	736.523	**810.167**
Impairment losses	-	(3.192)	-	**(3.192)**	(8.750)	**(11.942)**
Book value	27.016	42.999	437	**70.452**	727.773	**798.225**
Coverage ratio	*0,0%*	*6,9%*	*0,0%*	***4,3%***	*1,2%*	***1,5%***
BALANCE AT 01.01.2018						
Nominal amount	28.913	81.504	916	**111.333**	576.880	**688.213**
Impairment losses	-	(2.249)	(7)	**(2.256)**	(7.422)	**(9.678)**
Book value	28.913	79.255	909	**109.077**	569.458	**678.535**
Coverage ratio	*0,0%*	*2,8%*	*0,8%*	***2,0%***	*1,3%*	***1,4%***

Tax Receivables

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Net interest income	13.554	15.605	(2.051)	(13,1)%
Net commission income	12	(11)	23	(209,1)%
Net banking income	**13.566**	**15.594**	**(2.028)**	**(13,0)%**
Net credit risk losses/reversals	(242)	(298)	56	(18,8)%
Net profit (loss) from financial activities	**13.324**	**15.296**	**(1.972)**	**(12,9)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2018	4th Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	4.423	3.563	860	24,1%
Net commission income	12	(2)	14	(700,0)%
Net banking income	**4.435**	**3.561**	**874**	**24,5%**
Net credit risk losses/reversals	(125)	(83)	(42)	50,6%
Net profit (loss) from financial activities	**4.310**	**3.478**	**832**	**23,9%**

The Tax Receivables Area contributed 13,6 million Euro to the Enterprises segment's net banking income, down 13% from 31 December 2017.

The decrease was essentially attributable to the reduction in receipts, which totalled 64,9 million Euro—down approximately 16% from 77,3 million Euro in 2017.

Concerning volumes, in 2018 the area acquired receivables with a par value of 62,8 million Euro, compared to 78,9 million Euro in the prior year.

At 31 December 2018, the Area's total net loans amounted to 136,1 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. The following table shows the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category.

TAX RECEIVABLES (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL
BALANCE AT 31.12.2018						
Nominal amount	-	328	-	**328**	135.900	**136.228**
Impairment losses	-	-	-	**-**	(147)	**(147)**
Book value	-	328	-	**328**	135.753	**136.081**
Coverage ratio	*n.a.*	*0,0%*	*n.a.*	***0,0%***	*0,1%*	***0,1%***
BALANCE AT 01.01.2018						
Nominal amount	-	-	-	**-**	130.571	**130.571**
Impairment losses	-	-	-	**-**	-	**-**
Book value	-	-	-	**-**	130.571	**130.571**
Coverage ratio	*n.a.*	*n.a.*	*n.a.*	***n.a.***	*0,0%*	***0,0%***

NPL

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

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

The Bank manages the portfolio of acquired receivables using two different methods: non-judicial and judicial operations. 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 238,0 million Euro, is the result of 99,8 million Euro in interest income from amortised cost and 138,2 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 amounts	Carr. amount / Out. nom. amount	Impact through profit or loss	2018 collections	Main methods of accounting
Staging positions	3.082.259	200.219	6,5%	-	-	Acquisition cost
Other positions undergoing non-judicial processing ("collective" operations)	8.113.662	150.534	1,9%	(13.410)	12.599	Cost = NPV of flows from model
Non-judicial operations: positions with formalised bills of exchange or settlement plans	592.299	148.637	25,1%	74.637	71.891	Cost = NPV of individual flows
Positions undergoing judicial processing ("pre-garnishment order collective model")	411.768	106.099	25,8%	67.612	432	Cost = NPV of flows from model
Other positions undergoing judicial processing	3.000.159	278.335	9,3%	25.547	24.276	Cost = NPV of flows from model
Judicial operations: positions with order for the garnishment of one-fifth of pension benefits or wages	556.225	208.975	37,6%	83.566	72.139	Cost = NPV of individual flows
Total	**15.756.372**	**1.092.799**	**6,9%**	**237.952**	**181.337**	

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 (200,2 million Euro at 31 December 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 (150,5 million Euro at 31 December 2018, compared to 153,4 million Euro at 01 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 are reclassified to "Positions with formalised bills of exchange or settlement plans"; these are measured at amortised cost (148,6 million Euro at 31 December 2018, compared to 131,3 million Euro at 01 January 2018), calculated as the net present value of estimated cash flows based on the settlement plans, net of the historical default rate. The model's "recalibration" resulted in a 1,5 million Euro positive impact on this category at March 2018, 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 67,6 million Euro positive impact recognised through profit or loss in 2018—as reported in the category "Positions undergoing judicial processing ("pre-garnishment order collective model") in the above table—amounting to 106,1 million Euro at amortised cost at 31 December 2018.

The remaining positions undergoing judicial processing continue to be measured at cost until the above requirements are met or a garnishment order is issued. In the above table, they are included in the category "Other positions undergoing judicial processing", totalling 278,3 million Euro at 31 December 2018. This category also includes portfolios originated in corporate banking or real estate segments that are measured either individually or at cost. These positions generated a 25,5 million Euro positive impact through profit or loss, largely resulting from the refinement of the estimate of cash flows expected from positions secured by mortgaged property.

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 209,0 million Euro at 31 December 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)	31.12.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	99.801	63.894	35.907	56,2%
Other components of net interest income	138.150	102.456	35.694	34,8%
Funding costs	(10.823)	(18.864)	8.041	(42,6)%
Net interest income	**227.128**	**147.486**	**79.642**	**54,0%**
Net commission income	6	(2.000)	2.006	(100,3)%
Other components of net banking income	17.100	19.019	(1.919)	(10,1)%
Net banking income	**244.234**	**164.505**	**79.729**	**48,5%**
Net profit (loss) from financial activities	**244.234**	**164.505**	**79.729**	**48,5%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2018	4th Q. 2017	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	27.537	18.992	8.545	45,0%
Other components of net interest income	41.942	41.641	301	0,7%
Funding costs	(3.076)	(5.186)	2.110	(40,7)%
Net interest income	**66.403**	**55.447**	**10.956**	**19,8%**
Net commission income	19	(623)	642	(103,0)%
Other components of net banking income	9.569	1.316	8.253	627,1%
Net banking income	**75.991**	**56.140**	**19.851**	**35,4%**
Net profit (loss) from financial activities	**75.991**	**56.140**	**19.851**	**35,4%**

"Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, was up 56,2% from 63,9 million Euro to 99,8 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.

"Other components of net interest income", up 34,8%, 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.

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 244,2 million Euro (164,5 million Euro at 31 December 2017, +48,5%). 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 128,3 million Euro in 2017 to nearly 181,3 million Euro in 2018, up 41,3%.

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

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Bad loans	781.572	528.226	253.346	48,0%
Unlikely to pay	306.348	270.050	36.298	13,4%
Non-performing past due exposures	131	444	(313)	(70,5%)
Total net non-performing exposures to customers (Stage 3)	**1.088.051**	**798.720**	**289.331**	**36,2%**
Net performing loans (Stage 2)	4.748	716	4.032	563,1%
Total on-balance-sheet loans to customers	**1.092.799**	**799.436**	**293.363**	**36,7%**

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	31.12.2018	01.01.2018	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	15.756.372	13.074.933	2.681.439	20,5%
Total RWA per segment	1.584.420	801.915	782.505	97,6%

NPL SEGMENT LOAN PERFORMANCE	31.12.2018	31.12.2017
Opening loan portfolio	**799.436**	**562.146**
Purchases	240.863	239.276
Sales	(21.214)	(55.408)
Gains on sales	17.100	19.020
Interest income from amortised cost	99.801	60.614
Other components of net interest income from change in cash flow	138.150	102.096
Collections	(181.337)	(128.308)
Closing loan portfolio	**1.092.799**	**799.436**

After the slowdown in the first six months of 2018 attributable to pricing pressures on portfolios, the Group resumed purchases in the second half of the year. The purchases made in 2018 totalled 240,9 million Euro, slightly up from 239,3 million Euro in the prior year.

The line item "Sales" included 21,2 million Euro arising from the sales of portfolios completed in 2018, in accordance with the Bank's strategy to seize market opportunities as they arise.

The reported sales included 3,6 million Euro in loans involved in two transactions finalised at the end of the year, when the Group accepted the buyer's binding offers.

The mentioned binding offers contained all the elements required to determine whether all risks and rewards relating to the receivables sold were substantially transferred (derecognition). However, since the transfer had not been formally completed at the reporting date, the Bank presented the relevant impact without derecognising the assets: instead, it recognised a receivable due from the buyer equal to the consideration, and a payable due to the buyer equal to the amount of the receivables sold. The positive difference, amounting to 7,2 million Euro, was recognised in profit or loss under gains on the sale of receivables.

The line item "Collections" included the instalments received in 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 slightly down year-on-year (297,9 million Euro compared to 302,5 million Euro in 2017).

The garnishment orders obtained by the Group rose steadily in 2018 and concerned 27.839 debtors (compared to 19.929 in 2017).

At the end of the period, the portfolio managed by the NPL segment included 1.679.513 positions, for a par value of 15,8 billion Euro.

Estimated Remaining Collections (ERC) total approximately 2,3 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.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2018	31.12.2017	CHANGE	
			ABSOLUTE	%
Net interest income	(5.323)	9.368	(14.691)	(156,8)%
Net commission income	(933)	254	(1.187)	(467,3)%
Other components of net banking income	3.012	1.704	1.308	76,8%
Net banking income	**(3.244)**	**11.326**	**(14.570)**	**(128,6)%**
Net credit risk losses/reversals	(2.656)	(3.626)	970	(26,8)%
Net profit (loss) from financial activities	**(5.900)**	**7.700**	**(13.600)**	**(176,6)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2018	4th Q. 2017	CHANGE	
			ABSOLUTE	%
Net interest income	(1.149)	(3.357)	2.208	(65,8)%
Net commission income	113	2.639	(2.526)	(95,7)%
Other components of net banking income	4.041	5.703	(1.662)	(29,1)%
Net banking income	**3.005**	**4.986**	**(1.981)**	**(39,7)%**
Net credit risk losses/reversals	(2.185)	(4.455)	2.270	(51,0)%
Net profit (loss) from financial activities	**820**	**531**	**289**	**54,6%**

The segment reported a 5,9 million Euro net loss from financial activities, down from 31 December 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.

As for retail Mortgages (formerly Leasing), which are now included in the Governance segment, the decline in net banking income was attributable also to the lower contribution from the positive impact of the "reversal PPA"[1], which fell from 10,9 million Euro at 31 December 2017 to 6,7 million Euro at 31 December 2018 (-38,5%).

The overall remainder of difference related to the Governance segment amounted to 43,6 million Euro at 31 December 2018.

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

[1] "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.

in the second and third quarters of 2017. This new senior unsecured preferred 300 million Euro issue comes on top of the other bonds outstanding (a senior unsecured bond with a par value of 300 million Euro and maturity in 2020, a Tier 2 Subordinated bond with a par value of 400 million Euro and maturity in October 2027 that is callable in October 2022, and the bonds of the merged entity Interbanca).

At the end of the year, the interest expense on the overall bond issues totalled approximately 30,6 million Euro.

In the last quarter of the year, the Group launched a public offer to repurchase part of the Senior Preferred Unsecured Bond ("Tender Offer"), as detailed in the section on significant events occurred in the year. This made a positive contribution to net banking income, causing the Group to recognise an approximately 7,6 million Euro gain on the repurchase of financial liabilities.

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 year just ended, the interest expense arising from the securitisation transaction was down 2,1 million Euro from 2017.

The cost of the cash deposits held with the Bank of Italy was in line with the previous year, resulting in a negative 5,1 million Euro contribution compared to 5,2 million Euro in 2017. The liquidity held with the Bank of Italy at 31 December 2018 totalled 281 million Euro, down 79% from 31 December 2017 (1.347,4 million Euro). The decline observed in the fourth quarter was largely the result of the following events:

- the previously mentioned "Tender Offer" saw investors tendering approximately 96 million Euro worth of notes;
- the financing extended by the Factoring segment rose steadily in the final weeks of the year compared to the average monthly standards (about 300 million Euro);
- funding from Rendimax declined towards the end of the year (approximately 150 million Euro), although the first few days of January 2019 saw a partial rebound.
- in addition, there was a reduction in funding from term deposits reserved for Corporate customers (nearly 200 million Euro).

In addition, 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 7,9 million Euro contribution to net interest income. At 31 December 2018, these securities, which back the collateralisation of part of the funding, had a fair value of 410,4 million Euro (-4,1% from 1 January 2018) and limited duration, and were classified as financial assets at fair value through other comprehensive income.

At 31 December 2018, the segment's total net loans amounted to 302,7 million Euro, with net receivables up approximately 162,7 million Euro from 1 January 2018 (+116%).

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 quarter. At 31 December 2018, the net amount of these notes was 77,6 million Euro. Compared to the prior-year period, the segment reported an additional 49,8 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 26,8 million Euro, as well as 26 million Euro worth of other performing retail portfolios. Said performing portfolios were acquired as part of the NPL segment's ordinary purchasing operations, which often concern also mixed portfolios—although the performing portion is always small relative to the overall portfolio.

The following table shows the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category as far as loans to customers are concerned.

GOVERNANCE & SERVICES (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL
BALANCE AT 31.12.2018						
Nominal amount	14.318	23.286	5.651	**43.255**	270.039	**313.294**
Impairment losses	(2.209)	(4.674)	(739)	**(7.622)**	(2.995)	**(10.617)**
Book value	12.109	18.612	4.911	**35.632**	267.045	**302.677**
Coverage ratio	*15,4%*	*20,1%*	*13,1%*	***17,6%***	*1,1%*	***3,4%***
Gross ratio	*4,6%*	*7,4%*	*1,8%*	***13,8%***	*86,2%*	***100,0%***
Net ratio	*4,0%*	*6,1%*	*1,6%*	***11,8%***	*88,3%*	***100,0%***
BALANCE AT 01.01.2018						
Nominal amount	14.087	10.059	4.092	**28.238**	118.993	**147.231**
Impairment losses	(941)	(2.910)	(719)	**(4.570)**	(2.650)	**(7.220)**
Book value	13.146	7.149	3.373	**23.668**	116.343	**140.011**
Coverage ratio	*6,7%*	*28,9%*	*17,6%*	***16,2%***	*2,2%*	***4,9%***
Gross ratio	*9,6%*	*6,8%*	*2,8%*	***19,2%***	*80,8%*	***100,0%***
Net ratio	*9,4%*	*5,1%*	*2,4%*	***16,9%***	*83,1%*	***100,0%***

02.11. Group financial and income results

For comparison purposes, the line items of the statement of financial position presented in this Directors' Report are compared with those at 1 January 2018, whereas in the case of the income statement, the comparative information has been conventionally reconciled with the new line items set out in the 5th update to Circular 262. 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	
	31.12.2018	01.01.2018	ABSOLUTE	%
Financial assets mandatorily measured at fair value through profit or loss	163.845	58.758	105.087	178,8%
Financial assets at fair value through other comprehensive income	432.094	442.073	(9.979)	(2,3)%
Receivables due from banks measured at amortised cost	590.595	1.759.780	(1.169.185)	(66,4)%
Loans to customers measured at amortised cost	7.313.972	6.401.686	912.286	14,3%
Property, plant and equipment and intangible assets	153.927	152.364	1.563	1,0%
Tax assets	395.084	439.972	(44.888)	(10,2)%
Other assets	332.744	308.641	24.103	7,8%
Total assets	**9.382.261**	**9.563.274**	**(181.013)**	**(1,9)%**
Due to banks	785.393	791.977	(6.584)	(0,8)%
Due to customers	4.673.299	5.293.188	(619.889)	(11,7)%
Debt securities issued	1.979.002	1.639.994	339.008	20,7%
Tax liabilities	52.722	43.125	9.597	22,3%
Provisions for risks and charges	25.779	24.610	1.169	4,8%
Other liabilities	407.066	398.720	8.346	2,1%
Equity	1.459.000	1.371.660	87.340	6,4%
Total liabilities and equity	**9.382.261**	**9.563.274**	**(181.013)**	**(1,9)%**

Financial assets mandatorily measured at fair value through profit or loss

The line item totalled 163,8 million Euro at 31 December 2018, up 178,8% from 1 January 2018, and essentially included the loans and debt securities that did not pass the SPPI test as well as UCITS units, pursuant to the new accounting standard IFRS 9. The increase was mainly attributable to the purchase of 85,6 million Euro worth of UCITS units, net of the change in fair value for the year, the 11,3 million Euro revaluation of an equity instrument, and the purchase and subscription of approximately 7,2 million Euro in loans measured at fair value, net of the change in fair value for the year. Below is the breakdown of this line item.

FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2018	01.01.2018	ABSOLUTE	%
Debt securities	1.935	955	980	102,6%
Equity securities	11.266	-	11.266	n.a.
UCITS units	99.349	13.729	85.620	623,6%
Loans	51.295	44.074	7.221	16,4%
Total	**163.845**	**58.758**	**105.087**	**178,8%**

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income totalled 432,1 million Euro at 31 December 2018, down 2,3% from 1 January 2018, and included the debt securities that passed the SPPI test as well as equity securities for which the Group elected the so-called OCI option without recycling to profit and loss pursuant to IFRS 9.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2018	01.01.2018	ABSOLUTE	%
Debt securities	418.709	427.330	(8.621)	(2,0)%
Equity securities	13.385	14.743	(1.358)	(9,2)%
Total	**432.094**	**442.073**	**(9.979)**	**(2,3)%**

Specifically, at 31 December 2018 **debt securities** amounted to 418,7 million Euro, down 2,0% from 1 January 2018. This was largely due to the negative change in fair value for the period, which more than offset the increase arising from the purchase of securities issued by banks.

In particular, the line item included 410,4 million Euro worth of Italian government bonds (Par Value 423 million Euro), amounting to 4,4% as a proportion of total assets and 28,1% as a proportion of the Group's Equity. The relevant net fair value reserve for Italian government bonds was negative 8,4 million Euro, compared to a positive 2,3 million Euro in the prior year.

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

Issuer/Maturity	1 year	2 years	3 years	5 years	over 5 years	Total
Government bonds	30.004	-	-	273.451	106.955	410.410
% of total	*7,2%*	-	-	*65,3%*	*25,5%*	*98,0%*
Banks	-	-	-	-	8.299	8.299
% of total	-	-	-	-	2,0%	2,0%
Total	**30.004**	**-**	**-**	**273.451**	**115.254**	**418.709**
% of total	***7,2%***	**-**	**-**	***65,3%***	***27,5%***	***100,0%***

This line item includes also **equity securities** relating to non-controlling interests, amounting to 13,4 million Euro (-9,2% 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. The positive net fair value reserve for these securities totalled 1,6 million Euro.

Receivables due from banks measured at amortised cost

At 31 December 2018, **receivables due from banks** totalled 590,6 million Euro, compared to 1.759,8 million Euro at 1 January 2018. The decline in this line item occurred in the fourth quarter was largely attributable to the steady rise in financing extended by the Factoring segment in the final weeks of the year compared to the average monthly standards (about 300 million Euro), as well as the following events—which absorbed liquidity:

- in December the Group launched a “Tender Offer” for the 5-year Bond issued in April 2018, with investors tendering approximately 96 million Euro worth of notes;
- funding from Rendimax declined towards the end of the year (approximately 150 million Euro), although the first few days of January 2019 saw a partial rebound.
- in addition, there was a reduction in funding from term deposits reserved for Corporate customers (nearly 200 million Euro).

Loans to customers measured at amortised cost

Total **loans to customers** amounted to 7.314,0 million Euro, up 14,3% 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 an 8,4%, 36,7%, and 116,2% increase in exposures, respectively. As for the latter, the rise was attributable to the purchase of a 77,7 million Euro senior tranche of a securitization backed by the Italian government's state-guarantee scheme for NPL-backed securities (GACS); 49,9 million Euro worth of repurchase agreements entered into with Cassa Compensazione, which expired in January 2019; the 26,8 million Euro portfolio of receivables associated with the salary- or pension-backed loans and salary or pension deductions extended by the newly acquired subsidiary Cap.Ital.Fin. S.p.A.; and the acquisition of two performing retail portfolios totalling 20,0 million Euro. These portfolios were acquired as part of the NPL segment's ordinary purchasing operations, which often concern also mixed portfolios—although the performing portion is always small relative to the overall portfolio.

The line item "Loans to customers measured at amortised cost" included an exposure that qualified as a "major exposure", amounting to over 10% as a percentage of Own Funds.

LOANS TO CUSTOMERS BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2018	01.01.2018	ABSOLUTE	%
Enterprises	5.918.496	5.462.239	456.257	8,4%
- *of which non-performing*	*310.358*	*337.927*	*(27.569)*	*(8,2)%*
NPL	1.092.799	799.436	293.363	36,7%
- *of which non-performing*	*1.088.051*	*798.720*	*289.331*	*36,2%*
Governance & Services	302.677	140.011	162.666	116,2%
- *of which non-performing*	*35.632*	*23.668*	*11.964*	*50,5%*
Total loans to customers	**7.313.972**	**6.401.686**	**912.286**	**14,3%**
- of which non-performing	***1.434.041***	***1.160.315***	***273.726***	***23,6%***

Total net **non-performing exposures**, which are significantly affected by the exposures of the NPL segment, amounted to 1.434,0 million Euro at 31 December 2018, compared to 1.160,3 million Euro at 1 January 2018 (+23,6%).

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

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 23,3 million Euro, compared to 24,5 million Euro at 01 January 2018 (-4,9%).

The line item included 21,8 million Euro worth of software, 0,8 million Euro in goodwill arising from the consolidation of the investment in IFIS Finance Sp.Z o.o.., and 0,7 million Euro in the provisionally estimated goodwill arising from the acquisition of the subsidiary Cap.Ital.Fin. S.p.A..

Property, plant and equipment and investment property totalled 130,6 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.

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. The impairment test did not reveal any impairment losses to be recognised in profit or loss.

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.

Tax assets totalled 395,1 million Euro, down 10,2% from 1 January 2018.

Current tax assets amounted to 46,8 million Euro, compared to 71,3 million Euro at 1 January 2018, mainly because the Group used 25,8 million Euro worth of credits arising from the conversion of deferred tax assets as per Italian Law 214/11 to offset its tax liability. Deferred tax assets amounted to 348,3 million Euro, down from 368,7 million Euro at 1 January 2018, largely because the Bank used the DTAs associated with past tax losses to the extent allowed by law to reduce its tax liability for the year.

Tax liabilities totalled 52,7 million Euro, down 22,3% from 1 January 2018.

Current tax liabilities, amounting to 13,4 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, totalling 39,4 million Euro, largely included 25,8 million Euro in receivables for interest on arrears that will be taxed upon receipt, 9,3 million Euro in the revaluation of property, and 3,2 million Euro in other mismatches of trade receivables.

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

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

- the "deferred tax assets that rely on future profitability and do not arise from temporary differences" are deducted from CET1; at 31 December 2018, the 100% deduction—as the transitional regime (art. 478 of the CCR) expired—amounted to 102,0 million Euro, in addition to 43,9 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 31 December 2018, these assets, which amounted to 27,8 million Euro, were partially 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 31 December 2018, the corresponding weight totalled 218,4 million Euro;
- "current tax assets" receive a 0% weight as they are exposures to the Central Government.

Overall, the Tax Assets recognised at 31 December 2018 and 100% deducted from Own Funds resulted in an expense amounting to 1,63% 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, amounting to 332,7 million Euro—compared to 308,6 million Euro at 1 January 2018—included 29,8 million Euro in financial assets held for trading (35,6 million Euro at 1 January 2018), and 302,9 million Euro in other assets (273,0 million Euro at 1 January 2018).

Other assets included 114,7 million Euro in receivables due from the parent company La Scogliera S.p.A. (including 60,6 million Euro as a result of the tax consolidation regime and 54,1 million Euro in tax credits claimed by the latter for excess tax payments from prior years); 8,0 million Euro in funds placed in an escrow account pending the resolution of a dispute; 12,2 million Euro in net receivables due from tax authorities for payments on account (stamp duty); and 42,8 million Euro in VAT credits claimed. Finally, the line item included 27,0 million Euro in costs associated with the NPL segment's positions that are deferred until these positions are valued at amortising cost (38,3 million Euro at 1 January 2018).

Other liabilities amounted to 407,1 million Euro, compared to 398,7 million Euro at 1 January 2018, and included 31,2 million Euro in derivatives held for trading (38,2 million Euro at 1 January 2018), 8,0 million Euro in liabilities for post-employment benefits (7,6 million Euro at 1 January 2018), and 367,9 million Euro in other liabilities (353,0 million Euro at 1 January 2018). The latter largely referred to amounts due to customers that have not yet been credited as well as included a 18,1 million Euro payable to the parent company La Scogliera deriving from the tax consolidation regime.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2018	01.01.2018	ABSOLUTE	%
Due to banks	**785.393**	**791.977**	**(6.584)**	**(0,8)%**
- *Eurosystem*	695.075	699.585	(4.510)	(0,6)%
- *Other payables*	90.318	92.392	(2.074)	(2,2)%
Due to customers	**4.673.299**	**5.293.188**	**(619.889)**	**(11,7)%**
- *Rendimax and Contomax*	4.424.467	4.948.386	(523.919)	(10,6)%
- *Other term deposits*	37.669	104.675	(67.006)	(64,0)%
- *Other payables*	211.163	240.127	(28.964)	(12,1)%
Debt securities issued	**1.979.002**	**1.639.994**	**339.008**	**20,7%**
Total funding	**7.437.694**	**7.725.159**	**(287.465)**	**(3,7)%**

Total **funding**, which amounted to 7.437,7 million Euro at 31 December 2018, down 3,7% compared to 1 January 2018, is represented for 62,8% by Payables due to customers (compared to 68,5% at 1 January 2018), for 10,6% by Payables due to banks (compared to 10,3% at 1 January 2018), and for 26,6% by Debt securities issued (21,2% at 1 January 2018).

Payables due to customers at 31 December 2018 totalled 4.673,3 million Euro (-11,7% compared to 1 January 2018). This was essentially because of the mentioned decline in retail funding (Rendimax and Contomax) from 4.948,4 million Euro at 1 January 2018 to 4.424,5 million Euro at 31 December 2018.

At 785,4 million Euro, **payables due to banks** were essentially in line with 1 January 2018 (792,0 million Euro, -0,8%). The line item mainly included the 695,1 million Euro TLTRO tranche obtained in 2017 as well as 90,3 million Euro in term deposits at other banks.

Debt securities issued amounted to 1.979,0 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 of trade receivables launched at the end of 2016 as well as 488,0 million Euro (including interest) in senior bonds issued by Banca IFIS and the 401,7 million Euro (including interest) Tier 2 bond. The rest of debt securities issued at 31 December 2018 included 88,8 million Euro in bonds previously issued by the merged entity Interbanca.

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2018	01.01.2018	ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	3.896	3.544	352	9,9%
Legal and tax disputes	14.566	13.820	746	5,4%
Other provisions	7.317	7.246	71	1,0%
Total provisions for risks and charges	**25.779**	**24.610**	**1.169**	**4,8%**

Below is the breakdown of the provision for risks and charges at the end of the year 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 31 December 2018, this line item amounted to 3,9 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 31 December 2018, the Group had set aside 14,6 million Euro in provisions. This amount refers entirely to legal disputes, as detailed below:

- 7,4 million Euro for 22 disputes concerning the Trade Receivables area (the plaintiffs seek 26,8 million Euro in damages);

- 3,5 million Euro (the plaintiffs seek 50,2 million Euro in damages) for 9 disputes concerning the former Interbanca;
- 2,1 million Euro (the plaintiffs seek 4,2 million Euro in damages) for 49 disputes concerning the Leasing area;
- 0,6 million Euro (the plaintiffs seek the same amount in damages) for a dispute concerning the investee IFIS Rental;
- 0,8 million Euro for 2 disputes concerning the newly acquired Credifarma (the plaintiffs seek the same amount in damages).
- 65 thousand Euro (the plaintiffs seek 515 thousand Euro in damages) for 8 disputes with customers and agents associated with the newly acquired Cap.Ital.Fin.;
- 51 thousand Euro (the plaintiffs seek 202 thousand Euro in damages) for 9 disputes concerning receivables of the subsidiary IFIS NPL;

Other provisions for risks and charges

At 31 December 2018, the Group had set aside 7,3 million Euro in provisions, including 3,7 million Euro in supplementary customer allowances associated with the Leasing area's operations, 1,0 million Euro in personnel-related expenses, 0,9 million Euro in probable plant upgrade costs, and 0,6 million Euro in the provision for complaints.

Contingent liabilities

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

Legal disputes

Both the lawsuit against the Group to cancel a settlement and the legal proceedings concerning a lawsuit for damages resulting from an extraordinary operation involving an industrial company as well as environmental damage, mentioned in previous reports and seeking approximately a combined 4 billion Euro in damages, ended with either final rulings that dismissed the counterparty's claims or a settlement.

Tax dispute

Dispute concerning withholding taxes on interest paid in Hungary. Companies involved: Interbanca S.p.A. and IFIS Leasing S.p.A. (including the merged entity GE Leasing Italia S.p.A.) - (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 2013, the Italian Revenue Agency assessed approximately 117 million Euro in additional withholding taxes in addition to 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 S.p.A. (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 2013 to losses on receivables—without any actual evidence.

Overall, the Agency assessed 810 thousand Euro in additional taxes and administrative penalties amounting to 100%.

Dispute concerning the VAT treatment of insurance mediation activities Company involved IFIS Leasing S.p.A. (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%.

Dispute concerning the Payment Notice for the 3% registration fee Companies involved: Banca IFIS as the surviving entity following the merger of Interbanca S.p.A. and IFIS Rental S.r.l. - (former – GE Capital Interbanca Group)

With notices dated 23 July and 20 July 2018, the Italian Revenue Agency reclassified the restructuring of GE Capital Services as a whole as a "Transfer of Business Unit", and thus claims it is subject to a registration fee amounting to 3% of the value of the company, i.e. 3,6 million Euro.

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 31 December 2018, consolidated Equity totalled 1.459,0 million Euro, up +6,6% from 1.368,8 million Euro at 31 December 2017.

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. This has been reported in the tables showing the changes in equity as a change in the opening balances.

The breakdown of the item and the change compared to the previous year are detailed in the tables below.

EQUITY: BREAKDOWN (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2018	31.12.2017	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	102.116	101.864	252	0,2%
Valuation reserves:	(14.606)	(2.710)	(11.896)	439,0%
- Securities	*(8.692)*	*2.275*	*(10.967)*	*(482,1)%*
- Post-employment benefits	*118*	*20*	*98*	*490,0%*
- exchange differences	*(6.032)*	*(5.005)*	*(1.027)*	*20,5%*
Reserves	1.168.543	1.038.155	130.388	12,6%
Treasury shares	(3.103)	(3.168)	65	(2,1)%
Equity attributable to non-controlling interests	5.476	-	5.476	n.a.
Profit for the period	146.763	180.767	(34.004)	(18,8)%
Equity attributable to the Group	**1.459.000**	**1.368.719**	**90.281**	**6,6%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2017	**1.368.719**
Change in opening balances	2.941
Increases:	**152.760**
Profit for the period	146.763
Sale/grant of treasury instruments	252
Change in valuation reserve:	98
- Post-employment benefits	*98*
Other changes	171
Equity attributable to non-controlling interests	5.476
Decreases:	**65.420**
Dividends distributed	53.433
Change in valuation reserve:	11.987
- Securities	*10.960*
- exchange differences	*1.027*
Equity at 31.12.2018	**1.459.000**

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

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

Own funds and capital adequacy ratios

OWN FUNDS AND CAPITAL ADEQUACY RATIOS (in thousands of Euro)	AMOUNTS AT	
	31.12.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	924.285	859.944
Tier 1 Capital (T1)	980.463	898.356
Total own funds	**1.257.711**	**1.191.097**
Total RWA	**8.974.645**	**7.376.606**
Common Equity Tier 1 Ratio	10,30%	11,66%
Tier 1 Capital Ratio	10,92%	12,18%
Ratio - Total Own Funds	**14,01%**	**16,15%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated at 31 December 2018 net of estimated dividends.

Consolidated own funds, risk-weighted assets and prudential ratios at 31 December 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 31 December 2018, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 462 thousand Euro, net of the tax effect. Therefore, in accordance with the transitional arrangements—"dynamic approach"—222 thousand Euro were included in the Common Equity Tier 1 (CET1) capital attributable to the Group.

The 66,6 million Euro increase in Own Funds compared to 31 December 2017 was largely attributable to:

- 44,3 million Euro arising from the inclusion of the profit for the year ended 31 December 2018 attributable to the Group and calculated for regulatory purposes, net of the estimated dividend;
- 18,8 million Euro arising from the higher amount of non-controlling interests included in the calculation (art. 84 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 145,9 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;
- the remainder referred to the positive change in reserves, including the profits generated by the Companies not included in the Banking Group's scope and attributable to the Group.

Total risk-weighted assets were up nearly 1.600 million Euro: part of this increase (over 700 million Euro) was in line with the rise in risk assets—mostly associated with exposures to customers—while the remainder (nearly 800 million Euro) was the result of compliance with regulations on NPL purchases, which required increasing the average risk weight. The significant increase in risk-weighted assets, partially offset by the growth in Own Funds—also because of the end of the transitional regime—caused the Total capital ratio to amount to 14,01% at 31 December 2018, down from 16,15% at 31 December 2017; similarly, the CET1 ratio declined from 11,66% to 10,30%.

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	4.793.273	1.584.420	657.733	7.035.426
Off-balance-sheet exposures: payable, guarantees granted				500.607
Other assets: sundry receivables, suspense accounts				236.767
Tax assets				228.987
Market risk				58.428
Operational risk (basic indicator approach)				898.629
Credit valuation adjustment risk on derivatives				15.801
Total RWAs				**8.974.645**

When comparing the results, please note that the Bank of Italy, following the Supervisory Review and Evaluation Process (SREP) concerning 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%.

In addition, please note that on 28 January 2019 the Bank of Italy required the Banca IFIS Group to adopt the following consolidated capital requirements in 2019, including a 2,5% capital conservation buffer:

- common equity tier 1 (CET 1) capital ratio of 8,12%, with a required minimum of 5,62%;
- Tier 1 capital ratio of 10,0%, with a required minimum of 7,5%;
- Total Capital ratio of 12,5%, with a required minimum of 10,0%.

At 31 December 2018, the Banca IFIS Group already met the above prudential requirements.

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	
	31.12.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	924.063	859.944
Tier 1 Capital (T1)	980.241	898.356
Total own funds	**1.257.489**	**1.191.097**
Total RWA	**8.974.328**	**7.376.606**
Common Equity Tier 1 Ratio	10,30%	11,66%
Tier 1 Capital Ratio	10,92%	12,18%
Ratio - Total Own Funds	**14,01%**	**16,15%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated at 31 December 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	
	31.12.2018	31.12.2017
Common equity Tier 1 Capital (CET1)	1.231.537	1.152.603
Tier 1 Capital (T1)	1.231.537	1.152.603
Total own funds	**1.631.858**	**1.552.792**
Total RWA	**8.966.099**	**7.369.921**
Common Equity Tier 1 Ratio	13,74%	15,64%
Tier 1 Capital Ratio	13,74%	15,64%
Total Own Funds Capital Ratio	**18,20%**	**21,07%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated at 31 December 2018 net of estimated dividends.

Income statements items

Formation of net banking income

Net banking income totalled 576,5 million Euro, up 9,7% from 525,3 million Euro in the prior year.

Specifically, the NPL segment was up 48,5% year-on-year thanks to the strong performance in the management of existing portfolios 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 4,0% from the prior year: the growth reported by the Trade Receivables business area (+15,6% compared to 31 December

2017) was offset by the inevitably lower contribution from the "reversal PPA"[10] in the Corporate Banking area compared to 2017 (77,8 million Euro at 31 December 2018, compared to 100,7 million Euro at 31 December 2017, -22,8%). Finally, the Governance & Services segment's net banking income was negative 3,2 million Euro, mainly because the increase in the Group's funding costs was not entirely offset by the chargeback to the other segments of the Group. This segment's net banking income included a 7,6 million Euro gain on the repurchase of financial liabilities associated with the previously mentioned "Tender Offer" that was launched in December for the 5-year Bond issued in April 2018, with investors tendering approximately 96 million Euro worth of notes.

NET BANKING INCOME (in thousands of Euro)	YEAR		CHANGE	
	2018	2017	ABSOLUTE	%
Net interest income	469.261	414.671	54.590	13,2%
Net commission income	84.505	73.765	10.740	14,6%
Other components of net banking income	22.737	36.892	(14.155)	(38,4)%
Net banking income	**576.503**	**525.328**	**51.175**	**9,7%**

Net interest income rose from 414,7 million Euro at 31 December 2017 to 469,3 million Euro at 31 December 2018 (+13,2%), driven largely by the strong performance of the Trade Receivables area and the NPL segment.

Net commission income amounted to 84,5 million Euro, up 14,6% from 31 December 2017, largely thanks to the strong performance of the Trade Receivables and Leasing areas.

Commission income, totalling 97,7 million Euro (compared to 86,9 million Euro at 31 December 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 13,2 million Euro compared to 13,1 million Euro in the prior year, 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.

Other components of net banking income totalled 22,7 million Euro at 31 December 2018, down 38,4% year-on-year. Specifically, the gains on the sale or repurchase of financial assets or liabilities, amounting to 25,4 million Euro—compared to 25,6 million Euro at 31 December 2017—included 17,2 million Euro relating to the NPL segment (19,0 million Euro at 31 December 2017) as well as 8,2 million Euro arising from repurchases of financial liabilities, of which 7,6 million Euro were associated with the previously mentioned "Tender Offer"; in addition, in 2017 the Bank recognised 6,6 million Euro in gains on the sale of financial assets at fair value through other comprehensive income.

The Bank reported a 0,8 million Euro net loss from trading at 31 December 2018, compared to a 11,2 million Euro net profit in the prior year: this result had been positively affected by the settlement of a dispute concerning the exit from the investment in a technology company, which ended with the transfer of shares to the controlling shareholder.

Finally, the net result of other financial assets and liabilities at fair value through profit or loss was negative 2,2 million Euro. It included an 11,3 million Euro fair value gain on an equity instrument, and, on the other hand, fair value losses on loans that did not pass the SPPI test (8,1 million Euro), UCITS units (3,5 million Euro), and debt securities (2,2 million Euro). The latter referred to the write-off of the Group's share of the bond subscribed by the Italian Interbank Deposit Protection Fund's Voluntary Scheme as part of the rescue of an Italian bank.

[10] [10]"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.

Formation of net profit from financial activities

The Group's **net profit from financial activities** totalled 476,4 million Euro, compared to 499,2 million Euro at 31 December 2017 (-4,6%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	YEAR		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	**576.503**	**525.328**	**51.175**	**9,7%**
Net credit risk losses/reversals	(100.094)	(26.106)	(73.988)	283,4%
Net profit (loss) from financial activities	**476.409**	**499.222**	**(22.813)**	**(4,6)%**

Net credit risk losses totalled 100,1 million Euro (compared to 26,1 million Euro at 31 December 2017) and were entirely related to the Enterprises segment. The increase in the Enterprises segment's provisions at 31 December 2018 compared to the prior year were largely attributable to positions classified as bad loans or unlikely to pay in the construction segment, amounting to 60 million Euro. Two of them were related to long-standing counterparties (the relationships began nearly 15 years ago) operating in the Italian infrastructure industry, which concerned the country's entire banking system (50 million Euro for the two long-standing counterparties). For comparative purposes, please note that the data for 2017 reflected reversals of impairment losses resulting from the successful completion of restructuring transactions, including an individually significant transaction of 19,0 million Euro.

Formation of net profit for the period

FORMATION OF NET PROFIT FOR THE YEAR (in thousands of Euro)	YEAR		CHANGE	
	2018	2017	ABSOLUTE	%
Net profit (loss) from financial activities	**476.409**	**499.222**	**(22.813)**	**(4,6)%**
Operating costs	(273.431)	(250.647)	(22.784)	9,1%
Profit (Loss) from sales of investments	-	-	-	n.a.
Pre-tax profit (loss) for the period from continuing operations	**202.978**	**248.575**	**(45.597)**	**(18,3)%**
Income taxes for the year relating to current operations	(56.168)	(67.808)	11.640	(17,2)%
Profit (loss) for the year attributable to non-controlling interests	47	-	47	n.a.
Profit (loss) for the year attributable to the parent company	**146.763**	**180.767**	**(34.004)**	**(18,8)%**

OPERATING COSTS (in thousands of Euro)	YEAR		CHANGE	
	2018	2017*	ABSOLUTE	%
Administrative expenses:	288.110	250.871	37.239	14,8%
a) personnel expenses	111.584	98.251	13.333	13,6%
b) other administrative expenses	176.526	152.620	23.906	15,7%
Net allocations to provisions for risks and charges	2.099	(73)	2.172	(2975,3)%
a) commitments and guarantees granted	229	(5.605)	5.834	(104,1)%
b) other net provisions	1.870	5.532	(3.662)	(66,2)%
Net impairment losses/reversal on property, plant and equipment	6.315	4.563	1.752	38,4%
Net impairment losses/reversal on intangible assets	6.443	6.889	(446)	(6,5)%
Other operating income/expenses	(29.536)	(11.603)	(17.933)	154,6%
Operating costs	**273.431**	**250.647**	**22.784**	**9,1%**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

Personnel expenses totalled 111,6 million Euro, up 13,6% (98,3 million Euro at 31 December 2017). The Group's employees numbered 1.638 at 31 December 2018, up 11,4% from the prior year (1.470 resources). 85 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 176,5 million Euro, up 15,7% from 152,6 million Euro at 31 December 2017. The line item included 25,1 million Euro in expenses associated with NPLs previously recognised at cost and reclassified to amortised cost in 2018, in accordance with the application of the new model for estimating pre-garnishment order cash flows (for more details, please refer to the paragraph Contribution of operating segments to Group results).

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	YEAR		CHANGE	
	2018	2017	ABSOLUTE	%
Expenses for professional services	**59.636**	**48.001**	**11.635**	**24,2%**
Legal and consulting services	40.354	30.085	10.269	34,1%
Auditing	516	453	63	13,9%
Outsourced services	18.766	17.463	1.303	7,5%
Direct and indirect taxes	**45.291**	**27.422**	**17.869**	**65,2%**
Expenses for purchasing goods and other services	**71.599**	**77.197**	**(5.598)**	**(7,3)%**
Customer information	17.645	12.876	4.769	37,0%
Software licensing and support	16.117	20.220	(4.103)	(20,3)%
Property expenses	6.697	6.532	165	2,5%
FITD and Resolution fund	5.983	8.753	(2.770)	(31,6)%
Postage and archiving of documents	5.761	7.326	(1.565)	(21,4)%
Telephone and data transmission expenses	3.737	2.840	897	31,6%
Car fleet management and maintenance	3.627	3.314	313	9,4%
Business trips and transfers	3.491	3.480	11	0,3%
Advertising and inserts	3.395	3.254	141	4,3%
Securitisation costs	1.642	2.211	(569)	(25,7)%
Operating costs for other property, plant and equipment	760	330	430	130,3%
Transitional services agreement	-	3.373	(3.373)	(100,0)%
Other sundry expenses	2.744	2.688	56	2,1%
Total administrative expenses	**176.526**	**152.620**	**23.906**	**15,7%**

As already mentioned, the subline item **"Legal and consulting"** expenses was up from the prior year because of the costs associated with the judicial collection actions for the NPL segment's receivables, totalling 18,2 million Euro at 31 December 2018. Specifically, in accordance with the application of the statistical model for estimating cash flows also to some positions undergoing judicial operations, which were previously recognised at cost, in 2018 the Group recognised 8,7 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 45,3 million Euro (27,4 million Euro at 31 December 2017), mainly included the registration fees paid for the judicial debt collection actions concerning per NPL segment's receivables, totalling 30,8 million Euro at 31 December 2018, of which 16,4 million Euro were associated with the mentioned refinement of the model used to estimate the positions undergoing judicial operations. The line item also comprised 11,5 million Euro in stamp duty costs, including 9,0 million Euro for retail funding that are charged back to customers as from 1 January 2018. These are included under "Other operating income".

The "**Expenses for purchasing goods and other services**" were down 7,3% from the prior year (from 77,2 million Euro at 31 December 2017 to 71,6 million Euro at 31 December 2018). This result was attributable to opposite changes in major line items, specifically:

- Customer information expenses went up 37,0% from 12,9 to 17,6 million Euro, largely because the NPL sector's «Legal small ticket» segment became fully operational—and therefore began processing several minor positions;

- Software licensing and support was down 20,3% from 20,2 to 16,1 million Euro, essentially because of the costs incurred in 2017 for the migration of the core banking systems;
- "FITD and Resolution fund" fell by 31,6% from 8,8 to 6,0 million Euro: in 2017 this item included the 2,5 million Euro one-off contribution to the Italian Interbank Deposit Protection Fund's Voluntary Scheme for the rescue of Caricesena, Carim, and Carismi.
- The expenses for the postage and archiving of documents were down 21,4% from 7,3 to 5,8 million Euro, as the Group started paring back purchases of new NPL portfolios towards the end of the previous year and continued doing so for much of 2018.
- In 2017 alone, the Bank reported 3,4 million Euro in expenses for transitional services agreement associated with 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 in the period immediately following the acquisition.

Net allocations to provisions for risks and charges totalled 2,1 million Euro (0,1 million Euro in net reversals at 31 December 2017), including 1,2 million Euro associated with positions that mainly concerned the Enterprises segment as well as 0,9 million Euro in probable plant upgrade costs.

Other net operating income totalled 29,5 million Euro (11,6 million Euro at 31 December 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 9,0 million Euro in chargebacks of stamp duty costs for retail funding, which the Group 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..

The **pre-tax profit from continuing operations** totalled 203,0 million Euro (-18,3% from the prior year).

Income tax expense amounted to 56,2 million Euro (-17,2% from the prior year). The 2018 tax rate was 27,67, compared to 27,28% in the previous year.

Excluding 47 thousand Euro in profit attributable to non-controlling interests, the **net profit for the year attributable to the Parent Company** totalled 146,8 million Euro (-18,8% from the prior year).

(in thousands of Euro)	YEAR 2018		YEAR 2017	
	EQUITY:	OF WHICH PROFIT FOR THE YEAR	EQUITY:	OF WHICH PROFIT FOR THE YEAR
Parent company balance	**1.368.466**	**82.806**	**1.337.294**	**154.906**
Difference compared to the carrying amounts of the companies consolidated line by line	90.823	63.942	31.425	25.861
- IFIS Finance Sp. Z.o.o.	*9.310*	*1.507*	*9.372*	*876*
- former GE Capital Interbanca Group	*24.705*	*11.782*	*21.305*	*24.237*
- Two Solar Park 2008 S.r.l.	*-*	*(748)*	*748*	*748*
- IFIS NPL	*50.032*	*50.030*	*-*	*-*
- Cap.Ital.Fin.	*(2.680)*	*(2.655)*	*-*	*-*
- Credifarma	*9.456*	*4.026*	*-*	*-*
Other changes	(289)	62	-	-
Group consolidated balance	**1.459.000**	**146.810**	**1.368.719**	**180.767**

02.12. Main risks and uncertainties

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

Reference should be made to Part E of the Notes to the Consolidated Financial Statements for further information on the Banca IFIS Group's risks.

02.13. Banca IFIS shares

The share price

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

Official share price	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Share price at period-end	15,44	40,77	26,00	28,83	13,69

Price/book value

The following table shows the ratio of the share price at year-end to consolidated equity with respect to outstanding shares.

Price/book value	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Share price at period-end	15,44	40,77	26,00	28,83	13,69
Consolidated equity per share	27,30	25,62	22,99	10,81	8,27
Price/book value	**0,57**	**1,59**	**1,13**	**2,67**	**1,65**

Outstanding shares	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Number of shares outstanding at period end (in thousands)(1)	53.441	53.433	53.431	53.072	52.924

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

Earnings per share and Price/Earnings

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

Earnings per share (EPS) & Price/Earnings (P/E)	31.12.2018	31.12.2017
Net profit for the year attributable to the Parent (in thousands of Euro)	146.763	180.767
Consolidated earnings per share (EPS)	**2,75**	**3,38**
Price/Earnings (P/E) Ratio	**5,62**	**12,05**

Earnings per share and diluted earnings per share	31.12.2018	31.12.2017
Net profit for the year attributable to the Parent (in thousands of Euro)	146.763	180.767
Average number of outstanding shares	53.438.425	53.431.314
Average number of diluted shares	53.438.425	53.425.169
Consolidated earnings per share for the year (units of Euro)	**2,75**	**3,38**
Consolidated diluted earnings per share for the year (units of Euro)	**2,75**	**3,38**

Payout ratio

For 2018, the Board of Directors proposed to the Shareholders' Meeting to distribute a dividend of 1,05 Euro per share.

Payout ratio (in thousands of Euro)	2018	2017	2016 RESTATED	2015	2014
Consolidated net profit for the year	146.763	180.767	687.945	161.966	95.876
Parent company dividends	56.113(1)	53.433	43.813	40.334	34.930
Payout ratio	**38,2%**	**29,6%**	**6,4%**	**24,9%**	**36,4%**

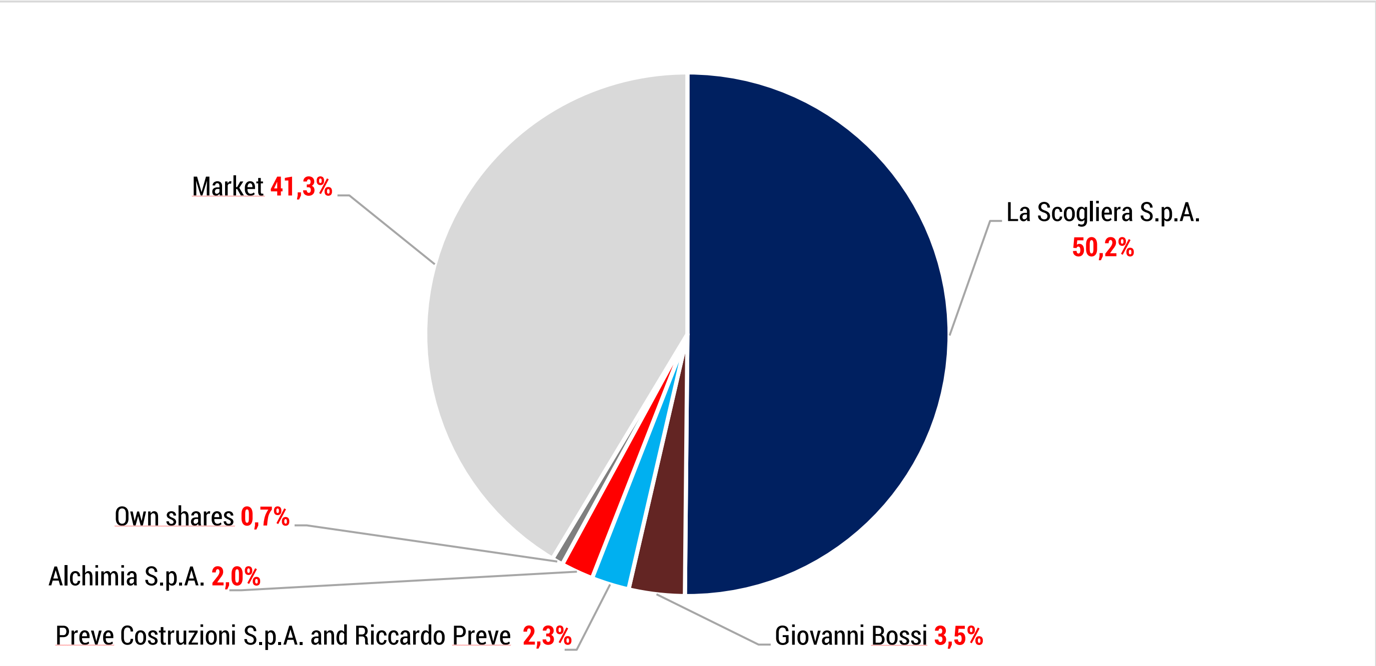
(1) Dividend proposed by the Board of Directors

The 2016 payout was influenced by the gain on bargain purchase deriving from the acquisition of the former GE Capital Interbanca Group. After normalising the profit for the year for the impact of the acquisition, the payout ratio would have stood at 48,8%. Consistently with the Bank's willingness to further strengthen its capital base, the amount corresponding to the gain on bargain purchase that arose from the acquisition of the former GE Capital Interbanca Group was allocated to a reserve that will remain unavailable until the approval of the financial statements for the year 2021.

Shareholders

The share capital of the Parent Company at 31 December 2018 amounted to 53.811.095 Euro and is broken down into 53.811.095 shares with a par value of 1 Euro each.

The following table shows Banca IFIS's shareholders that, either directly or indirectly, own equity instruments with voting rights representing over 3% of Banca IFIS's share capital, or 2% in the case of shareholders that are also Directors of the Bank:



Corporate governance rules

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

Internal dealing rules

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

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

Specifically, this Policy governs:

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

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

Rules for the handling of inside information

The internal procedures for handling inside information and the list of individuals who have access to it are aligned with the mentioned Market Abuse Regulation and were updated during the year based on the guidelines issued by Consob as well as Italian Legislative Decree no. 107 of 10 August 2018, containing "Rules for aligning national regulations with the provisions in Regulation (EU) no. 596/2014 on market abuse and repealing Directive 2003/6/EC as well as Directives 2003/124/EC, 2003/125/EC and 2004/72/EC"

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

In addition, it adopted a Group policy for the handling of inside information in order to:

- prevent individuals who, based on their duties, have no reason to know such information from accessing it;
- identify the individuals who have access to such information at all times.

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

02.14. Significant events occurred during the year

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.

Below is a summary of the most significant events occurred during the year 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- or pension-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.

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.

Public Tender Offer for Banca IFIS senior bonds

The acceptance period for the partial Public Tender Offer launched by Banca IFIS S.p.A. on 3 December 2018 expired on 7 December 2018. The offer was reserved for the holders of 2% senior unsecured preferred bonds, maturity date 24 April 2023 (ISIN Code XS1810960390), issued in April 2018 for an overall par value of 300 million Euro as part of the Euro Medium Term Note programme. The Bank offered to repurchase up to 100 million Euro in par value.

The offer ended with the repurchase of bonds with a combined par value of 96,776 million Euro, representing approximately 96,8% of the bonds concerned by the offer and nearly 32,3% of those issued. The Bank paid consideration for the bonds tendered on 13 December 2018.

02.15. Significant subsequent events

Acquisition of control over FBS S.p.A.

On 7 January 2019, the Group finalised the acquisition of 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. Under the deal, announced on 15 May 2018, Banca IFIS acquired 90% of FBS for 58,5 million Euro.

Announcements from La Scogliera S.p.A.

La Scogliera S.p.A. announced that, concerning potential transactions intended to achieve «regulatory results essentially equivalent to the abandoned reverse merger between the Bank and La Scogliera», it will continue evaluating potential transactions capable of delivering the mentioned regulatory results, including after the date of the next shareholders' meeting for the approval of Banca IFIS's financial statements, accounting for the Bank's capitalisation requirements as well as the interests of the families who have investments in La Scogliera, while reaffirming its commitment to supporting the Bank's sustainable growth.

No other significant events occurred between the end of the year and the approval of the Consolidated Financial Statements by the Board of Directors.

02.16. Outlook

The gradual deterioration in economic activity seen in the second half of 2018 significantly influences the outlook for 2019. This year growth is slowing down across all European Union countries, but especially so in Italy in light of two straight quarters of shrinking GDP (3rd and 4th quarter of 2018) as well as growth projections between 0 and 0,6%, according to the most reliable forecasters. This unfavourable scenario is compounded by the recent negative data on industrial output. Economic activity is decelerating in Europe, and in other international advanced economies, as the long expansion starts to lose momentum as well as because of factors that generate uncertainty at a global level (the US-China trade dispute and its repercussions, the reduction in trade agreements, the gradual weakening of the drivers of globalisation); issues that specifically concern European politics (the risks posed by a no-deal Brexit; the concerns for the next European elections and the popularity of parties and movements opposed to the development of the European project); and financial issues (the market's worry that central banks will gradually tighten their monetary policies).

In this context, monetary authorities seem to be growing more and more aware of the need to slow down the pace of tightening and provide additional support to economic growth in both the Euro and the US dollar areas. In addition, the fact that inflation is still far from the official targets, as well as the challenges faced by countries in Northern Europe, support the idea of more expansionary monetary policies.

Against this backdrop, in 2019 the Banca IFIS Group will continue pursuing a series of non-recurring business combination and growth initiatives launched in 2018, as well as consolidate the presence in its core markets for lending to small and medium businesses as well as servicing non-performing loans.

Concerning the latter, the newly established IFIS NPL S.p.A., into which Banca IFIS spun off its entire NPL segment, will continue expanding its operations, while the newly acquired FBS S.p.A., which joined the Group in January 2019, will pursue synergies and organic growth opportunities. IFIS NPL and FBS allow the Banking Group to continue growing in the market for acquiring and managing non-performing loans, also by expanding into asset classes where the Group currently has no or little presence as well as introducing servicing on behalf of third parties—an opportunity that remained untapped until 2018—creating value by improving the management of non-performing portfolios and acting as a systemically important Italian private Asset Management Company open to partnerships and integrations.

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

The uncertainty stemming from the economic slowdown weighs on the demand for credit from businesses. The upcoming quarters will hopefully dispel the uncertainty holding back the recovery and chart a clearer way forward.

Also in light of the slowing economy and the negative outlook for GDP growth in 2019, it does not appear possible to grow our way out of the last few years of economic crisis in a steady and, most importantly, sustainable manner without restarting the flow of credit to the real economy. Lending to small and medium businesses has been falling for years now, and only in part because of weak demand: it is actually the supply side that is showing recurring signs of contraction, especially in the market for small firms. Against this backdrop, the Banca IFIS Group's ability to provide support to small- and medium-sized businesses in a way that allows to mitigate credit risk will continue representing a competitive advantage, hopefully enabling us to acquire new customers.

As for interest rates, these are expected to rebound as a result of the rise in funding costs experienced by Italian lenders in the second half of 2018 as well as early 2019.

The outlook for funding remains uncertain. There is still plenty of funding available, but its cost has been rising recently, and especially in Italy, as interest rates on government bonds have increased. This trend is seen across Italy's entire credit industry, with differences related to the creditworthiness of banking institutions as well as the type of funding. The rise in interest rates may affect the financial performance of those banks that struggle to pass on the changes to customers because of interest rates that are either fixed or indexed to benchmarks (Euribor, IRS) that have remained largely unchanged. Banca IFIS will not be significantly affected by said increase, even if it will continue over time, as it can change the economic terms of its assets relatively quickly, considering the types of credit facilities it offers.

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

As for the government bond portfolio, the Bank is not planning any significant changes. The portfolio, used as collateral for refinancing operations with the Eurosystem, is extremely limited in size relative to other large institutions and has a short maturity; therefore, it exposes the Bank to immaterial impacts in the event of fluctuations in bond prices.

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

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

In light of the above, the Group can reasonably expect to remain profitable also in 2019 by carefully monitoring risks and consolidating its presence in the sectors it serves.

02.17. Other information

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

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

Report on Corporate Governance and Shareholding Structure

Pursuant to article 123 bis, paragraph three, of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Law on Banking), a report, separate from this Consolidated Directors' report, was prepared. It was approved by the Board of Directors and published together with the draft consolidated financial statements at 31 December 2018. Furthermore, this document is available on Banca IFIS's website, www.bancaifis.com, in the 'Corporate Governance' Section.

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

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

Non-Financial Statement

Pursuant to Article 5, paragraph 3 of Italian Legislative Decree no. 254 of 30 December 2016 (the Consolidated Law on Banking), the consolidated non-financial statement represents a report separate from this document. It is approved by the Board of Directors and published together with the Draft Consolidated Financial Statements at 31 December 2018. Furthermore, this document is made available within the document Consolidated Reports on Banca IFIS's website, www.bancaifis.com, in the 'Institutional Investor Relations' Section.

The disclosures on policies concerning the diversity of administration, management and control bodies in terms of age, gender, and education and professional background, as well as the description of the goals, implementation and results of said policies, as per Art. 123-Bis, paragraph 2, letter d-bis) of the Consolidated Law on Finance are included in the "Report on Corporate Governance and Shareholding Structure".

Privacy measures

The Banca IFIS Group has consolidated a project to comply with Regulation (EU) 2016/679 in order to incorporate the relevant regulatory provisions into its internal privacy management model, planning a series of both technological and organisational steps that will concern all the Group's companies.

Parent Company management and coordination

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

National consolidated tax regime

Banca IFIS S.p.A., IFIS NPL S.p.A., and IFIS Rental Services S.r.l., together with the parent company La Scogliera S.p.A., opted for the application of Group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree 917/86.

Transactions between these companies were regulated by means of a private written agreement between the parties signed in April 2016, September 2017, and June 2018. This agreement will lapse after three years.

In accordance with applicable laws, all entities that are party to the agreement have an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company.

Under this tax regime, the taxable profits and tax losses reported by each entity for the fiscal year 2018 were transferred to the consolidating company La Scogliera S.p.A..

At 31 December 2018, the net receivable due from the parent was down from 54,1 million Euro at the end of the previous year to 42,5 million Euro, largely because the net result for 2018 was offset with past tax losses.

Transactions on treasury shares

At 31 December 2017, the bank held 377.829 treasury shares recognised at a market value of 3,2 million Euro and a par value of 377.829 Euro.

In 2018, Banca IFIS awarded the Top Management 7.717 treasury shares at an average price of 32,67 Euro as variable pay for the 2014 financial results, for a total of 252 thousand Euro and a par value of 7.717 Euro, making profits of 187 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve.

The remaining balance at the end of the year 2018 was 370.112 treasury shares with a market value of 3,1 million Euro and a par value of 370.112 Euro.

Related-party transactions

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

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

During 2018, no significant transactions with related parties were undertaken.

For information on individual related party transactions, please refer to Part H of the Notes to the Consolidated Financial Statements.

Atypical or unusual transactions

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

Research and development activities

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

Venice - Mestre, 7 March 2019

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

03

Consolidated Financial Statements

03.1. Consolidated Statement of Financial Position

	ASSETS (in thousands of Euro)	31.12.2018	31.12.2017*
10.	Cash and cash equivalents	48	50
20.	Financial assets at fair value through profit or loss	193.654	94.421
	a) financial assets held for trading	29.809	35.614
	c) other financial assets mandatorily measured at fair value	163.845	58.807
30.	Financial assets at fair value through other comprehensive income	432.094	442.576
40.	Financial assets measured at amortised cost	7.904.567	8.153.319
	a) due from banks	590.595	1.760.752
	b) loans to customers	7.313.972	6.392.567
90.	Property, plant and equipment	130.650	127.881
100.	Intangible assets	23.277	24.483
	of which: goodwill	*1.515*	*834*
110.	Tax assets:	395.084	438.623
	a) current	46.820	71.309
	b) deferred	348.264	367.314
130.	Other assets	302.887	272.977
	Total assets	**9.382.261**	**9.554.330**

	LIABILITIES AND EQUITY (in thousands of Euro)	31.12.2018	31.12.2017*
10.	Financial liabilities measured at amortised cost.	7.437.694	7.725.159
	a) due to banks	785.393	791.977
	b) due to customers	4.673.299	5.293.188
	c) debt securities issued	1.979.002	1.639.994
20.	Financial liabilities held for trading	31.155	38.171
60.	Tax liabilities:	52.722	40.076
	a) current	13.367	1.477
	b) deferred	39.355	38.599
80.	Other liabilities	367.872	352.999
90.	Post-employment benefits	8.039	7.550
100.	Provisions for risks and charges:	25.779	21.656
	a) commitments and guarantees granted	3.896	590
	c) other provisions for risks and charges	21.883	21.066
120.	Valuation reserves	(14.606)	(2.710)
150.	Reserves	1.168.543	1.038.155
160.	Share premiums	102.116	101.864
170.	Share capital	53.811	53.811
180.	Treasury shares (-)	(3.103)	(3.168)
190.	Equity attributable to non-controlling interests (+ / -)	5.476	-
200.	Profit (loss) for the year (+/-)	146.763	180.767
	Total liabilities and equity	**9.382.261**	**9.554.330**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

03.2. Consolidated Income Statement

	ITEMS (in thousands of Euro)	31.12.2018	31.12.2017*
10.	Interest receivable and similar income	436.046	419.264
	of which: interest income calculated using the effective interest method	*431.151*	*416.213*
20.	Interest due and similar expenses	(104.934)	(107.048)
30.	**Net interest income**	**331.112**	**312.216**
40.	Commission income	97.697	86.897
50.	Commission expense	(13.192)	(13.132)
60.	**Net commission income**	**84.505**	**73.765**
70.	Dividends and similar income	336	48
80.	Net profit (loss) from trading	(772)	11.249
100.	Gain (loss) on sale or buyback of:	25.396	25.595
	a) financial assets measured at amortised cost	17.165	19.016
	b) financial assets at fair value through other comprehensive income	-	6.579
	c) financial liabilities	8.231	-
110.	Net result of other financial assets and liabilities at fair value through profit or loss	(2.223)	-
	b) other financial assets mandatorily measured at fair value	(2.223)	-
120.	**Net banking income**	**438.354**	**422.873**
130.	Net credit risk losses/reversal on:	38.055	76.349
	a) financial assets measured at amortised cost	39.074	78.390
	b) financial assets at fair value through other comprehensive income	(1.019)	(2.041)
150.	**Net profit (loss) from financial activities**	**476.409**	**499.222**
190.	Administrative expenses:	(288.110)	(250.871)
	a) personnel expenses	(111.584)	(98.251)
	b) other administrative expenses	(176.526)	(152.620)
200.	Net allocations to provisions for risks and charges	(2.099)	73
	a) commitments and guarantees granted	(229)	5.605
	b) other net provisions	(1.870)	(5.532)
210.	Net impairment losses/reversal on property, plant and equipment	(6.315)	(4.563)
220.	Net impairment losses/reversal on intangible assets	(6.443)	(6.889)
230.	Other operating income/expenses	29.536	11.603
240.	**Operating costs**	**(273.431)**	**(250.647)**
290.	**Pre-tax profit (loss) for the period from continuing operations**	**202.978**	**248.575**
300.	Income taxes for the year relating to current operations	(56.168)	(67.808)
330.	**Profit (loss) for the year**	**146.810**	**180.767**
340.	Profit (loss) for the year attributable to non-controlling interests	47	-
350.	**Profit (loss) for the year attributable to the Parent**	**146.763**	**180.767**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

03.3. Consolidated Statement of Comprehensive Income

	ITEMS (in thousands of Euro)	31.12.2018	31.12.2017*
10.	**Profit (loss) for the period**	**146.810**	**180.767**
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**1.684**	**(970)**
20.	Equity securities designated as at fair value through other comprehensive income	1.586	(1.113)
30.	Financial liabilities designated as at fair value through profit or loss (changes in own credit risk)	-	-
40.	Hedging of equity securities designated as at fair value through other comprehensive income	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	98	143
80.	Non-current assets and disposal groups	-	-
90.	Share of valuation reserves of equity accounted investments:	-	-
	Other comprehensive income, net of taxes, to be reclassified to profit or loss	**(13.573)**	**3.705**
100.	Foreign investment hedges	-	-
110.	Exchange differences	(1.027)	1.851
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated items)	-	-
140.	Financial assets (other than equity securities) at fair value through other comprehensive income	(12.546)	1.854
150.	Non-current assets and disposal groups	-	-
160.	Share of valuation reserves of equity accounted investments:	-	-
170.	**Total other comprehensive income, net of taxes**	**(11.889)**	**2.735**
180.	**Total comprehensive income (Item 10+170)**	**134.921**	**183.502**
190.	Total consolidated comprehensive income attributable to non-controlling interests	47	-
200.	**Total consolidated comprehensive income attributable to the Parent**	**134.874**	**183.502**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

03.4. Statement of Changes in Consolidated Equity at 31 December 2018

	Balance at 31/12/2017	Change in opening balances	Balance at 01/01/2018	Allocation of profit from previous year		Changes occurred during the year									Equity attributable to the Group at 31/12/2018	Equity attributable to non-controlling interests at
							Equity transactions									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity interests	Comprehensive income for the year 2018		
Share capital:																
a) ordinary shares	53.811	-	53.811	-	-	-	-	-	-	-	-	-	-	-	53.811	4.430
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	101.864	-	101.864	-	-		-	252	-	-	-	-	-	-	102.116	-
Reserves:																
a) retained earnings	1.032.741	2.948	1.035.689	127.334	-	171	-	-	-	-	-	-	-	-	1.163.194	931
b) other	5.414	-	5.414	-	-	-	-	(65)	-	-	-	-	-	-	5.349	
Valuation reserves:	(2.710)	(7)	(2.717)	-	-	-	-	-	-	-	-	-	-	(11.889)	(14.606)	68
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(3.168)	-	(3.168)	-	-	-	-	65	-	-	-	-	-	-	(3.103)	-
Profit (loss) for the period	180.767	-	180.767	(127.334)	(53.433)	-	-	-	-	-	-	-	-	146.763	146.763	47
Equity attributable to the Group	**1.368.719**	**2.941**	**1.371.660**	**-**	**(53.433)**	**171**	**-**	**252**	**-**	**-**	**-**	**-**	**-**	**134.874**	**1.453.524**	**-**
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5.429**	**47**	**-**	**5.476**

03.5. Statement of Changes in Consolidated Equity at 31 December 2017

	Balance at 31/12/2016	Change in opening balances	Balance at 1/1/2017	Allocation of profit from previous year		Changes occurred during the year									Equity attributable to the Group at 31/12/2017	Equity attributable to non-controlling interests at
				Reserves	Dividends and other allocations	Changes in reserves	Equity transactions							Comprehensive income for the year 2017		
							Issue of new shares	Buyback of treasury shares	Extraordinary distribution of	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity interests			
Share capital:																
a) ordinary shares	53.811	-	53.811	-	-	-	-	-	-	-	-	-	-	-	**53.811**	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	101.776	-	101.776	-	-	-	88	-	-	-	-	-	-	-	**101.864**	
Reserves:																-
a) retained earnings	378.402	-	378.402	653.901	-	438	-	-	-	-	-	-	-	-	**1.032.741**	-
b) other	5.433	-	5.433	-	-	-	(19)	-	-	-	-	-	-	-	**5.414**	-
Valuation reserves:	(5.445)	-	(5.445)	-	-	-	-	-	-	-	-	-	-	2.735	**(2.710)**	
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(3.187)	-	(3.187)	-	-	-	19	-	-	-	-	-	-	-	**(3.168)**	-
Profit (loss) for the period	687.945	9.769	697.714	(653.901)	(43.813)	-	-	-	-	-	-	-	-	180.767	**180.767**	-
Equity attributable to the Group	**1.218.735**	**9.769**	**1.228.504**	**-**	**(43.813)**	**438**	**88**	**-**	**-**	**-**	**-**	**-**	**-**	**183.502**	**1.368.719**	**-**
Equity attributable to non-controlling interests	**48**	**-**	**48**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**(48)**	**-**	**-**	**-**

03.6. Consolidated Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT	Amount	
Indirect method	31.12.2018	31.12.2017*
A. OPERATING ACTIVITIES		
1. Operations	**202.076**	**290.211**
- profit (loss) for the year (+/-)	146.763	180.767
- profit/loss on financial assets held for trading and on other financial assets/liabilities at fair value through profit or loss (-/+)	2.995	(16.307)
- net credit risk losses/reversals (+/-)	(38.055)	48.281
- net impairment losses/reversals on property, plant and equipment and intangible assets (+/-)	12.758	11.452
- net allocations to provisions for risks and charges and other expenses/income (+/-)	2.193	5.552
- unpaid taxes, duties and tax credits (+/-)	56.168	60.510
- other adjustments (+/-)	19.254	(44)
2. Cash flows generated/absorbed by financial assets	**141.382**	**(901.600)**
- Financial assets held for trading	5.033	28.086
- other assets mandatorily measured at fair value	(107.261)	-
- financial assets at fair value through other comprehensive income	(2.433)	(89.675)
- financial assets measured at amortised cost	287.826	(943.957)
- other assets	(41.783)	103.946
3. Cash flows generated/absorbed by financial liabilities	**(265.299)**	**693.124**
- financial liabilities measured at amortised cost	(287.465)	672.074
- financial liabilities held for trading	(7.016)	(10.307)
- other liabilities	29.182	31.357
Net cash flows generated/absorbed by operating activities A (+/-)	**78.159**	**81.735**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**36**
- sale of property, plant and equipment	-	36
2. Cash flows absorbed by	**(25.213)**	**(38.487)**
- purchases of property, plant and equipment	(9.084)	(22.096)
- purchases of intangible assets	(5.237)	(16.391)
- acquisitions of subsidiaries and business units	(10.892)	-
Net cash flows generated/absorbed by investing activities B (+/-)	**(25.213)**	**(38.451)**
C. FINANCING ACTIVITIES		
- issues/buyback of treasury shares	317	107
- issues/buyback of equity instruments	167	438
- distribution of dividends and other	(53.433)	(43.813)
Net cash flows generated/absorbed by financing activities C (+/-)	**(52.949)**	**(43.268)**
NET CASH FLOWS GENERATED/ABSORBED DURING THE YEAR D=A+/-B+/-C	**(2)**	**16**
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	**50**	**34**
TOTAL NET CASH GENERATED/ABSORBED DURING THE YEAR D	**(2)**	**16**
CASH AND CASH EQUIVALENTS: EFFECT OF CHANGES IN EXCHANGE RATES F	**-**	**-**
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	**48**	**50**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

04

Notes to the Consolidated Financial Statements

04.1. Part A – Accounting policies

A.1 – General part

Section 1 – Statement of compliance with international accounting standards

The Consolidated Financial Statements at 31 December 2018 have been drawn up in accordance with the IASs/IFRSs in force at said date issued by the International Accounting Standards Board (IASB), together with the relevant interpretations (IFRICs and SICs). These standards were endorsed by the European Commission in accordance with the provisions in article 6 of European Union Regulation no. 1606/2002. This regulation was implemented in Italy with Legislative Decree no. 38 of 28 February 2005.

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

The accounting standards adopted in preparing these financial statements are those in force at 31 December 2018 (including SIC and IFRIC interpretations).

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

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

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

Section 2 – Basis of preparation

The Consolidated Financial Statements consist of:

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

In addition, they contain the Directors' Report.

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

For the preparation of these Consolidated Financial Statements, reference was made to the format set out by Bank of Italy's Circular no. 262 of 22 December 2005, 5th update of 22 December 2017.

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

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

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

The criteria for recognising, measuring and derecognising assets and liabilities, and the methods for recognising revenue and costs adopted in preparing the Consolidated Financial Statements at 31 December 2018 were updated compared to those used to prepare the

Consolidated Financial Statements for the year ended 31 December 2017, as the new accounting standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" became effective on 1 January 2018.

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

Information on the business as a going concern

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

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

In this regard, having examined the risks and uncertainties connected to the present macro-economic context, and considering the financial and economic forecasts made by the parent company for 2019, the Banca IFIS Group can indeed be considered as a going concern, in that it can be reasonably expected to continue operating in the foreseeable future. Therefore, the Consolidated Financial Statements at 31 December 2018 have been prepared in accordance with this fact.

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

Section 3 - Consolidation scope and method

The Consolidated Financial Statements of the Banca IFIS Group have been drawn up on the basis of the accounts at 31 December 2018 prepared by the directors of the companies included in the consolidation scope. At 31 December 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 were 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 (revised in 2008); 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.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date by the acquirer.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed by the Group. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

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 cost incurred for the acquisition of the subsidiary was provisionally estimated at 710 thousand Euro, compared to the original 2,1 million Euro paid: the cost is still subject to adjustments under the agreement with the seller.

The consolidation process has brought about goodwill provisionally estimated at 700 thousand Euro, recognised under '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 3,9 million Euro gain on bargain purchase recognised under Other operating income.

1. Investments in exclusively controlled companies

Name of the company	Registered office	Head office	Type (1)	Investment		Voting rights % (2)
				Held by	Share %	
IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	1	Banca IFIS S.p.A.	100%	100%
IFIS Rental Services S.r.l.	Milan	Milan	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%
Cap.Ital.Fin. S.p.A.	Naples	Naples	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.

2. Significant judgements and assumptions in determining the scope of consolidation

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

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

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

Generally, there is a presumption that a majority of voting rights gives control over the investee. The Group shall reassess whether it controls an investee if facts and circumstances indicate there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over it and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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.

3. Investments in exclusively controlled companies with significant non-controlling interests

3.1 Non-controlling interests, voting rights held by non-controlling interests, and dividends distributed to non-controlling interests

Name of the company	Non-controlling interests %	Voting rights held by non-controlling interests %(1)	Dividends distributed to non-controlling interests
Credifarma S.p.A.	30%	30%	-

(1) Voting rights in the Annual Shareholders' Meeting

3.2 Investments with significant non-controlling interests: accounting information

Company Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Equity	Net interest income	Net banking income	Operating costs	Pre-tax profit (loss) for the period from continuing operations	Pre-tax profit (loss) from continuing operations	Profit (Loss) from disposal groups net of taxes	Profit (Loss) for the year (1)	Other comprehensive income, net of taxes (2)	Other comprehensive income (3) = (1) + (2)
Credifarma S.p.A.	100.747	5	91.724	2.170	78.910	17.996	1.745	2.894	(2.917)	(113)	1.614	-	1.614	1	1.615

4 Significant restrictions

There were no significant restrictions as per paragraph 13 of IFRS 12, i.e. statutory, contractual and regulatory restrictions on its ability to access or use the assets and settle the liabilities of the Group, nor protective rights of non-controlling interests that can significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

5 Other information

The reporting date of the accounts prepared by the directors of the companies included in the consolidation scope was 31 December 2018.

Section 4 – Subsequent events

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

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

Section 5 – Other aspects

Risks and uncertainties related to estimates

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

Specifically, it made estimates on the carrying amounts of some items recognised in the consolidated financial statements at 31 December 2018, as per the relevant accounting standards. These estimates are largely based on the expected future recoverability of the amounts recognised and were made on a going concern basis. Such estimates support the carrying amounts reported at 31 December 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;
- credit risk losses
- provisions for risks and charges;
- post-employment benefits;
- goodwill and other intangible assets.

Fair value of financial instruments not quoted in active markets

Financial instruments not quoted in active markets or illiquid and complex instruments require conducting appropriate assessments that involve exercising considerable judgement to select the measurement models and the relevant inputs, which may often not be observable in the market. There is a degree of subjectivity involved in assessing whether certain inputs are observable and categorising them within the fair value hierarchy accordingly. For the qualitative and quantitative disclosures about the methods used to determine the fair value of instruments measured at fair value, please see the measurement bases described in paragraph A.2 – Main items of the financial statements.

NPL segment exposures

Concerning specifically the measurement of the NPL segment's exposures, 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 settlements plans, 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 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.

Following the garnishment order, the Group individually estimates future cash flows based on objective information about each position; in this case, the estimates made largely concern identifying the term of the payment plan.

Receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable

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".

Credit risk losses

Allocating receivables and debt securities classified as Financial assets at amortised cost and Financial assets at fair value through other comprehensive income to the three credit risk stages in IFRS 9, as well as calculating the relevant expected credit losses, requires a complex estimation process that mainly consists in:

- defining the parameters for a significant increase in credit risk, which are essentially based on models for measuring the probabilities of default (PD) at the origination of financial assets and at the reporting date;
- assessing certain factors necessary to estimate the future cash flows from non-performing exposures: expected recovery times, the estimated realisable value of guarantees, if any, the costs expected to be incurred to recover the exposure, and the probability of disposal for positions for which there is a disposal plan.

Concerning the measurement of the Expected Credit Loss, please refer to the paragraph "Impact of the first-time adoption of IFRS 9" in this document as well as paragraph A.2 – Main items of the financial statements.

For the other cases, please refer to the measurement bases described in paragraph A.2 – Main items of the financial statements.

Coming into effect of new accounting standards

Standards issued, effective and applicable to these financial statements

The Consolidated Financial Statements at 31 December 2018 have been drawn up in accordance with the IASs/IFRSs in force at the reporting date. See the paragraph *Statement of compliance with international accounting standards.*

The accounting standards used in preparing these Consolidated Financial Statements at 31 December 2018, as far as the classification, recognition, measurement, and derecognition of financial assets and liabilities as well as the methods for recognising revenue and costs are concerned, changed compared to the ones used in preparing the 2017 Financial Statements. These changes are essentially attributable to the application of the following international accounting standards, which became effective on 1 January 2018:

- IFRS 9 "Financial Instruments", issued by the IASB in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016, which superseded IAS 39 in governing the classification and measurement of financial instruments as well as the relevant impairment process; please refer to the paragraph Impact of the first-time adoption of IFRS 9;

- IFRS 15 "Revenue from Contracts with Customers", endorsed by the European Commission with Regulation no.1905/2016, which replaced IAS 18 "Revenue" and IAS 11 "Construction Contracts"; please refer to the paragraph Impact of the first-time adoption of IFRS 15;

In addition, the Group has adopted for the first time some accounting standards and amendments effective for annual periods beginning on or after 1 January 2018. Below are the new accounting standards and the amendments to existing accounting standards endorsed by the EU, which have not materially affected the amounts reported in the Consolidated Financial Statements at 31 December 2018.

- Amendments to IFRS 2: Classification and measurement of share-based payment transactions;
- Amendments to IAS 40 Investment Property: Clarification of the requirements on transfers to, or from, investment property;
- Annual Improvements to IFRS Standards 2014-2016 Cycle: IAS 28 Investments in Associates and Joint Ventures, IFRS 1 Additional Exemptions for First-time Adopters, and IFRS 12 Disclosure of Interests in Other Entities;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration: The interpretation clarifies how to account for transactions that involve advance consideration paid or received in a foreign currency.

Standards issued but not yet effective

Some new international accounting standards are applicable for annual periods beginning on or after 1 January 2018, for which earlier application is permitted; however, the Group did not adopt any standard, interpretation or amendment published but not yet endorsed by the European Union early.

Among the standards that have not yet become effective, IFRS 16 will introduce changes to the representation of the Banca IFIS Group's Consolidated Financial Statements, even though the impact on initial application is considered not material.

Specifically, IFRS 16 introduces new rules for the accounting of lease agreements for both lessees and lessors, superseding the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15, and SIC 27). A lease is defined as a contract whose fulfilment depends on the use of the specified asset and conveys the right to control the use of this specified asset for a period of time in exchange for consideration.

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance, and cash flows of the entity.

The Standard applies to all leases that contain the right to use an asset (so-called "Right-of-Use") for a period of time in exchange for consideration. IFRS 16 applies to all transactions that include the right to use the asset, regardless of the contractual form, i.e. finance or operating lease, rental or hire.

The main change concerns the representation of the "Right-of-Use" and the obligation assumed under operating leases in the lessee's statement of financial position through the recognition of an asset and a liability. Specifically, the lessee shall recognise a liability based on the present value of future lease payments as well as a corresponding right-of-use asset.

After initial recognition:

- the lessee shall either depreciate the right-of-use asset over the lease term or the useful life of the asset (based on IAS 16) or measure it using an alternative basis – revaluation model or fair value – (IAS 16 or IAS 40, respectively);
- the liability shall be gradually reduced as lease payments are made, and the lessee shall recognise interest expense on the liability through profit or loss.

IFRS 16 may not apply to leases with a term of less than 12 months or an underlying asset of low value when new.

As for the lessor, the accounting requirements for leases in IAS 17 remain essentially unchanged, differentiating between operating and finance leases. In the case of a finance lease, the lessor shall continue recognising future lease payments as a credit in the statement of financial position.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and, although earlier application is permitted, the Group decided not to adopt it early.

In 2018, the Group launched a project to identify the qualitative and quantitative impacts of the application of this new accounting standard, as well as identify and implement the actions necessary to adopt it.

As a result of this project, the Banca IFIS Group estimated the expected impact of the first-time adoption of IFRS 16 based on currently available information. This estimate may be subject to change as additional information becomes available to the Group in 2019, when it will adopt the new standard. The impact essentially refers to the requirement to recognise the right-of-use asset for leased company cars and property leased to the Group, which are currently accounted for as operating leases. The relevant costs, previously recognised as operating costs on a straight-line basis over the lease term, shall be therefore replaced by depreciation and interest expense.
The Group will exercise the option under IFRS 16 not to restate the comparative information in the year of initial application of IFRS 16, in accordance with the so-called "modified retrospective approach" (paragraph C5 letter b, C7 and C8 letter b.ii in Appendix C to IFRS 16), under which entities may recognise the right-of-use asset at the date of initial application at the same amount as the lease liability; no differences concerning the Banca IFIS Group's opening consolidated equity emerge at the date of initial application under this approach.
IFRS 16 did not introduce significant changes to lessor accounting, therefore the Group does not anticipate any impact in this sense.

Finally, the Group does not consider the impact of the adoption of the following interpretations and amendments of existing international accounting standards to be material:

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Prepayment Features with Negative Compensation* (*Amendments to IFRS 9*);
- *Long-term Interests in Associates and Joint Ventures* (*Amendments to IAS 28*);
- *Plan Amendment, Curtailment or Settlement* (*Amendments to IAS 19*);
- *Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards*;
- *Amendments to References to Conceptual Framework in IFRS Standards*;
- *Definition of a Business (Amendment to IFRS 3 Business Combinations);*
- *Definition of Material (Amendment to IAS 1 and IAS 8);*
- *IFRS 17 Insurance Contracts.*

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

Deadlines for the approval and publication of the Financial Statements

Pursuant to art. 154-ter of Italian Legislative Decree no. 58/98 (Consolidated Law on Finance), the Parent must approve the separate financial statements and publish the Consolidated Annual Financial Report, including the draft separate financial statements, the directors' report, and the declaration as per article 154-bis, paragraph 5, within 120 days of the end of the financial year. The Board of Directors approved the Parent's draft separate financial statements and the consolidated financial statements on 07 March 2019; the Parent's separate financial statements will be submitted to the Shareholders' Meeting to be held on 19 April 2019 on first call for approval.

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 incurred loss model as per IAS 39 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.

Finally, concerning hedge accounting, as there was no hedging relationship at the date of initial application, the Group did not elect to continue applying the hedge accounting requirements of IAS 39 as permitted by the transitional provisions of IFRS 9.

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

Reconciliation 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 with the new accounting categories and the relevant measurement bases introduced by the new standard

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

Under IFRS 9, the portfolio of financial assets at fair value through other comprehensive income corresponds to the "Held to collect and sell (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 transferred 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 reconciled in the new specific line item Provisions for risk and charges on commitments and guarantees granted, less the mentioned 15,5 million Euro.

Below is the reconciliation of assets and liabilities in the Consolidated Financial Statements at 31 December 2017 to the line items introduced by the 5th update to Circular 262: "Banks' financial statements: layouts and preparation" of the Bank of Italy. The specific column "31.12.17 Restated" represents the comparative amounts from 2017 of the line items in the statement of financial position and the income statement conventionally reconciled with the new line items in IFRS 9.

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

LIABILITIES (in thousands of Euro) Circular 262/2005 4th Update		AMOUNTS AT 31.12.2017	Classification Impact	31.12.17 RESTATED	LIABILITIES (in thousands of Euro) Circular 262/2005 5th Update	
	-	-	-	7.725.159	10	Financial liabilities measured at amortised cost.
10	Due to banks	791.977	-	791.977		a) due to banks
20	Due to customers	5.293.188	-	5.293.188		b) due to customers
30	Debt securities issued	1.639.994	-	1.639.994		c) debt securities issued
40	Financial liabilities held for trading	38.171	-	38.171	20	Financial liabilities held for trading
80	Tax liabilities	40.076	-	40.076	60	Tax liabilities
100	Other liabilities	368.543	(15.544)	352.999	80	Other liabilities
110	Post-employment benefits	7.550	-	7.550	90	Post-employment benefits
120	Provisions for risks and charges	21.641	15	21.656	100	Provisions for risks and charges
	-	-	590	590		a) commitments and guarantees granted
	a) pensions and similar obligations	-	-	-		b) pensions and similar obligations
	b) other provisions	21.641	(575)	21.066		c) other provisions for risks and charges
140	Valuation reserves	(2.710)	-	(2.710)	120	Valuation reserves
170	Reserves	1.038.155	-	1.038.155	150	Reserves
180	Share premiums	101.864	-	101.864	160	Share premiums
190	Share capital	53.811	-	53.811	170	Share capital
200	Treasury shares (-)	(3.168)	-	(3.168)	180	Treasury shares (-)
220	Profit (loss) for the period	180.767	-	180.767	200	Profit (loss) for the period
	Total liabilities and equity	**9.569.859**	**(15.529)**	**9.554.330**		**Total liabilities and equity**

As for the income statement, consistently with the relevant composition in 2018, the impact of the reversals on non-performing exposures due to the passage of time («discounting impact») (positive 5,7 million Euro at 31 December 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 5,6 million Euro at 31 December 2017) was reclassified from "Net impairment losses/reversals on other financial transactions" to "Net allocations to provisions for risks and charges".

In addition, the new accounting standard IFRS 9 introduced the category of "Purchased or originated credit-impaired" (POCI) loans, that is loans that were impaired at the date they were acquired or originated; this definition encompasses also the NPL segment's loans as well as the non-performing assets acquired as part of the business combination with the former GE Capital Interbanca Group at the acquisition date.

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

Under the new standard, the impact from the periodic review of lifetime ECLs (expected credit losses throughout the asset's remaining useful life) is classified within the line item Net credit risk losses/reversals. Specifically, this line item includes the impact of the periodic change in lifetime expected credit losses, even if those changes are favourable or lower than the ones included in the estimate of cash flows on initial recognition. At 31 December 2017, the reclassification amounted to 135,9 million Euro.

Therefore, the net reclassification to interest income and net reversals of credit risk losses totalled 130,2 million Euro overall.

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

Below is the reconciliation of the income statement presented in the Consolidated Financial Statements at 31 December 2017 to the line items introduced by the 5th update to Circular 262: "Banks' financial statements: layouts and preparation" of the Bank of Italy. The specific column "31.12.17 Restated" represents the comparative amounts from 2017 of the line items in the statement of financial position and the income statement conventionally reconciled with the new line items in IFRS 9.

INCOME STATEMENT ITEMS (in thousands of Euro) Circular 262/2005 4th Update		AMOUNTS AT 31.12.2017	Classification Impact	31.12.2017 RESTATED	INCOME STATEMENT ITEMS (in thousands of Euro) Circular 262/2005 5th Update	
10	Interest receivable and similar income	549.499	(130.235)	419.264	10	Interest receivable and similar income
20	Interest due and similar expenses	(107.048)	-	(107.048)	20	Interest due and similar expenses
30	**Net interest income**	**442.451**	**(130.235)**	**312.216**	**30**	**Net interest income**
40	Commission income	86.897	-	86.897	40	Commission income
50	Commission expense	(13.132)	-	(13.132)	50	Commission expense
60	**Net commission income**	**73.765**	**-**	**73.765**	**60**	**Net commission income**
70	Dividends and similar income	48	-	48	70	Dividends and similar income
80	Net profit (loss) from trading	11.249	-	11.249	80	Net profit (loss) from trading
90	Net result from hedging	-	-	-	90	Net result from hedging
100	Gain (loss) on sale or buyback of:	25.595	-	25.595	100	Gain (loss) on sale or buyback of:
	a) receivables	19.016	-	19.016		a) financial assets measured at amortised cost
	b) available for sale financial assets	6.579	-	6.579		b) financial assets at fair value through other comprehensive income
120	**Net banking income**	**553.108**	**(130.235)**	**422.873**	**120**	**Net banking income**
130	Net impairment losses/reversal on	(48.281)	124.630	76.349	130	Net credit risk losses/reversal on:
	a) receivables	(51.845)	130.235	78.390		a) financial assets measured at amortised cost
	b) available for sale financial assets	(2.041)	-	(2.041)		b) financial assets at fair value through other comprehensive income
	d) other financial transactions	5.605	(5.605)	-		
140	**Net profit (loss) from financial activities**	**504.827**	**(5.605)**	**499.222**	**150**	**Net profit (loss) from financial activities**
180	Administrative expenses:	(250.871)	-	(250.871)	190	Administrative expenses:
	a) Personnel expenses	(98.251)	-	(98.251)		a) Personnel expenses
	b) Other administrative expenses	(152.620)	-	(152.620)		b) Other administrative expenses
190	Net allocations to provisions for risks and charges	(5.532)	5.605	73	200	Net allocations to provisions for risks and charges
	-		5.605	5.605		a) commitments and guarantees granted
	-			(5.532)		b) other net provisions
200	Net impairment losses/reversal on property, plant and equipment	(4.563)	-	(4.563)	210	Net impairment losses/reversal on property, plant and equipment
210	Net impairment losses/reversal on intangible assets	(6.889)	-	(6.889)	220	Net impairment losses/reversal on intangible assets
220	Other operating income/expenses	11.571	32	11.603	230.	Other operating income/expenses
230	**Operating costs**	**(256.284)**	**5.637**	**(250.647)**	**240.**	**Operating costs**
270	Profit (Loss) from sales of investments	32	(32)	-	280.	Profit (Loss) from sales of investments
280	**Pre-tax profit (loss) for the period from continuing operations**	**248.575**	**-**	**248.575**	**290**	**Pre-tax profit (loss) for the period from continuing operations**
290	Income taxes for the year relating to continuing operations	(67.808)	-	(67.808)	300	Income taxes for the year relating to continuing operations
320	**Profit (loss) for the period**	**180.767**	**-**	**180.767**	**330**	**Profit (loss) for the period**
330	Profit (loss) for the year attributable to non-controlling interests	-	-	-	340	Profit (loss) for the year attributable to non-controlling interests
340	**Profit (loss) for the year attributable to the Parent**	**180.767**	**-**	**180.767**	**350**	**Profit (loss) for the year attributable to the Parent**

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 using the "expected credit loss" model instead of the existing "incurred credit loss" model. Specifically, as far as the exposures within Stage 1 and Stage 2 are concerned, the increase/decrease in impairment losses is attributable to:
  - the classification of part of the portfolio within Stage 2, requiring a "lifetime" credit loss;
  - the recognition of impairment losses also on portfolios previously not subject to impairment (receivables due from banks, government bonds, guarantees received);
  - the alignment of calculation methods at the Group level;
- the need to reclassify some financial assets based on the combined result of the two classification drivers laid down in the standard: the business model for managing these instruments, and the relevant contractual cash flow characteristics (SPPI test).

The above resulted in a positive impact totalling approximately 2,9 million Euro before taxes on the Banca IFIS Group's consolidated equity.

Below is the impact of the transition to IFRS 9 based on the Consolidated Statement of Financial Position at 31 December 2017, which has been conventionally reconciled on the basis of the 5th update to Circular 262: "Banks' financial statements: layouts and preparation" of the Bank of Italy.

ASSETS (in thousands of Euro) Circular 262/2005 5th Update		AMOUNTS AT	IFRS 9 IMPACT		AMOUNTS AT
		31.12.17 RESTATED	*Measurement*	*Impairment*	01.01.2018
10	Cash and cash equivalents	50	-	-	50
20	Financial assets at fair value through profit or loss.	94.421	(49)	-	94.372
a)	Financial assets held for trading	35.614	-	-	35.614
c)	other financial assets mandatorily measured at fair value	58.807	(49)	-	58.758
30	Financial assets at fair value through other comprehensive income	442.576	-	(503)	442.073
40	Financial assets measured at amortised cost	8.153.319	-	8.147	8.161.466
a)	Due from banks	1.760.752	-	(972)	1.759.780
b)	Loans to customers	6.392.567	-	9.119	6.401.686
90	Property, plant and equipment	127.881	-	-	127.881
100	Intangible assets	24.483	-	-	24.483
110	Tax assets	438.623	16	1.333	439.972
130	Other assets	272.977	-	-	272.977
	Total assets	**9.554.330**	**(33)**	**8.977**	**9.563.274**

LIABILITIES (in thousands of Euro) Circular 262/2005 5th Update		AMOUNTS AT	IFRS 9 IMPACT		AMOUNTS AT
		31.12.17 RESTATED	*Measurement*	*Impairment*	01.01.2018
10	Financial liabilities measured at amortised cost.	7.725.159	-	-	7.725.159
a)	due to banks	791.977	-	-	791.977
b)	due to customers	5.293.188	-	-	5.293.188
c)	debt securities issued	1.639.994	-	-	1.639.994
20	Financial liabilities held for trading	38.171	-	-	38.171
60	Tax liabilities	40.076	-	3.049	43.125
80	Other liabilities	352.999	-	-	352.999
90	Post-employment benefits	7.550	-	-	7.550
100	Provisions for risks and charges	21.656	-	2.954	24.610
a)	commitments and guarantees granted	590	-	2.954	3.544
c)	other provisions for risks and charges	21.066	-	-	21.066
120	Valuation reserves	(2.710)	(7)	-	(2.717)
150	Reserves	1.038.155	(26)	2.974	1.041.103
160	Share premiums	101.864	-	-	101.864
170	Share capital	53.811	-	-	53.811
180	Treasury shares (-)	(3.168)	-	-	(3.168)
200	Profit (loss) for the period	180.767	-	-	180.767
	Total liabilities and equity	**9.554.330**	**(33)**	**8.977**	**9.563.274**

Impact of the first-time adoption of IFRS 15

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

A.2 – Main items of the financial statements

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

Classification criteria

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

- **financial assets held for trading**, essentially consisting of debt and equity securities as well as the positive amount of derivative contracts held for trading;
- **financial assets designated as at fair value**, i.e. non-derivative financial assets designated as such on initial recognition if the relevant conditions are met. At initial recognition, an entity may irrevocably designate a financial asset as at fair value through profit or loss if, and only if, doing so would eliminate or significantly reduce a measurement or recognition inconsistency.
- **financial assets mandatorily measured at fair value**, consisting of financial assets that are not eligible for the measurement at amortised cost or fair value through other comprehensive income based on the relevant business model or cash flow characteristics. Specifically, this category includes:

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

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

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

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

Recognition criteria

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

Measurement criteria

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

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

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

Derecognition criteria

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

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

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

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

Classification criteria

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

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

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

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

Recognition criteria

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

Measurement criteria

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

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

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

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

Conversely, equity securities are not tested for impairment.

Derecognition criteria

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

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

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

3 – Financial assets measured at amortised cost

Classification criteria

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

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

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

- receivables due from banks,
- receivables due from customers, largely consisting of:
  - demand advances to customers as part of factoring operations vis-à-vis a receivables portfolio factored with recourse and still recognised in the seller's statement of financial position, or vis-à-vis receivables factored without recourse, providing no contractual clauses that eliminate the conditions for their recognition exist.
  - loans to customers deriving from mortgages or loans extended as part of corporate banking operations;
  - distressed retail loans acquired from banks and retail lenders;
  - tax receivables resulting from insolvency proceedings;
  - repurchase agreements;
  - receivables arising from finance leases;
  - salary- or pension-backed loans.
- debt securities acquired through subscription or private placement, with fixed or determinable payments, not quoted in active markets.

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

Recognition criteria

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

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

Measurement criteria

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

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

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

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

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

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

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

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

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

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

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

entity is exposed to) that are believed to require derecognising the asset because of their impact (estimated to be significant) on the original contractual cash flows.

Derecognition criteria

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

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

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

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

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

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

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

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

6 - Property, plant and equipment and investment property

Classification criteria

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

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

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

Property, plant and equipment for functional use include:

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

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

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

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

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

Recognition criteria

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

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

Measurement criteria

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

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

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

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

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

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

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

The usually estimated useful lives are the following:

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

Derecognition criteria

Property, plant and equipment and investment property are derecognised from the statement of financial position on disposal or when they are withdrawn from use and no future economic benefits are expected from their disposal. The gain/loss arising when the asset is derecognised (calculated as the difference between the asset's net carrying amount and the consideration received) is included in profit or loss when the item is derecognised.

7 - Intangible assets

Classification criteria

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

Recognition criteria

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

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

Measurement criteria

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

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

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

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

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

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

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

Derecognition criteria

An intangible asset is derecognised from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

9 - Current and deferred taxes

Classification criteria

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

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

Deferred tax assets and liabilities are recognised in the statement of financial position at pre-closing balances and without set-offs, and are included in the items 'Tax assets' and 'Tax liabilities', respectively, except when there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which deferred tax liabilities or assets are expected to be settled or recovered.

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

Recognition and measurement criteria

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- when the timing of the reversal of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that they can be recovered, based on the ability of the company concerned or the Parent, as a result of the "tax consolidation" option, to continue to generate taxable profit, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

10 – Provisions for risks and charges

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

In addition, these include also the provisions for risks and charges set aside for other types of commitments and guarantees granted that, because of their specific characteristics, do not fall within the scope of the impairment rules in IFRS 9. Specifically, other provisions for risks and charges consist of liabilities arising when:

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

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

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

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

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

11 – Financial liabilities measured at amortised cost.

Classification criteria

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

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

Recognition criteria

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

Measurement criteria

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

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

Derecognition criteria

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

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

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

12 – Financial liabilities held for trading

Classification criteria

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

Recognition criteria

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

Measurement criteria

Even after initial recognition, financial liabilities held for trading are measured at fair value at the reporting date, and the impact of the application of this method is recognised through profit or loss. The fair value is calculated based on the same criteria as those used for financial assets held for trading.

Derecognition criteria

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

14 – Foreign currency transactions

Initial recognition

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

Subsequent recognitions

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

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

16 - Other information

Post-employment benefits

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

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

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

In particular:

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

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

Share-based payments

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

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

That cost is recognised in employee benefits expense together with a corresponding increase in equity over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

The general accounting rule envisaged by IFRS 2 for this case provides for the accounting of the cost under personnel expenses as a contra-entry to an equity reserve; the accounting of the cost takes place pro rata during the vesting period of the counterparty's right to receive the share-based payment, dividing the cost linearly in the period.

Treasury shares

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

Recognition of income and costs

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

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

Dividends

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

Repurchase agreements

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

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

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

Amortised cost

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

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

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

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

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

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

Purchased or Originated Credit Impaired (POCI) Financial Assets

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

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

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

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

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

A subsequent improvement in the counterparty's creditworthiness, which may be reflected in the present value of cash flows, shall cause the exposure to be classified within Stage 2.

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

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

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

Impairment of financial instruments

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

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

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

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

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

- comparison between the one-year PD at initial recognition and the one-year PD at the reporting date; if the change in PD exceeds a given threshold, the exposure is allocated to Stage 2; the threshold is defined as factor X where: $\mathrm{PD}_{\mathrm{t=rep}}(\mathrm{t}=\mathrm{rep}) > \mathrm{X} * \mathrm{PD}_{\mathrm{t=0}}(\mathrm{t}=0) = \mathrm{Threshold}$
  The threshold uses a PD at origination which allows to capture significant change in credit risk compared to original valuation.
- exposures that are more than 30 days past due or overdrawn;
- forborne exposures;
- “Watchlist & Other Early Warnings (e.g. financial ratios)”, exposures included in the watchlist as part of the tier 1 credit monitoring process or exposures to companies with negative equity, substantial reductions in sales and/or EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) compared to the prior period.

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

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

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

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

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

In particular:

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

If, at the reporting date, the credit risk on a financial instrument has not significantly increased since initial recognition, the entity shall adjust the loss allowance for the financial instrument to an amount equal to the 12-month expected credit losses.

The key inputs in the calculation of ECLs are:

- PD (Probability of Default) is an estimate of the likelihood of default over a given time horizon, using the first year of a multi-period PD model. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. Multi-period PDs are adjusted according to short-term expectations to incorporate point-in-time effects (current stage of the Bank's risk factors compared to the long-term situation).
- EAD (Exposure at Default) is an estimate of the exposure at a future default date, taking into account potential expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise (e.g. bullet), expected drawdowns on committed facilities and off-balance exposures (applying a proper Credit conversion factor), and accrued interest from missed payments.
- LGD (Loss Given Default) is an estimate of the loss arising in the event of a default occurring at a given time. It is estimated differently according to the loan's status (performing, past-due, unlikely-to-pay, bad loan), on a modelling of historic recovery cash flows and other important drives in determining the recovery process specific to business type and product.

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

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

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

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

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

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

A.2.1 – Main items of the comparative information related to financial instruments

The Group's 2017 loan impairment provisions were established in accordance with IAS 39 in respect of incurred losses. They comprised individual and collective components as more fully explained in the 2017 Consolidated Annual Financial Report.

A.3 – Disclosure of transfers of financial assets between portfolios

No financial assets were transferred between portfolios during 2018.

A.4 – Fair value disclosure

Qualitative disclosure

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

Each financial asset or liability of the Group is categorised in one of the above levels, and the relevant measurements may be recurring or non-recurring (see IFRS 13, paragraph 93, letter a). The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input.

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

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

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

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

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

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

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

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

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

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

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

As for the measurement of financial assets and liabilities measured at fair value on a recurring basis, the Group applies the Discounted Cash Flow Model to receivables mandatorily measured at fair value, discounting the expected cash flows from each loan at a market rate determined by taking into account the risk free rate for similar maturities, the cost of funding, the counterparty's lifetime credit risk, and the capital absorption cost.

In order to measure unquoted equity instruments, the Group mainly uses income or financial models (Discounted Cash Flow Model or market multiples for comparable entities).

Concerning specifically the measurement of UCITS units, the approach used based on the above measurement methods is the Net Asset Value determined by the Asset Management company. When calculating the NAV, the Group shall confirm whether the fund's assets are measured at fair value according to the IVSs (International Valuation Standards) and/or the RICS Valuation (Professional Standards Red Book). The Group then discounts the resulting NAV using a structured rate, as previously explained.

Finally, as for over-the-counter (OTC) derivatives not quoted in active markets, their fair value is calculated based on measurement techniques that take into account all risk factors that could affect the value of the financial instrument concerned, using observable market inputs (interest rates, exchange rates, share indices, etc.) adjusted as appropriate to account for the creditworthiness of the specific counterparty, including the counterparty's credit risk (CVA, Credit Value Adjustment) and/or the Group's own credit risk (DVA, Debt Value Adjustment).

As for the measurement of financial assets and liabilities measured at fair value on a non-recurring basis, the relevant portfolio consists of on-balance-sheet exposures classified as performing with a residual life exceeding one year (medium-long term). Therefore, all exposures classified as in default, the ones with a residual life less than one year, and unsecured loans are excluded from the measurement, as the Bank believes that their amortised cost can be used as an approximation of fair value.

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

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

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

- market rates calculated, according to market practice, using either money market rates for maturities less than one year, and swap rates for greater maturities, or the rates quoted in the market for similar transactions;
- Banca IFIS's credit spreads;
- financial statements and information from business plans.

A.4.2 Measurement processes and sensitivity

In compliance with IFRS 13, for fair value measurements categorised within level 3, the Group tests their sensitivity to changes in one or more unobservable inputs used in the fair value measurements like, by way of example and in no means exhaustive discount rates applied to cash flows or expected cash flows themselves.

A.4.3. Fair value hierarchy

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

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

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

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

A.4.5 Fair value hierarchy

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

Type of financial instrument (in thousands of Euro)	31.12.2018			31.12.2017*		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	-	78.891	114.763	-	39.541	54.880
a) financial assets held for trading	-	*29.809*	-	-	*35.425*	*189*
b) financial assets designated as at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	*49.082*	*114.763*	-	*4.116*	*54.691*
2. Financial assets at fair value through other comprehensive income	418.709	-	13.385	430.908	10.222	1.446
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**418.709**	**78.891**	**128.148**	**430.908**	**49.763**	**56.326**
1. Financial liabilities held for trading	-	31.155	-	-	38.171	-
2. Financial liabilities designated as at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**31.155**	**-**	**-**	**38.171**	**-**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

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

At 31 December 2018, the impact of applying the Credit Value Adjustment to the book values of the derivatives with a positive mark-to-market amounted to 0,9 thousand Euro (related to derivatives held for trading); as for the instruments with a negative mark-to-market, there was no impact resulting from the application of the Debit Value Adjustment to the book values of the derivatives.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets at fair value through profit or loss				Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated as at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**54.880**	**189**	**-**	**54.691**	**1.446**	**-**	**-**	**-**
2. Increases	78.678	-	-	78.678	12.485	-	-	-
2.1. Purchases	48.852	-	-	48.852	5	-	-	-
Of which from business combinations	-				5			
2.2. Profit taken to:	25.684	-	-	25.684	2.258	-	-	-
2.2.1. Profit or loss	25.684	-	-	25.684	-	-	-	-
– of which capital gains	13.419	-	-	13.419		-	-	-
2.2.2. Equity	-	X	X	-	2.258	-	-	-
2.3. Transfers from other levels	4.116	-	-	4.116	10.222	-	-	-
2.4. Other increases	26	-	-	26		-	-	-
3. Decreases	**18.795**	**189**	**-**	**18.606**	**546**	**-**	**-**	**-**
3.1. Sales	189	189	-	-	-	-	-	-
3.2. Reimbursements	3.880	-	-	3.880	-	-	-	-
3.3. Losses taken to:	-	-	-	-	-	-	-	-
3.3.1. Profit or loss	14.726	-	-	14.726	-	-	-	-
– of which capital losses	14.726	-	-	14.726	-	-	-	-
3.3.2. Equity	-	X	X	-	546	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**114.763**	**-**	**-**	**114.763**	**13.385**	**-**	**-**	**-**

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis (in thousands of Euro)	31.12.2018				31.12.2017			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	7.904.567	14.155	-	8.054.188	8.153.319	-	-	8.153.319
2. Property, plant and equipment held for investment purpose	720	-	-	880	720-	-	-	880
3. Non-current assets and disposal groups	-	-	-	-	-	-	-	-
Total	**7.905.287**	**14.155**	-	**8.055.068**	**8.154.039**	**-**	**-**	**8.154.199**
1. Financial liabilities measured at amortised cost.	7.437.694	708.742	-	6.610.659	7.725.159	88.768	712.400	6.936.680
2. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	**7.437.694**	**708.742**	-	**6.610.659**	**7.725.159**	**88.768**	**712.400**	**6.936.680**

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

A.5 - "Day one profit/loss" disclosure

With respect to the requirement in IFRS 7 paragraph 28, a financial instrument shall be initially recognised at fair value, which, unless there is evidence to the contrary, is the consideration given or received as part of the transaction. The above standard governs such cases by establishing that an entity may recognise a financial instrument at a fair value other than the consideration given or received only if the fair value is evidenced:

- by comparison with other observable current market transactions in the same instrument;
- based on valuation techniques whose variables include only data from observable markets.

In other words, the assumption under IFRS 9, whereby fair value is equal to the consideration given or received, may be overcome only if there is objective evidence that the consideration given or received is not representative of the actual market value of the financial instrument being traded.

Said evidence must be inferred only from objective and irrefutable inputs, eliminating any discretion in measuring fair value.

If, and only if, the above conditions are met, the difference between fair value and the negotiated price shall be representative of the so-called "day one profit" and immediately recognised through profit or loss.

No such transactions were carried out as part of the Group's operations during 2018.

04.2. Part B – Consolidated statement of financial position

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	31.12.2018	31.12.2017
a) Cash	48	50
b) On demand deposits at Central banks	-	-
Total	**48**	**50**

Section 2 - Financial assets at fair value through profit or loss - Item 20

2.1 Financial assets held for trading: breakdown by type

Type/Amounts	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives						
1. Financial derivatives	-	29.809	-	-	35.425	189
1.1 For trading	-	29.809	-	-	35.425	189
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 For trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**-**	**29.809**	-	**-**	**35.425**	**189**
Total (A+B)	**-**	**29.809**	-	**-**	**35.425**	**189**

The financial assets held for trading outstanding at 31 December 2018 referred to interest rate derivatives that the merged entity Interbanca S.p.A. negotiated with its Corporate clients up to 2009 to provide them with instruments to hedge risks such as fluctuations in interest rates. In order to remove market risk, all outstanding transactions are hedged with “back to back” trades, in which Interbanca assumed a position opposite to the one sold to corporate clients with independent market counterparties.

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

Type/Amounts	31.12.2018	31.12.2017
A. Cash assets		
1. Debt securities	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other financial companies of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. UCITS units	**-**	**-**
4. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**-**	**-**
B. Derivatives		
a) Central Counterparties	-	-
b) Other	29.809	35.614
Total (B)	**29.809**	**35.614**
Total (A+B)	**29.809**	**35.614**

2.5 Financial assets mandatorily measured at fair value: breakdown by type

Type/Amounts	31.12.2018			31.12.2017*		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**1.935**	**-**	**-**	**955**
1.1. Structured	-	-	-	-	-	-
1.2. Other debt securities	-	-	1.935	-	-	955
2. Equity securities	**-**	**-**	**11.266**	**-**	**-**	**-**
3. UCITS units	**-**	**49.082**	**50.267**	**-**	**4.116**	**9.613**
4. Loans	**-**	**-**	**51.295**	**-**	**-**	**44.123**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2. Others	-	-	51.295	-	-	44.123
Total	**-**	**49.082**	**114.763**	**-**	**4.116**	**54.691**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

Key

L1= Level 1

L2= Level 2

L3= Level 3

Other debt securities consisted of junior and mezzanine notes associated with securitisation transactions.

11,3 million Euro worth of equity securities arose from the successful restructuring of a position previously classified as non-performing, which caused part of the credit exposure to be converted into equity instruments.

The change in UCITS units was essentially the result of the acquisitions made during the year.

2.6 Financial assets mandatorily measured at fair value: breakdown by debtor/issuer

	31.12.2018	31.12.2017*
1. Equity securities	**11.266**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	11.266	-
2. Debt securities	**1.935**	**955**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies of which: insurance companies	1.935 -	955 -
e) Non-financial companies	-	-
3. UCITS units	**99.349**	**13.729**
4. Loans	**51.295**	**44.123**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies of which: insurance companies	37.306 -	34.497 -
e) Non-financial companies	13.987	9.622
f) Households	2	4
Total	**163.845**	**58.807**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

UCITS units included 5,3 million Euro in closed-end real estate funds, 39,1 million Euro in funds investing in non-performing loans, 5,9 million Euro in equity funds, and 49,0 million Euro in bond funds.

Section 3 - Financial assets at fair value through other comprehensive income – Item 30

3.1 Financial assets at fair value through other comprehensive income: breakdown by type

Type/Amounts	31.12.2018			31.12.2017*		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**418.709**	**-**	**-**	**427.833**	**-**	**-**
1.1 Structured	-	-	-	-	-	-
1.2 Other	418.709	-	-	427.833	-	
2. Equity securities	**-**	**-**	**13.385**	**3.075**	**10.222**	**1.446**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**418.709**	**-**	**13.385**	**430.908**	**10.222**	**1.446**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

Key
L1= Level 1
L2= Level 2
L3= Level 3

Level 1 "other debt securities" largely referred to floating-rate Italian government bonds—mainly BTP Italia. The decline was largely attributable to the change in fair value for the year, which more than offset the increase resulting from the purchases of notes issued by banks.

"Equity securities" referred to non-controlling interests: the relevant change was the result of the adjustment of their fair value.

3.2 Financial assets at fair value through other comprehensive income: breakdown by debtor/issuer

Type/Amounts	31.12.2018	31.12.2017*
1. Debt securities	**418.709**	**427.833**
a) Central Banks	-	-
b) Public Administrations	410.410	427.833
c) Banks	8.299	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	**13.385**	**14.743**
a) Banks	27	22
b) Other issuers:	13.358	14.721
- other financial companies	6.671	10.044
of which: insurance companies	-	-
- non-financial companies	-	-
- other	6.687	4.677
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**432.094**	**442.576**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

3.3 Financial assets at fair value through other comprehensive income: gross amount and overall impairment losses/reversals

	Gross amount				Overall impairment losses/reversals			Overall partial write-offs(1)
	Stage 1	of which: Low credit risk instruments	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	419.996	419.996	-	-	1.287	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31.12.2018	**419.996**	**419.996**	**-**	**-**	**1.287**	**-**	**-**	**-**
Total 31.12.2017*	**427.833**	**427.833**	**-**	**-**	**-**	**-**	**-**	**-**
of which: purchased or originated credit impaired financial assets	X	X	-	-	X	X	-	-

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

(1) Amount to be reported for disclosure purposes.

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of receivables due from banks by type

Type/Amounts	31.12.2018						31.12.2017*					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	L1	L2	L3
A. Due from Central banks	**280.871**	**-**	**-**	**-**	**-**	**280.871**	**1.347.384**	**-**	**n.a.**	**-**	**-**	**1.347.384**
1. Term deposits	-	-	-	X	X	X	-	-	n.a.	X	X	X
2. Legal reserve	33.212	-	-	X	X	X	37.370	-	n.a.	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	n.a.	X	X	X
4. Others	247.659	-	-	X	X	X	1.310.014	-	n.a.	X	X	X
B. Due from banks	**309.724**	**-**	**-**	**-**	**-**	**309.724**	**413.368**	**-**	**n.a.**	**-**	**-**	**413.368**
1. Loans	309.724	-	-	-	-	309.724	413.368	-	n.a.	-	-	413.368
1.1 Current accounts and on demand deposits	269.607	-	-	X	X	X	324.947	-	n.a.	X	X	X
1.2 Fixed-term deposits	39.224	-	-	X	X	X	85.712	-	n.a.	X	X	X
1.3 Other loans:	893	-	-	X	X	X	2.709	-	n.a.	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	n.a.	X	X	X
- Finance leases	-	-	-	X	X	X	601	-	n.a.	X	X	X
- Other	893	-	-	X	X	X	2.108	-	n.a.	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	n.a.	-	-	-
2.1 Structured	-	-	-	-	-	-	-	-	n.a.	-	-	-
2.2 Other	-	-	-	-	-	-	-	-	n.a.	-	-	-
Total	**590.595**	**-**	**-**	**-**	**-**	**590.595**	**1.760.752**	**-**	**n.a.**	**-**	**-**	**1.760.752**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

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

4.2 Financial assets measured at amortised cost: breakdown of loans to customers by type

Type/Amounts	31.12.2018						31.12.2017*					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	L1	L2	L3
1. Loans	**5.699.330**	**1.450.924**	**1.220.878**	**X**	**X**	**X**	**5.184.567**	**1.162.194**	**n.a.**	**X**	**X**	**X**
1. Current accounts	47.829	40.980	134	X	X	X	56.160	80.878	n.a.	X	X	X
2.Reverse repurchase agreements	49.846	-	-	X	X	X	-	-	n.a.	X	X	X
3. Loans/mortgages	1.106.038	130.010	122.272	X	X	X	974.605	192.173	n.a.	X	X	X
4. Credit cards, personal loans and salary-backed loans	30.209	2.174	855	X	X	X	8.353	388.639	n.a.	X	X	X
5. Finance leases	1.158.551	16.410	-	X	X	X	1.010.614	10.044	n.a.	X	X	X
6. Factoring	2.656.445	150.459	3	X	X	X	2.611.908	171.784	n.a.	X	X	X
7. Other loans	650.412	1.110.891	1.077.614	X	X	X	522.927	318.676	n.a.	X	X	X
2. Debt securities	**163.717**	**1**	**-**	**X**	**X**	**X**	**45.806**	**-**	**n.a.**	**X**	**X**	**X**
2.1. Structured	-	-	-	X	X	X	-	-	n.a.	X	X	X
2.2. Other debt securities	163.717	1	-	X	X	X	45.806	-	n.a.	X	X	X
Total	**5.863.047**	**1.450.925**	**1.200.878**	**14.155**	**-**	**7.463.593**	**5.230.373**	**1.162.194**	**n.a.**	**-**	**-**	**6.528.114**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

Acquired non-performing exposures mainly refer to the distressed retail loans of the NPL area and the non-performing assets that arose from the business combination with the GE Capital Interbanca Group at the acquisition date.

Finally, other debt securities included *138,1 million* Euro in senior notes associated with securitisation transactions, as detailed in section E of this document.

4.3 Finance leases

	Minimum lease payments		Gross investment
	Principal	Interest	
Within 1 year	27.506	957	28.463
Between 1 and 5 years	1.135.439	106.704	1.242.143
Over 5 years	1.374	147	1.521
Net non-performing	16.410	-	16.410
Total	**1.180.729**	**107.808**	**1.288.537**
Portfolio impairment losses/reversals	(5.768)	-	(5.768)
Net total	**1.174.961**	**107.808**	**1.282.769**

4.4 Financial assets measured at amortised cost: breakdown of loans to customers by debtor/issuer

Type/Amounts	31.12.2018			31.12.2017*		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired
1. Debt securities:	**163.717**	**1**	**-**	**45.806**	**-**	**n.a.**
a) Public Administrations	-	-	-	-	-	n.a.
b) Other financial companies	138.111	-	-	40.797	-	n.a.
of which: insurance companies	-	-	-	-	-	n.a.
c) Non-financial companies	25.606	1	-	5.009	-	n.a.
2. Loans to:	**5.699.330**	**1.450.924**	**1.200.878**	**5.184.567**	**1.162.194**	**n.a.**
a) Public Administrations	706.608	51.707	8	744.880	54.291	n.a.
b) Other financial companies	398.302	5.395	5.231	154.853	2.997	n.a.
of which: insurance companies	83	-	-	16	1	n.a.
c) Non-financial companies	4.031.310	383.949	213.866	3.653.244	342.183	n.a.
d) Households	563.110	1.009.873	981.773	631590	762.723	n.a.
Total	**5.863.047**	**1.450.925**	**1.200.878**	**5.230.373**	**1.162.194**	**n.a.**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

4.5 Financial assets measured at amortised cost: gross amount and overall impairment losses/reversals

	Gross amount				Overall impairment losses/reversals			Overall partial write-offs(1)
	Stage 1	of which: Low credit risk instruments	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	164.299	77.573	-	322	582	-	321	-
Loans	5.903.210	-	419.982	1.739.907	28.794	4.459	288.997	340.838
Total 31.12.2018	**6.067.509**	**77.573**	**419.982**	**1.740.229**	**29.376**	**4.459**	**289.318**	**340.838**
Total 31.12.2017*		**7.033.316**		**2.067.215**	**45.035**		**902.177**	**n.a.**
of which: purchased or originated credit impaired financial assets	X	X	28.390	1.172.488	X	-	-	226.283

(1) Amount to be reported for disclosure purposes

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

Section 9 – Property, plant and equipment and investment property – Item 90

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

Assets/amounts	31.12.2018	31.12.2017
1. Owned	**126.088**	**123.564**
a) Land	35.902	35.892
b) Buildings	64.666	61.551
c) Furnishings	1.985	1.924
d) Electronic systems	4.741	5.000
e) Others	18.794	19.197
2. 2.2 Acquired under finance leases	**3.842**	**3.597**
a) Land	-	-
b) Buildings	3.842	3.597
c) Furnishings	-	-
d) Electronic systems	-	-
e) Others	-	-
Total	**129.930**	**127.161**
of which: obtained by enforcing collateral	-	-

Property, plant and equipment and investment property totalled 129,9 million Euro, up from 127,2 million Euro at 1 January 2018 mainly due to the acquisition of the building in Mondovì, which houses the Leasing area's offices.

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, it is appraised by experts specialising in luxury properties. The impairment test did not reveal any impairment losses to be recognised in profit or loss.

9.2 Investment property: breakdown of assets measured at cost

Assets/amounts	31.12.2018				31.12.2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned	**720**	**-**	**-**	**880**	**720**	**-**	**-**	**880**
a) Land	-	-	-	-	-	-	-	-
b) Buildings	720	-	-	880	720	-	-	880
2. 2.2 Acquired under finance leases	-	-	-	-	-	-	-	-
a) Land	-	-	-	-	-	-	-	-
b) Buildings	-	-	-	-	-	-	-	-
Total	**720**	**-**	**-**	**880**	**720**	**-**	**-**	**880**
of which: obtained by enforcing collateral	-	-	-	-	-	-	-	-

Key
L1= Level 1
L2= Level 2
L3= Level 3

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

	Land	Buildings	Furnishings	Electronic systems	Others	Total 31.12.2018
A. Gross opening balance	**35.892**	**86.725**	**11.298**	**25.681**	**21.299**	**180.895**
A.1 Total net depreciation and impairment losses	-	(21.577)	(9.374)	(20.681)	(2.102)	(53.734)
A.2 Net opening balance	**35.892**	**65.148**	**1.924**	**5.000**	**19.197**	**127.161**
B. Increases	**10**	**8.465**	**979**	**2.613**	**1.687**	**13.754**
B.1 Purchases	10	8.465	979	2.613	1.687	13.754
of which from business combinations	-	*4.157*	*559*	*918*	-	*5.634*
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	X	X	X	-
B.7 Other changes	-	-	-	-	-	-
C. Reductions	**-**	**(5.105)**	**(918)**	**(2.872)**	**(2.090)**	**(10.985)**
C.1 Sales	-	(42.572)	(509)	(1.160)	(429)	(4.670)
of which from business combinations	-	*(2.568)*	(509)	(854)	-	(3.931)
C.2 Depreciation	-	(2.533)	(409)	(1.712)	(1.661)	(6.315)
C.3 Impairment losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to	-	-	-	-	-	-
a) Investment property	-	-	X	X	X	-
b) Assets under disposal	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Net closing balance	**35.902**	**68.508**	**1.985**	**4.741**	**18.794**	**129.930**
D.1 Total net depreciation and impairment losses	-	26.678	10.292	23.247	3.763	63.980
D.2 Gross closing balance	**35.902**	**95.186**	**12.277**	**27.988**	**22.557**	**193.910**
E. Measurement at cost	-	-	-	-	-	-

The line item “Of which from business combinations” includes the balances that arose at the time the Group acquired control over Credifarma and Cap.Ital.Fin.

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

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

9.7 Investment property: annual changes

	31.12.2018	
	Land	Buildings
A. Opening balance	**-**	**720**
B. Increases	**-**	**-**
B.1 Purchases	-	-
B.2 Capitalised improvement expenses	-	-
B.3 Fair value gains:	-	-
B.4 Reversals of impairment losses	-	-
B.5 Exchange gains	-	-
B.6 Transfers from property for functional use	-	-
B.7 Other changes	-	-
C. Reductions	**-**	**-**
C.1 Sales	-	-
C.2 Depreciation	-	-
C.3 Fair value losses	-	-
C.4 Impairment losses	-	-
C.5 Exchange losses	-	-
C.6 Transfers to other asset portfolios	-	-
a) assets for functional use	-	-
b) non-current assets under disposal	-	-
C.7 Other changes	-	-
D. Closing balance	**-**	**720**
E. Measurement at fair value	-	880

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

9.9 Commitments to purchase property, plant and equipment

There were no commitments to purchase property, plant and equipment.

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by asset type

Assets/amounts	31.12.2018		31.12.2017	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill:	**X**	**1.515**	**X**	**834**
A.1.1 attributable to the group	X	1.515	X	834
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**21.762**	**-**	**23.649**	**-**
A.2.1 Assets measured at cost:	21.762	-	23.649	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	21.762	-	23.649	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**21.762**	**1.515**	**23.649**	**834**

Goodwill totalled 1.515 thousand Euro, with 815 thousand Euro arising from the line-by-line consolidation of the Polish subsidiary IFIS Finance Sp.Zo.o and 700 thousand Euro from the newly acquired Cap.Ital.Fin. S.p.A..

The goodwill of IFIS Finance Sp.Zo.o. was tested for impairment in accordance with IAS 36 (Impairment Test). To do so, goodwill was allocated to the cash-generating unit corresponding to the whole company IFIS Finance, as it represents an autonomous business segment which cannot be further broken down. The test was carried out by applying the value in use method based on the projection of expected cash flows for an explicit period of 3 years. Expected cash flows were discounted based on the company's estimated cost of capital calculated using the Capital Asset Pricing Model. Expected cash flows were estimated based on the most recently approved Budget and financial projections based on the subsidiary's average growth trends. The terminal value was calculated assuming that the last net cash flow in the explicit planning period is replicable. The impairment test did not reveal any impairment losses to be recognised in profit or loss.

Finally, the Group conducted a sensitivity analysis assuming lower or no growth in future net profits; the test carried out with the control method confirmed the reliability of the reported amount.

The change in the value of goodwill compared to the previous year is attributable to the impact of changes in year-end exchange rates.

Even though it represents a provisional estimate, the goodwill of Cap.Ital.Fin. S.p.A. was allocated to the cash-generating unit corresponding to the company as a whole. The test was carried out by applying the value in use method based on the projection of expected cash flows for an explicit period of 3 years. Expected cash flows were discounted based on the company's estimated cost of capital calculated using the Capital Asset Pricing Model. Expected cash flows were estimated based on the most recently approved Budget and financial projections used for planning purposes. The terminal value was calculated assuming that the last net cash flow in the explicit planning period is replicable. The impairment test did not reveal any impairment losses to be recognised in profit or loss.

Finally, the Group conducted a sensitivity analysis assuming zero growth in net profits starting from 2021; the test carried out with the control method confirmed the reliability of the reported amount.

Other intangible assets at 31 December 2018 refer exclusively to software purchase and development, amortised on a straight-line basis over the estimated useful life, which is 5 years from deployment.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total 31.12.2018
		FINITE	INDEF	FINITE	INDEF	
A. Opening balance	**834**	-	-	**23.649**	-	**24.483**
A.1 Total net depreciation and impairment losses	-	-	-	-	-	-
A.2 Net opening balance	**834**	**-**	**-**	**23.649**	**-**	**24.483**
B. Increases	**700**	-	-	**6.959**	-	**7.659**
B.1 Purchases	700	-	-	6.959	-	7.659
of which from business combinations	*700*	-	-	*767*	-	*1.467*
B.2 Increases in internally generated intangible assets	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains:	-	-	-	-	-	-
- to equity	-	-	-	-	-	-
- to profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Reductions	**(19)**	**-**	**-**	**(8.846)**	**-**	**(8.865)**
C.1 Sales	-	-	-	(2.403)	-	(2.403)
C.2 Impairment losses and amortisation:	-	-	-	(6.443)	-	(6.443)
- Amortisation expense	-	-	-	(6.443)	-	(6.443)
- Impairment losses	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses:	-	-	-	-	-	-
- to equity	-	-	-	-	-	-
- to profit or loss	-	-	-	-	-	-
C.4 Transfer to non-current assets under disposal	-	-	-	-	-	-
C.5 Exchange losses	(19)	-	-	-	-	(19)
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**1.515**	**-**	**-**	**21.762**	**-**	**23.277**
D.1 Total net amortisation, impairment losses and reversals of impairment losses	-	-	-	-	-	-
E. Gross closing balance	**1.515**	**-**	**-**	**21.762**	**-**	**23.277**
F. Measurement at cost	-	-	-	-	-	-

Key
FIN: finite useful life
INDEF: indefinite useful life

The line item “Of which from business combinations” includes the balances that arose at the time the Group acquired control over Credifarma and Cap.Ital.Fin.

Excluding the effects of business combinations, purchases refer only to investments for the enhancement of IT systems.

Section 11 – Tax assets and liabilities – Item 110 of assets and Item 60 of liabilities

11.1 Deferred tax assets: breakdown

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

Deferred tax assets	31.12.2018	31.12.2017*
Loans to customers (Law 214/2011)	218.430	214.642
Past tax losses that can be carried forward	79.052	91.395
ACE - Aid for economic growth that can be carried forward	22.942	25.032
Loans to customers	4.619	18.896
Equipment rental	2.716	1.981
Provisions for risks and charges	11.113	11.588
Financial assets at fair value through other comprehensive income	5.745	-
Others	3.647	3.780
Total	**348.264**	**367.314**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

Deferred tax assets, totalling 384,3 million Euro, mainly included 218,4 million Euro in impairment losses on receivables that can be deducted in the following years, 79,1 million Euro in past tax losses that can be carried forward arising from the acquisitions of Interbanca and IFIS Factoring, and 22,9 million Euro in ACE (Aid for Economic Growth) that can be carried forward.

The 19,1 million Euro decline in deferred tax assets was the result of the 14,4 million Euro worth of past tax losses and ACE used to offset the tax liability for the year, as well as 14,3 million Euro associated with the matching of deferred tax assets referring to loans to customers—partially offset by a 5,7 million Euro rise in deferred tax assets associated with the negative fair value reserve for financial assets at fair value through other comprehensive income, and 4,8 million Euro in deferred tax assets arising from the new companies of the Group.

11.2 Deferred tax liabilities: breakdown

The main types of deferred tax liabilities are shown below.

Deferred tax liabilities	31.12.2018	31.12.2017
Property, plant and equipment	9.332	9.001
Receivables for interest on arrears	25.763	23.661
Other loans to customers	3.211	3.460
Financial assets	673	1.798
Others	376	679
Total	**39.355**	**38.599**

The item deferred tax liabilities included 25,8 million Euro in receivables for interest on arrears that will be taxed upon receipt, 9,3 million Euro in the revaluation of property, and 4,3 million Euro attributable to other mismatches, of which 3,2 million Euro associated with trade receivables.

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

	31.12.2018	31.12.2017
1. Opening balance	**366.896**	**492.643**
2. Increases	**23.964**	**21.602**
2.1 Deferred tax assets recognised in the year	19.159	20.559
a) relative to previous years	1.539	814
b) due to change in accounting standards	-	-
c) reversals of impairment losses	-	-
d) other	17.620	19.745
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
Business combinations	4.805	1.043
3. Decreases	**48.427**	**147.349**
3.1 Deferred tax assets reversed during the year	48.408	137.031
a) reversals	45.476	137.031
b) impairment losses due to unrecoverability	-	-
c) change in accounting standards	-	-
d) other	2.932	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	19	10.318
a) conversion into tax credits as per Italian Law 214/2011	19	10.318
b) other	-	-
4. Closing balance	**342.433**	**366.896**

Concerning the changes in deferred tax assets (recognised through profit or losses), please note that:

- increases included approximately 4,8 million Euro in deferred tax assets resulting from the inclusion of the companies Cap.Ital.Fin and Credifarma in the scope of consolidation;
- the deferred tax assets related to the taxable profit for the period were not included, as they were recognised under other assets and other liabilities as a Receivable and Payable due from and to the Parent/Consolidating Company La Scogliera under current tax consolidation arrangements, resulting in a net total of approximately 42,5 million Euro.

11.4 Changes in deferred tax assets as per Italian Law 214/2011

	31.12.2018	31.12.2017
1. Opening balance	**214.656**	**191.417**
2. Increases	**3.802**	**37.091**
2.1 Business combinations	3.802	-
2.2 Other increases	-	37.091
3. Decreases	**28**	**13.852**
3.1 Reclassifications	-	3.534
3.2 Conversion in tax credits	19	10.318
a) deriving from losses for the year	-	9.242
b) deriving from tax losses	19	1.076
3.3 Other reductions	9	-
4. Closing balance	**218.430**	**214.656**

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

	31.12.2018	31.12.2017
1. Opening balance	**36.800**	**23.219**
2. Increases	**9.600**	**18.095**
2.1 Deferred tax liabilities recognised in the year	9.419	18.017
a) relative to previous years	-	9.679
b) due to change in accounting standards	-	-
c) other	9.419	8.338
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
2.4 Business combinations	181	78
3. Decreases	**7.803**	**4.514**
3.1 Deferred tax liabilities reversed during the year	7.803	4.514
a) reversals	7.617	4.435
b) due to change in accounting standards	-	-
c) other	186	79
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	**38.597**	**36.800**

11.6 Changes in deferred tax assets (recognised through equity)

	31.12.2018	31.12.2017
1. Opening balance	**418**	**537**
2. Increases	**5.881**	**-**
2.1 Deferred tax assets recognised in the year	5.881	-
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	5.881	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
Business combinations	-	-
3. Decreases	**468**	**119**
3.1 Deferred tax assets reversed during the year	468	119
a) reversals	191	98
b) impairment losses due to unrecoverability	-	-
c) due to change in accounting standards	-	-
d) other	277	21
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	**5.831**	**418**

The change was strictly related to the tax impact of the negative change in the fair value reserve for financial assets at fair value through other comprehensive income.

11.7 Changes in deferred tax liabilities (recognised through equity)

	31.12.2018	31.12.2017
1. Opening balance	**1.799**	**1.215**
2. Increases	**491**	**662**
2.1 Deferred tax liabilities recognised in the year	60	662
a) relative to previous years	59	-
b) due to change in accounting standards	-	-
c) other	1	662
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
2.4 Business combinations	431	-
3. Decreases	**1.532**	**78**
3.1 Deferred tax liabilities reversed during the year	1.532	-
a) reversals	1.532	-
b) due to change in accounting standards	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	78
4. Closing balance	**758**	**1.799**

Section 13 - Other assets – Item 130

13.1 Other assets: breakdown

	31.12.2018	31.12.2017
Receivables due from tax authorities	69.046	48.966
Prepayments and accrued income	35.367	59.609
Guarantee deposits	1.058	1.480
Other items	197.416	162.922
Total	**302.887**	**272.977**

Receivables due from tax authorities included 12,2 million Euro in receivables for payments on account for the virtual stamp duty, 8,0 million Euro in funds placed in an escrow account pending the resolution of a tax dispute, and 42,8 million Euro in VAT credits.

Other items included 114,7 million Euro in receivables due from the parent La Scogliera S.p.A., including 60,6 million Euro arising from the tax consolidation regime and 54,1 million Euro in tax credits claimed by the latter for excess tax payments from prior years.

Finally, the line item prepayments and accrued income included 27,0 million Euro in deferred costs associated with the NPL Area's judicial debt collection proceedings pending the valuation at amortising cost.

LIABILITIES

Section 1 – Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities at amortised cost: breakdown of payables due to banks by type

Type/Amounts	31.12.2018				31.12.2017			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**695.075**	**X**	**X**	**X**	**699.585**	**X**	**X**	**X**
2. Due to banks	**90.318**	**X**	**X**	**X**	**92.392**	**X**	**X**	**X**
2.1 Current accounts and on demand deposits	61.512	X	X	X	20.778	X	X	X
2.2 Fixed-term deposits	25.393	X	X	X	38.205	X	X	X
2.3 Loans	3.413	X	X	X	33.409	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	3.413	X	X	X	33.409	X	X	X
2.4 Debt from buyback commitments on treasury equity instruments	-	X	X	X	-	X	X	X
2.5 Other payables	-	X	X	X	-	X	X	X
Total	**785.393**	**-**	**-**	**785.393**	**791.977**	**-**	**-**	**791.977**

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

Payables due to central banks essentially consisted of the 700,0 million Euro (par value) TLTRO tranche obtained in March 2017.

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

1.2 Financial liabilities measured at amortised cost: breakdown of payables due to customers by type

Type/Amounts	31.12.2018				31.12.2017			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on demand deposits	1.008.056	X	X	X	1.174.477	X	X	X
2. Fixed-term deposits	3.642.498	X	X	X	4.106.828	X	X	X
3. Loans	3.471	X	X	X	3.607	X	X	X
3.1 Repurchase agreements	-	X	X	X	-	X	X	X
3.2 Other	3.471	X	X	X	3.607	X	X	X
4. Debt from buyback commitments on treasury equity instruments	-	X	X	X	-	X	X	X
5. Other payables	19.274	X	X	X	8.276	X	X	X
Total	**4.673.299**	**-**	**-**	**4.654.803**	**5.293.188**	**-**	**-**	**5.294.394**

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

Current accounts and on demand deposits at 31 December 2018 included funding from the on demand rendimax savings account and the contomax online current account, amounting to 779,6 million and 40,0 million Euro, respectively; term deposits represent funding from fixed-term rendimax and contomax accounts and time deposits.

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

Other loans referred to payables for finance leases; these are recognised using the financial method set out in IAS 17, as detailed in paragraph 1.6 below.

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued by type

Securities	31.12.2018				31.12.2017			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	1.978.462	708.742	-	1.170.463	1.639.414	88.768	712.400	849.729
1.1 structured bonds	-	-	-	-	-	-	-	-
1.2 other bonds	1.978.462	708.742	-	1.170.463	1.639.414	88.768	712.400	849.729
2. Other securities	540	-	-	540	580	-	-	580
2.1 structured securities	-	-	-	-	-	-	-	-
2.2 other	540	-	-	540	580	-	-	580
Total	**1.979.002**	**708.742**	**-**	**1.171.003**	**1.639.994**	**88.768**	**712.400**	**850.309**

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

Bonds issued included the principal and interest amounts of the senior bonds issued by Banca IFIS, totalling 488,0 million Euro, as well as the 401,7 million Euro Tier 2 bond issued in mid-October 2017. The line item also included 88,8 million Euro in bond loans issued by the merged entity Interbanca S.p.A. as well as 1.000,0 million Euro in notes issued by the special purpose vehicles as part of the securitisation. These resulted from the consolidation of the vehicle, which was intended to represent the overall transaction more fairly.

1.4 Breakdown of subordinated debts/notes

The line item "Debt securities issued" included 401,7 million Euro in subordinated notes related to Euro Tier 2 bond issued in mid-October 2017 for a nominal amount of 400,0 million Euro.

1.6 Payables for finance leases

	31.12.2018	31.12.2017
Payables for finance leases	3.471	3.607

The payables described above relate for 3,5 million Euro to the real estate lease the former company Toscana Finanza SpA entered into in 2009 for the property located in Florence, which housed the headquarters of the NPL segment until August 2016. The term of the lease entered into with Centro Leasing S.p.A. is 18 years (from 01.03.2009 to 01.03.2027) and provides for the payment of 216 monthly instalments of 28.490 Euro, including the principal, interest and an option to buy the asset at the end of the lease for 1.876.800 Euro. The property currently houses the head office of the NPL segment.

Section 2 – Financial liabilities held for trading - item 20

2.1 Financial liabilities held for trading: breakdown by type

Type/Amounts	31.12.2018					31.12.2017				
	NV	Fair value			Fair value*	NV	Fair value			Fair value*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives					-					
1. Financial derivatives	-	-	31.155	-	-	-	-	38.171	-	-
1.1 For trading	X	-	31.155	-	X	X	-	38.171	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**31.155**	**-**	**X**	**X**	**-**	**38.171**	**-**	**X**
Total (A+B)	**X**	**-**	**31.155**	**-**	**X**	**X**	**-**	**38.171**	**-**	**X**

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

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

Section 6 – Tax liabilities – Item 60

See section 11 under assets.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

	31.12.2018	31.12.2017*
Due to suppliers	45.259	59.756
Due to personnel	14.166	9.331
Due to the Tax Office and Social Security agencies	11.284	14.804
Sums available to customers	25.284	33.022
Accrued expenses and deferred income	4.072	12.546
Other payables	267.807	223.540
Total	**367.872**	**352.999**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

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

Other payables included approximately 128 million Euro in amounts due to customers that have not yet been credited as well as an 18,1 million Euro payable due to the parent company La Scogliera deriving from the tax consolidation regime.

Section 9 - Post-employment benefits - Item 90

9.1 Post-employment benefits: annual changes

	31.12.2018	31.12.2017
A. Opening balance	**7.550**	**7.660**
B. Increases	**835**	**263**
B.1 Allocations for the year	94	65
B.2 Other changes	135	198
Business combinations	606	-
C. Reductions	**346**	**373**
C.1 Payments made	157	97
C.2 Other changes	189	276
D. Closing balance	**8.039**	**7.550**
Total	**8.039**	**7.550**

The increases deriving from business combinations concern the post-employment benefit liabilities assumed by the Group as a result of the acquisition of Cap.Ital.Fin. and Credifarma.

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

Other decreases include the impact of the discounting of benefits earned up to 31 December 2006 and still held in the company, which, based on the changes introduced by the new IAS 19, are recognised through equity.

Pursuant to the requirements of the ESMA in the document *"European common enforcement priorities for 2012 financial statements"* of 12 November 2012, the discount rate used was the interest rate based on the market yield of a benchmark of AA-rated European corporate bonds with maturity over 10 years. The same interest rate was used to discount the obligations at 31 December 2017.

9.2 Other information

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

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

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

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

In particular:

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

Section 10 – Provision for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2018	31.12.2017*
1. Provisions for credit risk related to commitments and financial guarantees granted	3.896	590
2. Provisions on other commitments and financial guarantees granted	-	-
3. Provisions for pensions	-	-
4. Other provisions for risks and charges	21.883	21.066
2.1 legal and tax disputes	14.566	15.463
2.2 personnel expenses:	977	1.604
2.3 other	6.340	3.999
Total	**25.779**	**21.656**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and financial guarantees granted	Provisions for pensions	Other provisions for risks and charges	Total 31.12.2018
A. Opening balance*	**-**	**-**	**21.066**	**21.066**
B. Increases	**-**	**-**	**5.846**	**5.846**
B.1 Allocations for the year	-	-	4.356	4.356
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to changes in the discount rate	-	-	-	-
B.4 Other changes	-	-	-	-
Business combinations			1.490	1.490
C. Reductions	**-**	-	**5.029**	**5.029**
C.1 Used during the year	-	-	2.543	2.543
C.2 Changes due to changes in the discount rate	-	-	-	-
C.3 Other changes	-	-	2.486	2.486
D. Closing balance	**-**	**-**	**21.883**	**21.883**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

The change in "Business combinations" was attributable to the acquisitions of Cap.Ital.Fin. (0,5 million Euro) and Credifarma (1,0 million Euro).

10.3 Provisions for credit risks related to commitments and financial guarantees granted

	Provisions for credit risk related to commitments and financial guarantees granted			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments	1.493	49	-	1.542
Financial guarantees granted	403	27	1.924	2.354
Total	**1.896**	**76**	**1.924**	**3.896**

At 31 December 2018, this line item amounted to 3,9 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.

10.6 Provisions for risks and charges – Other provisions

Legal and tax disputes

At 31 December 2018, the Group had set aside 14,6 million Euro in provisions. This amount refers entirely to legal disputes, as detailed below:

- 7,4 million Euro for 22 disputes concerning the Trade Receivables area (the plaintiffs seek 26,8 million Euro in damages);
- 3,5 million Euro (the plaintiffs seek 50,2 million Euro in damages) for 9 disputes concerning the former Interbanca;
- 2,1 million Euro (the plaintiffs seek 4,2 million Euro in damages) for 49 disputes concerning the Leasing area;
- 0,6 million Euro (the plaintiffs seek the same amount in damages) for a dispute concerning the investee IFIS Rental;
- 0,8 million Euro for 2 disputes concerning the newly acquired Credifarma (the plaintiffs seek the same amount in damages).

- 65 thousand Euro (the plaintiffs seek 515 thousand Euro in damages) for 8 disputes with customers and agents associated with the newly acquired Cap.Ital.Fin.;
- 51 thousand Euro (the plaintiffs seek 202 thousand Euro in damages) for 9 disputes concerning receivables of the subsidiary IFIS NPL;

Other provisions for risks and charges

At 31 December 2018, the Group had set aside 7,3 million Euro in provisions, including 3,7 million Euro in supplementary customer allowances associated with the Leasing area's operations, 1,0 million Euro in personnel-related expenses, 0,9 million Euro in probable plant upgrade costs, and 0,6 million Euro in the provision for complaints.

Contingent liabilities

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

Legal disputes

Both the lawsuit against the Group to cancel a settlement and the legal proceedings concerning a lawsuit for damages resulting from an extraordinary operation involving an industrial company as well as environmental damage, mentioned in previous reports and seeking approximately a combined 4 billion Euro in damages, ended with either final rulings that dismissed the counterparty's claims or a settlement.

Tax dispute

Dispute concerning withholding taxes on interest paid in Hungary. Companies involved: Interbanca S.p.A. and IFIS Leasing S.p.A. (including the merged entity GE Leasing Italia S.p.A.) - (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 2013, the Italian Revenue Agency assessed approximately 117 million Euro in additional withholding taxes

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 S.p.A. (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 2013 to losses on receivables—without any actual evidence.

Overall, the Agency assessed 810 thousand Euro in additional taxes and administrative penalties amounting to 100%.

Dispute concerning the VAT treatment of insurance mediation activities Company involved IFIS Leasing S.p.A. (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%.

Dispute concerning the Payment Notice for the 3% registration fee Companies involved: Banca IFIS as the surviving entity following the merger of Interbanca S.p.A. and IFIS Rental S.r.l. - (former – GE Capital Interbanca Group)

With notices dated 23 July and 20 July 2018, the Italian Revenue Agency reclassified the restructuring of GE Capital Services as a whole as a "Transfer of Business Unit", and thus claims it is subject to a registration fee amounting to 3% of the value of the company, i.e. 3,6 million Euro.

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.

Section 13 – Equity attributable to owners of the parent company – Items 120, 130, 140, 150, 160, 170 and 180

13.1 Share capital and treasury shares: breakdown

Item		31.12.2018	31.12.2017
170	Share capital (in thousands of Euro)	53.811	53.811
	Number of ordinary shares	53.811.095	53.811.095
	Nominal amount of ordinary shares	1 Euro	1 Euro
180	Treasury shares (in thousands of Euro)	(3.103)	(3.168)
	Number of treasury shares	370.112	377.829

13.2 Share capital - number of parent company shares: annual changes

Headings/Types	Ordinary	Others
A. Shares held at the beginning of the year	53.811.095	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	(377.829)	-
A.2 Outstanding shares: opening balance	**53.433.266**	**-**
B. Increases	**7.717**	**-**
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	7.717	-
C. Reductions	**-**	**-**
C.1 Annulments	-	-
C.2 Buybacks of treasury shares	-	-
C.3 Company sell-offs	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	**53.440.983**	**-**
D.1 Treasury shares (+)	370.112	-
D.2 Shares held at the end of the year	53.811.095	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-

13.3 Share capital: other information

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

13.4 Profit reserves: other information

Items/Components	31.12.2018	31.12.2017
Legal reserve	10.762	10.762
Extraordinary reserve	487.336	385.863
Other reserves	665.096	636.116
Total profit reserves	**1.163.194**	**1.032.741**
Buyback reserve	3.103	3.168
Future buyback reserve	-	-
Other reserves	2.246	2.246
Total item 150 reserves	**1.168.543**	**1.038.155**

Total profit reserves include 633,4 million Euro as non-available reserve until approval of the financial statements for the year 2021. This amount is equal to the gain on bargain purchase from the acquisition of the former GE Capital Interbanca Group.

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

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

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

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

Section 14 – Equity attributable to non-controlling interests – Item 190

14.1 Breakdown of Item 210 Equity attributable to non-controlling interests

Operations	31.12.2018	31.12.2017
Investments in consolidated companies with significant non-controlling interests		
1. Credifarma S.p.A.	5.476	-
Other investments	-	-
Total	**5.476**	**-**

Other information

1. Commitments and financial guarantees granted

	Nominal amount of commitments and financial guarantees granted			Total 31.12.2018	Total 31.12.2017*
	Stage 1	Stage 2	Stage 3		
1. Loan commitments	**838.697**	**14.414**	**84.491**	**937.602**	**152.021**
a) Central Banks	-	-	-	-	n.a.
b) Public Administrations	695	-	-	695	n.a.
c) Banks	-	-	-	-	n.a.
d) Other financial companies	121.023	-	-	121.023	n.a.
e) Non-financial companies	445.554	12.846	80.795	539.195	n.a.
f) Households	271.425	1.568	3.696	276.689	n.a.
2. Financial guarantees granted	**215.265**	**3.124**	**39.256**	**257.645**	**320.300**
a) Central Banks	-	-	-	-	n.a.
b) Public Administrations	-	-	-	-	n.a.
c) Banks	5.807	3.101	1.348	10.256	n.a.
d) Other financial companies	6.965	-	-	6.965	n.a.
e) Non-financial companies	202.218	23	25.381	227.622	n.a.
f) Households	275	-	12.527	12.802	n.a.

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

3. Assets used as collateral for own liabilities and commitments

Portfolios	31.12.2018	31.12.2017*
1. Financial assets at fair value through profit or loss	-	17.124
2. Financial assets at fair value through other comprehensive income	410.410	427.833
3. Financial assets measured at amortised cost	31.542	36.513
4. Property, plant and equipment	-	-
of which: property, plant and equipment qualifying as inventories	-	-

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

Financial assets measured at fair value through other comprehensive income refer to government bonds pledged as collateral in the refinancing operation with the Eurosystem.

Financial assets measured at amortised cost consist of bank deposits backing "Italian Bank Lender of Record" ("IBLOR") transactions and derivative trades.

6. Administration and mediation on behalf of third parties

Type of services	Amounts
1. Execution of orders on behalf of clients	
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Portfolio management:	
a) individual	-
b) collective	-
3. Safekeeping and administration of securities	**2.579.677**
a) third party securities in custody: associated with depositary bank services (excluding portfolio management)	-
1. securities issued by consolidated companies	-
2. other securities	-
b) other third party securities in custody (excluding portfolio management): other	586.980
1. securities issued by consolidated companies	-
2. other securities	586.980
c) third party securities held with third parties	517.591
d) own securities held with third parties	1.475.106
4. Other transactions	**-**

04.3. Part C - Consolidated income statement

Section 1 – Interest - Items 10 and 20

1.1 Interest receivable and similar income: breakdown

Items/Types	Debt securities	Loans	Other transactions	Total 31.12.2018	Total 31.12.2017*
1. Financial assets at fair value through profit or loss:	**10**	**12.264**	**-**	**12.274**	**10.325**
1.1. Financial assets held for trading	-	-	-	-	-
1.2. Financial assets designated as at fair value	-	-	-	-	-
1.3. Other financial assets mandatorily measured at fair value	10	12.264	-	12.274	10.325
2. Financial assets at fair value through other comprehensive income	**6.904**	**-**	**X**	**6.904**	**6.564**
3. Financial assets measured at amortised cost:	**4.260**	**412.203**	**-**	**416.463**	**401.949**
3.1. Due from banks	-	2.905	X	2.905	2.497
3.2. Loans to customers	4.260	409.298	X	413.558	399.452
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**405**	**405**	**426**
6. Financial liabilities	**X**	**X**	**X**	**-**	**-**
Total	**11.174**	**424.467**	**405**	**436.046**	**419.264**
of which: interest income from impaired financial assets	-	116.348	-	116.348	n.a.

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

As for Financial assets at fair value through profit or loss, the amounts refer to debt securities and loans that failed the SPPI test, as per IFRS 9, whereas in the case of Financial assets at fair value through other comprehensive income, the reported amounts are almost exclusively related to the government bonds in the portfolio.

Interest income from Loans to customers at amortised cost referring to debt securities is largely associated with the senior tranche of a securitisation backed by the Italian government's state-guarantee scheme for NPL-backed securities (GACS) that the Group purchased in January 2018, while net interest income from Loans included 99,8 million Euro referring to the NPL segment's exposures (63,9 million Euro in 2017).

1.2 Interest receivable and similar income: other information

1.2.1 Interest income on foreign currency financial assets

	31.12.2018	31.12.2017
Interest income on foreign currency financial assets	9.927	7.704

1.2.2 Interest income on finance leases

	31.12.2018	31.12.2017
Interest income on finance leases	54.924	52.254

1.3 Interest due and similar expenses: breakdown

Items/Types	Payables	Securities	Other transactions	Total 31.12.2018	Total 31.12.2017*
1. Financial liabilities measured at amortised cost.	(66.899)	(38.035)	-	(104.934)	(107.048)
1.1 Due to central banks	(5.150)	X	-	(5.150)	(5.381)
1.2 Due to banks	(1.903)	X	-	(1.903)	(2.666)
1.3 Due to customers	(59.846)	X	-	(59.846)	(75.001)
1.4 Debt securities issued	X	(38.035)	-	(38.035)	(24.000)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated as at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	-	-
Total	**(66.899)**	**(38.035)**	**-**	**(104.934)**	**(107.048)**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 “Banks' financial statements: layouts and preparation”.

At 31 December 2018, interest expense on payables due to customers included 59,1 million Euro related to retail funding—deriving mainly from the Rendimax savings account and the Contomax current account.

Interest expense on debt securities issued included 7,6 million Euro in funding costs for the securitisation carried out in late 2016, as detailed in Part E of these Notes.

1.4 Interest due and similar expenses: other information

1.4.1 Interest expense on foreign currency liabilities

	31.12.2018	31.12.2017
Interest expense on foreign currency liabilities	(1.433)	(422)

1.4.2 Interest expense on liabilities for finance leases

	31.12.2018	31.12.2017
Interest expense on liabilities for finance leases	(104)	(3)

Section 2 – Commissions - Items 40 and 50

2.1 Commission income: breakdown

Service type/Amounts	31.12.2018	31.12.2017
a) guarantees granted	2.243	1.951
b) derivatives on loans	-	-
c) management, mediation and consultancy services:	8.489	7.582
1. trading in financial instruments	-	-
2. trading in currencies	-	-
3. individual asset management	843	599
3.1. individual	843	599
3.2. collective	-	-
4. safe custody and management of securities	-	-
5. depository bank	-	-
6. placement of securities	-	-
7. order collection and transmission	-	-
8. consultancy	-	-
8.1 on investments	-	-
8.2 on financial structure	-	-
9. third-party services	7.646	6.983
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. Other products	7.646	6.983
d) collection and payment services	884	728
e) servicing for securitisation transactions	196	1.984
f) services for factoring transactions	58.731	54.336
g) tax collection and payment	-	-
h) management of multi-lateral trading systems	-	-
i) current account holding and management	625	783
j) other services	26.529	19.533
Total	**97.697**	**86.897**

In 2018, commissions for other services included 8,1 million Euro (compared to 7,6 million Euro in 2017) in fees received as part of leasing operations.

2.2 Commission expense: breakdown

Services/Amounts	31.12.2018	31.12.2017
a) guarantees received	(585)	(756)
b) derivatives on loans	-	-
c) management, mediation and consultancy services:	(12)	(95)
1. trading in financial instruments	-	-
2. trading in currencies	-	(1)
3. asset management:	-	-
3.1 own assets	-	-
3.2 delegated by third parties	-	-
4. safe custody and management of securities	(12)	(94)
5. placement of financial instruments	-	-
6. out-of-office canvassing of financial instruments, services and products	-	-
d) collection and payment services	(1.104)	(3.043)
e) other services	(11.491)	(9.238)
Total	**(13.192)**	**(13.132)**

In 2018, the line item Other services included 4,2 million Euro (4,3 million Euro in 2017) in fees deriving from leasing operations (brokerage and insurance).

Section 3 – Dividends and similar income - Item 70

Transactions/Types	31.12.2018		31.12.2017*	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	35	-	-	-
C. Financial assets at fair value through other comprehensive income	301	-	48	-
D. Equity investments	-	-	-	-
Total	**336**	**-**	**48**	**-**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 “Banks' financial statements: layouts and preparation”.

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

4.1 Net profit (loss) from trading: breakdown

Items / Returns	Capital gains (A)	Profit from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
Financial assets and financial liabilities: exchange differences	**X**	**X**	**X**	**X**	**(2.125)**
3. Derivative instruments	**10.972**	**12.014**	**(11.992)**	**(9.641)**	**1.353**
3.1 Financial derivatives:	10.972	12.014	(11.992)	(9.641)	1.353
- On debt securities and interest rates	10.972	12.014	(11.992)	(9.641)	1.353
- On equity instruments and share indexes	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
3.2 Derivatives on loans	-	-	-	-	-
Of which: natural hedges connected to the fair value option	X	X	X	X	-
Total	**10.972**	**12.014**	**(11.992)**	**(9.641)**	**(772)**

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

6.1 Profit (loss) from sale or buyback: breakdown

Items/Returns	31.12.2018			31.12.2017*		
	Profit	Losses	Net result	Profit	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	17.286	(121)	17.165	19.020	(4)	19.016
1.1 Due from banks	-	-	-	-	-	-
1.2 Due from customers	17.286	(121)	17.165	19.020	(4)	19.016
2. Financial assets at fair value through other comprehensive income	-	-	-	7.571	(428)	7.143
2.1 Debt securities	-	-	-	7.571	(428)	7.143
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**17.286**	**(121)**	**17.165**	**26.591**	**(432)**	**26.159**
Equity securities	*n.a.*	*n.a.*	*n.a.*	-	(564)	(564)
Total for the comparative period*	***n.a.***	***n.a.***	***n.a.***	**26.591**	**(996)**	**25.595**
Financial liabilities measured at amortised cost.						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	8.233	(2)	8.231	-	-	-
Total liabilities (B)	**8.233**	**(2)**	**8.231**	-	-	-

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 “Banks' financial statements: layouts and preparation”.

The gains on the sale of loans to customers were achieved by selling portfolios of receivables of the NPL segment, as commented under Contribution of business segments in the Directors' Report.

Gains on debt securities issued referred to the buyback of financial liabilities, including 7,6 million Euro associated with the “Tender Offer” that was launched in December for the 5-year Bond issued in April 2018: investors tendered approximately 96 million Euro worth of notes.

Section 7 – Net result of financial assets and liabilities at fair value through profit or loss – Item 110

7.2 Net change in other financial assets and liabilities at fair value through profit or loss: breakdown of financial assets mandatorily measured at fair value

Items/Returns	Capital gains (A)	Gains on sale (B)	Capital losses (C)	Losses on sale (D)	Net result [(A+B)-(C+D)]
1. Financial assets	**13.419**	**-**	**15.642**	**-**	**(2.223)**
1.1 Debt securities	-	-	2.243	-	(2.243)
1.2 Equity instruments	11.266	-	-	-	11.266
1.3 UCITS units	379	-	3.490	-	(3.111)
1.4 Loans	1.774	-	9.909	-	(8.135)
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**13.419**	**-**	**15.642**	**-**	**(2.223)**

Section 8 – Net credit risk losses/reversals - Item 130

8.1 Net credit risk losses related to financial assets measured at amortised cost: breakdown

Items/ returns	Impairment losses (1)			Reversals of impairment losses (2)		Total 31.12.2018	Total 31.12.2017*
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write off	Others				
A. Due from banks	**-**	**-**	**-**	**290**	**-**	**290**	-
- loans	-	-	-	290	-	290	-
- debt securities	-	-	-	-	-	-	-
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	n.a.
B. Loans to customers	**(4.769)**	**(53.425)**	**(284.511)**	**2.954**	**378.535**	**38.784**	**78.390**
- loans	(4.384)	(53.425)	(284.511)	2.954	378.535	39.169	80.105
- debt securities	(385)	-	-	-	-	(385)	(1.715)
of which: purchased or originated credit impaired loans	-	(44.644)	(87.755)	-	352.565	220.166	n.a.
Total	**(4.769)**	**(53.425)**	**(284.511)**	**3.244**	**378.535**	**39.074**	**78.390**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

Impairment losses/reversals on loans to customers related to purchased or originated credit impaired ("POCI") loans included 138,1 million Euro in reversals on exposures of the NPL segment in 2018. Specifically, in accordance with the new standard IFRS 9, this line item includes the impact of the periodic change in lifetime expected credit losses, even if those changes are favourable and lower than the ones included in the estimates of cash flows on initial recognition.

8.2 Net credit risk losses related to financial assets measured at fair value through other comprehensive income: breakdown

Items/ returns	Impairment losses (1)			Reversals of impairment losses (2)		Total 31.12.2018	Total 31.12.2017*
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write off	Others				
A. Debt securities	(1.019)	-	-	-	-	(1.019)	(571)
B. Loans	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: purchased or originated credit impaired financial assets	-	-	-	-	-	-	n.a.
Total	**(1.019)**	**-**	**-**	**-**	**-**	**(1.019)**	**(571)**
Equity securities	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	(1.470)
Total for the comparative period*	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***n.a.***	**(2.041)**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

Section 12 – Administrative expenses - Item 190

12.1 Personnel expenses: breakdown

Type of expense/Sectors	31.12.2018	31.12.2017
1) Employees	(107.228)	(93.720)
a) salaries and wages	(76.478)	(67.539)
b) social security contributions	(21.147)	(17.933)
c) post-employment benefits	-	-
d) pension expense	-	(116)
e) allocations for post-employment benefits	(4.713)	(4.426)
f) allocations to pensions and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments made to supplementary external funds:	(76)	(318)
- defined contribution plans	(17)	(318)
- defined benefit plans	(59)	-
h) costs arising from share-based payment agreements	-	-
i) other employee benefits	(4.814)	(3.388)
2) Other serving employees	(61)	(153)
3) Directors and Statutory Auditors	(4.295)	(4.378)
4) Retired personnel	-	-
Total	**(111.584)**	**(98.251)**

Personnel expenses totalled 111,6 million Euro, up 13,6% (98,3 million Euro at 31 December 2017). The Group's employees numbered 1.638 at 31 December 2018, up 11,4% from the prior year (1.470 units). 85 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.

Allocations for post-employment benefits included both contributions that employees have chosen to leave in the company and to be paid to INPS's Treasury Fund, and contributions to be paid to supplementary pension funds—as well as the interest expense on the defined benefit obligation.

12.2 Average number of employees by category

Employees:	31.12.2018	31.12.2017
Employees:	**1.554,0**	**1.396,5**
(a) senior managers	59,0	59,0
(b) middle managers	468,0	421,5
(c) remaining personnel	1.027,0	916,0
Other personnel	**-**	**-**

12.5 Other administrative expenses: breakdown

Type of expense/Amounts	31.12.2018	31.12.2017
Expenses for professional services	**(59.636)**	**(48.001)**
Legal and consulting services	(40.354)	(30.085)
Auditing	(516)	(453)
Outsourced services	(18.766)	(17.463)
Direct and indirect taxes	**(45.291)**	**(27.422)**
Expenses for purchasing goods and other services	**(71.599)**	**(77.197)**
Customer information	(17.645)	(12.876)
Software licensing and support	(16.117)	(20.220)
Property expenses	(6.697)	(6.532)
FITD and Resolution fund	(5.983)	(8.753)
Postage and archiving of documents	(5.761)	(7.326)
Telephone and data transmission expenses	(3.737)	(2.840)
Car fleet management and maintenance	(3.627)	(3.314)
Business trips and transfers	(3.491)	(3.480)
Advertising and inserts	(3.395)	(3.254)
Securitisation costs	(1.642)	(2.211)
Operating costs for other property, plant and equipment	(760)	(330)
Transitional services agreement	-	(3.373)
Other sundry expenses	(2.744)	(2.688)
Total administrative expenses	**(176.526)**	**(152.620)**

Other administrative expenses amounted to 176,5 million Euro, up 15,7% from 152,6 million Euro at 31 December 2017. The line item included 25,1 million Euro in expenses associated with NPLs previously recognised at cost and reclassified to amortised cost in 2018, in accordance with the application of the new model for estimating pre-garnishment order cash flows (for more details, please refer to the paragraph Contribution of operating segments to Group results).

As already mentioned, the subline item **"Legal and consulting"** expenses was up from the prior year because of the costs associated with the judicial collection actions for the NPL segment's receivables, totalling 18,2 million Euro at 31 December 2018. Specifically, in accordance with the application of the statistical model for estimating cash flows also to some positions undergoing judicial operations, which were previously recognised at cost, in 2018 the Group recognised 8,7 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 45,3 million Euro (27,4 million Euro at 31 December 2017), mainly included the registration fees paid for the judicial debt collection actions concerning per NPL segment's receivables, totalling 30,8 million Euro at 31 December 2018, of which 16,4 million Euro were associated with the mentioned refinement of the model used to estimate the positions undergoing judicial operations. The line item also comprised 11,5 million Euro in stamp duty costs, including 9,0 million Euro for retail funding that are charged back to customers as from 1 January 2018.

The "**Expenses for purchasing goods and other services**" were down 7,3% from the prior year (from 77,2 million Euro at 31 December 2017 to 71,6 million Euro at 31 December 2018). This result was attributable to opposite changes in major line items, specifically:

- Customer information expenses went up +37,0% from 12,9 to 17,6 million Euro, largely because the NPL sector's «Legal small ticket» segment became fully operational—and therefore began processing minor positions;
- Software licensing and support was down 20,3% from 20,2 to 16,1 million Euro, essentially because of the costs incurred in 2017 for the migration of the core banking systems;
- "FITD and Resolution fund" fell by 31,6% from 8,8 to 6,0 million Euro: in 2017 this item included the 2,5 million Euro one-off contribution to the Italian Interbank Deposit Protection Fund's Voluntary Scheme for the rescue of Caricesena, Carim, and Carismi.
- The expenses for the postage and archiving of documents were down 21,4% from 7,3 to 5,8 million Euro, as the Group started paring back purchases of new portfolios towards the end of the previous year and continued doing so for much of 2018.
- In 2017 alone, the Bank reported 3,4 million Euro in expenses for transitional services agreement associated with 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.

Type of services	Service provider	Beneficiary	Fees (units of Euro)
Independent auditors' fees	EY S.p.A.	Banca IFIS S.p.A.	325.843
		Subsidiaries	161.713
Certification services	EY S.p.A	Banca IFIS S.p.A.	25.000
		Subsidiaries	-
Tax consultancy services	EY S.p.A	Banca IFIS S.p.A.	-
		Subsidiaries	-
Other services	EY S.p.A	Banca IFIS S.p.A.	75.000
		Subsidiaries	-
Total			**587.556**

The fees for certification services referred to the agreed audit of the securitisation transaction ABCP Programme. The fees for other services largely referred to services associated with the EMTN Programme, as described in the paragraph "Significant events occurred during the year" in the Directors' Report of the Group.

Section 13 – Net allocations to provisions for risks and charges – Item 200

13.1 Net provisions for credit risk related to loan commitments and financial guarantees granted: breakdown

Net provisions for credit risk related to loan commitments and financial guarantees granted totalled 229 thousand Euro at 31 December 2018. The restated amount at 31 December 2017 included 5,6 million Euro in net reversals of impairment losses, with 3,3 million Euro referring to the impact of the breakdown of the difference between the fair value of unfunded commitments as measured in the business combination and their carrying amount recognised by the subsidiaries. The remainder referred to the reversal of a liability for guarantees following a successful debt restructuring.

13.3. Net allocations to other provisions for risks and charges: breakdown

For more details, see Part B, Section 10 Provisions for risks and charges in these Notes to the Consolidated Financial Statements.

Section 14 – Net impairment losses/reversals on property, plant and equipment – Item 210

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

Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Property, plant and equipment and investment property				
A.1 Owned	(6.129)	-	-	(6.129)
- for functional use	(6.129)	-	-	(6.129)
- for investment purposes	-	-	-	-
- Inventories	X	-	-	X
A.2 Acquired under finance leases	(186)	-	-	(186)
- for functional use	(186)	-	-	(186)
- for investment purposes	-	-	-	-
Total	**(6.315)**	**-**	**-**	**(6.315)**

Section 15 – Net impairment losses/reversals on intangible assets - Item 220

15.1 Net impairment losses on intangible assets: breakdown

Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(6.443)	-	-	(6.443)
- Internally generated	-	-	-	-
- Other	(6.443)	-	-	(6.443)
A.2 Acquired under finance leases	-	-	-	-
Total	**(6.443)**	**-**	**-**	**(6.443)**

Section 16 – Other operating income (expenses) - Item 230

16.1 Other operating expenses: breakdown

Type of expense/Amounts	31.12.2018	31.12.2017*
a) Transactions with customers	(130)	(483)
b) Capital losses	(2.366)	(2.306)
c) Other expenses	(2.265)	(24.111)
Total	**(4.761)**	**(26.900)**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

16.2 Other operating income: breakdown

Amounts/Income	31.12.2018	31.12.2017*
a) Bargain on interest acquisition	3.869	-
a) Recovery of expenses charged to third parties	15.709	25.442
c) Receivable rental fees	1.004	1.009
d) Other income;	13.715	12.052
Total	**34.297**	**38.503**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

Other operating income 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 9,0 million Euro in chargebacks of stamp duty costs for retail funding, which the Group 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..

Section 21 - Income taxes for the year relating to current operations - Item 300

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

Income components/Sectors		31.12.2018	31.12.2017
1.	Current tax expense (-)	(31.696)	(1.859)
2.	Changes in current taxes of previous years (+/-)	515	271
3.	Reductions in current taxes for the year (+)	-	-
3.bis	Reductions in current taxes for the year for tax credits as per Italian Law no. 214/2011 (+)	19	10.318
4.	Changes in deferred tax assets (+/-)	(23.390)	(72.714)
5.	Changes in deferred tax liabilities (+/-)	(1.616)	(3.824)
6.	Tax expense for the year (-) (-1+/-2+3+3 bis+/-4+/-5)	(56.168)	(67.808)

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

Items/Components	31.12.2018
Pre-tax profit (loss) from continuing operations	**202.978**
Corporate tax (IRES) – theoretical tax charge (27,5%)	(55.819)
- lower tax rate impact	*493*
- effect of non-taxable income and other reductions - permanent	*9.500*
- Effect of non-deductible charges and other increases - permanent	*33*
- non-current corporate tax	*2.475*
Corporate tax – Effective tax charges	**(43.318)**
Regional tax on productive activities (IRAP) – theoretical tax charges (5,57%)	(11.306)
- lower tax rate impact	*296*
- effect of income/charges that are not part of the taxable base	*(2.099)*
- non-current regional tax on productive activities	*259*
Regional tax on productive activities – Effective tax charges	**(12.850)**
Other taxes	**-**
Effective tax charges for the year	**(56.168)**

The Group's tax rate was 27,67%. The change relative to the theoretical tax charge was largely attributable to the "ACE" (Aid for Economic Growth) benefit, the participation exemption on equity instruments, and the "superdepreciation" of the assets of the subsidiary IFIS Rental.

Section 23 – Profit (loss) for the year attributable to non-controlling interests – Item 340

Name of the company	31.12.2018	31.12.2017
Consolidated investments with significant non-controlling interests		
Credifarma S.p.A.	47	-
Other investments	-	-
Total	**47**	**-**

Section 24 – Other information

24.1 Disclosure of government grants as per Art. 1, paragraph 125 of Italian Law no. 124 of 4 August 2017 ("Annual Market and Competition Law")

Art. 1, paragraphs 125-129 of Italian Law no. 124 of 4 August 2017 (Annual Market and Competition Law) introduced measures aimed at ensuring transparency in the system of government grants starting from the year 2018. These measures are intended to make grants from public administrations and entities—including listed ones—to third-sector organisations and businesses in general more transparent.

Specifically, with respect to the 2018 financial reporting process, the law requires all businesses to disclose subsidies, grants, paid positions, and economic benefits of any kind received from the following entities in the notes to the separate and consolidated financial statements, where applicable:

- public administrations and entities with equivalent status (Art. 2-bis, Italian Legislative Decree 33/2013);
- entities owned, either de jure or de facto, directly or indirectly, by public administrations; and
- state-owned enterprises.

Said disclosures are required if the amounts received during the reporting period exceeded 10 thousand Euro.

Consistently with the clarification issued by Italy's Council of State with opinion no. 1149 of 1 June 2018 and the guidance provided by trade associations (Assonime), as well as in line with currently available public information, apparently the disclosure requirements do not apply to the following:

- fees for services rendered by the entity as part of the provision of professional services and supplies or any other task that is part of day-to-day business operations, as these amounts do not fall under the scope of donations/public support policies;
- tax expenditures available to all businesses that meet specific conditions, based on pre-established general requirements, which are also the subject of specific disclosures;
- extension of subsidised loans to customers, as these involve funds of third parties (e.g. interest rate subsidies from the public administration) and not funds of the bank that acts as intermediary.

In consideration of the foregoing, below are the subsidies, grants, paid positions, and economic benefits of any kind received by the Group's companies.

Grantor	Recipient Group Company	Amount of the government grant
Italian Fund for the support of employment in the credit industry	Banca IFIS S.p.A.	430
Italian Fund for the support of employment in the credit industry	IFIS NPL	33
Total		**463**

Grantor	Reference	Recipient Group Company	Amount of the government grant
Italian Social Security Administration	Law 205/2017	Banca IFIS S.p.A.	45
Italian Social Security Administration	Law 205/2017	IFIS NPL S.p.A.	7
Italian Social Security Administration	Law 248/2005	Banca IFIS S.p.A.	292
Italian Social Security Administration	Law 248/2005	IFIS NPL S.p.A.	21
Italian Social Security Administration	Law 248/2005	IFIS Rental Services S.r.l	6
Italian Social Security Administration	Law 190/2014 TRIE	Banca IFIS S.p.A.	139
Italian Social Security Administration	Law 190/2014 TRIE	IFIS NPL S.p.A.	9
Italian Social Security Administration	Law 208/2015 BIEN	Banca IFIS S.p.A.	31
Italian Social Security Administration	Law 208/2015 BIEN	IFIS NPL S.p.A.	2
Total			**552**

In addition, please refer to the "Transparency" section of Italy's National State Aid Register for a summary of the applications for Training Aid (Art. 31 Reg. (EU) 651/2014) and the relevant commitment of expenditure by the grantor.

Finally, concerning the subsidiary Two Solar Park 2008 S.r.l., the revenue generated by the company includes the feed-in tariffs granted through specific arrangements with GSE (Gestore dei Servizi Energetici S.p.A.).

The table below contains information on the 4 outstanding arrangements—one for each of the 4 photovoltaic plants owned by the Company.

Plant	GSE Arrangement	Conto Energia (Feed-in Tariff)	Spalma incentivi (Tariff Reduction)	Term	Tariff start date	Tariff end date
Squinzano PV20	M04F27317007	Conto Energia (D.M. 19/02/2007) under "Salva Alcoa" (Alcoa Bailout) regime, Law 129/10	option "b" (Law 116/14)	20 years	30/06/2011	29/06/2031
Squinzano PV30	M04F23911507				23/03/2011	22/03/2031
Soleto PV37	M04F26392107				30/06/2011	29/06/2031
Soleto PV38	M04F70461607				16/06/2011	15/06/2031

Starting from January 2015, following Italian Law no. 116 of 11/08/2014 and based on the decisions made by the Company as to the revision of the feed-in tariffs, GSE has been paying the tariffs in equal monthly instalments, according to output estimates based on the historical data of the plants, as well as an annual settlement, no later than the 30th day of June of the following year, based on the actual output measured by the Grid Distributor (ENEL).

The following table shows the feed-in tariffs granted/paid by GSE in 2018 broken down by plant, specifying the year of accrual.

Plant	Tariffs received in 2018			Tariffs for 2018 output to be received in 2019
	2017 output	2018 output	Total received	
Squinzano PV20	158	362	520	70
Squinzano PV30	170	355	525	81
Soleto PV37	200	415	615	75
Soleto PV38	170	389	559	49
Total	**698**	**1.521**	**2.219**	**275**

Section 25 – Earnings per share

25.1 Average number of ordinary diluted shares

Earnings per share and diluted earnings per share	31.12.2018	31.12.2017
Net profit for the year attributable to the Parent (in thousands of Euro)	146.763	180.767
Average number of outstanding shares	53.438.425	53.431.314
Average number of diluted shares	53.438.425	53.425.169
Consolidated earnings per share (Units of Euro)	**2,75**	**3,38**
Consolidated diluted earnings per share (Units of Euro)	**2,75**	**3,38**

.

04.4. Part D - Consolidated statement of comprehensive income

	ITEMS (in thousands of Euro)	31.12.2018	31.12.2017*
10.	**Profit (loss) for the period**	**146.810**	**180.767**
	Other comprehensive income not to be reclassified to profit or loss	**1.684**	**(970)**
20.	Equity securities designated as at fair value through other comprehensive income	2.370	(1.663)
	a) fair value gains (losses)	2.379	(1.663)
	b) transfers to other components of equity	(9)	-
70.	Defined benefit plans	135	197
100.	Income taxes related to other comprehensive income not to be reclassified to profit or loss	(821)	496
	Other comprehensive income to be reclassified to profit or loss	**(13.573)**	**3.705**
120.	Exchange differences	(1.027)	1.851
	a) fair value gains (losses)	(1.027)	1.851
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (other than equity securities) at fair value through other comprehensive income	(11.035)	2.621
	a) fair value gains (losses)	(12.558)	1.461
	b) reclassification to profit or loss	1.523	1.160
	- credit risk losses	1.523	-
	- gains/losses on sale	-	1.160
	c) other changes	-	-
180.	Income taxes related to other comprehensive income to be reclassified to profit or loss	(1.511)	(767)
190.	**Total other comprehensive income**	**(11.889)**	**2.735**
200.	**Total comprehensive income (Item 10190)**	**134.921**	**183.502**
210.	Total consolidated comprehensive income attributable to non-controlling interests	47	-
220.	**Total consolidated comprehensive income attributable to the parent**	**134.874**	**183.502**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

04.5. Part E - Information on risks and risk management policies

Risk governance organisation

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

Concerning risk governance, the Group regularly reviews the strategic guidelines set out in the so-called Risk Appetite Framework. Meanwhile, the Pillar 2 of the provisions includes the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) processes, pursuant to which the Group autonomously assesses, respectively, its own current and expected capital adequacy in relation to both so-called Pillar 1 risks (credit risk, counterparty risk, market risk and operational risk) and other risks (banking book interest rate risk, concentration risk, etc.), and its adequacy as far as the governance and management of liquidity risk and funding is concerned.

This examination accompanied the preparation and submission to the Supervisory Body in June 2018 of the annual ICAAP and ILAAP Report as at 31 December 2017. In April 2019, the Group will submit the ICAAP and ILAAP Report as at 31 December 2018 to the Bank of Italy.

In May 2018, again with reference to 31 December 2017 and in compliance with the requirements under the so-called Pillar 3, Banca IFIS published information on its capital adequacy, its exposure to risks, and the general characteristics of the systems it has put in place to identify, measure and manage these risks. This document has been published on Banca IFIS's website www.bancaifis.it in the 'Investor relations' section. As for the situation at 31 December 2018, said document is published together with the Consolidated Financial Statements.

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

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

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

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

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

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

The role of the different players involved in the Internal Control System (the Board of Directors, the Control and Risks Committee, the Executive Director in charge of the Internal Control System, the Supervisory Body as per Legislative Decree no. 231, the Internal Audit Function, the Risk Management Function, the Compliance Function, and the Anti-Money Laundering Function) as well as the Corporate Accounting Reporting Officer—since Banca IFIS is a listed bank—are described in detail in the 'Report on Corporate Governance and Shareholding Structure', prepared pursuant to the third paragraph of article 123 bis of Italian Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance) as amended. The latest update to the Report was approved by the Board of Directors along with these Consolidated Financial Statements on 7 March 2019 and subsequently published on the Bank's website in the Corporate Governance section.

Risk culture

The Parent facilitates the development and dissemination of an integrated risk culture concerning the different types of risk at all levels and across the entire Group. Specifically, working together with the different corporate functions and Human Resources, it has developed and implemented training programmes to raise awareness about risk prevention and management responsibilities among employees.

The Parent's control functions (Risk Management, Compliance and Anti-Money Laundering, and Compliance) actively participate in such training processes within the scope of their responsibilities. The Bank promotes a culture that encourages the diffusion of responsibility, training all employees so as to make them aware of the risk management framework (approaches, methods, operational applications, rules and limits, controls) and allow them to embrace the Group's values (code of ethics, behaviours, rules of conduct and relationship rules).

Part E of the Notes to the Consolidated Financial Statements provides information on the following risk profiles, the relevant management and hedging policies implemented by the Group, and trading in derivative financial instruments:

- credit risk;
- market risks:
  - interest rate risk,
  - price risk,
  - currency risk,
- liquidity risk;
- operational risks

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 with the new accounting categories and the relevant measurement bases introduced by the new standard. Consequently, Part E of the Notes to the Consolidated Financial Statements does not provide some comparative information to items strictly related to the new accounting categories introduced by IFRS 9.

Section 1 – Accounting consolidation risks

Quantitative information

The gross exposures reported in the following tables account for the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiaries over time.

A. Credit quality

A.1 Non-performing and performing exposures: amounts, impairment losses, trend, economic breakdown

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

Portfolio/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Financial assets measured at amortised cost	861.628	472.418	99.995	316.825	6.153.701	7.904.567
2. Financial assets at fair value through other comprehensive income	-	-	-	-	418.709	418.709
3. Financial assets designated as at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	46.953	-	-	6.277	53.230
5. Financial assets under disposal	-	-	-	-	-	-
Total 31.12.2018	**861.628**	**519.371**	**99.995**	**316.825**	**6.578.687**	**8.376.506**
Total 31.12.2017*	**603.974**	**482.933**	**117.815**	**296.186**	**7.125.121**	**8.626.029**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

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

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

Portfolio/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall impairment losses/reversals	Net exposure	Overall partial write-offs	Gross exposure	Overall impairment losses/reversals	Net exposure	
1. Financial assets measured at amortised cost	1.723.396	289.355	1.434.041	2.045	6.503.960	33.434	6.470.526	7.904.567
2. Financial assets at fair value through other comprehensive income	-	-	-	-	419.996	1.287	418.709	418.709
3. Financial assets designated as at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	46.953	-	46.953	-	X	X	6.277	53.230
5. Financial assets under disposal	-	-	-	-	-	-	-	-
Total 31.12.2018	**1.770.349**	**289.355**	**1.480.994**	**2.045**	**6.923.956**	**34.721**	**6.895.512**	**8.376.506**
Total 31.12.2017*	**2.146.673**	**941.951**	**1.204.722**	**n.a.**	**7.466.369**	**45.062**	**7.421.307**	**8.626.029**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

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

Portfolio/Quality	Low credit quality assets		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	850	4.429	25.380
2. Hedging derivatives	-	-	-
Total 31.12.2018	**850**	**4.429**	**25.380**
Total 31.12.2017	**1.384**	**1.271**	**34.343**

B. Disclosure on structured entities (other than securitisation vehicles)

B.2 Unconsolidated structured entities

Qualitative information

During 2014, Banca IFIS bought a property in Florence for 9,6 million Euro. This now houses the NPL area's offices. At the same time, the Bank sold a finance lease agreement concerning the property currently housing the NPL Area to a newco, a special purpose vehicle set up exclusively to manage said property and owned by a real estate company not related to the Banca IFIS Group.

In 2017, Banca IFIS took over the lease agreement and the newco was placed in liquidation.

Banca IFIS continues reporting the asset under property, plant and equipment, and the relevant financial liability under payables due to customers.

Therefore, there were no other unconsolidated structured entities at 31 December 2018.

Section 2 – Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

In accordance with the guidelines approved by the Parent's Governing Body and the changes in the supervisory regulatory framework, the Group seeks to strengthen its competitive position in the market for small and medium businesses. The aim is to increase its market share in the following segments: trade receivables—including for entities with specialist needs such as pharmacies—leasing, tax receivables, and distressed loans, providing high-quality and highly customisable financial services while keeping credit risk under control and profitability in line with the level of quality offered.

The banking group currently operates in the following fields:

- the factoring business is characterised by the direct assumption of risks related to granting advances and loans, as well as guarantees, if any, on trade receivables of mainly small- and medium-sized enterprises. As part of its operations, the factoring segment purchases receivables due from public health service and local authorities outright.
- corporate lending and structured finance operations focus on offering medium- and long-term loans as well as secured and unsecured products to support companies operating in Italy in their organic or inorganic growth through extraordinary operations to reposition or expand their business, establish alliances or pursue integrations, promote restructuring processes, or introduce new investors and partners into the company. The clients of this segment are usually corporations;
- the leasing segment targets mainly small economic operators as well as small- and medium-sized businesses (SMEs). In general, finance leases help independent contractors and businesses finance company cars and commercial vehicles as well as facilitate equipment investments for businesses and resellers. Meanwhile, long-term leases mainly focus on equipment finance—specifically on office and IT products and, to a lesser extent, industrial and healthcare equipment;

- the acquisition of non-performing loans by the subsidiary IFIS NPL S.p.A., mainly from retail customers, refers to the set of actions aimed at collecting (through both judicial and non-judicial actions) the distressed loans acquired;
- lending to retail customers, including through the definition and refinancing of transferred non-performing loans to be settled through salary- or pension-backed loan schemes, by the subsidiary Cap.Ital.Fin. S.p.A.;
- short- and medium-term lending to pharmacies by the subsidiary Credifarma S.p.A. largely consists in factoring receivables due from Italy's National Health Service as well as public- and private-sector healthcare providers.

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

2. Credit risk management policies.

As part of its lending operations, the Banca IFIS Group is exposed to the risk that an unexpected change in the creditworthiness of a counterparty may cause an unforeseen change in the relevant credit exposure, requiring to write off all or part of the receivables. This risk is always inherent in conventional lending operations, regardless of the form of financing.

The main causes of delinquency refer to borrowers being no longer able to service and repay their debts (because of a lack of liquidity, insolvency, etc.) or the occurrence of circumstances that affect the debtor's economic/financial conditions, such as "country risk".

2.1 Organisational aspects

Within the Banca IFIS Group, the Corporate Bodies of the Bank and the financial subsidiaries play a key role in managing and controlling credit risk, ensuring an appropriate supervision of credit risk within the scope of their responsibilities by identifying strategic guidelines as well as risk management and control policies, assessing their efficiency and effectiveness over time, and defining the duties and responsibilities of the corporate functions involved in the relevant processes.

Under the current organisational structure, specific central areas are involved in credit risk management and governance, ensuring, with the appropriate level of segregation, the performance of management operations as well as first and second line of defence controls by adopting adequate processes and IT applications.

Overall, despite some differences deriving from the various products/portfolios, the lending process follows a shared organisational approach with various operational stages and roles, responsibilities, and controls at different levels.

Specifically, Banca IFIS's organisational structure consists of the following Business Units, dedicated to different activities:

- Trade Receivables (Italy), the organisational unit that provides both short- and medium/long-term financing services for Italian firms;
- Pharma, the organisational unit dedicated to purchasing receivables due from local health agencies and hospitals;
- Pharmacies, the organisational unit that provides financing services for Italian pharmacies that are either developed internally or referred by the sales network of the subsidiary Credifarma;
- International, the organisational unit that provides financing services for Italian exporters as well as foreign companies;
- Tax Receivables, the organisational unit dedicated to purchasing tax receivables, mainly from companies in insolvency proceedings or liquidation;
- Corporate Finance, the organisational unit dedicated to structured finance transactions or investments in performing non-financial companies and intermediaries;
- *Special Situations*, the organisational unit responsible for identifying and assessing new opportunities for lending to Italian companies that, despite reporting positive operating profits, have gone through or are recovering from financial distress;
- *Leasing*, the organisational unit dedicated to offering and managing leasing products;

In addition, at the reporting date the lending process included the lending operations of the subsidiaries:

- IFIS NPL S.p.A., the company dedicated to acquiring, managing, and selling non-performing loans, mainly originated by financial institutions and banks, that was born from the spin-off of Banca IFIS's NPL business unit, finalised on 1 July 2018;

- **Cap.Ital.Fin. S.p.A.**, which provides salary- or pension-backed loans as well as salary or pension deductions and distributes financial products such as mortgages and personal loans;
- **Credifarma S.p.A.**, the reference for pharmacies when it comes to advances, medium- and long-term loans, equipment leases, and financial services;
- **IFIS Finance Sp. Zo.o.**, a factoring company operating in Poland;
- **IFIS Rental Service S.r.l.**, an unregulated entity specialising in operating leases.

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

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

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

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

In carrying out their operations, the subsidiaries can independently take certain decisions within the operational and organisational limits defined by the Parent Company Banca IFIS.

The line of credit is then **finalised**: the Bank finalises the agreement, obtains guarantees, if any, and grants the credit line. Throughout these stages, the business units are aided by specific supporting units responsible for preparing the agreement in accordance with the terms of the approval as well ensuring all activities leading to the granting of the credit facility are properly carried out.

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

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

The operational management of receivables, carried out for performing customers, mainly consists in the **ordinary management** and **monitoring** conducted by dedicated structures at each of the Group's companies with the aim of constantly and pro-actively reviewing borrowers. In addition, a specific organisational unit within the Parent company performs monitoring activities at the Group level to identify counterparties with performance issues, so as to anticipate problems and provide adequate reporting to the competent corporate functions.

If the credit position is in an objective situation of distress, it is transferred to specific functions specialised in managing and **recovering non**-performing exposures.

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

2.2 Management, measurement and control systems

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

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

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

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

Credit risk exposures to Italian companies are assigned an internal rating based on a model developed in-house for the trade receivables portfolio. The Bank is currently working on a project to evolve the current counterparty rating model for Italian companies in light of the Group's expanded scope and the product range.

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

Concerning credit risks, the Risk Management function:

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

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

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

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

In order to assess its vulnerabilities when it comes to managing capital and liquidity, the Parent Banca IFIS has developed quantitative and qualitative techniques to assess its exposure to exceptional but plausible events. These analyses, known as stress tests, measure the impact in terms of risk deriving from a combination of changes in economic-financial variables under adverse scenarios on the Banks and its subsidiaries. These analyses significantly concern credit risk.

The stress tests allow to assess the Group's resiliency by simulating and estimating the impact of adverse circumstances, providing crucial insights into its exposure to risks and instruments, the adequacy of the relevant mitigation and control systems, and it ability to deal with unexpected losses—including in a forward-looking manner and in terms of planning.

For regulatory purposes, the Parent Banca IFIS conducts stress tests when defining the Risk Appetite Framework and preparing the Recovery Plan as well as the ICAAP and ILAAP report at least on an annual basis, as required by applicable prudential supervisory regulations. In this context, it assesses, among other things, the sustainability of lending strategies under adverse market conditions.

2.3 Measurement of expected credit losses

Effective 1 January 2018, the Banca IFIS Group has adopted the new accounting standard IFRS 9, which introduces significant changes concerning loans:

- the shift from a model calculating the incurred loss over a 12-month period to one calculating the expected loss over the lifetime of the loan;
- the classification of loans into three separate stages, corresponding to different methods for calculating the losses to be recognised; stage 1 includes all performing positions that have not suffered a significant increase in credit risk, while those that have are categorised within stage 2; stage 3 includes all non-performing positions classified as bad loans, unlikely to pay, or non-performing past due exposures based on the criteria and rules specifically adopted by the Group;
- the requirement to use a Point-in-Time, rather than a Through-the-Cycle, approach for regulatory purposes;
- the incorporation of forward-looking information on macroeconomic conditions that could potentially influence the borrower's situation.

For the purposes of estimating impairment losses on performing loans, the Group has adopted a method to determine the "significant" increase in credit risk since initial recognition: this requires classifying instruments within stage 1 and stage 2 by combining quantitative and qualitative information.

To identify the significant increase in credit risk, the Banca IFIS Group applies the following quantitative and qualitative transfer criteria to the loan portfolio according to the type of counterparty defined by segmenting receivables into portfolios.

Quantitative transfer criteria

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

Qualitative transfer criteria

- *Rebuttable presumption – 30 days past due*: the Standard establishes that, regardless of how the entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The entity can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not increased significant since initial recognition even though the contractual payments are more than 30 days past due. However, the Banca IFIS Group has not pursued this option;
- *Forbearance*: according to this criterion, a financial instrument is allocated to stage 2 when the Group classifies the exposure as forborne;
- *Watchlist*: this requires identifying qualitative deterioration criteria defined by the Group as part of the process for defining especially risky positions during credit monitoring.

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

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

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

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

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

- estimated Probability of Default (PD);
- estimated Loss Given Default (LGD);
- estimated Exposure at Default (EAD);
- definition of the stage allocation transfer logic;
- calculation of the expected credit losses including point-in-time factors.

Concerning the exposures to Banks, Central Governments, and Public-Sector Entities (low default portfolios), the Group used default rates associated with migration matrices based on public information provided by the ratings agency Moody's or external providers.

As for the securities portfolio, considering the methodological complexity associated with developing a dedicated model, the Bank decided to outsource the calculation of impairment under IFRS 9 (i.e. estimating risk parameters, calculating the stage allocation and ECLs). Specifically, the formula used to calculate the impairment of the tranches allocated to stage 1 and stage 2 is consistent with the approach to credit exposures. The stage allocation of performing debt securities requires using an external rating of the issue or, if this is not available, the issuer; in short, the securities are allocated to the different stages based on specific transfer criteria associated with this type of portfolio. Exposures are allocated to stage 3 if credit risk has deteriorated to the point that the security is considered impaired, i.e. classified as non-performing, including in the case of financial instruments in default.

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

A multi-period approach to risk parameters has been developed exclusively for PD; the other credit risk parameters (LCD and CCF) are applied on a constant basis until maturity. The Group estimates LGD based on historical proprietary evidence, except in the case of Banks, Central Governments, and Local Administrations (excluding municipalities), for which, in the absence of objective historical data, the Group estimated an industry LGD.

For stage 3 exposures that are not individually tested for impairment, the Group defines a lifetime provision in line with the concept of expected credit loss (ECL). Specifically concerning LGD, to calculate the collective losses for stage 3 exposures (mainly non-performing past due exposures and unlikely to pay), the Group made certain adjustments to ensure consistency with the measures used for performing loans. In addition, should the Group's operational plan for managing impaired loans envisage the disposal of non-performing positions, the models for measuring expected credit losses shall consider the associated probability of occurrence when estimating ECLs.

2.4 Credit risk mitigation techniques

Credit risk mitigation techniques include those instruments that help limit the loss the Group would suffer should the counterparty default; specifically, these are the collateral and personal guarantees pledged by customers, and any agreements that could potentially reduce credit risk.

Generally, as part of the lending and credit management process, for certain types of credit facilities, the Group invites customers to provide guarantees that can reduce the relevant risk. These may consist of collateral, such as liens on financial assets, mortgages on residential or non-residential property, and/or personal guarantees (usually sureties) provided by a third party, where an individual or legal entity takes responsibility for the customer's obligations in the event of insolvency.

In particular:

- as part of factoring operations, when the type and/or quality of factored receivables do not fully satisfy requirements or, more generally, the invoice seller is not sufficiently creditworthy, the bank's established practice is to hedge the credit risk assumed by the Group by obtaining additional surety bonds from the shareholders or directors of the invoice seller. As for the account debtors in factoring relationships, wherever the Bank believes that the elements available to assess the account debtor do not allow to properly measure/assume the related credit risk, or the proposed amount of risk exceeds the limits identified during the debtor's assessment, the Bank adequately hedges the risk of default of the account debtor. Guarantees issued by correspondent factors and/or insurance policies underwritten with specialised operators are the main hedge against non-domestic account debtors in non-recourse operations;
- as for the Lending sector, based on the peculiarities of its products, it demands adequate collateral according to the counterparty's standing as well as the term and type of the facility. Said collateral includes mortgage guarantees, liens on plant and equipment, pledges, surety bonds, credit insurance, and collateral deposits;
- as for Finance Leases, the credit risk is mitigated by the leased asset. The lessor maintains the ownership until the purchase option is exercised, ensuring a higher recovery rate in the event the client defaults;
- as for operations concerning distressed loans and purchases of tax receivables arising from insolvency proceedings, as well as the relevant business model, generally no action is taken to hedge credit risks;
- salary-backed loans certainly have low risk, considering the particular characteristics of this product: it requires having insurance against the customer's risk of death and/or loss of employment as well as imposing a lien on the Post-employment benefits earned by the customer as additional collateral for the loan.
- lending to pharmacies involves an advance as well as a transfer or debt collection mandate, with the possibility of deducting subsequent advances from existing credit facilities.

As for the acquisition of NPL portfolios by the subsidiary IFIS NPL, these may include positions backed by first-mortgage liens with a level of risk lower than the overall acquired portfolio.

When calculating the overall credit limit for an individual customer and/or legal and economic group, the Bank considers specific criteria when weighing the different categories of risks and guarantees. Specifically, when measuring collateral, it applies prudential "spreads" differentiated by type of guarantee.

The Bank's Risk Management function constantly monitors the quality and adequacy of the procedures for assessing collateral to provide central oversight over the assessment and monitoring of collateral for the Banca IFIS Group's loan portfolio. To make operations more effective, these processes are performed by a newly established dedicated organisational unit named "Collateral Monitoring", which directly reports to the Bank's Chief Risk Officer.

3. Non-performing loans

3.1 Management strategies and policies

The Group adopts a business model that has peculiar features compared to most other Italian banking institutions, which largely operate as general banks.

The peculiarity of its business influences operational processes and structures, generating trends in flows and stocks that reflect the Group's assets and the relevant indicators.

Nonetheless, the Parent believes that adopting "systemic" operational and structural ratios, and maintaining its indicators at the highest level of excellence, is a mark of quality and a value to be pursued as a specific goal in order to strengthen its corporate structure as well as improve its internal processes.

Asset quality is a top priority that must translate into the ability to provide financing, minimising the risk that exposures will deteriorate, as well as manage non-performing exposures, optimising collection performance in terms of amounts collected and collection times.

In this sense, the Group's goal is twofold:

- constantly striving to improve not only screening and lending processes, but also the management of performing loans, focusing, if necessary, on the commercial and/or screening policies for individual transactions in order to curb the generation of non-performing loans as much as possible;
- defining quantitative goals (to be considered as maximum limits) in terms of non-performing exposures as well as default actions to be taken in accordance with appropriate implementation and priority criteria, so as to ensure compliance with the agreed limits over time.

In managing these aspects, the Group must also necessarily account for the different business segments and the associated types of receivables, identifying solutions and actions that are consistent with the peculiarities of each segment in order to deliver the best possible result in terms of value protection and timely resolution.

That said, when preparing its operational plan for managing NPLs in the short, medium, and long term, approved by the Board of Directors on 20 September 2018 and subsequently submitted to the Bank of Italy, the Bank identified the two following ratios as performance indicators and explicit goals to be pursued in a careful and proactive manner:

- "gross npe ratio", i.e. the ratio of "gross non-performing exposures" to "total loans to customers";
- "net npe ratio", i.e. the ratio of "non-performing exposures net of the relevant impairment losses" to "total loans to customers".

As for the on-balance-sheet exposures to customers outstanding at 31 December 2018, excluding the positions deriving from the acquisition and management of non-performing loans of third-party originators by the subsidiary IFIS NPL S.p.A., the Group's "gross npe ratio" was 9,5%, whereas the "net npe ratio" amounted to 5,2%, in line with the reduction targets for the period concerned. The Group expects to pursue the goal of reducing the stock of short/medium-term non-performing exposures through a differentiated strategy based on the specificity of the individual portfolios concerned (considering the type of counterparty and the specificity of individual products). In general, the Group will take actions towards the following goals, which it has been pursuing for some time now:

- curbing the default rate in order to reduce the number of positions that become non-performing, extending and strengthening loan monitoring operations in order to anticipate, and potentially prevent, the impairment of exposures;
- improving "performing" settlement rates by granting more forbearance measures to counterparties that show signs of financial distress;
- leveraging the expertise within the Banca IFIS Group and the virtuous collection processes currently in place to maximise collection rates;
- reducing the stock of non-performing loans by considering selective sales of individual significant positions as well as applying existing write-off policies.

The positions that have deteriorated or present significant problems are handled directly by specific organisational units at each of the Group's companies, which:

- assess the counterparty's willingness and ability to repay the debt in order to establish the most appropriate recovery strategy;
- manage judicial and non-judicial proceedings concerning debt collection operations;
- define potential modifications to the administrative status as well as the quantification of "doubtful individual outcomes" for the positions assigned to it, submitting them to the competent decision maker;
- monitor the amount of exposures classified as bad loans and the relevant debt collection operations.

3.2 Write-offs

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

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

During the year, the Bank derecognised 241,8 million Euro (nominal amount) worth of exposures entirely written off without forfeiting the right to collect the receivable.

3.3 Purchased or originated credit impaired financial assets

Organisational aspects

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

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

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

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

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

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

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

Non-performing exposures include the receivables acquired by the subsidiary IFIS NPL S.p.A. at a significant discount to their par value, as well as the non-performing assets that largely arose from the business combination with the former GE Capital Interbanca Group at the time of the acquisition, in accordance with the new standard IFRS 9.

Quantitative disclosures

At the reporting date, the outstanding book value of IFIS NPL S.p.A.'s proprietary portfolio was approximately 15,8 billion Euro. At the time of purchase, the historical book value of these receivables was approximately 16,1 billion Euro, and they were acquired for nearly 0,9 billion Euro, i.e. an average price equal to 4,9% of the historical book value. In 2018, 3,6 billion Euro were acquired for approximately 241 million Euro, i.e. an average price equal to 6,67%. The POCI outstanding portfolio has a weighted average aging of 28 months compared to their original acquisition date.

The positions undergoing non-judicial operations (which largely consist in activating receivables by finalising bills of exchange and settlement plans with the debtor) are measured at amortised cost, calculated as the net present value of estimated cash flows based on a proprietary statistical model built using internal historical data series. This "curve-based model" calculates conversion estimates for clusters of similar receivables based on their historical recovery profile, adding prudential adjustments. During the forecasting process, the model already incorporates the counterparty's risk of default: historically, cash receipts have fallen short of expectations because certain borrowers fail to repay their debts. In the case of positions for which a settlement plan has been finalised, regardless of their type, future cash flows are calculated using a "deterministic model", i.e. using cash flows based on the future instalments of the settlement plan, net of the historical default rate.

As for the positions undergoing judicial operations (which 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), in the first quarter of 2018 the Group 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 estimates the cash flows of all the positions for which a writ has already been or will be issued starting from 1 January 2018. In the case of positions for which a garnishment order has been issued, the Group estimates cash flows based on the data gathered from the proceedings and 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. In addition to the above, judicial operations involve also collection efforts, i.e. foreclosure proceedings, which consist of several stages and apply to portfolios originated in corporate, banking, or real estate segments.

In the third quarter of 2018, the Group refined the estimate of the cash flows expected from positions secured by mortgaged property; more specifically, collection estimates are based on appraisals and expert witness reports, while the estimated collection dates are calculated based on average foreclosure times.

Finally, please note that IFIS NPL may consider selling portfolios to third parties in order to seize market opportunities and in accordance with the business model. During the year, IFIS NPL finalised six sales of portfolios to leading players whose business is purchasing NPLs. Overall, Banca IFIS sold receivables with an outstanding book value of nearly 660 million Euro, consisting of approximately 90 thousand positions, for an overall consideration of about 13,9 million Euro. In addition, it recognised 10,8 million Euro arising from sales finalised in January 2019 for which the relevant binding offers were accepted at the end of 2018.

In addition, this line item includes the non-performing exposures acquired through business combination. In particular it includes the exposures related to the acquisition of GE Capital Interbanca Group with a total nominal exposure of 353,8 million Euro compared to a net exposure of 71,3 million Euro. These receivables are managed on an individual basis in line with the previously described credit risk management strategies and policies.

4. Financial assets subject to business renegotiations and forborne exposures

Throughout the life of the financial assets, and specifically of receivables, the parties to the agreement may subsequently agree to modify the original contractual terms. When, during the life of an instrument, the contractual terms are modified, the Group shall assess whether the original asset must continue to be recognised (so-called "modification without derecognition") or, conversely, the original instrument must be derecognised and a new financial instrument recognised in its place.

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

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

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

Information on the credit quality of forborne exposures and the effectiveness of forbearance measures

The modifications due to credit risk reasons amounted to 278,0 million Euro at 31 December 2018, including 30,4 million Euro referring to performing exposures. The Group collected 116,8 million Euro on these positions in 2018.

Quantitative information

A. Credit quality

A.1 Non-performing and performing exposures: amounts, impairment losses, trend, and economic breakdown

A.1.1 Prudential consolidation - Breakdown of financial assets by past due buckets (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	272.719	1.950	3.560	8.593	81.007	191.284	158.550	21.581	1.252.008
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31.12.2018	**272.719**	**1.950**	**3.560**	**8.593**	**81.007**	**191.284**	**158.550**	**21.581**	**1.252.008**
Total 31.12.2017*	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***n.a.***

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation". The information on the comparative amounts is therefore not available.

A.1.2 Prudential consolidation – Financial assets, loan commitments and financial guarantees granted: overall impairment losses/reversals and overall provisions

Type/risk stage	Overall impairment losses/reversals													Total provisions on loan commitments and financial guarantees granted			Total
	Stage 1 assets				Stage 2 assets				Stage 3 assets								
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	of which: purchased or originated credit impaired financial assets	Stage 1	Stage 2	Stage 3	
Opening balance*	**38.654**	**-**	**-**	**38.654**	**3.915**	**-**	**-**	**3.915**	**921.403**		**921.403**			**-**	**-**	**-**	**963.972**
Impact of the first-time adoption of IFRS 9	(13.171)	412		(12.759)	(1.058)			(1.058)	(393.639)	-	(393.639)			2.264	1.033		(404.159)
Increases from purchased or originated financial assets			-	-		-	-	**-**	117	-	117	-	-	-	-	-	117
Derecognitions other than write-offs	-	-	-	-	-	-	-	**-**		-	-	-	-	-	-	-	-
Net credit risk losses/reversals	2.047	401	-	2.448	1.987	-	-	**1.987**	95.207	-	95.207	641		(483)	(1.009)	1.887	100.037
Contractual modifications without derecognition	-	-	-	-	-	-	-	**-**	-	-	-	-	-	-	-	-	-
Changes in estimation method	414	-	-	414		-	-	**-**		-	-	-	-			-	414
Write off	-	-	-	-	-	-	-	**-**	(340.838)	-	(340.838)	-	-	-	-	-	(340.838)
Other changes	(457)	474	-	17	130	-	-	**130**	(4.072)	-	(4.072)	-	-	188	-	-	(3.737)
Closing balance	**27.487**	**1.287**	**-**	**28.774**	**4.974**	**-**	**-**	**4.974**	**278.178**	**-**	**278.178**	**641**	**-**	**1.969**	**24**	**1.887**	**315.806**
Reversals from collections on financial assets written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	26	-	26	-	25	-	-	-	26

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation". Amounts at 31 Decembrer 2017 are those originally published in accordance to previous accounting standard while line item "Impact of the first-time adoption of IFRS 9" includes the arithmetic difference between amounts previously published and the same figures as conventionally reconciled at 1 January 2018.

A.1.3 Prudential consolidation – Financial assets, loan commitments and financial guarantees granted: transfers between different credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross amounts/nominal amount					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	389.119	59.208	28.495	32.283	161.737	21.432
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Loan commitments and financial guarantees granted	50	29	-	-	1.877	19
Total 31.12.2018	**389.169**	**59.237**	**28.495**	**32.283**	**163.614**	**21.451**
Total 31.12.2017*	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

* * The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation". The information on the comparative amounts is therefore not available.

A.1.4 Prudential consolidation – On- and off-balance-sheet exposures to banks: gross and net amounts

Types of exposures/amounts	Gross exposure		Overall impairment losses/reversals and overall provisions	Net exposure	Overall partial write-offs
	Non-performing	Performing			
A. On-balance-sheet credit exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	2	-	2	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	595.162	1.257	593.905	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**595.164**	**1.257**	**593.907**	**-**
B. Off-balance-sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	15.788	-	15.788	-
Total (B)	**-**	**15.788**	**-**	**15.788**	**-**
Total (A+B)	**-**	**610.952**	**1.257**	**609.695**	**-**

On-balance-sheet exposures include all on-balance-sheet financial assets due from banks, regardless of the portfolio they are included in (measured at amortised cost, measured at fair value through other comprehensive Income, designated as at fair value, mandatorily measured at fair value, under disposal).

A.1.5 Prudential consolidation – On- and off-balance-sheet exposures to customers: gross and net amounts

Types of exposures/amounts	Gross exposure		Overall impairment losses/reversals and overall provisions	Net exposure	Overall partial write-offs
	Non-performing	Performing			
B. On-balance-sheet credit exposures					
f) Bad loans	1.043.656	X	181.750	861.906	1.338
- of which: forborne exposures	91.717	X	10.263	81.454	157
g) Unlikely to pay	622.827	X	87.241	535.586	-
- of which: forborne exposures	153.602	X	4.690	148.912	-
h) Non-performing past due exposures	107.669	X	9.188	98.481	-
- of which: forborne exposures	2.288	X	373	1.915	-
i) Performing past due exposures	X	319.380	2.368	317.012	-
- of which: forborne exposures	X	4.525	271	4.254	-
j) Other performing exposures	X	5.873.134	30.524	5.842.610	878
- of which: forborne exposures	X	25.884	446	25.438	-
Total (A)	**1.774.152**	**6.192.514**	**311.071**	**7.655.595**	**2.216**
B. Off-balance-sheet credit exposures					
c) Non-performing	126.509	X	1.887	124.622	-
d) Performing	X	1.101.648	1.969	1.099.679	-
Total (B)	**126.509**	**1.101.648**	**3.856**	**1.224.301**	**-**
Total (A+B)	**1.900.661**	**7.294.162**	**314.927**	**8.879.896**	**2.216**

On-balance-sheet exposures include all on-balance-sheet financial assets due from customers regardless of the portfolio they are included in (measured at amortised cost, measured at fair value through other comprehensive Income, designated as at fair value, mandatorily measured at fair value, under disposal).

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

Type/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Opening gross exposure*	**1.334.182**	**679.856**	**127.396**
- of which: transferred and not derecognised	-	-	-
Impact of IFRS 9	(292.852)	(141.629)	(3.634)
B. Increases	**516.146**	**327.236**	**72.147**
B.1 inflows from performing exposures	7.972	116.522	65.737
B.2 inflows from purchased or originated credit impaired financial assets	116.747	27.317	1.069
B.3 transfers from other non-performing loan categories	74.990	18.199	87
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	316.437	165.198	5.254
C. Reductions	**513.820**	**242.636**	**88.240**
B.1 outflows to performing exposures	1.389	7.985	44.341
C.2 write-offs	339.080	17.341	-
C.3 collections	76.840	73.979	22.814
C.4 collections from sales	2.698	56.668	-
C.5 losses on disposal	-	-	-
C.4 transfers to other non-performing loan categories	251	73.780	19.245
C.7 contractual modifications without derecognition	-	-	-
C.8 other reductions	93.562	12.883	1.840
D. Closing gross exposure	**1.043.656**	**622.827**	**107.669**
- of which: transferred and not derecognised	6.966	-	-

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 “Banks' financial statements: layouts and preparation”. Amounts at 31 Decembrer 2017 are those originally published in accordance to previous accounting standard while line item “Impact of IFRS 9” includes the arithmetic difference between amounts previously published and the same figures as conventionally reconciled at 1 January 2018.

On-balance-sheet exposures include all on-balance-sheet financial assets due from customers regardless of the portfolio they are included in (measured at amortised cost, measured at fair value through other comprehensive Income, designated as at fair value, mandatorily measured at fair value, under disposal).

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

Type/Categories	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening gross exposure*	**375.524**	**58.079**
- of which: transferred and not derecognised	-	-
Impact of IFRS 9	(41.703)	(2.707)
B. Increases	**76.763**	**57.565**
B.1 inflows from non-forborne performing exposures	13.973	16.745
B.2 inflows from forborne performing exposures	10.165	X
B.3 inflows from non-performing forborne exposure	X	13.330
B.4 other increases	52.625	27.490
C. Reductions	**162.977**	**82.528**
C.1 outflows to non-forborne performing exposures	X	3.711
C.2 outflows to forborne performing exposures	13.330	X
C.3 outflows to non-performing forborne exposures	X	10.165
C.4 write-offs	14.519	-
C.5 collections	90.532	26.305
C.6 gains on sale	12	-
C.7 losses on sale	-	-
C.8 other reductions	44.584	42.347
D. Closing gross exposure	**247.607**	**30.409**
- of which: transferred and not derecognised	180	1.746

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation". Amounts at 31 Decembrer 2017 are those originally published in accordance to previous accounting standard while line item "Impact of IFRS 9" includes the arithmetic difference between amounts previously published and the same figures as conventionally reconciled at 1 January 2018.

A.1.9 Prudential consolidation – On-balance-sheet non-performing exposures to customers: trends in overall impairment losses/reversals

Type/Categories	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance of total impairment losses/ reversals of impairment losses*	**730.386**	**51.849**	**179.727**	**107.272**	**11.290**	**1.434**
- of which: transferred and not derecognised	-	-	-	-	-	-
Impact of IFRS 9	(293.123)	(71.815)	(98.961)	(82.307)	(1.555)	(1.410)
B. Increases	**99.140**	**45.048**	**90.735**	**2**	**3.486**	**511**
B.1 impairment losses from purchased or originated credit impaired financial assets	-	-	117	-	-	-
B.2. other impairment losses	74.530	25.041	72.020	-	1.398	510
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposure categories	23.808	20.007	637	2	5	-
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	802	-	17.961		2.083	1
C. Reductions	**354.653**	**14.819**	**84.260**	**20.277**	**4.033**	**162**
C.1 impairment reversals from measurement	4	-	48	-	2	3
C.2 impairment reversals from collection	7.483	308	41.054	15.429	2.249	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	325.632	14.511	15.206	-	-	-
C.5 transfers to other non-performing loan categories	50	-	23.800	4.416	600	5
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	21.484		4.152	432	1.182	154
D. Closing balance of total impairment losses/ reversals of impairment losses	**181.750**	**10.263**	**87.241**	**4.690**	**9.188**	**373**
- of which: transferred and not derecognised	-	-	697	2	-	-

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation". Amounts at 31 Decembrer 2017 are those originally published in accordance to previous accounting standard while line item "Impact of IFRS 9" includes the arithmetic difference between amounts previously published and the same figures as conventionally reconciled at 1 January 2018.

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

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

A.2.2 Prudential consolidation – Breakdown of financial assets, loan commitments and financial guarantees granted by internal rating class (gross amounts)

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

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

A.3 Breakdown of guaranteed exposures by guarantee type

A.3.1 Prudential consolidation - Guaranteed on- and off-balance-sheet exposures to banks

	Gross exposure	Net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
								Other derivatives								
			Property Mortgages	Property Finance Leases	Securities	Other collateral guarantees	CNL	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Guaranteed on-balance-sheet exposures:	**1.600**	**1.596**	**-**	**-**	**-**	**1.596**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.596**
1.1 totally guaranteed	1.600	1.596	-	-	-	1.596	-	-	-	-	-	-	-	-	-	1.596
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance-sheet exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-
2.1 totally guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation – Guaranteed on- and off-balance-sheet exposures to customers

	Gross exposure	Net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
								Other derivatives								
			Property Mortgages	Property Finance Leases	Securities	Other collateral guarantees	CNL	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Guaranteed on-balance-sheet exposures:	**2.368.946**	**2.295.120**	**440.922**	**-**	**61.636**	**1.282.631**	**-**	**-**	**-**	**-**	**-**	**109.761**	**202**	**17.378**	**225.596**	**2.138.126**
1.1 totally guaranteed	2.041.067	1.981.645	411.962	-	52.894	1.252.034	-	-	-	-	-	80.714	202	12.536	171.065	1.981.407
- of which non-performing	210.885	163.705	117.029	-	120	21.006	-	-	-	-	-	653	202	2.404	22.052	163.466
1.2 partially guaranteed	327.879	313.475	28.960	-	8.742	30.597	-	-	-	-	-	29.047	-	4.842	54.531	156.719
- of which non-performing	43.680	32.364	3.564	-	-	886	-	-	-	-	-	178	-	164	3.893	8.685
2. Guaranteed off-balance-sheet exposures:	**60.989**	**60.849**	**3.542**	**-**	**964**	**20**	**-**	**-**	**-**	**-**	**-**	**-**	**725**	**52**	**11.759**	**17.062**
2.1 totally guaranteed	13.814	13.798	3.322	-	239	11	-	-	-	-	-	-	-	52	10.184	13.808
- of which non-performing	3.321	3.321	3.194	-	-	-	-	-	-	-	-	-	-	-	128	3.322
2.2 partially guaranteed	47.175	47.051	220	-	725	9	-	-	-	-	-	-	725	-	1.575	3.254
- of which non-performing	32.056	32.056	148	-	-	9	-	-	-	-	-	-	-	-	499	656

B. Concentration and breakdown of exposures

B.1 Prudential Consolidation – Breakdown of on- and off-balance-sheet exposures to customers by segment

Exposures/counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet exposures										
A.1 Bad loans	1.431	4.294	2.376	8.478	-	-	167.426	154.264	690.673	14.714
- of which forborne exposures	-	-	540	5.732	-	-	4.110	4.522	76.804	9
A.2 Unlikely to pay	2.614	395	38.358	1.093	-	-	186.141	77.819	308.473	7.934
- of which forborne exposures	1.666	322	37.306	4	-	-	50.476	2.794	59.464	1.570
A.3 Non-performing past due exposures	47.619	2.934	108	75	-	-	40.027	4.221	10.727	1.958
- of which forborne exposures	44	1	18	8	-	-	1.145	79	708	285
A.4 Performing exposures	1.115.676	1.643	336.865	1.979	-	-	4.144.060	23.762	563.021	5.508
- of which forborne exposures	51	-	3.839	-	-	-	16.597	191	9.205	526
Total (A)	**1.167.340**	**9.266**	**377.707**	**11.625**	**-**	**-**	**4.537.654**	**260.066**	**1.572.894**	**30.114**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	108.476	1.877	16.146	10
B.2 Performing exposures	695	440	144.533	703	-	-	670.918	767	283.534	59
Total (B)	**695**	**440**	**144.533**	**703**	**-**	**-**	**779.394**	**2.644**	**299.680**	**69**
Total (A+B) 31.12.2018	**1.168.035**	**9.706**	**522.240**	**12.328**	**-**	**-**	**5.317.048**	**262.710**	**1.872.574**	**30.183**
Total (A+B) 31.12.2017*	**1.228.771**	**6.710**	**658.045**	**31.268**	**368**	**-**	**4.552.986**	**856.910**	**806.748**	**77.008**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation". The comparative information for 2017 is in line with the published amounts, as it cannot be reconciled with the new tables.

B.2 Prudential consolidation - Geographical breakdown of on- and off-balance-sheet exposures to customers

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet exposures										
A.1 Bad loans	861.676	181.662	208	88	11	-	5	-	6	-
A.2 Unlikely to pay	533.014	85.155	2.561	2.086	7	-	-	-	4	-
A.3 Non-performing past due exposures	95.713	9.058	2.749	129	19	1	-	-	-	-
A.4 Performing exposures	5.848.293	29.869	197.343	1.891	97.532	1.002	16.288	129	166	1
Total A	**7.338.696**	**305.744**	**202.861**	**4.194**	**97.569**	**1.003**	**16.293**	**129**	**176**	**1**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	122.876	1.887	1.746	-	-	-	-	-	-	-
B.2 Performing exposures	1.042.636	1.925	56.884	44	78	-	-	-	82	-
Total B	**1.165.512**	**3.812**	**58.630**	**44**	**78**	**-**	**-**	**-**	**82**	**-**
Total (A+B) 31.12.2018	**8.504.208**	**320.491**	**261.491**	**4.238**	**97.647**	**1.003**	**16.293**	**129**	**258**	**1**
Total (A+B) 31.12.2017*	**6.869.038**	**949.510**	**295.910**	**24.964**	**60.527**	**3.308**	**18.108**	**182**	**335**	**1.552**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation". The comparative information for 2017 is in line with the published amounts, as it cannot be reconciled with the new tables.

B.3 Prudential consolidation - Geographical breakdown of on- and off-balance-sheet exposures to banks

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	548.750	1.145	35.137	87	10.020	25	-	-	-	-
Total (A)	**548.750**	**1.145**	**35.137**	**87**	**10.020**	**25**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	3.884	-	643	-	11.261	-	-	-	-	-
Total (B)	**3.884**	**-**	**643**	**-**	**11.261**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2018	**552.634**	**1.145**	**35.780**	**87**	**21.281**	**25**	-	-	-	-
Total (A+B) 31.12.2017*	**1.731.715**	**-**	**32.093**	**-**	**25.097**	**-**	**-**	**-**	**-**	**-**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation". The comparative information for 2017 is in line with the published amounts, as it cannot be reconciled with the new tables.

B.4 Major exposures

		31.12.2018	31.12.2017
a)	Book value	1.573.611	2.594.838
b)	Weighted amount	602.111	475.210
c)	Number	4	3

The overall weighted amount of major exposures at 31 December 2018 consisted of 228 million Euro in tax assets, 238 million Euro in exposures to equity investments not included in the prudential scope of consolidation, and 136 million Euro in exposures to customers.

Disclosure regarding Sovereign Debt

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

Pursuant to said communication, please note that at 31 December 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 410,4 million Euro, net of the negative 8,4 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 65 months.

The fair values used to measure the exposures to sovereign debt securities at 31 December 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 31 December 2018 totalled 757 million, including 96 million Euro relating to tax receivables.

C. Securitisation transactions

This Part does not cover the securitisation transactions in which the Bank acts as originator and subscribed for the liabilities issued by special purpose vehicles at the issue date. For more details on this type of transactions, please refer to Part E of the Notes to the Consolidated Financial Statements on liquidity risk.

C.1 Securitisation transactions

Qualitative information

Objective, strategies, and processes

The Group has exposures to securitisation transactions originated by third parties, acquired for investment purposes in order to generate profit margins and earn a fair medium/long-term return on capital.

These transactions may be originated by the Group's Business Units, based on the characteristics of the underlying portfolio—performing or non-performing—or as part of liquidity investments.

Purchases are carried out in accordance with credit risk policies and procedures, and specifically the "Securitisation management policy", as well as the Risk Appetite Framework. The Group invests in securitisation transactions when it is able to assess the relevant underlying assets in light of its experience.

In particular, after identifying the investment opportunity, the unit that proposes the transaction conducts a due diligence review to estimate future cash flows and determine whether the price is fair, coordinating the organisational units concerned from time to time and formalising the relevant findings to be submitted to the competent decision-making body.

Subsequent to the purchase, the investment is constantly monitored based on the performance indicators of the underlying exposures and whether cash flows are in line with the estimates made at the time of the acquisition.

Internal measurement and control systems for risks associated with securitisation transactions

The Group has not carried out securitisation transactions transferring risks to third parties.

Hedging policies adopted to mitigate the relevant risks

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

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

IFIS ABCP Programme securitisation

On 7 October 2016, Banca IFIS launched a three-year revolving securitisation of trade receivables due from account debtors. After Banca IFIS (originator) initially reassigned 1.254,3 million Euro in receivables, the vehicle named IFIS ABCP Programme S.r.l. issued 850 million Euro worth of senior notes subscribed for by the investment vehicles owned by the banks that co-arranged the transaction. The above amount rose to 1.000 million Euro in the second quarter of 2018. An additional tranche of senior notes, with a maximum par value of 150 million Euro—of which investors initially subscribed for 19,2 million Euro, and that was subsequently adjusted based on the composition of the assigned portfolio—was subscribed for by Banca IFIS, which will use them as collateral in refinancing operations with third parties. At 31 December 2018, the amount subscribed for by the Bank reached the maximum limit of 150 million Euro. The difference between the value of the receivables portfolios and the senior notes issued represents the credit granted to the notes' bearers, which consists in a deferred purchase price.

Banca IFIS acts as servicer, performing the following tasks:

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

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

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

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

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

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

At 31 December 2018, the interest on the senior notes recognised in profit or loss amounted to 7,6 million Euro.

Third-party securitisation transactions

At 31 December 2017, the Group held 140,0 million Euro in notes deriving from third-party securitisation transactions: specifically, it held 138,1 million Euro worth of senior notes and 1,9 million Euro worth of junior notes.

These derive from five separate third-party securitisation transactions whose underlying assets were, respectively, two non-performing secured loan portfolios, a speculative *mutuo fondiario* (a type of mortgage loan), a portfolio of minibonds issued by Italian listed companies, and a portfolio of non-performing loans partially secured by mortgages, whose securitisation was backed by the Italian government's state-guarantee scheme.

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

- “San Marco” Securitisation: this is a securitisation of a non-performing secured portfolio of mortgage loans with an overall par value of approximately 160 million Euro and maturity in September 2022. The Parent participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior tranches (totalling 19,7 million Euro at 31 December 2018) and 5% of the junior tranches (0,7 million Euro), which were issued by the special purpose vehicle Tiberio SPV S.r.l.;
- “Project Firenze” Securitisation: this is a securitisation of a non-performing portfolio consisting of secured bank loans, largely to SMEs, with an overall par value of approximately 264 million Euro and maturity in 2023. As part of this securitisation, the notes were issued by the special purpose vehicle Orione SPE S.r.l., and the Parent participated as Senior Noteholder and Sponsor, subscribing for 100% of the senior tranches (34,8 million Euro at 31 December 2018) as well as 5% of the junior tranches (1,1 million Euro).
- “Cinque V” Securitisation: launched in late November 2017, this securitisation through the special purpose vehicle Ballade SPV S.r.l. only has a *mutuo fondiario* classified as bad loan as the underlying asset, with a par value of 20 million Euro and maturity in October 2020. Also in this case, the Parent participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior notes (2,1 million Euro) and 5% of the junior notes (44 thousand Euro); the transaction has essentially ended, as the underlying asset was sold to Credito Fondiario;
- “Elite Basket Bond (EBB)” Securitisation: the special purpose vehicle EBB S.r.l. issued Asset Backed Securities (ABS) at a price equal to the par value, amounting to 122 million Euro, in a single tranche with maturity in December 2027 and a Basket of minibonds issued by 11 Italian listed companies as the underlying asset. These notes are unsecured senior bonds but carry a Credit Enhancement equal to 15% of the transaction's overall amount (24 million Euro), to be used in the event the issuers default on interest and/or principal payments on the minibonds. The Parent participates in this transaction only as underwriter, subscribing for 6,0 million Euro worth of notes of the above tranche.
- “FINO 1” Securitisation: the Bank invested as Senior Noteholder in this securitisation transaction, which issued tranches backed by the Italian government's state-guarantee scheme for NPL-backed securities (“GACS”, *Garanzia sulla Cartolarizzazione di Sofferenze* in Italian). The underlying assets are bad loans with a combined original par value of approximately 5,4 billion Euro. Banca IFIS subscribed for 95,2 million Euro worth of Class A Senior Notes (out of a total par value of 650 million Euro), with maturity in October 2045. Net of the redemptions occurred during the year, at 31 December 2018 the carrying amount of the portion subscribed for was 77,6 million Euro.

For the sake of completeness, please note that, as a result of the actions taken in 2017 by the Italian Interbank Deposit Protection Fund's Voluntary Scheme, the Group owns mezzanine and junior notes issued by the “Berenice” securitisation transaction, totalling a combined 0,1 million Euro.

Quantitative information

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

Type of securitised asset/ Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Impairment losses/ reversals	Book value	Impairment losses/ reversals	Book value	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals
A. Fully derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	**-**	**-**	**-**	**-**	**120.924**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- non-performing loans to customers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- performing loans to customers	-	-	-	-	120.924	-	-	-	-	-	-	-	-	-	-	-	-	-

C.2 Prudential consolidation – Exposures from the main "third-party" securitisations broken down by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Impairment losses/ reversals	Book value	Impairment losses/ reversals	Book value	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals
Secured and unsecured loans	132.137	473	86	-	1.849	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities	5.974	31	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**138.111**	**504**	**86**	**-**	**1.849**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

C.3 Prudential consolidation – Interests in special purpose vehicles for the securitisation

Securitisation name / special purpose vehicle name	Registered office	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt securities	Others	Senior	Mezzanine	Junior
IFIS ABCP Programme S.r.l.	Conegliano (Province of Treviso)	100%	1.738.830	-	106.213	1.150.000		

C.6 Prudential consolidation – Consolidated securitisation vehicles

Securitisation name/ special purpose vehicle	Registered office	% stake
IFIS ABCP Programme S.r.l.	Conegliano (Province of Treviso)	0%

D. Disposals

A. Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised referred to securitised receivables.

Quantitative information

D.1. Prudential consolidation – Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	of which: securitised	of which: subject to repurchase agreements	of which non-performing	Book value	of which: securitised	of which: subject to repurchase agreements
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated as at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**767.627**	**767.627**	**-**	**-**	**163.669**	**163.669**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	767.627	767.627	-	-	163.669	163.669	-
Total 31.12.2018	**767.627**	**767.627**	**-**	**-**	**163.669**	**163.669**	**-**
Total 31.12.2017*	**220.919**	**220.220**	**-**	**-**	**119.510**	**119.510**	**-**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

1.2 Market risks

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

At 31 December 2018, the Group recognised a number of currency swaps with a mark-to-market value positive to the tune of 1,4 million Euro and negative to the tune of 0,2 million Euro. The classification of these derivatives under financial assets or liabilities held for trading does not reflect the aim of the transaction, which is to mitigate the impact of potential movements in the reference exchange rates. It should be noted that the difference between the spot price and the forward price, although this was recognised in profit or loss under item 80 Net result from trading as an exchange difference, includes also a component of interest.

The trading book consists entirely of residual transactions from Corporate operations, as part of which clients were offered derivative contracts hedging the financial risks they assumed. In order to remove market risk, all outstanding transactions are hedged with "back to back" trades, in which the Bank assumes a position opposite to the one sold to corporate clients with independent market counterparties.

1.2.1 Interest rate risk and price risk – supervisory trading book

Qualitative information

A. General aspects

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

B. Management procedures and measurement methods concerning interest rate risk and price risk

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

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

Quantitative information

1. Supervisory trading book: breakdown by residual maturity (re-pricing date) of on-balance-sheet financial assets and liabilities and financial derivatives - Currency: Euro

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	indefinite life
1. On-balance-sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	576	221.994	115.657	5.802	81.424	29.068	-	-
+ short positions	576	29.202	115.630	5.775	81.370	29.068	-	-

1. Supervisory trading book: breakdown by residual maturity (re-pricing date) of on-balance-sheet financial assets and liabilities and financial derivatives – Currency: Other Currencies

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	indefinite life
1. On-balance-sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	195.826	-	-	-	-	-	-

3. Supervisory trading book: internal models and other methods for the sensitivity analysis

1.2.2 Interest rate risk and price risk – banking portfolio

Qualitative information

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

As a general principle, the Group does not assume significant interest rate risks. The main funding source is still the online savings account "rendimax". Customer deposits on the "rendimax" and "contomax" products are at a fixed rate for the fixed-term part, while on demand and call deposits are at a non-indexed floating rate the Bank can unilaterally revise without prejudice to legal and contractual provisions. In 2018, the Group continued pursuing the strategy to diversify its funding sources; to this end, it expanded wholesale funding by issuing a 5-year fixed-rate senior bond reserved for institutional investors as part of the "EMTN" programme and increased the financed amount from the floating-rate securitisation with the factoring portfolio as the underlying asset (3-year revolving programme).

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

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

At 31 December 2018, the bond portfolio mainly consisted of inflation-indexed bonds (excluding the repurchases of notes from self-securitisation transactions). The average duration of this portfolio is approximately 45 months.

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

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

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

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

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

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

The classification of the bonds held as Financial assets at fair value through other comprehensive income introduces the risk that the Group's reserves may fluctuate as a result of the change in their fair value. However, this risk is considered moderate given the relatively small size of the portfolio in proportion to total assets and its composition, as it mostly consists of government bonds.

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

Quantitative information

1. Banking book: breakdown by residual maturity (re-pricing date) of financial assets and liabilities - Currency: Euro

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite duration
1. On-balance-sheet assets	**2.539.799**	**2.614.758**	**1.140.658**	**268.401**	**981.012**	**204.560**	**26.743**	**-**
1.1 Debt securities	-	142.388	410.887	847	23.954	226	6.060	-
- with early redemption option	-	64.813	477	847	23.954	226	6.060	-
- other	-	77.575	410.410	-	-	-	-	-
1.2 Loans to banks	83.800	315.993	5.534	194	1.000	3	-	-
1.3 Loans to customers	2.455.999	2.156.377	724.237	267.360	956.058	204.331	20.683	-
- current accounts	83.124	3.979	2.800	-	-	1.657	-	-
- other loans	2.372.875	2.152.398	721.437	267.360	956.058	202.674	20.683	-
- with early redemption option	195.418	744.891	490.086	22.996	60.548	842	268	-
- other	2.177.457	1.407.507	231.351	244.364	895.510	201.832	20.415	-
2. On-balance-sheet liabilities	**1.205.325**	**1.391.692**	**260.158**	**658.384**	**3.384.777**	**407.438**	**-**	**-**
2.1 Due to customers	1.049.707	1.390.857	260.154	658.317	2.201.584	5.753	-	-
- current accounts	223.867	52.684	5.221	10.375	3.325	3.180	-	-
- other payables	825.840	1.338.173	254.933	647.942	2.198.259	2.573	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	825.840	1.338.173	254.933	647.942	2.198.259	2.573	-	-
2.2 Due to banks	66.521	804	-	-	695.075	-	-	-
- current accounts	63.074	-	-	-	-	-	-	-
- other payables	3.447	804	-	-	695.075	-	-	-
2.3 Debt securities	89.097	31	4	67	488.118	401.685	-	-
- with early redemption option	-	-	-	-	-	401.685	-	-
- other	89.097	31	4	67	488.118	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**218.172**	**3.033**	**1.574**	**-**	**13.319**	**66.697**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	218.172	3.033	1.574	-	13.319	66.697	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions	**218.172**	**3.033**	**1.574**	**-**	**13.319**	**66.697**	**-**	**-**
+ long positions	151.398	-	-	-	-	-	-	-
+ short positions	66.774	3.033	1.574	-	13.319	66.697	-	-

1. Banking book: breakdown by residual maturity (re-pricing date) of financial assets and liabilities - Currency: Other currencies

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite duration
1. On-balance-sheet assets	**34.769**	**123.751**	**7.693**	**395**	**327**	**12**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	9.344	6.970	-	-	-	-	-	-
1.3 Loans to customers	25.425	116.781	7.693	395	327	12	-	-
- current accounts	87	-	-	-	-	-	-	-
- other loans	25.338	116.781	7.693	395	327	12	-	-
- with early redemption option	43	26.908	6.971	67	327	12	-	-
- other	25.295	89.873	722	328	-	-	-	-
2. On-balance-sheet liabilities	**307**	**17.761**	**-**	**44**	**701**	**-**	**-**	**-**
2.1 Due to customers	131	-	-	-	701	-	-	-
- current accounts	131	-	-	-	701	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	176	17.761	-	44	-	-	-	-
- current accounts	88	-	-	-	-	-	-	-
- other payables	88	17.761	-	44	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions								
+ long positions	9.388	-	-	-	-	-	-	-
+ short positions	9.388	-	-	-	-	-	-	-

1.2.3 Currency risk

Qualitative information

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

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

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

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

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

Currency risk related to the Bank's business is assumed and managed according to the risk policies and limits set by the Parent Company's Board of Directors, with precise delegations of power limiting the autonomy of those authorised to operate, as well as especially strict limits on the daily net currency position.

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

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

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

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

Furthermore, Banca IFIS owns a 5,57% interest in India Factoring and Finance Solutions Private Limited, worth 20 million Indian rupees and with a market value of 3.044 thousand Euro at the historical exchange rate. In 2015 the Bank tested said interest for impairment, recognising a 2,4 million Euro charge in profit or loss. Starting from 2016, the fair value was revalued bringing the value of the equity interest to 1.152,7 million Euro.

B. Currency risk hedging

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

Quantitative information

1. Breakdown of assets, liabilities and derivatives by currency

Items	Currencies					
	US DOLLAR	POUND STERLING	JAPANESE YEN	CANADIAN DOLLAR	SWISS FRANC	OTHER CURRENCIES
A. Financial assets	**185.962**	**3.661**	**18**	**35**	**308**	**66.619**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	30.540	-	-	-	-	1.153
A.3 Loans to banks	11.796	890	16	34	43	25.961
A.4 Loans to customers	143.626	2.771	2	1	265	39.505
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**51**
C. Financial liabilities	**16.332**	**3.693**	**-**	**-**	**133**	**6.133**
C.1 Due to banks	15.533	3.691	-	-	133	6.096
C.2 Due to customers	799	2	-	-	-	37
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**28**
E. Financial derivatives						
- Options						
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other						
+ long positions	-	-	-	-	-	-
+ short positions	166.750	-	-	-	-	45.082
Total assets	**185.962**	**3.661**	**18**	**35**	**308**	**66.670**
Total liabilities	**183.082**	**3.693**	**-**	**-**	**133**	**51.243**
Unbalance (+/-)	**2.880**	**(32)**	**18**	**35**	**175**	**15.427**

1.3 Derivative instruments and hedging policies

1.3.1 Derivative instruments held for trading

A. Financial derivatives

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

Banca IFIS often uses financial derivatives to hedge currency exposures. Please see paragraph 1.2 Market risks.

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

A.1 Financial derivatives held for trading: year-end notional amounts

Underlying assets/type of derivatives	31.12.2018				31.12.2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**-**	**261.621**	**-**	**-**	**-**	**361.406**	**-**
a) Options	-	-	-	-	-	-	21.168	-
b) Swaps	-	-	261.621	-	-	-	340.238	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indexes	**-**	**-**	**30.091**	**-**	**-**	**-**	**30.091**	**-**
a) Options	-	-	30.091	-	-	-	30.091	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	**192.618**	-	-	-	**249.875**	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	192.618	-	-	-	249.875	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**484.330**	**-**	**-**	**-**	**641.372**	**-**

A.2 Financial derivatives held for trading: gross positive and negative fair value – breakdown by product

Underlying assets/type of derivatives	31.12.2018				31.12.2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	30.023	-	-	-	34.514	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	1.426	-	-	-	2.853	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**31.449**	**-**	**-**	**-**	**37.367**	**-**
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	30.970	-	-	-	37.955	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	185	-	-	-	284	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**31.155**	**-**	**-**	**-**	**38.239**	**-**

A.3 OTC financial derivatives held for trading: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting agreements				
1) Debt securities and interest rates				
- notional amount	X	163.220	-	98.401
- positive fair value	X	14.361	-	15.662
- negative fair value	X	30.970	-	-
2) Equity instruments and share indexes				
- notional amount	X	-	30.091	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional amount	X	192.618	-	-
- positive fair value	X	1.426	-	-
- negative fair value	X	185	-	-
4) Goods				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity instruments and share indexes				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Goods				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional amounts

Underlying assets/Residual life	Up to 1 year	Over 1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	40.690	162.794	58.137	261.621
A.2 Financial derivatives on equity instruments and share indexes	-	30.091	-	30.091
A.3 Financial derivatives on exchange rates and gold	192.618	-	-	192.618
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2018	**233.308**	**192.885**	**58.137**	**484.330**
Total 31.12.2017	**341.411**	**229.218**	**92.335**	**662.964**

1.4 Liquidity risk

Qualitative information

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

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

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

At 31 December 2018, the main funding sources were the Bank's equity, online retail funding—consisting of on-demand and term deposits—medium/long-term bonds issued as part of the EMTN programme, funding from the Eurosystem (TLTRO), medium/long-term securitisation transactions, and the Abaco channel with the Bank of Italy.

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

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

The successful diversification strategy that was launched in 2017, which focused mainly on institutional investors, and the rating the Group received from Fitch were key for reducing funding risk.

The Group's trade receivables rose steadily towards the end of 2018, driven by the demand typically seen late in the year from larger and more structured customers as well as the growing demand for the Group's trade receivable products from small businesses. This caused the available liquidity reserves to fall below the usual levels seen in 2018 towards the end of the year.

These high-quality liquidity reserves (mainly held with the Bank of Italy) allow to meet regulatory (LCR and NSFR) and internal requirements concerning the prudent management of liquidity risk.

The Group is constantly striving to improve the state of its financial resources, in terms of both size and cost, so as to have available liquidity reserves adequate for current and future business volumes.

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

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

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

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

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

Quantitative information

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

Items/Duration	on demand	over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets										
A.1 Government bonds	-	-	-	-	-	30.692	677	281.000	112.000	-
A.2 Other debt securities	173	-	-	707	262	1.022	1.541	80.867	99.176	-
A.3 UCITS units	68.810	-	-	-	-	-	-	-	-	-
A.4 Loans	1.311.664	59.455	203.883	464.879	1.284.548	527.461	590.544	2.115.449	627.448	327.913
- banks	79.783	-	-	-	20.917	790	2.222	8.024	3	280.960
- customers	1.231.881	59.455	203.883	464.879	1.263.631	526.671	588.322	2.107.425	627.445	46.953
On-balance-sheet liabilities										
B.1 Deposits and current accounts	1.047.212	35.247	40.361	71.315	1.272.223	261.653	668.515	1.317.769	3.180	-
- banks	33.819	-	-	460	-	-	-	11.250	-	-
- customers	1.013.393	35.247	40.361	70.855	1.272.223	261.653	668.515	1.306.519	3.180	-
B.2 Debt securities	275	7	1	1	17.570	8.958	18.067	527.333	400.000	-
B.3 Other liabilities	12.274	-	-	696	57	85	1.195	1.597.502	2.573	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of underlying assets										
- long positions	-	-	17.700	60.000	115.200	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets										
- long positions	30.023	-	-	-	-	-	-	-	-	-
- short positions	30.970	-	-	-	-	-	-	-	-	-
C. 3 Deposits and loans to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C. 4 Irrevocable loan commitments										
- long positions	18.801	-	-	4.471	37	1.980	698	36.776	88.654	-
- short positions	66.793	-	-	3.033	-	1.574	-	13.319	66.697	-
C.5 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.1 Credit derivatives with exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. Breakdown by residual contractual duration of financial assets and liabilities - Currency: Other currencies

Items/Duration	on demand	over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets										
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	30.540	-	-	-	-	-	-	-	-	-
A.4 Loans	45.858	13.042	14.476	30.812	77.292	8.013	11.171	23.705	979	-
- banks	23.656	6.988	-	-	-	-	-	-	-	-
- customers	22.202	6.054	14.476	30.812	77.292	8.013	11.171	23.705	979	-
On-balance-sheet liabilities										
B.1 Deposits and current accounts	137	1.955	5.168	9.325	9.020	-	45	701	-	-
- banks	-	1.955	5.168	9.325	9.020	-	45	-	-	-
- customers	137	-	-	-	-	-	-	701	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	17.798	59.972	114.848	-	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C. 3 Deposits and loans to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C. 4 Irrevocable loan commitments										
- long positions	7.719	-	-	-	-	-	479	-	-	-
- short positions	8.199	-	-	-	-	-	-	-	-	-
C.5 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.1 Credit derivatives with exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisation transactions

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

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

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

In the third quarter of 2017, the parent Banca IFIS S.p.A. repurchased all the senior notes issued by the vehicle. Therefore, at 31 December 2018 the Banca IFIS Group had subscribed for all the notes issued by the vehicle.

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

Securitisation transactions

As for the securitisations outstanding at 31 December 2018 and their purposes, see the comments in the section on credit risks.

1.5 Operational risks

Qualitative information

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

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

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

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

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

In the last quarter of 2018, the Group launched the periodic Risk Self Assessment campaign, which included the scope at the end of the year. Following this campaign, scheduled to end in the first half of 2019, the Group shall identify the main operational issues and subsequently define and launch specific mitigation measures to bolster operational risk controls.

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

Moreover, in order to prevent and manage operational risk, the Parent's Risk Management, working together with other business functions, assesses the outsourcing of operational functions as well as the risks associated with the introduction of new products and services. Finally, it helps monitor IT risk as well as the effectiveness of the measures intended to protect ICT resources.

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

Whenever new subsidiaries join the Group, the latter promptly starts integrating the overall operational risk management framework, defining a single methodological approach at the Group level. Specifically, it organises and provides specific training on operational risks and the use of the loss data collection software. In addition, as for the monitoring of risk measures, the subsidiaries also start rolling out the measures defined by the Parent, and their Risk Management conducts a series of specific analyses to monitor the company's exposure to certain issues associated with operational risks.

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

Alongside operational risk, the Group also manages reputational risk.

Reputational risk represents the current or future risk of a reduction in profits or capital deriving from the negative perception of the Group's image among customers, counterparties, shareholders, investors, or Supervisory Authorities.

Reputational risk is considered to be a second-tier risk, as it is the result of other types of risk occurring, such as non-compliance risk, strategic risk and, specifically, operational risks.

As in the case of operational risk, the Parent's Risk Management is responsible for managing reputational risk: it defines the Group's overall framework—in accordance with the relevant regulations as well as industry best practices—for the management of reputational risk, with the goal of identifying, assessing, and monitoring the reputational risks that the Group's Companies or organisational units assume or may assume. The framework involves collecting reputational risk events as they occur, conducting a forward-looking reputational Risk Self Assessment, and monitoring a set of risk measures over time.

In the last quarter of 2018, the Group launched the periodic Risk Self Assessment campaign, which included the scope at the end of the year.

Section 4 – Risks of the other entities

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

04.6. Part F - Consolidated equity

Section 1 – Consolidated Equity

A. Qualitative information

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

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

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

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

Transactions on treasury shares

At 31 December 2017, the bank held 377.829 treasury shares recognised at a total market value of 3,1 million Euro and an overall par value of 377.829 Euro.

In 2018, Banca IFIS awarded the Top Management 7.717 treasury shares at an average price of 32,67 Euro as variable pay for the 2014 financial results, for a total of 252 thousand Euro and a par value of 7.717 Euro, making profits of 187 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve.

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

B. Quantitative information

B.1 Consolidated equity: breakdown by type of entity

Equity items	Prudential consolidation	Insurance companies	Other entities	Consolidation eliminations & adjustments	Total
1. Share capital	58.241	-	6.100	(6.100)	58.241
2. Share premiums	102.116	-	-	-	102.116
3. Reserves	1.180.505	-	125.739	(136.770)	1.169.474
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(3.103)	-	-	-	(3.103)
6. Valuation reserves:	(14.535)	-	(3)	-	(14.538)
- Equity securities designated as at fair value through other comprehensive income	1.586	-	-	-	1.586
- Hedging of equity securities designated as at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) at fair value through other comprehensive income	(10.279)	-	-	-	(10.279)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
− Hedging instruments [non-designated items]	-	-	-	-	-
- Exchange differences	(6.032)	-	-	-	(6.032)
- Non-current assets under disposal:	-	-	-	-	-
- Financial liabilities designated as at fair value through profit or loss (changes in own credit risk)	-	-	-	-	-
− Actuarial gains (losses) on defined benefit pension plans	189	-	(3)	-	186
- Share of valuation reserves of equity accounted investments	-	-	-	-	-
- Specific revaluation laws	-	-	-	-	-
7. Profit (loss) for the year (+/-) of the Group and non-controlling interests	135.776	-	12.070	(1.036)	146.810
Total	**1.459.000**	**-**	**143.906**	**(143.906)**	**1.459.000**

The above table shows the components of equity, combining those of the Group and those of third parties, broken down by type of businesses included in the scope of consolidation. More specifically, the column referring to Prudential Consolidation shows the amount resulting from the consolidation of the entities that form part of the Banking Group, excluding the effect of the prudential consolidation in the Parent Company La Scogliera S.p.A. and including the economic effects of transactions carried out with other entities included in the scope of consolidation. The column Other entities shows the amounts resulting from the consolidation, including the economic effects of transactions carried out with entities that form part of the Banking Group. The columns Eliminations and Adjustments show the adjustments necessary to obtain the reported amount.

B.2 Valuation reserves for financial assets at fair value through other comprehensive income: breakdown

Assets/amounts	Prudential consolidation		Insurance companies		Other entities		Consolidation eliminations & adjustments		31.12.2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	-	(10.279)	-	-	-	-	-	-	-	(10.279)
2. Equity securities	2.102	(515)	-	-	-	-	-	-	2.102	(515)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31.12.2018	**2.102**	**(10.794)**	-	-	-	-	-	-	**2.102**	**(10.794)**
Total 31.12.2017*	**2.627**	**(352)**	**-**	**-**	**-**	**-**	**-**	**-**	**2.627**	**(352)**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

B.3 Valuations reserves for financial assets at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance (31.12.2017*)	**2.627**	**(352)**	**-**
Impact of IFRS 9	(359)	352	
2. Increases	**1.019**	**2.212**	**-**
2.1 Fair value gains	-	2.212	-
2.2 Credit risk losses	1.019	X	-
2.3 Reclassification to profit or loss of negative reserves from sale	-	X	-
2.4 Transfers to other components of equity (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Reductions	**13.566**	**625**	**-**
3.1 Fair value losses	13.566	619	-
3.2 Reversals of credit risk losses	-	-	-
3.3 Reclassification to profit or loss of positive reserves from sale	-	X	-
3.4 Transfers to other components of equity (equity securities)	-	6	-
3.5 Other changes	-	-	-
4. Closing balance	**(10.279)**	**1.587**	**-**

* The Group elected not to restate the comparative amounts in the year of initial application of IFRS 9; however, it conventionally reconciled them with the new line items set out in the 5th update to Circular 262 "Banks' financial statements: layouts and preparation".

B.4 Valuation reserves for defined benefit plans: annual changes

At 31 December 2018, the valuation reserves for defined benefit plans were positive 186 thousand Euro, including 118 thousand Euro attributable to the Parent and 68 thousand Euro attributable to non-controlling interests in the newly acquired Credifarma. Excluding the impact of this acquisition during 2018, the increase compared to the positive 20 thousand Euro at the end of the previous year (entirely attributable to the Parent) was largely the result of net actuarial gains of the period on the Parent's post-employment benefits.

Section 2 – Own funds and prudential ratios

Pursuant to Circular 262 – 5th update – starting with the Financial Statements at 31 December 2018, the section on own funds and capital ratios is replaced by a reference to the "Pillar 3" disclosures, which contain similar information.

That said, below are the highlights about own funds and capital ratios.

Consolidated own funds, risk-weighted assets and prudential ratios at 31 December 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.

	31.12.2018	31.12.2017
A. Common Equity Tier 1[(1)] (CET1) before application of prudential filters	**1.128.914**	**982.902**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	-	-
C. CET1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	1.128.914	982.902
D. Items to be deducted from CET1	204.844	230.658
E. Transitional regime - Impact on CET1 (+/-), including non-controlling interests subject to transitional provisions	215	107.700
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**924.285**	**859.944**
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime	56.178	48.014
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions	-	(9.602)
L. Total Additional Tier 1 Capital (AT1) (G-H+/-I)	**56.178**	**38.412**
M. Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime	277.248	265.807
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions	-	26.934
P. Total Tier 2 Capital (T2) (M-N+/-O)	**277.248**	**292.741**
Q. Total own funds (F+L+P)	**1.257.711**	**1.191.097**

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

Categories/Amounts	Non-weighted amounts		Weighted amounts / requirements	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
A. RISK ASSETS				
A.1 Credit risk and counterparty risk				
1. Standardised approach	9.773.374	9.842.896	8.001.786	6.501.214
2. Internal rating method	-	-	-	-
2.1 Basic indicator approach	-	-	-	-
2.2 Advanced measurement approach	-	-	-	-
3. Securitisation programmes	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			640.143	520.097
B.2 Credit and counterparty valuation adjustment risk			1.264	1.727
B.3 Settlement risk			-	-
B.4 Market risks			-	-
1. Standard method			4.674	1.166
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk				
1. Basic indicator approach			71.890	67.138
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation factors			-	-
B.7 Total prudential requirements			717.971	590.128
C. RISK ASSETS AND CAPITAL REQUIREMENT RATIOS				
C.1 Risk-weighted assets			8.974.645	7.376.606
C.2 Common equity tier 1 capital / Risk-weighted assets (CET1 Capital ratio)			10,30%	11,66%
C.2 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)			10,92%	12,18%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			14,01%	16,15%

When comparing the results, please note that the Bank of Italy, following the Supervisory Review and Evaluation Process (SREP) concerning 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%.

04.7. Part G - Business combinations

Section 1 - Transactions carried out during the year

1.1 Business combinations

In February 2018, the Banca IFIS Group acquired 100% of Cap.Ital.Fin. S.p.A., a company operating across Italy and specialising in salary- or pension-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees.

In addition, 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.

Company Name	Transaction date	(1)	(2)	(3)	(4)
Cap.Ital.Fin. S.p.A.	02 February 2018	710	100%	614	(3.710)
Credifarma S.p.A.	02 July 2018	8.800	70%	5.625	1.759

Key:
(1) = cost of the transaction
(2) = Percentage interest acquired carrying voting rights in the annual general meeting
(3) = Total Group revenues.
(4) = Group net profit/loss for the year

Under IFRS 3, at the date of the business combination, the entity must identify the cost of the business combination and allocate it to the acquiree's identifiable assets, liabilities, and contingent liabilities at the acquisition date and measured at their fair values.

Cap.Ital.Fin. S.p.A.

The cost incurred for the acquisition of the subsidiary Cap.Ital.Fin S.p.A. was provisionally estimated at 710 thousand Euro, compared to the original 2,1 million Euro paid: the cost is still subject to adjustments under the agreement with the seller.

Below are the financial highlights of the subsidiary Cap.Ital.Fin S.p.A at the date of the business combination:

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	02.02.2018
Equity	**10**
Financial assets measured at amortised cost	2.724
Property, plant and equipment and intangible assets	74
Net tax assets and liabilities	1.373
Other assets	691
Financial liabilities measured at amortised cost.	(903)
Other liabilities	(3.059)
Post-employment benefits	(249)
Provisions for risks and charges	(641)

No significant differences between the fair value of the assets and liabilities of the subsidiaries and the relevant carrying amounts emerged from the allocation of the cost of the business combination, taking into account all available information. As a result, the consolidation process has brought about goodwill provisionally estimated at 700 thousand Euro, recognised under item 130 'Intangible assets'.

Under IFRS3, the allocation of the cost of the business combination must be definitively quantified within 12 months of the acquisition date. At 31 December 2018, the allocation process is to be considered provisional, as the price is subject to adjustments under the agreement with the seller.

Credifarma S.p.A.

The cost for the acquisition of 70% of the subsidiary Credifarma S.p.A. was estimated at 8,8 million Euro and was not subject to price adjustment mechanisms. Below are the financial highlights of the subsidiary Credifarma S.p.A at the date of the business combination:

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	02.07.2018
Equity	**12.301**
Cash and cash equivalents	6
Financial assets measured at amortised cost	91.051
Property, plant and equipment and intangible assets	2.454
Net tax assets and liabilities	4.020
Other assets	792
Financial liabilities measured at amortised cost.	(83.042)
Other liabilities	(1.648)
Post-employment benefits	(354)
Provisions for risks and charges	(978)

No significant differences between the fair value of the assets and liabilities of the subsidiaries and the relevant carrying amounts emerged from the allocation of the cost of the business combination, taking into account all available information, except for deferred tax assets (DTA) related to past tax losses and other minor deductible temporary differences not recognised by the Target, given the uncertainty as to how and when the company will generate sufficient taxable profits to recover them.

The deferred tax assets recognised at the time of the business combination amounted to 1,5 million Euro.

The final purchase price allocation process revealed a negative difference between the purchase price and the fair value of the identifiable assets acquired, liabilities assumed and contingent liabilities. This difference, named "gain on bargain purchase", amounted to 3,9 million Euro and was recognised under "Other operating income".

Finally, the Group calculated the value to allocate to non-controlling interests, corresponding to the 30% investment in Credifarma S.p.A., by estimating the fair value based on the purchase price.

Section 2 - Transactions carried out after the end of the year

2.1 Business combinations

On 7 January 2019, the Group finalised the acquisition of 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. Under the deal, announced on 15 May 2018, Banca IFIS acquired 90% of FBS for 58,5 million Euro.

Section 3 – Retrospective adjustments

During the year ended 31 December 2018, the Bank did not make any retrospective adjustments.

04.8. Part H - Related-party transactions

In compliance with the provisions of Consob resolution no. 17221 of 12 March 2010 (as subsequently amended by means of Resolution no. 17389 of 23 June 2010) and the provisions of Circular 263/2006 (Title V, Chapter 5) of the Bank of Italy, Banca IFIS prepared the procedure relating to transactions with "related parties". The latest version was approved by the Board of Directors on 6 March 2018. This document is publicly available on Banca IFIS's website, www.bancaifis.it, in the 'Corporate Governance' Section.

During 2018, no significant transactions with related parties were undertaken.

At 31 December 2018, the Banca IFIS Group S.p.A. was owned by La Scogliera S.p.A. and consisted of the Parent company Banca IFIS S.p.A., the wholly-owned subsidiaries IFIS Finance Sp. Z o. o., IFIS Rental Services S.r.l., IFIS NPL S.p.A., Two Solar Park 2008 S.r.l., and Cap.Ital.Fin. S.p.A., as well as the 70%-owned subsidiary Credifarma S.p.A..

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

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

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

1. Information on the remuneration of key management personnel

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

In compliance with the provisions of the Bank of Italy's Circular no. 262 of 22 December 2005 (5th update of 22 December 2017), key management personnel also include the members of the Board of Statutory Auditors.

Key management personnel

Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
4.769	-	212	79	504

The above information includes fees paid to Directors (3,4 million Euro, gross amount) and Statutory Auditors (296 thousand Euro, gross amount).

2. Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 31 December 2018, broken down by type of related party pursuant to IAS 24.

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Financial assets at fair value through other comprehensive income	-	-	6.918	**6.918**	1,6%
Loans to customers measured at amortised cost	-	253	5.464	**5.717**	0,1%
Other assets	114.763	-	-	**114.763**	37,9%
Total assets	**114.763**	**253**	**12.382**	**127.398**	**1,4%**
Due to customers measured at amortised cost	-	41	2.908	**2.949**	0,1%
Other liabilities	18.115	-	-	**18.115**	(4,9)%
Reserves	-	-	327	**327**	0,0%
Total liabilities	**18.115**	**41**	**3.235**	**21.391**	**0,2%**
Commitments and guarantees granted	-	15	8.965	**8.980**	n.a.

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	-	1.342	**1.342**	0,3%
Interest expense	-	(1)	(21)	**(22)**	0,0%
Commission income	-	-	4	**4**	0,0%
Other administrative expenses	-	-	(16)	**(16)**	0,0%

The transactions with the **parent company** concern the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree 917/86. Transactions between these companies were regulated by means of a private written agreement between the parties, signed in the month of April 2016. This agreement will lapse after three years. Banca IFIS has an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company. Under this tax regime, the taxable income of Banca IFIS and the subsidiary IFIS Rental Services is transferred to La Scogliera S.p.A., which is responsible for calculating the overall group income. As a result, at 31 December 2018 Banca IFIS recognised net receivables due from the parent company and IFIS Rental Services amounting to 108,9 million Euro and 5,9 million Euro, respectively, whereas IFIS NPL recognised a net 18,1 million Euro payable due to the parent at 31 December 2018.

Transactions with **key management personnel** relate almost entirely to rendimax or contomax savings accounts as well as mortgages.

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

During the year, the Bank continued its factoring operations in favour of one company headed by close relatives of executive members of the Board of Directors: the Banca IFIS Group's exposure at 31 December 2018 amounted to 0,4 million Euro.

There was a net 0,6 million Euro exposure classified under bad loans towards a company backed by close relatives of members of the Board of Directors.

There were also transactions with two entities in which Banca IFIS owns an equity interest of more than 20% and recognised as financial assets at fair value through other comprehensive income, amounting to 6,9 million Euro.

The transactions are related to 4,3 million Euro worth of loans.

04.9. Part I - Share-based payments

Qualitative information

1. Description of share-based payment agreements

Top Management's remuneration consists of fixed pay and variable pay calculated as a percentage of consolidated profit gross of taxes.

Access to variable pay is contingent on:

- the Group's consolidated profit before taxes for the year exceeding 80 million Euro;
- meeting the minimum Liquidity Coverage Ratio (LCR) requirement applicable from time to time to the Group as calculated on a quarterly basis during the reporting period;
- meeting the minimum Net Stable Funding Ratio requirement applicable from time to time to the Group as calculated on a quarterly basis during the reporting period;
- the consolidated Total Own Funds Capital Ratio exceeding the Overall Capital Requirement announced by the Supervisory Body as part of the "Capital Decisions" following the periodic Supervisory Review and Evaluation Process (SREP).

Failure to meet one of these conditions will result in variable pay not being awarded.

The ratio of variable to fixed pay shall not exceed 1:1 in the case of the CEO and 60% of overall annual remuneration for the General Manager. 60% of this variable component is awarded with an upfront payment, and the remaining 40% is deferred for three years from the date it was promised.

The deferred portion of variable remuneration (amounting to 40%) shall be paid as follows:

- 50% in the form of shares in the Parent to be awarded after the end of the three-year vesting period (the period after which the shares may be awarded) and that may be exercised following a retention period (during which the shares cannot be sold) of one additional year;
- the remaining 50% of deferred variable remuneration shall be paid in cash after three years and is subject to annual revaluation at the legal interest rate applicable from time to time.

The variable component paid upfront (the remaining 60%) shall be paid as follows:

- 50% in cash;
- and the remaining 50% in the form of shares in the Parent that may be exercised following a three-year retention period, in line with the strategic planning time horizon.

Starting from 2014, variable pay is paid 50% in cash and 50% in the form of shares in the Parent. This applies to both upfront and deferred variable pay.

The number of shares to be awarded is calculated by relying on the average share price for the month before the variable pay for the period is determined—which shall occur at the date of the Meeting convened for the approval of the Financial Statements—as the fair value of the share.

Variable pay is subject to malus/clawback mechanisms that may cause the amount to be reduced to as low as zero if certain conditions are met.

Quantitative information

The table on annual changes is not presented here, since for the Banca IFIS Group share-based payment agreements do not fall within the category concerned by said table.

2. Other information

The portion to be settled in shares of Top Management's variable pay awarded for the year 2018 amounts to 418 thousand Euro: the number of shares to be awarded will be calculated as described above.

04.10. Part L – Segment reporting

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, segment reporting is divided as follows:

- **Enterprises Segment**: it essentially corresponds to the former Trade Receivables, Corporate Banking, Leasing, and Tax Receivables segments, and represents the Group's commercial offerings for businesses. The segment's results include also the investee Credifarma, which joined the Group effective 2 July 2018;
- **NPL Segment,** dedicated to non-recourse factoring and managing mostly unsecured distressed retail loans; it corresponds to the former NPL Area segment;
- **Governance & Services Segment**, which provides the segments operating in the Group's core businesses with the financial resources and services necessary to perform their respective activities. It includes also the Bank's growing business with individuals—and specifically the operations of the subsidiary Cap.Ital.Fin., which recently joined the Group and extends salary- or pension-backed loans and some 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 31 December 2018.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Financial assets held for trading through profit or loss				
Amounts at 31.12.2018	-	-	29.809	**29.809**
Amounts at 01.01.2018	*-*	*-*	*35.614*	***35.614***
% Change	*-*	*-*	*(16,3)%*	***(16,3)%***
Other financial assets mandatorily measured at fair value through profit or loss				
Amounts at 31.12.2018	114.619	-	49.226	**163.845**
Amounts at 01.01.2018	*58.758*	*-*	*-*	***58.758***
% Change	*95,1%*	*-*	*n.a.*	***178,8%***
Financial assets at fair value through other comprehensive income				
Amounts at 31.12.2018	12.188	-	419.906	**432.094**
Amounts at 01.01.2018	*13.297*	*-*	*428.776*	***442.073***
% Change	*(8,3)%*	*-*	*(2,1)%*	***(2,3)%***
Due from banks				
Amounts at 31.12.2018	-	-	590.595	**590.595**
Amounts at 01.01.2018	*-*	*-*	*1.759.780*	***1.759.780***
% Change	*-*	*-*	*(66,4)%*	***(66,4)%***
Loans to customers				
Amounts at 31.12.2018	5.918.496	1.092.799	302.677	**7.313.972**
Amounts at 01.01.2018	*5.462.239*	*799.436*	*140.011*	***6.401.686***
% Change	*8,4%*	*36,7%*	*116,2%*	***14,3%***
Due to banks				
Amounts at 31.12.2018	-	-	785.393	**785.393**
Amounts at 01.01.2018	*-*	*-*	*791.977*	***791.977***
% Change	*-*	*-*	*(0,8)%*	***(0,8)%***
Due to customers				
Amounts at 31.12.2018	-	-	4.673.299	**4.673.299**
Amounts at 01.01.2018	*-*	*-*	*5.293.188*	***5.293.188***
% Change	*-*	*-*	*(11,7)%*	***(11,7)%***
Debt securities issued				
Amounts at 31.12.2018	-	-	1.979.002	**1.979.002**
Amounts at 01.01.2018	*-*	*-*	*1.639.994*	***1.639.994***
% Change	*-*	*-*	*20,7%*	***20,7%***

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 31.12.2018	335.513	106.085	(3.244)	**438.354**
Amounts at 31.12.2017	*349.497*	*62.050*	*11.326*	***422.873***
% Change	*(4,0)%*	*71,0%*	*(128,6)%*	***3,7%***
Net profit (loss) from financial activities				
Amounts at 31.12.2018	238.075	244.234	(5.900)	**476.409**
Amounts at 31.12.2017	*327.017*	*164.505*	*7.700*	***499.222***
% Change	*(27,2)%*	*48,5%*	*(176,6)%*	***(4,6)%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Fourth quarter 2018	93.957	34.051	3.005	**131.013**
Fourth quarter 2017	*88.894*	*14.499*	*4.986*	***108.379***
% Change	*5,7%*	*134,9%*	*(39,7)%*	***20,9%***
Net profit (loss) from financial activities				
Fourth quarter 2018	64.963	75.991	820	**141.774**
Fourth quarter 2017	*56.274*	*56.140*	*531*	***112.945***
% Change	*15,4%*	*35,4%*	*54,4%*	***25,5%***

SEGMENT KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality (1)			
Amounts at 31.12.2018	1,70%	-	-
Amounts at 31.12.2017	*0,31%*	-	-
% Change	*1,39%*	-	-
Net bad loans/Loans to customers			
Amounts at 31.12.2018	1,1%	-	4,0%
Amounts at 01.01.2018	*1,2%*	-	*9,4%*
% Change	*(0,1)%*	-	*(5,4)%*
Coverage ratio on gross bad loans			
Amounts at 31.12.2018	73,0%	-	15,4%
Amounts at 01.01.2018	*71,0%*	-	*6,7%*
% Change	*2,0%*	-	*8,7%*
Net non-performing exposures/Net loans to customers			
Amounts at 31.12.2018	5,2%	99,6%	11,8%
Amounts at 01.01.2018	*6,2%*	*99,9%*	*16,9%*
% Change	*(1,0)%*	*(0,3)%*	*(5,1)%*
Gross non-performing exposures/Gross loans to customers			
Amounts at 31.12.2018	9,5%	99,6%	13,8%
Amounts at 01.01.2018	*9,9%*	*99,9%*	*19,2%*
% Change	*(0,4)%*	*(0,3)%*	*(5,4)%*
RWAs(2) (3)			
Amounts at 31.12.2018	4.793.273	1.584.420	657.733
Amounts at 01.01.2018	*4.450.750*	*801.915*	*424.484*
% Change	*7,7%*	*97,6%*	*54,9%*

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

For a more detailed analysis of the results of the business sectors, please refer to the Directors' Report.

Venice - Mestre, 07 March 2019

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

05

Country-by-country reporting

Reference date 31 December 2018

Pursuant to the supervisory provisions for banks

Bank of Italy Circular no. 285/2013 – Part I – Title III – Chapter 2

In order to increase the EU public's trust in the financial sector, here below is the information as per the Annex A of Part I, Title III, Chapter 2 of Bank of Italy's Circular No. 285.

The information refers to the situation at 31 December 2018.

	INFORMATION/GEOGRAPHIC AREA	ITALY	POLAND	GROUP
a)	Company name	Banca IFIS S.p.A. IFIS NPL S.p.A. IFIS Rental Services S.r.l. Cap.Ital.Fin. S.p.A. Credifarma S.p.A.	IFIS Finance Sp. Z o.o.	Banca IFIS S.p.A. Group
	Nature of business	Collecting savings from the public and lending. Banca IFIS specialises in the segment of trade receivables, medium/long-term corporate lending and structured finance, leasing, distressed retail loans and tax receivables.	IFIS Finance provides financial support and credit management services to businesses.	Collecting savings from the public and lending. Banca IFIS specialises in the segment of trade receivables, medium/long-term corporate lending and structured finance, leasing, distressed retail loans and tax receivables.
b)	Turnover[11] *(in thousands of Euro)*	435.584	3.135	438.354
c)	Number of full-time equivalents [12]	1.549	22	1.571
(d)	Pre-tax profit or loss *(in thousands of Euro)*	197.765	1.865	202.978
e)	Income tax *(in thousands of Euro)*	(54.154)	(360)	(56.168)
f)	Government grants received *(in thousands of Euro)*	-	-	-

[11] Turnover corresponds to the Net Banking Income as per item 120 of the Consolidated Income Statement at 31 December 2018.

[12] The "Number of full-time equivalents" is calculated, in accordance with the relevant Provisions, as the ratio of total hours worked by all employees (including overtime) and the total contract work hours per year of a full-time employee (i.e. the total available work hours in a year excluding 20 days of annual leave).

06

Declarations

06.1. Certification of Manager charged with preparing the Company's financial reports

Certification of the consolidated financial statements pursuant to the provisions of art. 154-bis, paragraph 5, of the legislative decree 58 of February 24, 1998 and art. 81 ter of Consob Regulation no. 11971 of 14 May 1999 as amended

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

   of the administrative and accounting procedures for the preparation of Banca IFIS's consolidated financial statements, over the course of the period from January 1st, 2018 to December 31st, 2018.

2. The adequacy of the administrative and accounting procedures in place for preparing the consolidated financial statements as at December 31st, 2018 has been assessed through a process established by Banca IFIS S.p.A. on the basis of the guidelines set out in the *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission (CoSO)*, an internationally accepted reference framework.

3. The undersigned further confirm that:

   3.1. the consolidated financial statements as at December 31st, 2018:
   a) are prepared in compliance with International Accounting Standards, endorsed by the European Commission as for European regulation no. 1606/2002 of the European Parliament and Council of July 19th, 2002;
   b) correspond to the related books and accounting records;
   c) provide a true and correct representation of the financial position of the issuer and the group of companies included in the scope of consolidation.

   3.2. the management report contains a reliable analysis of the business outlook and management result, the financial position of the issuer and group of companies included in the scope of consolidation and a description of the main risks and uncertainties they are exposed to.

Venice, March 7th, 2019

CEO

Giovanni Bossi

Manager charged with preparing the
Company's financial reports

Mariacristina Taormina

06.2. Report of the Board of Statutory Auditors to the Financial Statements as of 31st December 2018

(Translation from the original Italian text)

Dear Shareholders,

with this report – prepared pursuant to Art. 153 of Italian Legislative Decree no. 58/1998 and Art. 2429, paragraph 2 of the Italian Civil Code – the Board of Statutory Auditors of Banca IFIS S.p.A. hereby informs you of the supervisory and control activities carried out in the performance of their duties, during the year ended 31 December 2018.

1. Activity of the Board of Statutory Auditors

During the year 2018 the Board of Statutory Auditors carried out their institutional tasks in accordance with the rules of the Italian Civil Code and with Legislative Decrees no. 385/1993 (Consolidated Banking Law), no. 58/1998 (Consolidated Law on Finance), and no. 39/2010, of the By-Laws, in addition to being in compliance with those issued by the public authorities that exercise activities of supervision and control, also taking into account the standards of conduct recommended by the National Council of Chartered Accountants in the document dated April 2018.

During the year, the Board of Statutory Auditors performed its duties, holding 27 meetings, of which 8 were held jointly with the Risk Management and Internal Control Committee and 1 held jointly with the Risk Management and Internal Control Committee and the Supervisory Board.
The Board also participated in 19 meetings of the Board of Directors.
The Chairman of the Board of Statutory Auditors or another Auditor also participated in the meetings of the Risk Management and Internal Control Committee, of the Appointments Committee and of the Remuneration Committee.

The minutes of the Board of Statutory Auditors, which sometimes contain explicit recommendations to rapidly resolve difficulties that have come to light, are always sent in their entirety to the CEO and to the General Manager. The Chairman of the Risk Management and Internal Control Committee is constantly invited to attend meetings of the Board of Statutory Auditors. It is believed that such attendance will ensure an adequate flow of information between the committees within the Board of Directors.
The Head of Internal Auditing also attends the meetings of the Board of Statutory Auditors, as a permanent invitee for the continuous interaction with the corporate function of third-level control.

2. Significant operations of the year

In carrying out the activities of supervision and control, the Board of Statutory Auditors obtained periodically from the Directors, including through the participation in meetings of the Board of Directors, information on the activities carried out and on the most important economic, financial and equity operations approved and implemented by the Bank and by the subsidiaries, also pursuant to Art. 150, paragraph 1 of the Consolidated Law on Finance.

During the year, the Bank proceeded with merger of IFIS Leasing S.p.A. and a spin-off in the favour of IFIS NPL S.p.A. of activities related to the purchase and management of NPLs.
Also, the acquisitions of Cap.Ital.Fin. S.p.A. and Credifarma S.p.A. were completed.

As a consequence, the scope of consolidation has changed in comparison to the previous year and, as of 31 December 2018, also includes the companies IFIS Finance Sp. Z o.o, IFIS NPL S.p.A., Cap.Ital.Fin. S.p.A., Credifarma S.p.A., participating in the banking group, as well as IFIS Rental Services S.r.l. and Two Solar Park 2008 S.r.l., non-regulated companies.

Among the significant events of 2018, the details of which are provided in the Management Report and the Explanatory Notes, it has been considered appropriate to report the first application of the IFRS 9 accounting standard, whose effects are covered in the Explanatory Notes.

It is also deemed useful to report that in January 2019, the Bank completed the controlling acquisition of 90% of the capital of FBS S.p.A., an operator (enrolled in the Registry pursuant to Art. 106 of the Consolidated Banking Act) specialised in *servicing* activities (*master and special servicer*) of secured and unsecured NPL portfolios.

3. Supervisory activities

3.1 – Supervisory activities on the observance of the law, the By-Laws, and the Self-Regulation Code for listed companies

On the basis of the information obtained through its own supervisory activities, the Board of Statutory Auditors was not made aware of any operations that had not been conducted in compliance with the principles of correct management and that had not been approved and implemented in accordance with the law and with the By-Laws, which were contrary to the interests of the Bank, that were in contrast with the resolutions passed by the Shareholders' Meeting, that were imprudent or risky or were such as to compromise the integrity of the corporate assets.

The Board of Statutory Auditors was not made aware of any operations that could pose conflicts of interest.

The Board of Statutory Auditors monitored compliance of the Procedure for operations with subjects related to the law in force and its correct application.
In particular, as provided for by the relevant rules, the Chairman and/or the other Statutory Auditors participated in the meetings of the Risk Management and Control Committee to discuss operations with related parties; the Board of Statutory Auditors periodically received information relating to the progress of their positions.

The Board of Statutory Auditors judged that the Board of Directors, in the Management Report and in the Notes, had provided adequate information on the operations with related parties, taking into account the provisions of the regulations in force. To the knowledge of the Board of Statutory Auditors, there are no intra-group operations and no operations with the Related Parties being implemented in 2018 that were contrary to the interests of the company.

In the year 2018, the Bank did not perform any atypical or unusual transactions. With regard to the operations of particular importance, these respect the principles of prudence, do not contravene the resolutions of the Board of Directors Meetings, and do not prejudice the company's assets.

Regarding the outsourcing of activities of the Bank, and in particular of the Important Operational Functions, the Board of Statutory Auditors acknowledged the report prepared by Internal Audit and expressed its opinion and recommendations in the Board of Directors meeting of 27 April 2018, as requested by the Supervisory Authority.

The Board of Statutory Auditors, in acknowledging the accession of Banca IFIS S.p.A. to the Self-Regulation Code for listed companies, verified the requirements of independence of its members, in addition to the correct application of the criteria and procedures of verification adopted by the Board of Directors to assess the independence of the directors.

3.2 – Supervisory activities on the adequacy of the internal audit system, of the risk management systems and of the organisational structure

The Board of Statutory Auditors monitored the suitability of internal monitoring systems and risk management through:

- meetings with the management of the Bank;
- regular meetings with the Audit Functions - Internal Audit, Compliance, Anti-money laundering (AML) and Risk Management and the Financial Reporting Officer - in order to evaluate the methodology for the planning of operations, based on the identification and evaluation of the principal risks present in the organisational processes and units;
- examination of the periodical reports from the Audit Functions and the periodical information regarding the results of monitoring activities;
- acquired information from the managers of corporate functions;
- discussion of the results of the work carried out by the external auditing firm;
- participation in the work of the Risk Management and Control Committee and, when the topics so required, in their joint examination with the Committee.

In the execution of its monitoring duties, the Board of Statutory Auditors maintained continuous relations with the Audit Function.

Having considered the development of the Bank, not only quantitatively, the Board of Statutory Auditors focused on preparation of organisational safeguards to improve monitoring of the main risks.
The Board of Statutory Auditors placed emphasis on the evolution of the control functions, geared to safeguard against risks within the new configuration of the banking group.

In this context, the Board of Statutory Auditors acknowledged that audit systems were adapted to the updated composition of the group, via the definition of processes and management policies and the coordination of the control functions and the selection of their centralisation/decentralisation.

The Board of Statutory Auditors also recommended strengthening of the procedures for the monitoring and control of potential risks regarding liquidity (such as mismatching and funding gaps), potentially resulting from the evolution of commitments.

In recognising the changes introduced on an organisational structure level, the Board of Statutory Auditors called the attention of Top Management to the verification of adequacy of dedicated human resources - with particular reference to the control functions - in light of the widening of the banking group.

Furthermore, the NPL Area was subject to company evolution: activities in the NPL sector remained within the Banca IFIS S.p.A. structure until 1 July 2018 when, as already mentioned, they were transferred to IFIS NPL S.p.A. The control functions remained centralised within the parent company.

The Board of Statutory Auditors underlined the need for constant improvement of (i) the reporting of the Company bodies regarding the acquisition, progress, and monitoring of the activities of the NPL Area, and (ii) internal monitoring systems, with particular reference to the new asset classes subject to acquisition, such as NPL Corporate Secured.

Also following discussions with the external Auditing Firm, the Board of Statutory Auditors furthermore recommended the assumption of all necessary and opportune initiatives - such as the completion of the setting-up of the Validation Function - in order to guarantee the integrity and the correctness of the application of models of evaluation, together with the results of the same, for the portfolios of non-performing loans.

Finally, with regard to the development of activities related to the design and implementation of the IRB system for management purposes, the Board stressed the necessity for its full implementation throughout the credit process, not only for statistical and reporting purposes, as well as its general application to all areas of the Banking Group.

Over the course of 2018, the Board of Statutory Auditors also monitored the continuation of the Risk Appetite Framework and supervised the suitability and effects of the entire ICAAP and ILAAP processes on the requirements set out by the regulations, underscoring the usefulness of appropriate data aggregation, integration, and validation processes to maintain the aforementioned documents.

The Board of Statutory Auditors acknowledges that the annual reports from the Control Functions conclude with a substantially favourable judgment on the internal control system.

Intervention plans were provided with reference to the activities and to the problems identified, whose timely implementation is judged by the Board of Statutory Auditors as essential and that require particular attention by the Management Body.

On the basis of the activities carried out, the Board of Statutory Auditors – also in relation to the continuous growth of the Bank and the group – believes that there are certain areas for possible further improvement, highlighting at the same time that there are no elements that are sufficiently critical as to invalidate the internal control system and risk management.

3.3 – Supervisory activities on the administrative-accounting system and on the financial report and non-financial disclosure processes

The Board of Statutory Auditors, in its role as Committee for internal control and auditing, monitored the process and the efficiency of internal monitoring systems and risk management with regards to the financial report.

The Board of Statutory Auditors periodically met the manager responsible for the exchange of information regarding the administrative-accounting system and in addition discussed the reliability of the latter in order to have an accurate representation of management-related issues.
During these meetings, the Financial Reporting Offer made no indication of any significant short-comings in the operational and auditing processes that could invalidate the adequacy and effective application of administrative accounting procedures.
The Board of Statutory Auditors examined the Report of the Financial Reporting Officer for the 2018 consolidated financial statements, which contains the results of tests on the controls carried out as well as the main problems identified in the application of the relevant legislation and the methodologies used and identifies the appropriate remedies.

During the year the Bank, with the constant incitement of the Board of Statutory Auditors, improved the audit systems to ensure consistency and alignment of the data between the various characteristic sources of the individual pieces of information.

The Board of Statutory Auditors also examined declarations, issued on 7 March 2019 by the CEO and by the Financial Reporting Officer, in accordance with the provisions contained in Article 154 *bis* of the Consolidated Law on Finance and in Article 81 *ter* of the Italian Securities and Exchange Commission Regulations 11971/1999, from which no failings emerged that might affect the judgement of adequacy of the administrative-accounting procedures.

The Board of Statutory Auditors then acknowledged the monitoring systems developed by the Financial Reporting Officer regarding the relative subsidiaries in the group of consolidated companies that do not demonstrate profiles of significant criticality.

The external auditing firm EY S.p.A., at periodic meetings, and in light of the Additional Report pursuant to Article 11 of EU regulation n° 537/2014 and issued on 25 March 2019, did not report any critical situations to the Board of Statutory Auditors that could affect the internal control system relating to the administrative and accounting procedures, nor did it ever highlight facts that were deemed reprehensible or any irregularities that would require reporting pursuant to Art. 155, paragraph 2, of the Consolidated Law on Finance.

The Board of Directors prepared, in accordance with the law, the consolidated financial statement as of 31 December 2018 of the Banca IFIS Group that were submitted for audit by the external auditing firm EY S.p.A. The group of consolidated companies, as previously mentioned, was modified following corporate evolution that occurred during 2018. The Board of Statutory Auditors acknowledged the preparation of instructions provided to the subsidiaries for the process of consolidation.

With regard to the consolidated financial statement – as required by the rules of conduct recommended by the National Board of Certified Public Accountants in the document of April 2018 – the Board of Statutory Auditors monitored compliance with the procedural rules concerning the formation and setting out of the same and of the management report.

With regard to the above, no elements were revealed that would lead to the conclusion that the activity has not been carried out in accordance with the principles of correct administration or that the organisational structure, the system of internal audit and accounting and administrative systems were not, in their entirety, substantially adequate to the needs and dimensions of the company.

The Bank prepared the Non-Financial Disclosure (hereinafter the NFD). The preparation of the NFD was made obligatory by Italian Legislative Decree no. 254/2016 and the indications set out by the regulations are completed by "Implementing regulation for Italian Legislative Decree of 30 December 2016, no. 254" published on 18 January 2018 by the Italian Securities and Exchange Commission with Resolution no. 20267 and the Recall to Attention no. 1 issued by the Italian Securities and Exchange Commission on 28 February 2019.

The Bank prepared the NFD as an autonomous document in the financial statement on a consolidated basis and this Board of Statutory Auditors, in light of the previsions of Article 3, paragraph 7 of Italian Legislative Decree no. 254/2016, has verified said document - also in the light of that expressed by the external auditing firm in its report pursuant to Article 3, paragraph 10 of Italian Legislative Decree no. 254/2016 re-issued on 25 March 2019 - with regards to its completeness and its correspondence to that provided for by regulations and according to the criteria of preparation illustrated in the Methodology Notes for the Non-Financial Disclosure, without identifying elements which require mention in this report.

3.4 – Supervisory activities pursuant to Italian Legislative Decree no. 39/2010

The Board of Statutory Auditors, as the "Committee for internal audit and for the general auditing procedure", carried out the task of supervision of the auditing firm's operations, as provided for by Art. 19 of Italian Legislative Decree no. 39/2010.

During the year, the Board of Statutory Auditors met with the external Auditing Firm EY S.p.A. several times, as already stated, pursuant to Art. 150 of the Consolidated Law on Finance, in order to exchange information concerning the activities carried out in implementation of their respective duties.

The external auditing firm

- issued, on 3 August 2018, the report on the limited audit of the abbreviated six-month consolidated financial statement with no exceptions being highlighted;

- issued, on 25 March 2019 – in accordance with Art. 14 of Italian Legislative Decree no. 39/2010 and Article 10 of the EU regulation n° 537 of 16 April 2014 – the certification reports from which it is evident that the financial statements and consolidated financial statements, closed on 31 December 2018, were drawn up clearly and represent in a truthful and correct manner the financial and asset situation, the operating result and the cash flows of Banca IFIS S.p.A. and of the Group for the year ended on that date. In the opinion of the external Auditing Firm, the Management Report on the financial statement and consolidated financial statement as of 31 December 2018 and the information of the "Report on corporate governance and shareholder structure" are consistent with the annual financial statement and consolidated financial statement as of 31 December 2018.

Again, on 25 March 2019, the external Auditing Firm presented the Board of Statutory Auditors with the Additional Report, provided for in Article 11 of the EU regulation n° 537/2014, which this Board of Statutory Auditors will bring to the attention of the upcoming meeting of the Board of Directors on 28 March 2019.

The Additional Report does not present any significant shortfalls in the internal auditing system with regards to the financial reporting process which would merit being brought to the attention of those responsible for the activity of governance.
In the Additional Report, the external Auditing Firm presented the Board of Statutory Auditors with the declaration regarding independence pursuant to Article 6 of the EU regulation n° 537/2014, from which no situations emerge that might compromise independence.
Lastly, the Board of Statutory Auditors acknowledged the Transparency Report prepared by the external auditing firm and published on its website pursuant to Article 18 of Italian Legislative Decree no. 39/2010.

Lastly, as previously mentioned, the Board of Statutory Auditors examined the content of the report by EY S.p.A. regarding the Non-financial disclosure issued pursuant to Article 3, paragraph 10 of Italian Legislative Decree no. 254/2016 on 25 March 2019.

The Board of Statutory Auditors reports that over the course of 2018, as well as the function of auditing of the individual financial statement, consolidated financial statement, and the financial statements of the subsidiaries, EY S.p.A., with the approval of this Board of Statutory Auditors, was entrusted with the following audit-related tasks:

- Profit verification 31/12/2018 BANCA IFIS - for €22,000
- Comfort Letter on EMTN Program renewal for 2018 - for €45,000
- Comfort letter on Senior preferred bonds 300MM - for €30,000
- Agreed Upon procedures on TLTRO II - April 2018 - for €27,000

Furthermore, on 11 March 2019, EY S.p.A. made a request for amendment of its fees as a result of increased activities that were made necessary for the audit activities related to fiscal year 2018 and a request for adjustment of its fees following the merger through acquisition of IFIS Leasing S.p.A. into Banca IFIS S.p.A. and the spin-off of the NPL activities to IFIS NPL S.p.A.

During the session of 26 March 2019, the Board of Statutory Auditors examined the aforementioned request and presents this meeting, via a separate document, its favourable opinion with regards to the same.

The external Auditing Firm also confirmed to the Board of Statutory Auditors that, during the year and in the absence of the conditions for their release, it did not issue opinions pursuant to the law.

3.5 – Relations with the Supervisory Body

As recommended by the standards of conduct of the National Council of Chartered Accountants, in 2018 the Board of Statutory Auditors acquired from the Supervisory Body all the information useful to verify those aspects relating to the autonomy, the independence and the professionalism necessary to efficiently carry out the tasks assigned to it.

The Board of Statutory Auditors thus acquired from the Body the information on the adequacy of the organisational model adopted by the company, on its concrete functioning and on its effective implementation. The Supervisory Body reported on the activities carried out during the 2018 fiscal year without indicating any significant critical profiles, highlighting a situation of substantial alignment with the provisions of the organisation and management model pursuant to Italian Legislative Decree no. 231/2001.

It is considered useful to report that the Board of Directors, in its session of 8 November 2018, decided to proceed with a change to the formation criteria of the Supervisory Board. In fact, the Board decided to review the composition of the Supervisory Board of Banca IFIS, at its natural expiration, foreseeing a composition made up of one Auditor (appointed by the Board of Statutory Auditors), the Managers of the Internal Audit and Compliance functions, plus two independent directors, one of which with the role of chairman. It also decided to set up a specific methodology technical support function, under the Parent Company Organisation for the activities of all Group Supervisory Boards.

The Board also decided to submit to the subsidiaries the hypothesis, which was accepted by them, to review and standardise the composition of their Supervisory Bodies, which could be chaired by an Auditor (chosen by the respective Boards of Statutory Auditors) and also including the Managers of Internal Audit and Compliance functions.

4. Remuneration policies

The Board of Statutory Auditors took note that during the meeting on 7 March 2019, the Board of Directors approved the document "Report on Remuneration", regarding the 2018 financial year.
With reference to remuneration policies, it is deemed opportune to underline that the By-laws foresee the impossibility for the Meeting itself to: (i) *"set a limit to the ratio between the variable and the fixed component of the individual remuneration greater than 1: 1"*; (ii) award the Chairman a remuneration higher than that *"fixed received by the head of the Management Body"*.

During the session of 26 March 2019, the Board of Statutory Auditors furthermore acknowledged, thus agreeing with the comments within, the verifications carried out by the Internal Audit bodies and presented in the "Report on verifications carried out regarding the procedures for remuneration, policies and regulatory context": verifications which led to a satisfactory outcome.

At the Remuneration Committee meeting of 26 April 2018, the Board of Statutory Auditors took note of the allocation of treasury shares of the Bank to the CEO and to the General Manager in accordance with the policies approved by the Shareholders' Meeting of 21 April 2017 and of the operating procedure approved by the Board of Directors.

In general, in light of the provisions issued by the Supervisory Authorities on the subject of remuneration and incentive systems, the Board of Statutory Auditors monitored, in close connection with the Remuneration Committee, the correct application of the rules governing the remuneration of managers of the Audit Functions and of the Manager Responsible and the communication of remuneration policies for the 2019 financial year to the companies belonging to the Group.

On the basis of the information available, the Board of Statutory Auditors considers that the principles set out in the Remuneration Report are not inconsistent with the corporate objectives, strategies, and policies of prudent risk management.

****

The Board of Statutory Auditors is not aware, in addition to what has already been discussed earlier, of facts or details that need to be communicated to the Shareholders' Meeting.

The Board of Statutory Auditors did not receive, during the year 2018, complaints from Shareholders pursuant to Art. 2408 of the Italian Civil Code.

****

In the course of the activity performed and on the basis of the information obtained, no omissions, reprehensible facts, irregularities or in any case other significant circumstances were detected that would require reporting to the Supervisory Authorities or mention in this report.

In conclusion, the Board of Statutory Auditors - taking into account the specific tasks conferred to the external auditing firm regarding auditing of the accounts and of the reliability of the financial statement - issued its opinion without qualifications, and in light of the claims issued pursuant to Art. 154 bis of Legislative Decree no. 58/1998 by the Officer appointed to prepare the accounts and the corporate documents and by the CEO, has no comments to make to the Shareholders' Meeting, pursuant to Art. 153 of the Consolidated Law on Finance, concerning the approval of the financial statement for the year as of 31 December 2018, accompanied by the Management Report, as presented by the Board of Directors, and therefore has no objections to the approval of the financial statement, to the proposed allocation of the operating profit or to distribution of the dividends.

The other items on the Agenda for the meeting are the appointment of the Directors and the determination of their remuneration.
To that end, the Board of Directors approved, on 11 February 2019, a report on the "Optimal qualitative and quantitative composition of the Board of Directors of Banca IFIS", which is to be consulted.

Finally, it should be noted that, with the approval of the financial statement for the 2018 financial year, our three-year mandate expires; the Shareholders' Meeting must therefore also provide for the appointment of the Board of Statutory Auditors.

Venice - Mestre, 26 March 2019.

for the Board of Statutory Auditors.
The Chairman

Giacomo Bugna

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

06.3. Independent auditors' report on the consolidated financial statements

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

Banca IFIS S.p.A.

Consolidated financial statements as at December 31, 2018

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via Isonzo, 11
37126 Verona

Tel: +39 045 8312511
Fax: +39 045 8312550
ey.com

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca IFIS Group ("the Group"), which comprise the statement of financial position as at December 31, 2018, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flows statement for the year then ended, and the notes to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Banca IFIS Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.
We are independent of Banca IFIS S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

We identified the following key audit matters:

Key Audit Matter	Audit Response
Classification and Evaluation of Loans to Customers and Impacts connected with the first application of International Financial Reporting Standards 9 "Financial Instruments"	
Loans to customers related to Enterprises and Governance & Segment amount respectively to Euro 5,918 million and to Euro 202 million, net of analytical and portfolio value adjustments respectively for a total of Euro 311 million and of Euro 11 million, and represent overall 66% of total assets at December 31, 2018. On 1 January 2018, the international accounting standard IFRS 9 came into force which replaced IAS 39 in relation to the classification and measurement of financial instruments. As required by IAS 8, and in accordance with the first-time approach envisaged by IFRS 9, the Group has recognized the cumulative retrospective effects deriving from the transition to the new standard, equal to Euro 3 million, as an increase in the opening shareholders' equity. The process of classification of loans to customers in the various risk categories and the calculation of the bad debt provision are relevant for the audit both because the value of receivables is significant for the financial statements as a whole and because the value adjustments are determined through the use of estimates that present a high degree of complexity and subjectivity. In this context, the identification and calibration of the parameters relating to the significant increase in credit risk for the purposes of stage allocation of non-impaired exposures (Stage 1 and Stage 2) are particularly important in the specific context of transition to the new principle, the estimate of values to be attributed to PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) as inputs to the Expected Credit Loss model, the identification of objective evidence of increased risk for the classification of impaired exposures	Our audit procedures in response to the key aspect have included, inter alia: • understanding and analysis of the main choices regarding policies and processes carried out by the Group with reference to the classification and measurement of loans to customers and the performance of compliance procedures on key controls; • understanding and analysis, also with the support of our risk management and information systems experts of the methods for determining the impacts of first-time adoption of IFRS 9 and the performance of substantive procedures om a sample basis aimed at verifying their correctness • carrying out portfolio analyzes aimed at understanding, also through discussion with the company management, the main changes and the relative levels of coverage by risk category; • understanding, also through the support of our risk management and information systems experts, of the methodology used to estimate, at the balance sheet date, the expected losses on exposures collectively assessed, as well as the performance of compliance and substantive procedures aimed at verifying the completeness of the databases used and the related calculations; • the verification on a sample basis of the correct application of company policies for estimating expected losses on exposures analytically evaluated; • examination of the adequacy of the information provided in the notes to the financial statements.

(Stage 3), as well as the determination of the related recoverable cash flows.

The information on the evolution of the quality of the portfolio of loans to customers, the classification and valuation criteria adopted as well as the effects deriving from the first application of the IFRS 9 accounting standard is provided in Part A - Accounting policies, in Part B - Information on balance sheet, in Part C - Information on the income statement and in Part E - Information on risks and related hedging policies of the notes to the financial statements

Valuation of NPL Sector Loans

The Group operates with an operating segment ("NPL Sector") dedicated to the purchase of receivables without recourse, management and collection of non-guaranteed receivables of difficult collectability (Stage 3), which contributes to the reclassified consolidated banking margin of 42.4%, equivalent to Euro 244.2 million.
This operation is relevant for the audit both because the related economic effects are significant for the financial statements as a whole, and for the representation and evaluation methods adopted by the Group for their representation and evaluation, which are characterized by complexity and by use of assumptions and hypotheses inherent in the adoption of specific assessment methods and models. These methods and models, in accordance with IFRS 9, provide for the application of the amortized cost method, which is based on estimates of expected cash flows, where available, or on estimates of expected cash flows resulting from historical experience accrued and broken down by homogeneous clusters, updated based on the results of credit recovery activities of judicial or extrajudicial nature.
Within the accounting policies set out in part A of the notes to the consolidated financial statements, the criteria for recognizing and assessing the loans of the NPL Sector are

In relation to these aspects, our review procedures included, inter alia:

- an understanding of the policies, processes and controls implemented by the Group for the acquisition, recognition and periodic assessment of NPL Sector loans, based on the evolution of the recovery estimate, and the performance of compliance procedures on the checks considered key among those detected;
- understanding, also through the support of our risk management and information systems experts, of the method used to estimate and / or identify the cash flows underlying the methods and models defined by the Group, as well as the performance of compliance and substantive procedures aimed at verifying the completeness of the databases used and, through portfolio analysis techniques, the consistent application of the methods and models themselves;
- the carrying out on a sample basis of substantive procedures aimed at verifying the correctness of the valuation assumptions both as regards the expected cash flows, and with regard to the estimated timing for their recovery;
- the carrying out of procedures for the comparative analysis of the NPL Sector

described, as well as the risks and uncertainties related to the use of the estimates that underlie the valuation process.	loan portfolio by comparison with the data referring to previous years and analysis and discussion with management the differences, considered as most significant; • the analysis of the adequacy of the information provided in the notes to the financial statements.

Responsibilities of Directors and Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing Banca IFIS Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banca IFIS Group's internal control;

- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banca IFIS Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Banca IFIS Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca IFIS S.p.A., in the general meeting held on April 17, 2014, engaged us to perform the audits of the separate and consolidated financial statements of each years ending December 31, 2014 to December 31, 2022.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of Banca IFIS S.p.A. in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the Board of Statutory Auditors ("Collegio Sindacale") in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Banca IFIS S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Banca IFIS Group as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Banca IFIS Group as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Banca IFIS Group as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Banca IFIS S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by the Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Verona – March 25, 2019

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

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