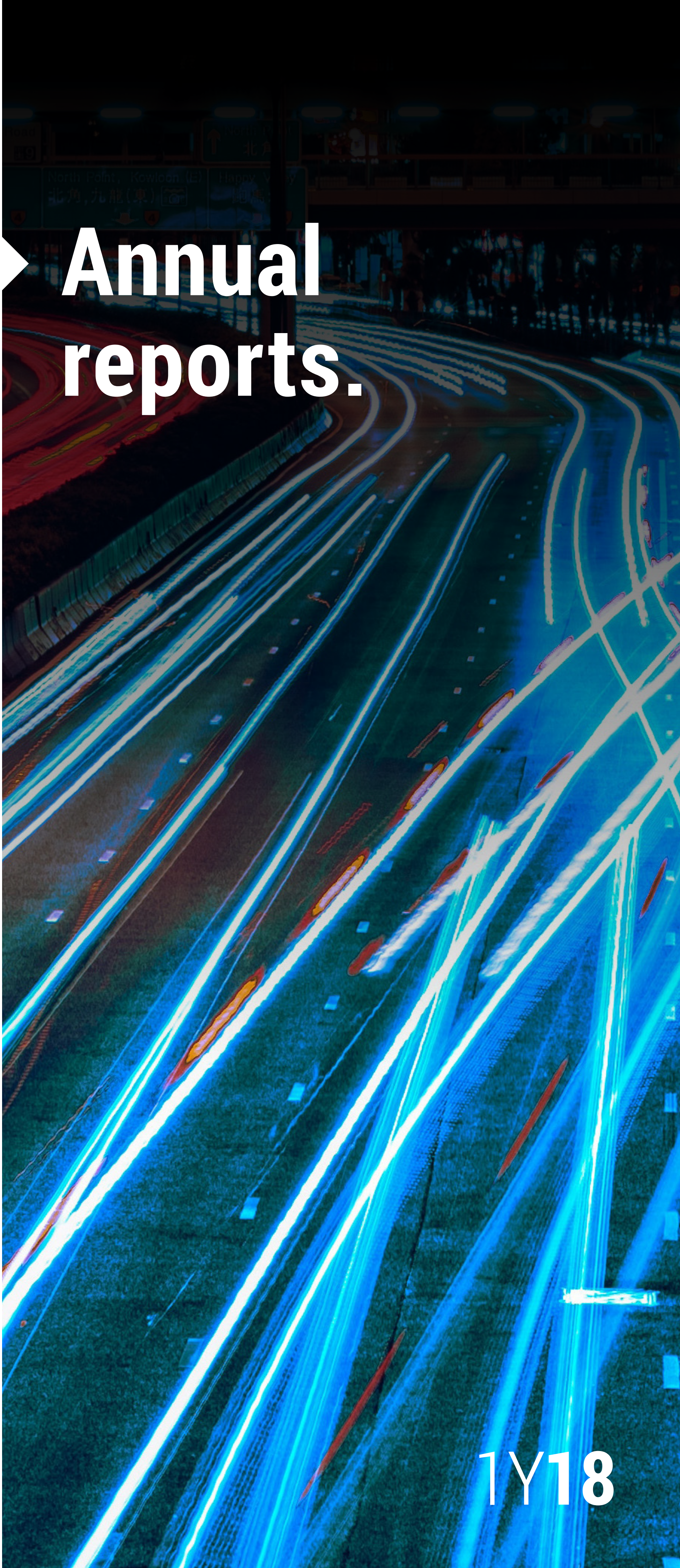
BANCA IFIS
Value to your business.



Annual reports.

Banca IFIS S.p.A.

2018

1Y18

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.

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 small 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

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Corporate Bodies

Board of Directors

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

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

General Manager	Alberto Staccione

Board of Statutory Auditors

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

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

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

FCI
Facilitating Open Account - Receivables Finance
Member of Factors Chain International

02

Directors' report

02.1. Introductory notes on how to read the data

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

- **First-time adoption of IFRS 9**: effective 1 January 2018, the Bank adopted the new accounting standard "IFRS 9 Financial Instruments" (IFRS 9). As permitted under the transitional provisions of IFRS 9, the Bank 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 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 Bank 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.
  Merger of IFIS Leasing S.p.A.: The merger of IFIS Leasing S.p.A. into Banca IFIS S.p.A. was finalised on 15 May 2018. The transaction, which had already been approved by the respective Boards of Directors on 20 April 2018, became effective as per Article 2504 bis, paragraph 2, of the Italian Civil Code on 28 May 2018 and affects the presentation of the data, often complicating the comparison with the previous year.
  Transfer of Banca IFIS's business unit dedicated to Non-Performing Loans: IFIS NPL S.p.A., the Banca IFIS Group company into which the Bank spun off its non-performing loan purchasing and servicing operations—hereinafter referred to as "NPL operations"—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. This affects the presentation of the data, often complicating the comparison with the previous year.
- **Refinement of the method for estimating cash flows associated with the receivables of NPL operations**: 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 34,7 million Euro positive impact recognised through profit or loss in 2018 and until the date the business unit dedicated to NPLs was spun off, as reported in the category «Positions undergoing judicial processing (pre-garnishment order collective model)»

in the above table. In line with the change in positive cash flows, the Bank recognised 14,8 million Euro in previously deferred costs (legal expenses and registration fees) associated with judicial collection actions through profit or loss.

- The line item **Net credit risk losses**[1] totalled 97,8 million Euro, compared to 18,4 million Euro at 31 December 2017. 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 million Euro.

02.2. Highlights

In the following statements, until the date the relevant business unit was spun off, net impairment losses/reversals on receivables related to NPL operations 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 HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2018	01.01.2018	ABSOLUTE	%
Financial assets at fair value through other comprehensive income	432.089	819.355	(387.266)	(47,3)%
Receivables due from banks measured at amortised cost	394.152	1.529.237	(1.135.085)	(74,2)%
Loans to customers measured at amortised cost	6.741.483	5.746.259	995.224	17,3%
Total assets	9.099.500	9.292.558	(193.058)	(2,1)%
Due to banks	756.432	774.475	(18.043)	(2,3)%
Due to customers	5.577.057	5.966.901	(389.844)	(6,5)%
Debt securities issued	979.002	789.994	189.008	23,9%
Equity	1.368.466	1.338.259	30.207	2,3%

INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	YEAR		YEAR	
	2018	2017	ABSOLUTE	%
Net banking income	**429.167**	**460.388**	**(31.221)**	**(6,8)%**
Net credit risk losses/reversals	(97.796)	(18.373)	(79.423)	432,3%
Net profit (loss) from financial activities	**331.371**	**442.015**	**(110.644)**	**(25,0)%**
Operating costs	(214.845)	(226.601)	11.756	(5,2)%
Gross profit	116.526	215.414	(98.888)	(45,9)%
Profit for the period	**82.806**	**154.906**	**(72.100)**	**(46,5)%**

[1]Reclassified line item: net impairment losses/reversals on receivables related to NPL operations 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.

02.3. KPI

Reclassified data: in the following statements, until the date the relevant business unit was spun off, net impairment losses/reversals on receivables related to NPL operations 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.

KPI	YEAR		CHANGE
	2018	2017(1)	
ROE	6,1%	12,0%	(5,9)%
ROA	1,3%	2,3%	(1,0)%
Cost/Income ratio	50,1%	51,1%	(1,0)%
Ratio - Total Own Funds	20,41%	23,66%	(3,25)%
Ratio - Common Equity Tier 1	15,11%	17,46%	(2,35)%
Number of company shares (in thousands)	53.811	53.811	-
Number of shares outstanding at period end(2) (in thousands)	53.441	53.433	0,0%
Book value per share	25,61	25,03	0,58
EPS	1,55	2,90	(46,6)%
Dividend per share	1,05(3)	1,00	5,0%
Payout ratio	67,8%	34,5%	33,3%

(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

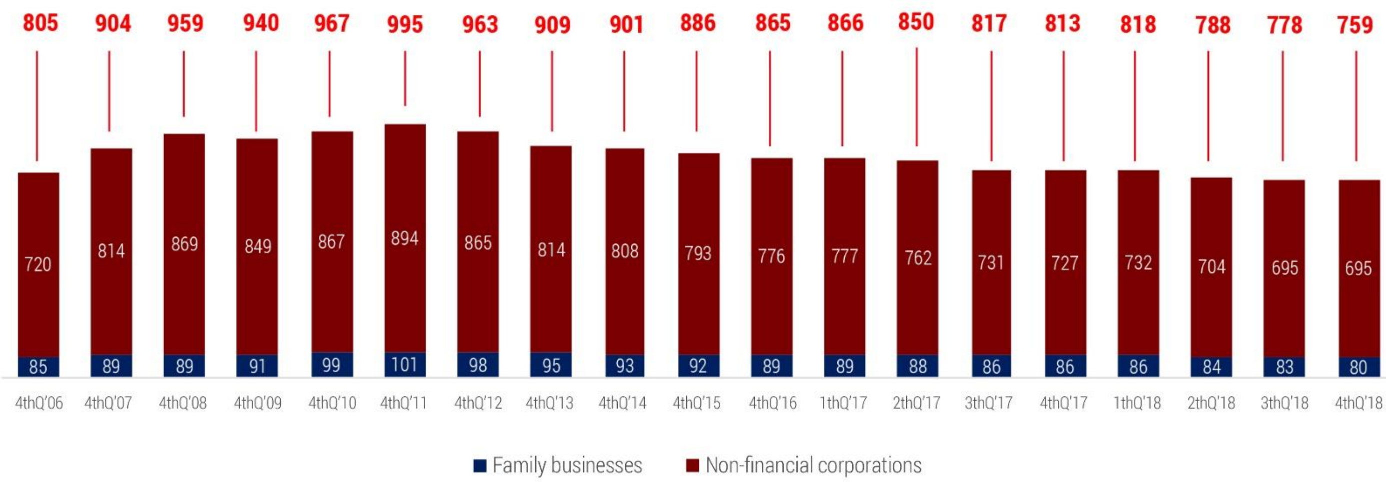
Enterprises

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.

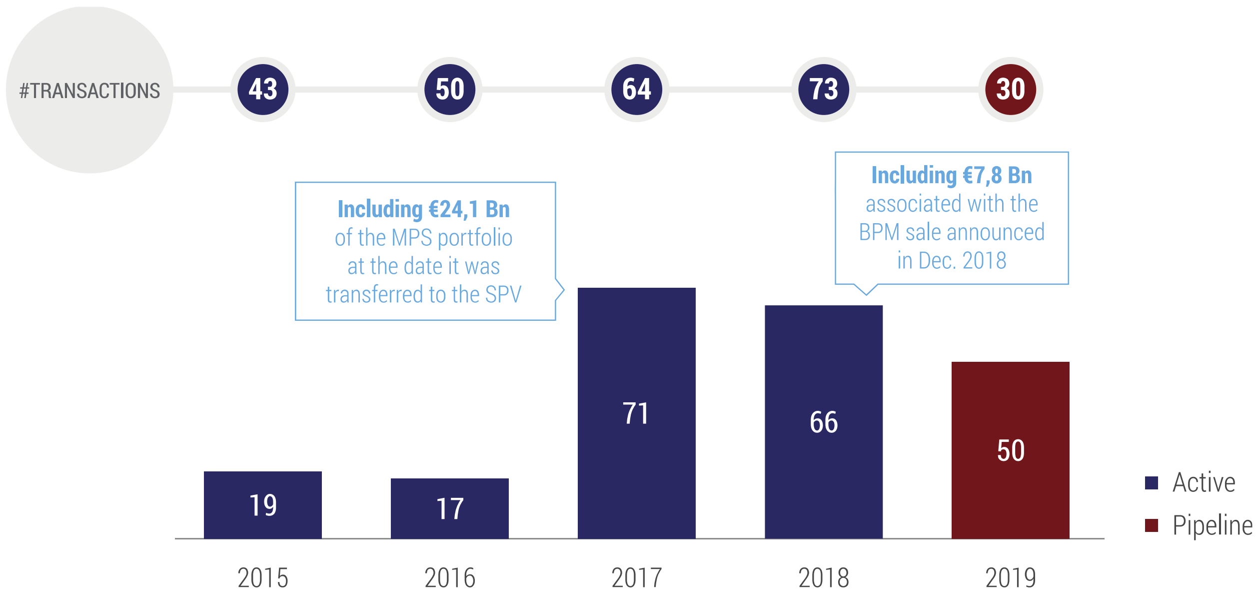
We can look at lending also from a different perspective, considering bank loans together with specialised credit products (factoring, leasing, bonds, and individual savings plans). The overall picture points to an 8,2% reduction in outstanding loans (from 1.114 billion Euro in 2008 to 1.023 billion 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 - €Bn



	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. Impact of regulatory changes

Below are the regulatory changes introduced in 2018 impacting Banca IFIS.

- 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 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 minority interests (Article 480 CRR) no longer apply.

- Among the latest regulations on tax matters, the following impacted the determination of Banca IFIS'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.

02.6. 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, until the date the relevant business unit was spun off, net impairment losses/reversals on receivables related to NPL operations 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

MAIN STATEMENT OF FINANCIAL POSITION ITEMS (in thousands of Euro)	AMOUNTS AT		AMOUNTS AT	
	31.12.2018	01.01.2018	ABSOLUTE	%
Other 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	432.089	819.355	(387.266)	(47,3)%
Due from banks	394.152	1.529.237	(1.135.085)	(74,2)%
Loans to customers	6.741.483	5.746.259	995.224	17,3%
Equity investments	530.161	364.312	165.849	45,5%
Property, plant and equipment and intangible assets	110.509	131.580	(21.071)	(16,0)%
Tax assets	378.376	373.901	4.475	1,2%
Other assets	348.885	269.156	79.729	29,6%
Total assets	**9.099.500**	**9.292.558**	**(193.058)**	**(2,1)%**
Due to banks	756.432	774.475	(18.043)	(2,3)%
Due to customers	5.577.057	5.966.901	(389.844)	(6,5)%
Debt securities issued	979.002	789.994	189.008	23,9%
Financial liabilities held for trading	31.188	38.239	(7.051)	(18,4)%
Other liabilities	387.355	384.690	2.665	0,7%
Equity	1.368.466	1.338.259	30.207	2,3%
Total liabilities and equity	**9.099.500**	**9.292.558**	**(193.058)**	**(2,1)%**

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, including 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 47,3% from 1 January 2018, and included the debt securities that passed the SPPI test as well as equity securities for which the Bank elected the so-called OCI Option pursuant to IFRS 9. The balance at 1 January 2018 included 377,3 million Euro referring to the "Indigo Lease" securitisation of receivables of the merged entity IFIS Leasing S.p.A.. Following the merger of said company into the Bank, the transaction now qualifies as a self-securitisation.

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	804.612	(385.903)	(48,0)%
Equity securities	13.380	14.743	(1.363)	(9,2)%
Total	**432.089**	**819.355**	**(387.266)**	**(47,3)%**

Specifically, at 31 December 2018 **debt securities** amounted to 418,7 million Euro, down 2,0% from 1 January 2018 (excluding the mentioned impact of the self-securitisation transaction). 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); the relevant net fair value reserve for these securities 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 394,2 million Euro, compared to 1.529,2 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 Bank 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 6.741,5 million Euro, up 17,4% from 5.740,8 million Euro at the end of 2017. This change largely resulted from the combination of the following factors:

- The balance at the end of 2017 included 799,4 million Euro worth of loans associated with NPL operations that the Bank no longer recognised at the end of the year after spinning off the business unit into IFIS NPL S.p.A. in July 2018.
- Meanwhile, at 31 December 2018 the line item comprised 1.187,3 million Euro in receivables arising from leasing operations following the merger of IFIS Leasing S.p.A. into the Bank in May 2018.
- In 2018, the Bank subscribed for a 77,7 million Euro senior tranche of a securitisation 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 that expired at the end of January 2019.
- The acquisition of two performing retail portfolios totalling 20,2 million Euro These portfolios were acquired as part of ordinary NPL purchasing operations, which often concern also mixed portfolios—although the performing portion is always small relative to the overall portfolio.

Please note that this line item does not include exposures qualifying as "major exposures", i.e. individual exposures amounting to more than 10% of own funds.

LOANS TO CUSTOMERS (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 31.12.2018						
Nominal amount	258.726	265.648	104.851	**629.225**	6.416.645	**7.045.870**
Impairment losses	(179.263)	(85.412)	(8.954)	**(273.629)**	(30.758)	**(304.387)**
Book value	79.463	180.236	95.897	**355.596**	6.385.887	**6.741.483**
Coverage ratio	*69,3%*	*32,2%*	*8,5%*	***43,5%***	*0,5%*	***4,3%***
Gross ratio	*3,7%*	*3,8%*	*1,5%*	***8,9%***	*91,1%*	***100,0%***
Net ratio	*1,2%*	*2,7%*	*1,4%*	***5,3%***	*94,7%*	***100,0%***
AT 01.01.2018						
Nominal amount	723.566	498.793	112.208	**1.334.567**	4.623.664	**5.958.231**
Impairment losses	(134.846)	(49.558)	(5.680)	**(190.084)**	(21.888)	**(211.972)**
Book value	588.720	449.235	106.528	**1.144.483**	4.601.776	**5.746.259**
Coverage ratio	*18,6%*	*9,9%*	*5,1%*	***14,2%***	*0,5%*	***3,6%***
Gross ratio	*12,1%*	*8,4%*	*1,9%*	***22,4%***	*77,6%*	***100,0%***
Net ratio	*10,2%*	*7,8%*	*1,9%*	***19,9%***	*80,1%*	***100,0%***

Net bad loans to customers measured at amortised cost totalled 79,5 million Euro, -86,5% from 1 January 2018, and the net bad-loan ratio was 1,2%: this change was largely attributable to the spin-off of the business unit dedicated to NPL operations in July 2018.

The balance of **net unlikely to pay** was 180,2 million Euro, up -59,9% from 449,2 million Euro at the end of 2017. As already mentioned, this was mainly attributable to the transfer of the business unit dedicated to NPL operations. The coverage ratio stood at 32,2% (9,9% at 01 January 2018)

Net non-performing past due exposures totalled 95,9 million Euro, compared to 106,5 million Euro at 1 January 2018 (-10,0%). The coverage ratio stood at 8,5% (5,1% at 01 January 2018)

Investments

DESCRIPTION	31.12.2018	01.01.2018
IFIS Finance Sp. Z o.o.	26.356	26.356
IFIS Rental Services S.r.l.	120.895	120.895
IFIS Leasing S.p.A.	-	215.061
IFIS NPL S.p.A.	362.000	2.000
Two Solar Park 2008 S.r.l.	-	-
Cap.Ital.Fin S.p.A.	12.110	-
Credifarma S.p.A.	8.800	-
Total	**530.161**	**364.312**

Investments in the Group's companies totalled 530,2 million Euro, compared to 364,3 million Euro at 1 January 2018. The change was closely related to the transactions described in “Significant events occurred during the year” in this document.

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 19,3 million Euro, compared to 21,3 million Euro at 1 January 2018 (-9,3%), and referred entirely to software.

Property, plant and equipment and investment property totalled 91,2 million Euro, down from 110,3 million Euro at 1 January 2018; specifically, the decline was attributable to the spin-off of the business unit dedicated to Non-Performing Loans (NPLs).

At the end of the period, the properties recognised under property, plant and equipment and investment property included the important historical building “Villa Marocco”, located in Mestre – Venice and housing Banca IFIS's registered office, as well as two buildings in Milan deriving from the mentioned merger of the subsidiary Interbanca.

Since Villa Marocco is a luxury property, it is not amortised, but it is tested for impairment at least annually. To this end, they are appraised by experts specialising in luxury properties. 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.

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

CURRENT TAX ASSETS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	2018	2017	ABSOLUTE	%
Irap (regional tax on productive activities)	10.102	10.102	-	0,0%
Ires (corporate income tax)	12.262	12.211	51	0,4%
Ires on sale of receivables	21.278	21.278	-	0,0%
Credits from DTA conversion	-	25.867	(25.867)	(100,0)%
Others	1.513	1.428	85	6,0%
Total current tax assets	**45.155**	**70.886**	**(25.731)**	**(36,3)%**

The change in current tax assets was closely related to the use of 25,8 million Euro worth of credits arising from the conversion of deferred tax assets as per Italian Law 214/11 to offset the Bank's tax liability.

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

DEFERRED TAX ASSETS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	2018	2017	ABSOLUTE	%
Loans to customers (Law 214/2011)	214.627	176.214	38.413	21,8%
Past tax losses that can be carried forward	76.023	91.395	(15.372)	(16,8)%
Aid for economic growth that can be carried forward	22.819	24.599	(1.780)	(7,2)%
Loans to customers	2.237		2.237	n.a.
Provisions for risks and charges	10.320	7.484	2.836	37,9%
Financial assets at fair value through other comprehensive income	5.745	-	5.745	n.a.
Others	1.450	2.243	(793)	(35,4)%
Total deferred tax assets	**333.221**	**301.935**	**31.286**	**10,4%**

Deferred tax assets, totalling 333,2 million Euro, mainly included 214,6 million Euro in impairment losses on receivables that can be deducted in the following years, 76,0 million Euro in past tax losses that can be carried forward, 22,8 million Euro in ACE (Aid for Economic Growth) benefits that can be carried forward, and 10,3 million Euro in temporary differences on provisions for risks and charges.

Finally, please note that, pursuant to the current Tax Consolidation arrangements, the deferred tax asset receivable related to the taxable profit for the period was included in Other Assets as an approximately 54,7 million Euro Receivable due from La Scogliera.

The main types of deferred tax liabilities are shown below:

DEFERRED TAX LIABILITIES (in thousands of Euro)	AMOUNT AT		CHANGE	
	2018	2017	ABSOLUTE	%
Loans to customers	3.211	3.460	(249)	(7,2)%
Property, plant and equipment	9.193	9.001	192	2,1%
Receivables for interest on arrears	25.763	23.661	2.102	8,9%
Financial assets	673	1.798	(1.125)	(62,6)%
Others	289	583	(294)	(50,4)%
Total deferred tax liabilities	**39.129**	**38.503**	**626**	**1,6%**

Deferred tax liabilities, totalling 39,1 million Euro, largely included 25,8 million Euro in receivables for interest on arrears that will be taxed upon receipt, 9,2 million Euro in the revaluation of property, and 3,2 million Euro in other mismatches of trade receivables.

Other assets and liabilities

Other assets, amounting to 348,9 million Euro (+29,6% compared to the restated amounts at 1 January 2018), included 31,5 million Euro in financial assets held for trading (37,6 million Euro at 1 January 2018), and 317,4 million Euro in other assets (231,6 million Euro at 1 January 2018).

This line item included a 108,9 million Euro receivable due from the parent company La Scogliera S.p.A., including 54,7 million Euro deriving from the tax consolidation regime and 53,1 million Euro for the tax credits claimed by the latter for excess tax payments from prior years; in addition, this line item included 11,1 million Euro in receivables due from Italian tax authorities for payments on account (stamp duty), 8,0 million Euro in funds placed in an escrow account pending the resolution of a dispute, and 38,2 million Euro in VAT credits claimed.

Other liabilities amounted to 387,4 million Euro, compared to 384,7 million Euro at 1 January 2018, and included 45,0 million Euro in tax liabilities (40,4 million Euro at 1 January 2018), 7,1 million Euro in liabilities for post-employment benefits (5,5 million Euro at 1 January 2018), 22,0 million Euro in provisions for risks and charges (15,9 million Euro at 1 January 2018) and 313,3 million Euro in other liabilities (322,9 million Euro at 1 January 2018). The most significant other liabilities referred largely to amounts due to customers that have not yet been credited.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2018	01.01.2018	ABSOLUTE	%
a) Due to banks	**756.432**	**774.475**	**(18.043)**	**(2,3)%**
- Eurosystem	*695.075*	*699.585*	*(4.510)*	(0,6)%
- Other payables	*61.357*	*74.890*	*(13.533)*	(18,1)%
b) Due to customers	**5.577.057**	**5.966.901**	**(389.844)**	**(6,5)%**
- 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	*1.114.921*	*913.840*	*201.081*	22,0%
c) Debt securities issued	**979.002**	**789.994**	**189.008**	**23,9%**
Total funding	**7.312.491**	**7.531.370**	**(218.879)**	**(2,9)%**

Total funding, which amounted to 7.312,5 million Euro at 31 December 2018, down 2,9% compared to 1 January 2018, is represented for 76,3% by **Payables due to customers** (compared to 79,2% at 1 January 2018), for 10,3% by **Payables due to banks** (compared to 10,3% at 1 January 2018), and for 13,4% by **Debt securities issued** (10,5% at 1 January 2018).

Payables due to customers at 31 December 2018 totalled 5.577,1 million Euro (-6,5% 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, which was only partially offset by the increase in payables due to customers associated with the higher number of trade receivables securitised.

Payables due to banks totalled 756,4 million Euro, down 2,3% from 774,5 million Euro at 1 January 2018, and largely referred to the 700,0 million Euro (par value) TLTRO tranche obtained in March 2017.

Debt securities issued amounted to 979,0 million Euro. The line item comprised 488,0 million Euro (including interest) in senior bonds issued by Banca IFIS, as well as 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 bond loans.

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	YEAR		CHANGE	
	31.12.2018	01.01.2018	ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	3.623	3.312	311	9,4%
Legal and tax disputes	12.966	10.727	2.239	20,9%
Other provisions	5.425	1.861	3.564	191,5%
Total provisions for risks and charges	**22.014**	**15.900**	**6.114**	**38,5%**

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 3,6 million Euro and reflected the impairment losses on commitments and financial guarantees granted by the Bank recognised in accordance with the new standard IFRS 9.

Legal and tax disputes

At 31 December 2018, the Bank had set aside 13,0 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;

Other provisions for risks and charges

At 31 December 2018, the Bank had set aside 5,4 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, 0,6 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 Bank 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 Bank, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: therefore, it did not allocate funds to the provision for risks and charges.

Reimbursements

In line with market practice, under the purchase agreement for the former GE Capital Interbanca Group, the seller (GE Capital International Limited) made a series of representations and warranties related to Interbanca and other Investees.

In addition, the agreement includes a series of special reimbursements paid by the seller related to the main legal and tax disputes involving the former GE Capital Interbanca Group companies.

Equity

At 31 December 2018, **Equity** totalled 1.368,5 million Euro, up +2,3% from 1.337,3 million Euro at 31 December 2017.

As permitted under the transitional provisions of IFRS 9, the Bank 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	
	2018	2017	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	102.116	101.864	252	0,2%
Valuation reserves:	(8.549)	2.133	(10.682)	(500,8)%
- Securities	*(8.692)*	*2.275*	(10.967)	(482,1)%
- Post-employment benefits	*143*	*(142)*	285	(200,7)%
Reserves	1.141.385	1.027.748	113.637	11,1%
Treasury shares	(3.103)	(3.168)	65	(2,1)%
Profit for the period	82.806	154.906	(72.100)	(46,5)%
Equity	**1.368.466**	**1.337.294**	**31.172**	**2,3%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2017	**1.337.294**
Change in opening balances	965
Increases:	**94.600**
Profit for the year	82.806
Sale/grant of treasury instruments	252
Change in valuation reserve:	285
- Post-employment benefits	*285*
Other changes	11.257
Decreases:	**64.393**
Dividends distributed	53.433
Change in valuation reserve:	10.959
- Securities	*10.959*
Equity at 31.12.2018	**1.368.466**

The line item “other changes” was closely associated with the merger of the subsidiary IFIS Leasing S.p.A. into Banca IFIS, finalised on 28 May 2018. The merger was carried out using the pooling of interest method based on the Separate Financial Statements, resulting in a 11,3 million Euro merger surplus.

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

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[1] (CET1)	1.139.483	1.126.044
Tier 1 Capital (T1)	1.139.483	1.126.044
Total own funds	**1.539.483**	**1.526.233**
Total RWA	**7.542.228**	**6.450.215**
Common Equity Tier 1 Ratio	15,11%	17,46%
Tier 1 Capital Ratio	15,11%	17,46%
Total Own Funds Capital Ratio	**20,41%**	**23,66%**

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

The individual own funds, risk-weighted assets and capital ratios at 31 December 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.

Income statements items

Formation of net banking income

Net banking income totalled 429,2 million Euro, down from 460,4 million Euro in the prior year as a result of, among other things, the spin-off of the business unit dedicated to Non-Performing Loans completed on 1 July 2018.

NET BANKING INCOME (in thousands of Euro)	YEAR		CHANGE	
	2018	2017	ABSOLUTE	%
Net interest income	340.085	362.003	(21.918)	(6,1)%
Net commission income	81.489	60.716	20.773	34,2%
Other components of net banking income	7.593	37.669	(30.076)	(79,8)%
Net banking income	**429.167**	**460.388**	**(31.221)**	**(6,8)%**

Net interest income declined from 362,0 million Euro at 31 December 2017 to 340,1 million Euro at 31 December 2018 (-6,1%). The previously mentioned mergers and spin-offs occurred during the year significantly contributed to this change.

Specifically, with respect to the spin-off of the business unit dedicated to Non-Performing Loans occurred on 1 July 2018, related net interest income totalled 122,6 million Euro in 2018 (i.e. the first six months of the year) compared to 166,3 million for the whole 2017.

Conversely, the merger of IFIS Leasing into the Bank contributed a positive 38,4 million Euro to net interest income.

Without considering the positive impact from the merger of IFIS Leasing, the "reversal PPA[2]" inevitably made a lower contribution compared to the previous year (85,0 million Euro at 31 December 2018, -22,7% from 109,9 million Euro at 31 December 2017). 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.

Net commission income totalled 81,5 million Euro, up 34,2% from 31 December 2017.

Commission income, totalling 91,2 million Euro (compared to 67,9 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 9,7 million Euro (compared to 7,2 million Euro in the prior-year period), largely referred to fees paid to approved banks and financial intermediaries, the work of credit brokers, and commissions paid to correspondent banks and factors.

Other components of net banking income totalled 7,6 million Euro at 31 December 2018, down 79,8% year-on-year. Specifically, the gains on the sale or repurchase of financial assets or liabilities, amounting to 10,3 million Euro—compared to 25,6 million Euro at 31 December 2017—included 2,0 million Euro derived from sales of portfolios associated with NPL operations (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 12,0 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 Bank's share of the bond subscribed by the Italian Interbank Deposit Protection Fund's Voluntary Scheme as part of the rescue of a lender.

Formation of net profit from financial activities

Net profit from financial activities totalled 331,4 million Euro, compared to 442,0 million Euro at 31 December 2017 (-25,0%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	YEAR		CHANGE	
	2018	2017	ABSOLUTE	%
Net banking income	429.167	460.388	(31.221)	(6,8)%
Net credit risk losses/reversals	(97.796)	(18.373)	(79.423)	432,3%
Net profit (loss) from financial activities	**331.371**	**442.015**	**(110.644)**	**(25,0)%**

Net credit risk losses totalled 97,8 million Euro (compared to 18,4 million Euro at 31 December 2017). The increase in 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 million Euro.

[2] "Reversal PPA" means the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the former GE Capital Interbanca Group over time..

Formation of profit for the year

FORMATION OF NET PROFIT FOR THE YEAR (in thousands of Euro)	YEAR		CHANGE	
	2018	2017	ABSOLUTE	%
Net profit (loss) from financial activities	**331.371**	**442.015**	**(110.644)**	**(25,0)%**
Operating costs	(214.845)	(226.601)	11.756	(5,2)%
Pre-tax profit from continuing operations	**116.526**	**215.414**	**(98.888)**	**(45,9)%**
Income tax expense	(33.720)	(60.508)	26.788	(44,3)%
Profit for the period	**82.806**	**154.906**	**(72.100)**	**(46,5)%**

The cost/income ratio totalled 50,1%, compared to 49,2% (conventionally reconciled amount) at 31 December 2017.

OPERATING COSTS (in thousands of Euro)	YEAR		CHANGE	
	31.12.2018	31.12.2017	ABSOLUTE	%
Administrative expenses:	227.458	226.167	1.291	0,6%
a) personnel expenses	98.032	83.266	14.766	17,7%
b) other administrative expenses	129.426	142.901	(13.475)	(9,4)%
Net allocations to provisions for risks and charges	1.146	(2.460)	3.606	(146,6)%
a) commitments and guarantees granted	311	(5.605)	5.916	(105,5)%
b) other net provisions	835	3.145	(2.310)	(73,4)%
Net impairment losses/reversal on property, plant and equipment	4.538	3.760	778	20,7%
Net impairment losses/reversal on intangible assets	5.848	6.722	(874)	(13,0)%
Other operating income/expenses	(24.145)	(7.588)	(16.557)	218,2%
Operating costs	**214.845**	**226.601**	**(11.756)**	**(5,2)%**

At 98,0 million Euro, **personnel expenses** rose 17,7% (83,3 million Euro in December 2017). Overall, the Bank's employees numbered 1.174, down from 1.218 at 31 December 2017—largely because some resources were transferred to the new subsidiary IFIS NPL S.p.A..

Other administrative expenses totalled 129,4 million Euro, down 9,4% from 142,9 million Euro in the prior-year period largely because of the transfer of a business unit to the subsidiary IFIS NPL S.p.A..

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	YEAR		CHANGE	
	2018	2017	ABSOLUTE	%
Expenses for professional services	**38.985**	**43.887**	**(4.902)**	**(11,2)%**
Legal and consulting services	28.967	26.831	2.136	8,0%
Auditing	444	346	98	28,3%
Outsourced services	9.574	16.710	(7.136)	(42,7)%
Direct and indirect taxes	**32.757**	**26.565**	**6.192**	**23,3%**
Expenses for purchasing goods and other services	**57.684**	**72.449**	**(14.765)**	**(20,4)%**
Software licensing and support	14.580	19.589	(5.009)	(25,6)%
Customer information	10.056	12.422	(2.366)	(19,0)%
Property expenses	6.262	5.459	803	14,7%
FITD and Resolution fund	5.983	8.753	(2.770)	(31,6)%
Postage and archiving of documents	4.213	6.988	(2.775)	(39,7)%
Car fleet management and maintenance	3.365	2.960	405	13,7%
Telephone and data transmission expenses	3.167	2.519	648	25,7%
Business trips and transfers	3.096	3.285	(189)	(5,8)%
Advertising and inserts	2.547	2.694	(147)	(5,5)%
Securitisation costs	1.642	1.669	(27)	(1,6)%
Transitional services agreement	-	3.373	(3.373)	(100,0)%
Other sundry expenses	2.773	2.738	35	1,3%
Total administrative expenses	**129.426**	**142.901**	**(13.475)**	**(9,4)%**

Despite the spin-off of the business unit dedicated to NPL operations, **"legal and consulting"** expenses were up year-on-year because of the already mentioned impact of the costs incurred by the Bank in the first half of 2018 for the judicial debt collection actions undertaken by the former business unit. 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 Bank recognised 5,0 million Euro in costs associated with judicial collection operations through profit or loss. These costs had been previously deferred until the issue of the Garnishment Order (identification of the individual cash flows).

"Direct and indirect taxes", totalling 32,8 million Euro (26,6 million Euro at 31 December 2017), mainly included the registration fees paid for the judicial debt collection actions concerning receivables of the Non-Performing Loans business unit—which was spun off on 1 July 2018—amounting to 18,7 million Euro at 31 December 2018. The line item also comprised 10,7 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 increase compared to the prior year, which occurred despite the spin-off of the business unit dedicated to NPL operations, was associated with the mentioned statistical model for estimating cash flows, as this caused the expenses for registration fees to rise by 9,8 million Euro in the first half of 2018.

The "**Expenses for purchasing goods and other services**" were down 20,4% from the prior year (from 72,4 million Euro at 31 December 2017 to 57,7 million Euro at 31 December 2018). This result was attributable to opposite changes in major line items, specifically:

- Software licensing and support was down 25,6% from 19,6 to 14,6 million Euro, essentially because of the costs incurred in 2017 for the migration of the core banking systems;
- Customer information expenses were down 19,0% from 12,4 to 10,1 million Euro, largely because of the costs incurred by the business unit dedicated to Non-Performing Loans, which was spun off during 2018.
- Property expenses rose from 5,5 to 6,3 million Euro, mainly as a result of lease and maintenance costs;
- "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 39,7% from 7,0 to 4,2 million Euro, as the Bank started paring back purchases of new portfolios towards the end of the previous year and continued doing so for much of 2018;
- Telephone expenses increased from 2,5 to 3,2 million Euro, largely due to mobile phone and internet expenses;
- 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.

Net allocations to provisions for risks and charges totalled 1,1 million Euro and were specifically related to legal disputes referring to the trade receivables segment.

Other net operating income totalled 24,1 million Euro 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.

The **pre-tax profit from continuing operations** totalled 116,5 million Euro (-45,9% from the prior year).

Income tax expense amounted to 33,7 million Euro (-44,3% from the prior year). The 2018 tax rate was 28,94%, compared to 28,09% in the previous year.

02.7. Main risks and uncertainties

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

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

02.8. 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

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.

Payout ratio

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

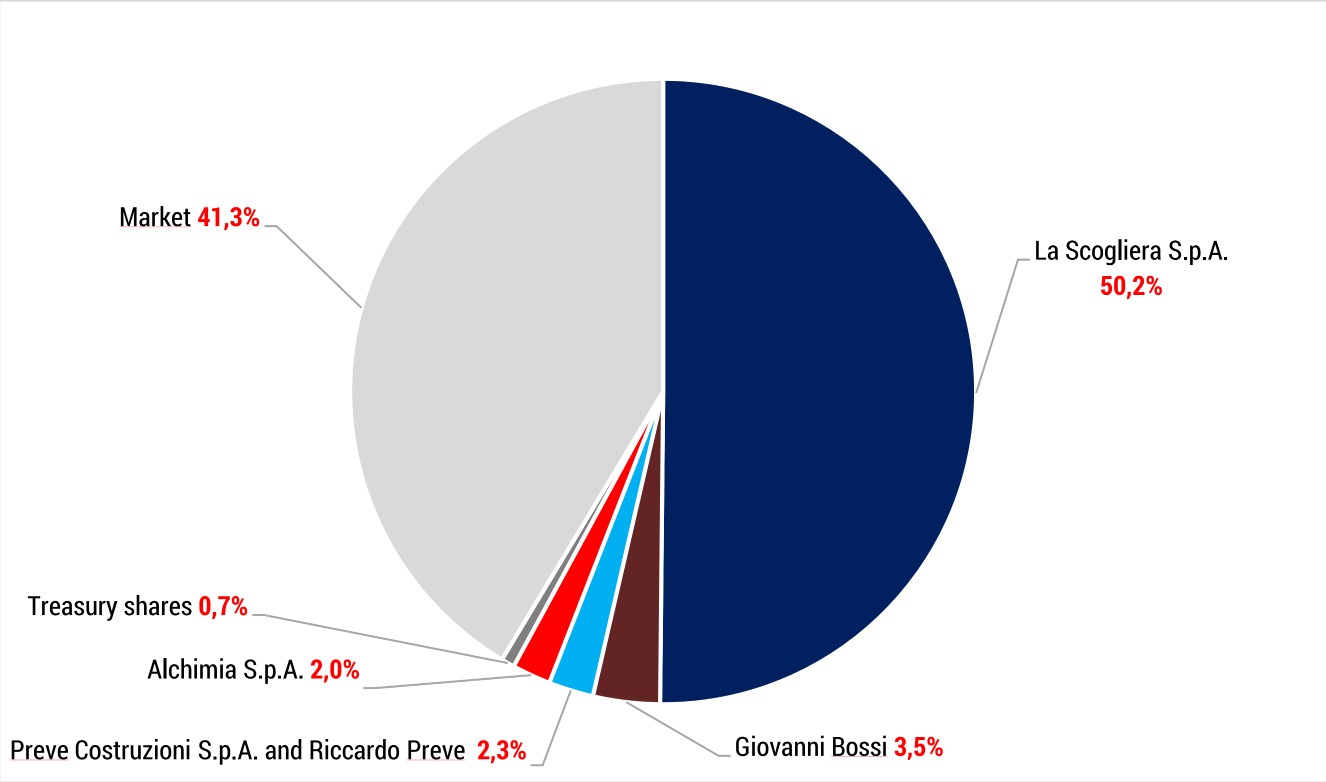
Payout ratio (in thousands of Euro)	2018	2017	2016	2015	2014
Profit for the period	82.806	154.906	71.722	160.743	94.396
Dividends	56.113(1)	53.433	43.813	40.334	34.930
Payout ratio	**67,8%**	**34,5%**	**61,1%**	**25,1%**	**37,0%**

(1) Dividend proposed by the Board of Directors

Shareholders

The share capital of Banca IFIS at 31 December 2017 amounted to 53.811.095 Euro and is broken down into 53.811.095 shares with a par value of 1 Euro each.

The following table shows Banca IFIS's shareholders that, either directly or indirectly, own equity instruments with voting rights representing over 3% of Banca IFIS's share capital, or 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 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.

02.9. Significant events occurred during the year

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

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

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

Concerning the binding offer to acquire control of Cap.Ital.Fin S.p.A. submitted on 24 November 2017, on 2 February 2018 the Bank finalised the acquisition of 100% of Cap.Ital.Fin S.p.A., a company on the register as per Article 106 of the Consolidated Law on Banking that operates across Italy and specialises in salary-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees.

Preferred unsecured senior bond placement

In April 2018, Banca IFIS announced and successfully completed the placement of its first preferred unsecured senior bond issue. The 300 million Euro bond has a 5-year maturity and a 2% fixed coupon rate, and the issue price was 99,231%. The bond, reserved for institutional investors except for those in the United States, was issued under Banca IFIS S.p.A.'s EMTN Programme and will be listed on the Irish Stock Exchange. Fitch assigned a "BB+" long-term rating to the bond.

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 operations, 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, Banca IFIS 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 Bank 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% unsecured preferred senior 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.

02.10. Significant subsequent events

Acquisition of control over FBS S.p.A.

On 7 January 2019, the Bank 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 Separate Financial Statements by the Board of Directors.

02.11. 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 Banca IFIS 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.

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

As usual, the Bank 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 Bank can reasonably expect to remain profitable also in 2019 by carefully monitoring risks and consolidating its presence in the sectors it serves.

02.12. Other information

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

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

Report on Corporate Governance and Shareholding Structure

Pursuant to article 123 bis, paragraph three, of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Law on Banking), a report, separate from this Directors' report, was prepared. It was approved by the Board of Directors and published together with the draft financial statements at 31 December 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.

Privacy measures

Banca IFIS 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.

Parent Company management and coordination

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

National consolidated tax regime

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

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

Banca IFIS has an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company.

Under this tax regime, Banca IFIS S.p.A. transferred its tax loss to La Scogliera S.p.A., recognising a 54,7 million Euro net receivable due from the parent at 31 December 2018.

Transactions on treasury shares

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

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 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.

In 2018, the Bank carried out two major related-party transactions: the merger of IFIS Leasing S.p.A. into Banca IFIS, which became effective on 28 May 2018, and the transfer of a business unit to the subsidiary IFIS NPL S.p.A., which became effective on 1 July 2018.

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

Atypical or unusual transactions

During 2018, the Bank 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 Bank did not implement any research and development programmes during the year.

02.13. Annual profit distribution proposal

Dear Shareholders,

The Board of Directors proposes to allocate the profit for the year, amounting to 82.805.867,57 Euro, as follows:

- distributing to shareholders a cash dividend (before tax withholdings required by law) of Euro 1,05 per ordinary share with ex-dividend date (coupon no. 22) on 29 April 2019. This dividend includes the portion attributable to the company's treasury shares. As per article 83-terdecies of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), eligibility for the dividend is determined based on the shareholders of record on the intermediary's books as per article 83-quater, paragraph 3 of the Consolidated Law on Finance at the end of 30 April 2019 (so-called record date);
- allocating the remainder to other reserves.

Venice - Mestre, 7 March 2019

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

03

Financial Statements

03.1. Statement of Financial Position

ASSETS (in Euro)		AMOUNTS AT	
		31.12.2018	31.12.2017*
10.	Cash and cash equivalents	28.574	47.124
20.	Financial assets at fair value through profit or loss	195.294.622	96.362.516
	a) financial assets held for trading	31.449.837	37.555.931
	c) other financial assets mandatorily measured at fair value	163.844.785	58.806.584
30.	Financial assets at fair value through other comprehensive income	432.089.320	819.860.213
40.	Financial assets measured at amortised cost	7.135.633.531	7.270.472.283
	a) due from banks	394.150.773	1.529.651.897
	b) loans to customers	6.741.482.758	5.740.820.386
70.	Equity investments	530.161.109	364.312.198
80.	Property, plant and equipment	91.222.192	110.306.130
90.	Intangible assets	19.287.044	21.273.951
	of which:		
	- goodwill	-	-
100.	Tax assets:	378.376.160	372.820.538
	a) current	45.155.071	70.885.433
	b) deferred	333.221.089	301.935.105
120.	Other assets	317.405.598	231.552.557
	Total assets	**9.099.498.151**	**9.287.007.510**

* The Bank 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".

LIABILITIES AND EQUITY (in Euro)		AMOUNTS AT	
		31.12.2018	31.12.2017*
10.	Financial liabilities measured at amortised cost.	7.312.491.232	7.531.369.569
	a) due to banks	756.432.526	774.474.603
	b) due to customers	5.577.056.827	5.966.900.815
	c) debt securities issued	979.001.878	789.994.151
20.	Financial liabilities held for trading	31.187.910	38.239.201
60.	Tax liabilities:	44.983.990	38.502.573
	a) current	5.855.068	-
	b) deferred	39.128.922	38.502.573
80.	Other liabilities	313.298.052	322.948.039
90.	Post-employment benefits	7.057.190	5.476.274
100.	Provisions for risks and charges:	22.013.608	13.177.887
	a) commitments and guarantees granted	3.622.760	589.741
	c) other provisions for risks and charges	18.390.848	12.588.145
110.	Valuation reserves	(8.549.182)	2.132.973
140.	Reserves	1.141.385.246	1.027.747.385
150.	Share premiums	102.116.429	101.864.338
160.	Share capital	53.811.095	53.811.095
170.	Treasury shares (-)	(3.103.286)	(3.167.902)
180.	Profit (loss) for the period (+/-)	82.805.867	154.906.079
	Total liabilities and equity	**9.099.498.151**	**9.287.007.510**

* The Bank 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. Income Statement

	ITEMS (in Euro)	YEAR	
		31.12.2018	31.12.2017*
10.	Interest receivable and similar income	368.086.080	363.460.749
	of which: interest income calculated using the effective interest method	*363.191.390*	*360.410.026*
20.	Interest due and similar expenses	(104.821.505)	(103.913.674)
30.	**Net interest income**	**263.264.575**	**259.547.075**
40.	Commission income	91.194.329	67.885.194
50.	Commission expense	(9.704.917)	(7.169.305)
60.	**Net commission income**	**81.489.412**	**60.715.889**
70.	Dividends and similar income	335.629	48.379
80.	Net profit (loss) from trading	(773.780)	12.027.119
100.	Gain (loss) on sale or buyback of:	10.253.694	25.594.075
	a) financial assets measured at amortised cost	2.022.522	19.015.446
	b) financial assets at fair value through other comprehensive income	(100)	6.578.629
	c) financial liabilities	8.231.272	-
110.	Net result of other financial assets and liabilities at fair value through profit or loss	(2.223.497)	-
	a) financial assets and liabilities designated as at fair value	-	-
	b) other financial assets mandatorily measured at fair value	(2.223.497)	-
120.	**Net banking income**	**352.346.033**	**357.932.537**
130.	Net credit risk losses/reversals on:	(20.975.496)	84.083.981
	a) financial assets measured at amortised cost	(19.956.033)	86.124.484
	b) financial assets at fair value through other comprehensive income	(1.019.462)	(2.040.503)
140.	Gains/losses on contractual modifications without derecognition	-	-
150.	**Net profit (loss) from financial activities**	**331.370.537**	**442.016.518**
160.	Administrative expenses:	(227.458.307)	(226.166.882)
	a) personnel expenses	(98.032.347)	(83.265.835)
	b) other administrative expenses	(129.425.960)	(142.901.047)
170.	Net allocations to provisions for risks and charges	(1.146.188)	2.459.397
	a) commitments and guarantees granted	(310.823)	5.604.567
	b) other net provisions	(835.365)	(3.145.170)
180.	Net impairment losses/reversal on property, plant and equipment	(4.537.894)	(3.759.588)
190.	Net impairment losses/reversal on intangible assets	(5.847.775)	(6.721.610)
200.	Other operating income/expenses	24.145.338	7.588.028
210.	**Operating costs**	**(214.844.826)**	**(226.600.655)**
220.	Profit (Loss) from investments	-	(24)
260.	**Pre-tax profit (loss) for the period from continuing operations**	**116.525.711**	**215.415.839**
270.	Income taxes for the year relating to current operations	(33.719.845)	(60.509.760)
300.	**Profit (loss) for the period**	**82.805.867**	**154.906.079**

* The Bank 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. Statement of Comprehensive Income

	ITEMS (in Euro)	31.12.2018	31.12.2017*
10.	**Profit (loss) for the period**	**82.805.867**	**154.906.079**
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**1.702.721**	**(465.907)**
20.	Equity securities designated as at fair value through other comprehensive income	1.586.339	(531.876)
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	116.381	65.969
80.	Non-current assets and disposal groups	-	-
90.	Share of valuation reserves of equity accounted investments:	-	-
	Other comprehensive income, net of taxes, to be reclassified to profit or loss	**(12.546.152)**	**1.851.753**
100.	Foreign investment hedges	-	-
110.	Exchange differences	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated items)	-	-
140.	Financial assets (other than equity securities) at fair value through other comprehensive income	(12.546.152)	1.851.753
150.	Non-current assets and disposal groups	-	-
160.	Share of valuation reserves of equity accounted investments:	-	-
170.	**Total other comprehensive income, net of taxes**	**(10.843.431)**	**1.385.846**
180.	**Total comprehensive income (Item 10+170)**	**71.962.436**	**156.291.925**

* The Bank 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 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 at 31/12/2018
							Equity transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Comprehensive income for the year 2018	
Share capital:														
a) ordinary shares	53.811.095	-	53.811.095	-	-	-	-	-	-	-	-	-	-	53.811.095
b) other shares	-	-		-	-	-	-	-	-	-	-	-	-	-
Share premiums	101.864.338	-	101.864.338	-	-	-	-	252.092	-	-	-	-	-	102.116.430
Reserves:														
a) retained earnings	1.022.301.814	972.604	1.023.274.418	101.472.813	-	11.251.408	-	(64.616)	-	-	-	-	-	1.135.934.023
b) other	5.445.570	-	5.445.570	-	-	5.652	-	-	-	-	-	-	-	5.451.222
Valuation reserves:	2.132.973	(7.851)	2.125.122	-	-	169.127	-	-	-	-	-	-	(10.843.431)	(8.549.182)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(3.167.902)	-	(3.167.902)	-	-	-	-	64.616	-	-	-	-	-	(3.103.286)
Profit (loss) for the period	154.906.079	-	154.906.079	(101.472.813)	(53.433.266)	-	-	-	-	-	-	-	82.805.867	82.805.867
Equity	**1.337.293.967**	**964.753**	**1.338.258.720**	**-**	**(53.433.266)**	**11.426.187**	**-**	**252.092**	**-**	**-**	**-**	**-**	**71.962.436**	**1.368.466.169**

03.5. Statement of Changes in Equity at 31 December 2017

	Balance at 31/12/2016	Change in opening balances	Balance at 1/1/2017	Allocation of profit from previous year		Changes occurred during the year								Equity at 31/12/2017
				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 dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options		
Share capital:														
a) ordinary shares	53.811.095	-	53.811.095	-	-	-	-	-	-	-	-	-	-	53.811.095
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	101.775.463	-	101.775.463	-	-	-	-	88.875	-	-	-	-	-	101.864.338
Reserves:														
a) retained earnings	366.640.991	-	366.640.991	27.908.556	-	627.752.267	-	-	-	-	-	-	-	1.022.301.814
b) other	5.464.876	-	5.464.876	-	-	-	-	(19.306)	-	-	-	-	-	5.445.570
Valuation reserves:	747.127	-	747.127	-	-	-	-	-	-	-	-	-	1.385.846	2.132.973
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(3.187.208)	-	(3.187.208)	-	-	-	-	19.306	-	-	-	-	-	(3.167.902)
Profit (loss) for the period	71.721.930	-	71.721.930	(27.908.556)	(43.813.374)	-	-	-	-	-	-	-	154.906.079	154.906.079
Equity	**596.974.274**	**-**	**596.974.274**	**-**	**(43.813.374)**	**627.752.267**	**-**	**88.875**	**-**	**-**	**-**	**-**	**156.291.925**	**1.337.293.967**

03.6. Cash Flow Statement

CASH FLOW STATEMENT Indirect method	Amount	
	31.12.2018	31.12.2017*
A. OPERATING ACTIVITIES		
1. Operations	**380.569.811**	**(54.326.398)**
- profit (loss) for the year (+/-)	82.805.867	154.906.079
- profit/loss on financial assets held for trading and on other financial assets/liabilities at fair value through profit or loss (-/+)	2.997.278	(16.307.403)
- net credit risk losses/reversals (+/-)	20.975.496	40.546.744
- net impairment losses/reversals on property, plant and equipment and intangible assets (+/-)	10.385.669	10.481.199
- net allocations to provisions for risks and charges and other expenses/income (+/-)	1.237.188	3.164.856
- unpaid taxes, duties and tax credits (+/-)	33.719.845	60.509.760
- other adjustments (+/-)	228.448.468	(307.627.633)
2. Cash flows generated/absorbed by financial assets	**264.520.450**	**(192.704.947)**
- Financial assets held for trading	5.332.314	18.631.009
- other assets mandatorily measured at fair value	(107.261.698)	-
- financial assets at fair value through other comprehensive income	376.069.275	(498.944.893)
- financial assets measured at amortised cost	114.882.718	463.126.075
- other assets	(124.502.159)	(175.517.138)
3. Cash flows generated/absorbed by financial liabilities	**(220.545.097)**	**310.350.947**
- financial liabilities measured at amortised cost	(218.878.337)	261.099.218
- financial liabilities held for trading	(7.051.291)	(11.342.428)
- other liabilities	5.384.531	60.594.157
Net cash flows generated/absorbed by operating activities A (+/-)	**424.545.163**	**63.319.603**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**14.546.044**	**36.110**
- sale of property, plant and equipment	14.546.044	36.110
2. Cash flows absorbed by	**(386.160.869)**	**(20.073.928)**
- purchases of investments	(382.300.000)	(2.000.000)
- purchases of property, plant and equipment	-	(3.611.328)
- purchases of intangible assets	(3.860.869)	(14.462.600)
Net cash flows generated/absorbed by investing activities B (+/-)	**(371.614.825)**	**(20.037.818)**
C. FINANCING ACTIVITIES		
- issues/buyback of treasury shares	316.708	108.181
- issues/buyback of equity instruments	167.231	438.284
- distribution of dividends and other	(53.432.828)	(43.813.374)
Net cash flows generated/absorbed by financing activities C (+/-)	**(52.948.889)**	**(43.266.909)**
NET CASH FLOWS GENERATED/ABSORBED DURING THE YEAR D=A+/-B+/-C	**(18.550)**	**14.876**
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	**47.124**	**32.248**
TOTAL NET CASH GENERATED/ABSORBED DURING THE YEAR D	**(18.550)**	**14.876**
CASH AND CASH EQUIVALENTS: EFFECT OF CHANGES IN EXCHANGE RATES F	**-**	**-**
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	**28.574**	**47.124**

KEY:

(+) generated

(-) absorbed

* The Bank 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 Financial Statements

04.1. Part A - Accounting policies

A.1 – General part

Section 1 – Statement of compliance with international accounting standards

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

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

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

Section 2 – Basis of preparation

The financial statements consist of:

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

In addition, they contain the Directors' Report.

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

For the preparation of these Financial Statements, reference was made to the format set out by Bank of Italy's Circular no. 262 of 22 December 2005, 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 items and tables required by Bank of Italy's Regulation no. 262/2005 where these items are not applicable to Banca IFIS.

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

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 associated with the present macro-economic context, and considering also the financial and economic plans drawn up by the Bank, Banca IFIS can indeed be considered a going concern, in that it can be reasonably expected to continue to operate in the foreseeable future. Therefore, the Separate 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 Bank has consistently achieved, to the quality of its loans, and to its current access to financial resources.

Section 3 – Subsequent events

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

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

Section 4 – Other aspects

Risks and uncertainties related to estimates

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

Specifically, it made estimates on the carrying amounts of some items recognised in the Financial Statements at 31 December 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 NPL operations;
- receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable;
- definition of the expected credit loss;
- 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 Bank 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 Bank 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 Bank 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 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 Separate 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 Bank 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 Separate 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 and IFRS 1 Additional Exemptions for First-time Adopters;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration: The interpretation clarifies how to account for transactions that involve advance consideration paid or received in a foreign currency.

Standards issued but not yet effective

Several new international accounting standards are applicable for annual periods beginning on or after 1 January 2018, for which earlier application is permitted; however, the Bank 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 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 Bank decided not to adopt it early.

In 2018, the Bank 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, Banca IFIS 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 Bank 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 Bank, 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 Bank 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's opening equity emerge at the date of initial application under this approach.

IFRS 16 did not introduce significant changes to lessor accounting, therefore the Bank does not anticipate any impact in this sense.

Finally, the Bank 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);
- 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 Bank must approve the separate financial statements and publish the Annual Financial Report, including the draft separate financial statements, the directors' report, and the declaration as per article 154-bis, paragraph 5, within 120 days of the end of the financial year. The Board of Directors approved the Bank's draft separate financial statements on 7 March 2019; the 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 existing incurred loss model with an expected loss model, so as to recognise impairment losses in a timelier manner. Under IFRS 9, entities must recognise 12-month expected credit losses (so-called "Stage 1") since the initial recognition of the financial instrument. If the credit quality of the financial instrument has deteriorated "significantly" since initial recognition (so-called "Stage 2") or become "impaired" (so-called "Stage 3"), entities must recognise the lifetime expected credit loss.

The introduction of the new impairment rules requires:

- allocating performing financial assets to different credit risk stages, resulting in the recognition of 12-month expected credit losses ("Stage 1") or lifetime expected credit losses ("Stage 2"), based on a significant increase in credit risk («SICR») calculated by comparing the Probability of Default as at the date of initial recognition and as at the reporting date, or by early warning signs or payments more than 30 days past due;
- allocating non-performing financial assets to "Stage 3", recognising impairment losses on an individual basis or using "fixed" percentages based on historical observed default rates related to the status of the position.

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

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 Banca IFIS's equity at 1 January 2018.

Reconciliation of comparative information

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

Strictly for the purposes of allowing to compare the information for the period, the statement of financial position and the income statement for prior periods have been 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 Bank'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 Bank elected to use the so-called "OCI Option" so as to measure them at fair value through equity (without reclassifying any gains and losses on their disposal to profit or loss).

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

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

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

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

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

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

Below is the reconciliation of assets and liabilities in the 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 31.12.2017	AMOUNTS AT Classification Impact	AMOUNTS AT 31.12.2017 RESTATED	ASSETS (in thousands of Euro) Circular 262/2005 5th Update	
10.	Cash and cash equivalents	47	-	47	10.	Cash and cash equivalents
			58.807	96.363	20.	Financial assets at fair value through profit or loss
20.	Financial assets held for trading	37.556	-	37.556		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	833.833	(13.973)	819.860	30.	Financial assets at fair value through other comprehensive income
			(60.363)	7.270.472	40.	Financial assets measured at amortised cost
60.	Due from banks	1.546.776	(17.124)	1.529.652		a) due from banks
70.	Loans to customers	5.784.059	(43.239)	5.740.820		b) loans to customers
100.	Equity investments	364.312	-	364.312	70.	Equity investments
110.	Property, plant and equipment	110.306	-	110.306	80.	Property, plant and equipment
120.	Intangible assets	21.274	-	21.274	90.	Intangible assets
130.	Tax assets	372.820	-	372.820	100.	Tax assets:
150.	Other assets	231.554	-	231.554	120.	Other assets
	Total assets	**9.302.537**	**(15.529)**	**9.287.008**		**Total assets**

LIABILITIES (in thousands of Euro) Circular 262/2005 4th Update		AMOUNTS AT 31.12.2017	AMOUNTS AT Classification Impact	AMOUNTS AT 31.12.2017 RESTATED	LIABILITIES (in thousands of Euro) Circular 262/2005 5th Update	
			-	7.531.370	10.	Financial liabilities measured at amortised cost.
10.	Due to banks	774.475	-	774.475		a) due to banks
20.	Due to customers	5.966.901	-	5.966.901		b) due to customers
30.	Debt securities issued	789.994	-	789.994		c) debt securities issued
40.	Financial liabilities held for trading	38.239	-	38.239	20.	Financial liabilities held for trading
80.	Tax liabilities	38.503	-	38.503	60.	Tax liabilities
100.	Other liabilities	338.492	(15.544)	322.949	80.	Other liabilities
110.	Post-employment benefits	5.476	-	5.476	90.	Post-employment benefits
120.	Provisions for risks and charges:	13.163	15	13.178	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	13.163	(575)	12.588		c) other provisions for risks and charges
130.	Valuation reserves	2.133	-	2.133	110.	Valuation reserves
160.	Reserves	1.027.747	-	1.027.747	140.	Reserves
170.	Share premiums	101.864	-	101.864	150.	Share premiums
180.	Share capital	53.811	-	53.811	160.	Share capital
190.	Treasury shares (-)	(3.168)	-	(3.168)	170.	Treasury shares (-)
200.	Profit (loss) for the period (+/-)	154.906	-	154.906	180.	Profit (loss) for the period (+/-)
	Total liabilities and equity	**9.302.537**	**(15.529)**	**9.287.008**		**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 receivables of the business unit dedicated to NPL operations, which was transferred to the newly established entity IFIS NPL S.p.A. on 1 July 2018.

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

Under the new standard, the impact from the periodic review of lifetime ECLs (expected credit losses throughout the asset's remaining useful life) is classified within the line item Net credit risk losses/reversals. 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 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	AMOUNTS AT Classification Impact	AMOUNTS AT 31.12.2017 RESTATED	INCOME STATEMENT ITEMS (in thousands of Euro) Circular 262/2005 5th Update	
10	Interest receivable and similar income	493.696	(130.235)	363.461	10	Interest receivable and similar income
20	Interest due and similar expenses	(103.914)	-	(103.914)	20	Interest due and similar expenses
30	**Net interest income**	**389.782**	**(130.235)**	**259.547**	**30**	**Net interest income**
40	Commission income	67.885	-	67.885	40	Commission income
50	Commission expense	(7.169)	-	(7.169)	50	Commission expense
60	**Net commission income**	**60.716**	**-**	**60.716**	**60**	**Net commission income**
70	Dividends and similar income	48	-	48	70	Dividends and similar income
80	Net profit (loss) from trading	12.027	-	12.027	80	Net profit (loss) from trading
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**	**488.168**	**(130.235)**	**357.933**	**120**	**Net banking income**
130	Net impairment losses/reversal on	(40.547)	124.630	84.083	130	Net credit risk losses/reversal on:
	a) receivables	(44.111)	130.235	86.124		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**	**447.621**	**(5.605)**	**442.016**	**150**	**Net profit (loss) from financial activities**
150	Administrative expenses:	(226.167)	-	(226.167)	160	Administrative expenses:
	a) Personnel expenses	(83.266)	-	(83.266)		a) Personnel expenses
	b) Other administrative expenses	(142.901)	-	(142.901)		b) Other administrative expenses
160	Net allocations to provisions for risks and charges	(3.145)	5.605	2.460	170	Net allocations to provisions for risks and charges
			5.605	5.605		a) commitments and guarantees granted
			-	(3.145)		b) other net provisions
170	Net impairment losses/reversal on property, plant and equipment	(3.760)	-	(3.760)	180	Net impairment losses/reversal on property, plant and equipment
180	Net impairment losses/reversal on intangible assets	(6.722)	-	(6.722)	190	Net impairment losses/reversal on intangible assets
190	Other operating income/expenses	7.553	36	7.589	200	Other operating income/expenses
200	**Operating costs**	**(232.241)**	**5.641**	**(226.600)**	**210**	**Operating costs**
240	Profit (Loss) from sales of investments	36	(36)	-	250	Profit (Loss) from sales of investments
250	**Pre-tax profit (loss) for the period from continuing operations**	**215.416**	**-**	**215.416**	**260**	**Pre-tax profit (loss) for the period from continuing operations**
260	Income taxes for the year relating to current operations	(60.510)	-	(60.510)	270	Income taxes for the year relating to current operations
290	**Profit (loss) for the period**	**154.906**	**-**	**154.906**	**300**	**Profit (loss) for the period**

First-time adoption impact

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

These impacts, which concern both the amount and composition of equity, mainly derive from the following:

- the requirement to restate impairment losses on financial assets (both performing and non-performing) using the "expected credit loss" model instead of the existing "incurred credit loss" model. Specifically, as far as performing exposures are concerned, the increase/decrease in impairment losses is attributable to:
  - the classification of part of the portfolio within Stage 2, requiring a "lifetime" credit loss;
  - the recognition of impairment losses also on portfolios previously not subject to impairment (receivables due from banks, government bonds, guarantees received);
- the need to reclassify some financial assets based on the combined result of the two classification drivers laid down in the standard: the business model for managing these instruments, and the relevant contractual cash flow characteristics (SPPI test).

The above resulted in a positive impact totalling approximately 1,0 million Euro, net of taxes, on the Bank's equity.

Below is the impact of the transition to IFRS 9 based on the 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 units of Euro) Circular 262/2005 5th Update		AMOUNTS AT 31.12.2017 RESTATED	IFRS 9 IMPACT		AMOUNTS AT 01.01.2018
			Measurement	*Impairment*	
10.	Cash and cash equivalents	47	-	-	47
20.	Financial assets at fair value through profit or loss	96.363	(49)	-	96.314
	a) financial assets held for trading	37.556	-	-	37.556
	b) financial assets designated as at fair value	-	-	-	-
	c) other financial assets mandatorily measured at fair value	58.807	(49)	-	58.758
30.	Financial assets at fair value through other comprehensive income	819.860	-	(505)	819.355
40.	Financial assets measured at amortised cost	7.270.472	-	5.024	7.275.496
	a) due from banks	1.529.652	-	(415)	1.529.237
	b) loans to customers	5.740.820	-	5.439	5.746.259
70.	Equity investments	364.312	-	-	364.312
80.	Property, plant and equipment	110.306	-	-	110.306
90.	Intangible assets	21.274	-	-	21.274
100.	Tax assets	372.820	16	1.064	373.900
120.	Other assets	231.554	-	-	231.554
	Total assets	**9.287.008**	**(33)**	**5.583**	**9.292.558**

	LIABILITIES (in units of Euro) Circular 262/2005 5th Update	AMOUNTS AT	IFRS 9 IMPACT		AMOUNTS AT
		31.12.2017	*Measurement*	*Impairment*	01.01.2018
10.	Financial liabilities measured at amortised cost.	7.531.370	-	-	7.531.370
	a) due to banks	774.475	-	-	774.475
	b) due to customers	5.966.901	-	-	5.966.901
	c) debt securities issued	789.994	-	-	789.994
20.	Financial liabilities held for trading	38.239	-	-	38.239
60.	Tax liabilities	38.503	-	1.864	40.367
80.	Other liabilities	322.949	-	-	322.949
90.	Post-employment benefits	5.476	-	-	5.476
100.	Provisions for risks and charges:	13.178	-	2.722	15.900
	a) commitments and guarantees granted	590	-	2.722	3.312
	b) pensions and similar obligations	-	-	-	-
	c) other provisions for risks and charges	12.588	-	-	12.588
110.	Valuation reserves	2.133	(7)	-	2.126
140.	Reserves	1.027.747	(26)	997	1.028.718
150.	Share premiums	101.864	-	-	101.864
160.	Share capital	53.811	-	-	53.811
170.	Treasury shares (-)	(3.168)	-	-	(3.168)
180.	Profit (loss) for the period (+/-)	154.906	-	-	154.906
	Total liabilities and equity	**9.287.008**	**(33)**	**5.583**	**9.292.558**

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 Bank 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 Bank elects not to use the option under the standard to measure them at fair value through other comprehensive income.

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

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

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

Recognition criteria

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

Measurement criteria

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

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

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

Derecognition criteria

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

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

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

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

Classification criteria

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

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

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

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

Recognition criteria

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

Measurement criteria

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

The equity instruments the Bank 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 Bank assesses whether a significant increase in credit risk (impairment) has occurred pursuant to IFRS 9, recognising an impairment loss to cover the expected credit losses through profit or loss.

Conversely, equity securities are not tested for impairment.

Derecognition criteria

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

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

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

3 – Financial assets measured at amortised cost

Classification criteria

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

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

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

- receivables due from banks,
- receivables due from customers, largely consisting of:
  - demand advances to customers as part of factoring operations vis-à-vis a receivables portfolio factored with recourse and still recognised in the seller's statement of financial position, or vis-à-vis receivables factored without recourse, providing no contractual clauses that eliminate the conditions for their recognition exist.
  - loans to customers deriving from mortgages or loans extended as part of corporate banking operations;
  - distressed retail loans acquired from banks and retail lenders;
  - tax receivables resulting from insolvency proceedings;
  - repurchase agreements;
  - receivables arising from finance leases;
- debt securities acquired through subscription or private placement, with fixed or determinable payments, not quoted in active markets.

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

Recognition criteria

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

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

Measurement criteria

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

The amortised cost method usually does not apply to short-term loans, as the effect of discounting would be immaterial. These are measured instead at their acquisition cost. A similar criterion applies to loans without a definite payment date or revocable loans.

At each reporting date, including interim reporting dates, the Bank 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 Bank recognises the amount represented by the gradual reversal of the discount calculated at the time the impairment loss was recognised.

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

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

Derecognition criteria

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

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

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

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

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

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

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

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

4 – Equity investments

Classification criteria

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

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

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

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

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

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

Recognition criteria

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

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

- any costs directly attributable to the acquisition.

Measurement criteria

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

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

Derecognition criteria

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

5 - 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;
- vehicles;
- leasehold improvements on third-party property.

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

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

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

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

Recognition criteria

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

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

Measurement criteria

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

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

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

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

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

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

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

The usually estimated useful lives are the following:

- buildings: not exceeding 34 years.
- furniture: not exceeding 7 years.
- electronic systems: not exceeding 3 years.
- 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.

6 - 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.

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.

7 - 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 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, as a result of the "tax consolidation" option, to continue to generate taxable profit.

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.

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

8 – 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.

9 – Financial liabilities measured at amortised cost.

Classification criteria

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

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

Recognition criteria

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

Measurement criteria

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

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

Derecognition criteria

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

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

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

10 – Financial liabilities held for trading

Classification criteria

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

Recognition criteria

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

Measurement criteria

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

Derecognition criteria

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

11 – 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.

12 - 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 Banca IFIS's was classified as a defined benefit plan. The Bank 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 Bank'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 NPL operations, the costs incurred upfront for non-judicial debt collection operations through settlement plans, as well as legal expenses and registration fees for judicial debt collection operations, are recognised in profit or loss under "Other administrative expenses" in the period in which the positive impact of the relevant receivables deriving from the change in the underlying cash flows associated with the plans entered into or the court orders obtained is recognised in profit or loss.

Dividends

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

Repurchase agreements

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

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

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

Amortised cost

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

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

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

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

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

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

Purchased or Originated Credit Impaired (POCI) Financial Assets

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

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

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

The Bank regularly reviews said expected credit losses, recognising impairment losses or 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.

Impairment of financial instruments

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

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

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

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

The existence of a significant increase in credit risk is identified for each individual relationship using both qualitative and quantitative criteria. Banca IFIS 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 Bank calculates the expected credit losses (ECLs) for each individual transaction or tranche based on models calibrated on internal datasets, and models calibrated on datasets of External Credit Assessment Institutions (so-called "ECAI Agencies") on portfolios for which no internal observations are available, based on measures such as Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), adjusted as needed to ensure compliance with the specific provisions of IFRS 9.

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

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

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

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

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

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

A.2.1 – Main items of the comparative information related to financial instruments

The Bank'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 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.

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

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

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

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

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

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

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

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

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

- the trend in future cash flows, possibly contingent on future events whose probability of occurring can be derived from historical experience or based on behavioural assumptions;
- the level of specific inputs not quoted 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 Bank applies the Discounted Cash Flow Model (DCF) 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 Bank 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 Bank 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 Bank 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 Bank'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 valuation.

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

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 Bank 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, Banca IFIS transfers them between levels of the hierarchy based on the following guidelines.

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

Equity securities classified as financial assets at fair value through other comprehensive income are transferred between levels when:

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

Quantitative disclosure

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value (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	-	80.532	114.763	-	41.483	54.880
a) financial assets held for trading	-	31.450	-	-	37.367	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	-	13.380	430.908	10.222	378.730
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**418.709**	**80.532**	**128.143**	**430.908**	**51.706**	**433.610**
1. Financial liabilities held for trading	-	31.188	-	-	38.239	-
2. Financial liabilities designated as at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**31.188**	**-**	**-**	**38.239**	**-**

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.
* The Bank 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, 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**	**378.730**	**-**	**-**	**-**
2. Increases	78.678	-	-	78.678	12.480	-	-	-
2.1. Purchases	48.852	-	-	48.852	-	-	-	-
2.2. Profit taken to:	-	-	-	-	-	-	-	-
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**	**377.830**	**-**	**-**	**-**
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	-	-	-	-	377.284	-	-	-
4. Closing balance	**114.763**	**-**	**-**	**114.763**	**13.380**	**-**	**-**	**-**

* The Bank 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".

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:	7.135.635	14.155	-	7.217.251	7.270.472	-	-	7.405.297
2. Investment property	720	-	-	880	720	-	-	880
3. Non-current assets and disposal groups	-	-	-	-	-	-	-	-
Total	**7.136.355**	**14.155**	**-**	**7.218.131**	**7.271.192**	**-**	**-**	**7.406.177**
1. Financial liabilities measured at amortised cost:	7.312.491	708.742	-	6.485.996	7.531.370	88.768	712.400	6.743.162
2. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	**7.312.491**	**708.742**	**-**	**6.485.996**	**7.531.370**	**88.768**	**712.400**	**6.743.162**

Key
BV= book value
L1= Level 1
L2= Level 2
L3= Level 3
* The Bank 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".

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 Bank's operations during 2018.

04.2. Part B - 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	29	47
b) On demand deposits at Central banks	-	-
Total	**29**	**47**

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	-	31.450	-	-	37.367	189
1.1 For trading	-	31.450	-	-	37.367	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)	**-**	**31.450**	**-**	**-**	**37.367**	**189**
Total (A+B)	**-**	**31.450**	**-**	**-**	**37.367**	**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	31.450	37.556
Total (B)	**31.450**	**37.556**
Total (A+B)	**31.450**	**37.556**

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**

Key
L1= Level 1
L2= Level 2
L3= Level 3
* The Bank 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 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	1.935	955
of which: insurance companies	-	-
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	37.306	34.497
of which: insurance companies	-	-
e) Non-financial companies	13.988	9.622
f) Households	2	4
Total	**163.845**	**58.807**

* The Bank 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 49,1 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**	**-**	**377.284**
1.1 Structured	-	-	-	-	-	-
1.2 Other	418.709	-	-	427.833	-	377.284
2. Equity securities	**-**	**-**	**13.385**	**3.075**	**10.222**	**1.446**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**418.709**	**-**	**13.385**	**430.908**	**10.222**	**378.730**

Key
L1= Level 1
L2= Level 2
L3= Level 3

* The Bank 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".

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 minority 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**	**805.117**
a) Central Banks	-	-
b) Public Administrations	410.410	427.833
c) Banks	8.299	-
d) Other financial companies	-	377.284
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	**13.380**	**14.743**
a) Banks	22	22
b) Other issuers:	13.358	14.721
- other financial companies	6.671	10.001
of which: insurance companies	-	-
- non-financial companies	-	-
- other	6.688	4.719
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	**432.089**	**819.860**

* The Bank 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	-	-	-

(1) Amount to be reported for disclosure purposes

* The Bank 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 – 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 origina-ted credit impaired	L1	L2	L3
A. Due from Central banks	**280.871**	**-**	**-**	X	X	X	**1.347.384**	**-**	**n.a.**	X	X	X
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	**113.280**	-	-	X	X	X	**199.392**		**n.a.**	X	X	X
1. Loans	113.280	-	-	X	X	X	199.392	-	n.a.	X	X	X
1.1 Current accounts and on demand deposits	73.207	-	-	X	X	X	95.857	-	n.a.	X	X	X
1.2 Fixed-term deposits	38.461	-	-	X	X	X	85.712	-	n.a.	X	X	X
1.3 Other loans:	1.612	-	-	X	X	X	699	-	n.a.	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	n.a.	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	n.a.	X	X	X
- Other	1.612	-	-	X	X	X	699	-	n.a.	X	X	X
2. Debt securities	-	-	-	X	X	X	-	-	n.a.	X	X	X
2.1 Structured	-	-	-	X	X	X	-	-	n.a.	X	X	X
2.2 Other	-	-	-	X	X	X	-	-	n.a.	X	X	X
Total	**394.151**	-	-	**-**	**-**	**394.151**	**1.529.652**	**-**	**n.a.**	**-**	**-**	**1.529.652**

* The Bank 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	**6.222.169**	**355.596**	**126.927**				**4.507.153**	**1.187.879**	**n.a.**			
1. Current accounts	126.595	40.980	134	X	X	X	133.925	80.878	n.a.	X	X	X
2.Reverse repurchase agreements	49.846	-	-	X	X	X	-	-	n.a.	X	X	X
3. Loans/mortgages	1.931.965	130.010	122.272	X	X	X	885.370	189.205	n.a.	X	X	X
4. Credit cards, personal loans and salary-backed loans	-	-	-	X	X	X	70	387.764	n.a.	X	X	X
5. Finance leases	1.158.551	16.410	-	X	X	X	11	259	n.a.	X	X	X
6. Factoring	2.610.077	149.261	3	X	X	X	2.562.265	170.838	n.a.	X	X	X
7. Other loans	345.134	18.935	4.518	X	X	X	968.040	316.407	n.a.	X	X	X
2. Debt securities	**163.717**	**1**	**-**	**X**	**X**	**X**	**45.788**	**-**	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	45.788	-	n.a.	X	X	X
Total	**6.385.886**	**355.597**	**126.927**	**14.155**	**-**	**6.823.100**	**4.595.469**	**1.145.351**	**n.a.**	**-**	**-**	**5.875.645**

* The Bank 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 largely referred to the non-performing assets arising from the acquisition of the former GE Capital Interbanca Group.

Finally, other debt securities included 138,6 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**	**-**	**45.789**	**-**	***n.a.***
a) Public Administrations	-	-	-	-	-	*n.a.*
b) Other financial companies	146.017	-	-	40.780	-	*n.a.*
of which: insurance companies	-	-	-	-	-	*n.a.*
c) Non-financial companies	17.700	1	-	5.009	-	*n.a.*
2. Loans to:	**6.222.169**	**355.596**	**124.106**	**4.549.681**	**1.145.350**	***n.a.***
a) Public Administrations	705.261	51.656	-	743.620	54.249	*n.a.*
b) Other financial companies	1.003.050	2.760	4.455	882.367	773.128	*n.a.*
of which: insurance companies	83	-	-	16	-	*n.a.*
c) Non-financial companies	4.084.451	256.502	101.240	2.923.694	317.973	*n.a.*
d) Households	429.407	44.678	18.411	-	-	*n.a.*
Total	**6.385.886**	**355.597**	**124.106**	**4.595.470**	**1.145.350**	***n.a.***

* The Bank 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	164.299	-	322	582	-	321	-
Loans	5.977.386	-	388.554	628.902	26.452	4.040	273.306	340.838
Total 31.12.2018	**6.141.685**	**164.299**	**388.554**	**629.224**	**27.034**	**4.040**	**273.627**	**340.838**
Total 31.12.2017*	**6.153.653**			**1.962.393**	**31.417**		**814.157**	**n.a.**
of which: purchased or originated credit impaired financial assets	X	X	23.563	100.543	X	-	-	226.283

(1) Amount to be reported for disclosure purposes

* The Bank 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 7 - Equity investments – Item 70

7.1 Equity investments: information on investments

Company Name	Registered office	Head Office	Equity %	Voting rights %
A. Subsidiaries				
1. IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	100%	100%
2. IFIS Rental Services S.r.l.	Milan	Milan	100%	100%
3. IFIS NPL S.p.A.	Mestre	Florence, Milan and Mestre	100%	100%
4. Two Solar Park 2008 S.r.l.	Milan	Milan	100%	100%
5. Cap.Ital.Fin S.p.A.	Naples	Naples	100%	100%
6. Credifarma S.p.A.	Rome	Rome	70%	70%
B. Joint ventures	-	-	-	-
C. Companies under significant influence	-	-	-	-

7.5 Equity investments: annual changes

	31.12.2018	31.12.2017
A. Opening balance	**364.312**	**135.789**
B. Increases	**380.910**	**582.625**
B.1 Purchases	9.510	108.880
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other increases	371.400	337.956
C. Reductions	**215.061**	**218.313**
C.1 Sales	-	-
C.2 Impairment losses and amortisation:	-	-
C.3 Devaluations	-	-
C.4 Other reductions	215.061	218.313
D. Closing balance	**530.161**	**364.312**
E. Total revaluations	**-**	**-**
F. Total adjustments	**-**	**-**

Purchases refer to the acquisition of Cap.Ital.Fin. S.p.A. and Credifarma S.p.A..

"Other increases" included 11,4 million Euro resulting from the capital increase in favour of the subsidiary Cap.Ital.fin. S.p.A. and 360,0 million Euro arising from the spin-off of the business unit dedicated to Non-Performing Loans into IFIS NPL S.p.A..

"Other decreases" referred to the carrying amount of the merged entity IFIS Leasing S.p.A..

Section 8 – Property, plant and equipment and investment property – Item 80

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

Assets/amounts	31.12.2018	31.12.2017
1. Owned	**86.660**	**105.989**
a) Land	35.902	35.892
b) Buildings	43.481	61.495
c) Furnishings	1.332	1.887
d) Electronic systems	4.487	4.893
e) Others	1.458	1.822
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	**90.502**	**109.586**
of which: obtained by enforcing collateral	-	-

Property, plant and equipment and investment property totalled 90,5 million Euro, down from 109,6 million Euro at 1 January 2018 essentially due to the spin-off of the business unit dedicated to Non-Performing Loans.

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.

8.2 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

8.6 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**	**86.749**	**11.220**	**16.877**	**12.467**	**163.205**
A.1 Total net depreciation and impairment	-	(21.657)	(9.333)	(11.524)	(11.105)	(53.619)
A.2 Net opening balance	**35.892**	**65.092**	**1.887**	**5.353**	**1.362**	**109.586**
B. Increases	**10**	**4.364**	**320**	**1.284**	**935**	**6.913**
B.1 Purchases	10	4.308	284	1.179	334	6.115
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 increases	-	56	36	105	601	798
C. Reductions	**-**	**(22.133)**	**(875)**	**(2.150)**	**(839)**	**(25.997)**
C.1 Sales	-	-	-	(306)	(429)	(735)
C.2 Depreciation	-	(2.143)	(340)	(1.659)	(396)	(4.538)
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 reductions	-	(19.990)	(535)	(185)	(14)	(20.724)
D. Net closing balance	**35.902**	**47.323**	**1.332**	**4.487**	**1.458**	**90.502**
D.1 Total net depreciation and impairment	-	(20.508)	(9.941)	(13.717)	(11.859)	(56.025)
D.2 Gross closing balance	**35.902**	**67.831**	**11.273**	**18.204**	**13.317**	**146.527**
E. Measurement at cost	-	-	-	-	-	-

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

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

Other increases referred to the merger of IFIS Leasing S.p.A. into the Bank. Conversely, other reductions were associated with the spin-off of the relevant operations into IFIS NPL S.p.A..

8.7 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 increases	-	-
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 reductions	-	-
D. Closing balance	**-**	**720**
E. Measurement at fair value	-	880

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

Section 9 – Intangible assets – Item 90

9.1 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	**-**	X	**-**
A.2 Other intangible assets	**19.287**	**-**	**21.274**	**-**
A.2.1 Assets measured at cost:	19.287	-	21.274	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	19.287	-	21.274	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**19.287**	**-**	**21.274**	**-**

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.

9.2 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	**-**	**-**	**-**	**37.455**	**-**	**37.455**
A.1 Total net depreciation and impairment losses	-	-	-	(16.181)	-	(16.181)
A.2 Net opening balance	**-**	**-**	**-**	**21.274**	**-**	**21.274**
B. Increases	**-**	**-**	**-**	**6.167**	**-**	**6.167**
B.1 Purchases	-	-	-	4.708	-	4.708
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Reversals of impairment losses	X	-	-	-	-	-
B.4 Fair value gains:	-	-	-	-	-	-
- to equity	X	-	-	-	-	-
- to profit or loss	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	1.459	-	1.459
C. Reductions	**-**	**-**	**-**	**(8.154)**	**-**	**(8.154)**
C.1 Sales	-	-	-	(63)	-	(63)
C.2 Impairment losses and amortisation:	-	-	-	(5.849)	-	(5.849)
- Amortisation expense	X	-	-	(5.849)	-	(5.849)
- Impairment losses	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses:	-	-	-	-	-	-
- to equity	X	-	-	-	-	-
- to profit or loss	X	-	-	-	-	-
C.4 Transfer to non-current assets under disposal	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	(2.242)	-	(2.242)
D. Net closing balance	**-**	**-**	**-**	**19.287**	**-**	**19.287**
D.1 Total net amortisation, impairment losses and reversals of impairment losses	-	-	-	-	-	-
E. Gross closing balance	**-**	**-**	**-**	**19.287**	**-**	**19.287**
F. Measurement at cost	-	-	-	-	-	-

Key
FIN: finite useful life
INDEF: indefinite useful life

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

Section 10 – Tax assets and liabilities – Item 100 of assets and Item 60 of liabilities

10.1 Deferred tax assets: breakdown

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

Deferred tax assets	31.12.2018	31.12.2017
A. Gross deferred tax assets	**333.221**	**301.935**
A1. Receivables (including securitisations)	216.864	176.214
A2. Other financial instruments	5.745	-
A3. Goodwill	-	-
A4. Multi-year expenses	-	-
A5. Property, plant and equipment	-	-
A6. Provisions for risks and charges	10.320	7.484
A7. Entertainment expenses	-	-
A8. Personnel-related expenses	-	-
A9. Tax losses	98.842	115.994
A10. Unused tax credits to be deducted	-	-
A11. Others	1.450	2.243
B. Set-off with deferred tax liabilities	-	-
C. Net deferred tax assets	**333.221**	**301.935**

Deferred tax assets were up largely due to the merger of the subsidiary IFIS Leasing into the Bank, which contributed approximately 56,7 million Euro and was partially offset by the use of past tax losses.

Deferred tax assets totalled 333,2 million Euro and can be classified as follows: 214,6 million Euro in impairment losses on receivables that can be deducted in the following years, 76,0 million Euro in past tax losses that can be carried forward, 22,8 million Euro in ACE (Aid for Economic Growth) benefits that can be carried forward, 5,7 million Euro associated with financial assets at fair value through other comprehensive income, and 14,0 million Euro in temporary differences on provisions for risks and charges as well as various costs with deferred deductibility.

10.2 Deferred tax liabilities: breakdown

The main types of deferred tax liabilities are shown below:

	31.12.2018	31.12.2017
A. Gross deferred tax liabilities	**39.129**	**38.503**
A1. Capital gains to be spread over multiple periods	-	-
A2. Goodwill	-	-
A3. Property, plant and equipment	9.193	9.001
A4. Financial instruments	673	1.798
A5. Personnel-related expenses	-	-
A6. Others	29.263	27.704
B. Set-off with deferred tax assets	**-**	**-**
C. Net deferred tax liabilities	**39.129**	**38.503**

Deferred tax liabilities, totalling 39,1 million Euro, largely included 25,8 million Euro in receivables for interest on arrears that will be taxed upon receipt, 9,2 million Euro in the revaluation of property, and 3,2 million Euro in other mismatches of trade receivables.

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

	31.12.2018	31.12.2017
1. Opening balance	**301.603**	**38.204**
2. Increases	**67.111**	**396.109**
2.1 Deferred tax assets recognised in the year	10.431	15.167
a) relative to previous years	-	814
b) due to change in accounting standards	-	-
c) reversals of impairment losses	-	-
d) other	10.431	14.353
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	56.680	380.942
3. Decreases	**41.261**	**132.710**
3.1 Deferred tax assets reversed during the year	41.242	123.306
a) reversals	38.349	123.306
b) impairment losses due to unrecoverability	-	-
c) change in accounting standards	-	-
d) other	2.893	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions:	19	9.404
a) conversion into tax credits as per Italian Law 214/2011	19	9.404
b) other	-	-
4. Closing balance	**327.453**	**301.603**

The “other increases” for the period referred to the recognition of the deferred tax assets of the merged entity IFIS Leasing S.p.A.; in 2017, this line item referred to the recognition of the deferred tax assets of the merged entities Interbanca S.p.A. and, to a lesser extent, IFIS Factoring S.r.l..

10.3 bis Changes in deferred tax assets as per Italian Law 214/2011

	31.12.2018	31.12.2017
1. Opening balance	**176.214**	**-**
2. Increases	**38.427**	**185.618**
3. Decreases	**29**	**9.404**
3.1 Reclassifications	-	-
3.2 Conversion in tax credits	19	9.404
a) deriving from losses for the year	-	9.242
b) deriving from tax losses	19	162
3.3 Other reductions	9	-
4. Closing balance	**214.613**	**176.214**

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

	31.12.2018	31.12.2017
1. Opening balance	**36.704**	**13.925**
2. Increases	**9.419**	**27.181**
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		9.164
3. Decreases	**7.751**	**4.402**
3.1 Deferred tax liabilities reversed during the year	7.751	4.402
a) reversals	7.565	4.402
b) due to change in accounting standards	-	-
c) other	186	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	**38.372**	**36.704**

10.5 Changes in deferred tax assets (recognised through equity)

	31.12.2018	31.12.2017
1. Opening balance	**332**	**79**
2. Increases	**5.904**	**277**
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	23	277
3. Decreases	**468**	**24**
3.1 Deferred tax assets reversed during the year	468	24
a) reversals	191	24
b) impairment losses due to unrecoverability	-	-
c) due to change in accounting standards	-	-
d) other	277	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	**5.768**	**332**

10.6 Changes in deferred tax liabilities (recognised through equity)

	31.12.2018	31.12.2017
1. Opening balance	**1.799**	**394**
2. Increases	**59**	**1.405**
2.1 Deferred tax liabilities recognised in the year	59	662
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	59	662
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	743
3. Decreases	**1.101**	**-**
3.1 Deferred tax liabilities reversed during the year	1.101	-
a) reversals	-	-
b) due to change in accounting standards	-	-
c) other	1.101	
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	**757**	**1.799**

Section 12 - Other assets – Item 120

12.1 Other assets: breakdown

OTHER ASSETS	AMOUNTS AT	
(in thousands of Euro)	31.12.2018	31.12.2017
Receivables due from tax authorities	68.529	35.253
Prepayments and accrued income	6.921	47.185
Guarantee deposits	940	616
Other items	241.016	148.500
Total other assets	**317.406**	**231.554**

Other assets amounted to 317,4 million Euro at 31 December 2018 (+37,1% compared to the restated amount at 01 January 2018).

This line item included a 108,9 million Euro receivable due from the parent company La Scogliera S.p.A., including 54,7 million Euro deriving from the tax consolidation regime and 53,1 million Euro for the tax credits claimed by the latter for excess tax payments from prior years; in addition, this line item included 11,1 million Euro in receivables due from Italian tax authorities for payments on account (stamp duty), 8,0 million Euro in funds placed in an escrow account pending the resolution of a dispute, and 38,2 million Euro in VAT credits claimed.

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	**61.357**	**X**	**X**	**X**	**74.890**	**X**	**X**	**X**
2.1 Current accounts and on demand deposits	32.551	X	X	X	20.825	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	15.860	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	3.413	X	X	X	15.860	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	**756.432**	**-**	**-**	**756.432**	**774.475**	**-**	**-**	**774.475**

Key
BV= book value
L1= Level 1
L2= Level 2
L3= Level 3
* The Bank 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 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	1.017.824	X	X	X	1.169.221	X	X	X
2. Fixed-term deposits	3.649.160	X	X	X	4.106.828	X	X	X
3. Loans	897.375	X	X	X	682.576	X	X	X
3.1 Repurchase agreements	-	X	X	X	-	X	X	X
3.2 Other	897.375	X	X	X	682.576	X	X	X
4. Debt from buyback commitments on treasury equity instruments	-	X	X	X	-	X	X	X
5. Other payables	12.698	X	X	X	8.276	X	X	X
Total	**5.577.057**	**-**	**-**	**5.558.561**	**5.966.901**	**-**	**-**	**5.968.107**

Key
BV= book value
L1= Level 1
L2= Level 2
L3= Level 3
* The Bank 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".

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.

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	978.462	708.742	-	170.463	789.414	88.768	712.400	-
1.1 structured bonds	-	-	-	-	-	-	-	-
1.2 other bonds	978.462	708.742	-	170.463	789.414	88.768	712.400	-
2. Other securities	540	-	-	540	580	-	-	580
2.1 structured securities	-	-	-	-	-	-	-	-
2.2 other	540	-	-	540	580	-	-	580
Total	**979.002**	**708.742**	**-**	**171.003**	**789.994**	**88.768**	**712.400**	**580**

Key
BV= book value
L1= Level 1
L2= Level 2
L3= Level 3
* The Bank 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".

Debt securities 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.

1.4 Breakdown of subordinated debts/notes

The line item "Debt securities issued" included 401,7 million Euro in subordinated notes.

1.6 Payables for finance leases

	31.12.2018	31.12.2017
Payables for finance leases	3.471	3.608

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

Section 2 – Financial liabilities held for trading

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	-	-	31.188	-	-	-	-	38.239	-	-
1.1 For trading	X	-	31.188	-	X	X	-	38.239	-	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	-	-	-	-	-
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**	**-**	**31.188**	**-**	**X**	**-**	**-**	**38.239**	**-**	**-**
Total (A+B)	**X**	**-**	**31.188**	**-**	**X**	**X**	**-**	**38.239**	**-**	**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

See section 10 under assets.

Section 8 - Other liabilities

8.1 Other liabilities: breakdown

	31.12.2018	31.12.2017*
Due to suppliers	29.541	32.504
Due to personnel	11.833	8.135
Due to the Tax Office and Social Security agencies	8.294	13.283
Sums available to customers	18.889	33.022
Accrued expenses and deferred income	4.300	3.737
Other payables	240.443	232.268
Total	**313.300**	**322.949**

* The Bank 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 - Post-employment benefits - Item 90

9.1 Post-employment benefits: annual changes

	31.12.2018	31.12.2017
A. Opening balance	**5.476**	**1.507**
B. Increases	**2.428**	**4.176**
B.1 Allocations for the year	91	43
B.2 Other changes	393	91
Business combinations	1.944	4.042
C. Reductions	**847**	**207**
C.1 Payments made	105	97
C.2 Other changes	553	110
Business combinations	189	-
D. Closing balance	**7.057**	**5.476**
Total	**7.057**	**5.476**

The increases resulting from business combinations concerned the post-employment benefit liabilities assumed by Banca IFIS as a result of the merger of the subsidiary IFIS Leasing S.p.A. into the Bank, whereas the reductions from business combinations concerned the liabilities transferred to IFIS NPL S.p.A..

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	3.623	590
2. Provisions on other commitments and other guarantees granted	-	-
3. Provisions for pensions	-	-
4. Other provisions for risks and charges	18.391	12.588
4.1 legal and tax disputes	3.517	10.152
4.2 personnel expenses:	926	1.604
4.3 other	13.948	832
Total	**22.014**	**13.178**

* The Bank 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*	**-**	**-**	**12.588**	**12.588**
B. Increases	**-**	**-**	**9.748**	**9.748**
B.1 Allocations for the year	-	-	3.187	3.187
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to changes in the discount rate	-	-	-	-
B.4 Other increases	-	-	6.561	6.561
C. Reductions	**-**	**-**	**3.945**	**3.945**
C.1 Used during the year	-	-	1.492	1.492
C.2 Changes due to changes in the discount rate	-	-	-	-
C.3 Other changes	-	-	2.453	2.453
D. Closing balance	**-**	**-**	**18.391**	**18.391**

* The Bank 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".

10.3 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	1.378	-	-	1.378
Financial guarantees granted	368	1	1.877	2.245
Total	**1.746**	**1**	**1.877**	**3.623**

10.6 Provisions for risks and charges – Other provisions

Legal and tax disputes

At 31 December 2018, the Bank had set aside 13,0 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;

Other provisions for risks and charges

At 31 December 2018, the Bank had set aside 5,4 million Euro in provisions, including 3,7 million Euro in supplementary customer allowances associated with the Leasing area's operations, 0,9 million Euro in personnel-related expenses, 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 Bank 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. Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: therefore, it did not allocate funds to the provision for risks and charges.

Reimbursements

In line with market practice, under the purchase agreement for the former GE Capital Interbanca Group, the seller (GE Capital International Limited) made a series of representations and warranties related to Interbanca and other Investees.

In addition, the agreement includes a series of special reimbursements paid by the seller related to the main legal and tax disputes involving the former GE Capital Interbanca Group companies.

Section 12 – Equity

12.1 Share capital and treasury shares: breakdown

Item		31.12.2018	31.12.2017
160	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
170	Treasury shares (in thousands of Euro)	(3.103)	(3.168)
	Number of treasury shares	370.112	377.829

12.2 Share capital - number of shares: annual changes

Headings/Types	Ordinary	Others
A. Shares held at the beginning of the year	**53.811.095**	**-**
- fully paid-up	53.811.095	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	(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	-	-

12.3 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.

12.4 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	637.906	625.677
Total profit reserves	**1.136.004**	**1.022.302**
Buyback reserve	3.103	3.168
Future buyback reserve	-	-
Other reserves	2.278	2.278
Total reserves	**1.141.385**	**1.027.747**

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.

The change in other reserves compared to the previous year was closely associated with the merger of the subsidiary IFIS Leasing S.p.A. into Banca IFIS, finalised on 28 May 2018. The merger was carried out using the pooling of interest method based on the Group's Consolidated Financial Statements.

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.

Other information

1. Commitments and financial guarantees granted (other than those designated as at fair value)

	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	**750.823**	**552**	**82.574**	**833.949**	**131.240**
a) Central Banks	-	-	-	-	n.a.
b) Public Administrations	440	-	-	440	n.a.
c) Banks	-	-	-	-	n.a.
d) Other financial companies	484.414	-	-	484.414	n.a.
e) Non-financial companies	258.688	342	80.257	339.287	n.a.
f) Households	7.281	210	2.317	9.808	n.a.
2. Financial guarantees granted	**209.458**	**23**	**37.908**	**247.390**	**320.340**
a) Central Banks	-	-	-	-	n.a.
b) Public Administrations	-	-	-	-	n.a.
c) Banks	-	-	-	-	n.a.
d) Other financial companies	6.965	-	-	6.965	n.a.
e) Non-financial companies	202.218	23	25.381	227.623	n.a.
f) Households	275	-	12.527	12.802	n.a.

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 Bank 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.

5. Administration and mediation on behalf of third parties

Type of services	Amount
1. Execution of orders on behalf of clients	
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**-**
3. Safekeeping and administration of securities	
a) third party securities in custody: associated with depositary bank services (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) other third party securities in custody (excluding portfolio management): other	586.980
1. securities issued by the reporting bank	-
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 - 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**	**344.243**	**-**	**348.503**	**346.146**
3.1. Due from banks	-	2.830	X	2.830	2.411
3.2. Loans to customers	4.260	341.413	X	345.673	343.735
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**405**	**405**	**426**
6. Financial liabilities	**X**	**X**	**X**	**-**	**-**
Total	**11.174**	**356.507**	**405**	**368.086**	**363.461**

* The Bank 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 measured 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 Bank purchased in January 2018.

Finally, interest income from impaired financial assets mainly consisted of interest income from non-performing assets that arose from the business combination with the former GE Capital Interbanca Group.

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	8.771	6.311

1.2.2 Interest income on finance leases

	31.12.2018	31.12.2017
Interest income on finance leases	38.358	-

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.	(74.402)	(30.420)	-	(104.822)	(103.914)
1.1 Due to central banks	(5.150)	X	X	(5.150)	(5.381)
1.2 Due to banks	(1.796)	X	X	(1.796)	(1.903)
1.3 Due to customers	(67.456)	X	X	(67.456)	(85.471)
1.4 Debt securities issued	X	(30.420)	X	(30.420)	(11.159)
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	**(74.402)**	**(30.420)**	**-**	**(104.822)**	**(103.914)**

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.

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	(1.432)	(365)

1.4.2 Interest expense on liabilities for finance leases

	31.12.2018	31.12.2017
Interest expense on liabilities for finance leases	(104)	(47)

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	2.126
b) derivatives on loans	-	-
c) management, mediation and consultancy services:	8.138	1.327
1. trading in financial instruments	-	-
2. trading in currencies	-	-
3. individual asset management	843	-
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	7.295	728
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. Other products	7.295	728
d) collection and payment services	147	-
e) servicing for securitisation transactions	-	-
f) services for factoring transactions	56.502	53.304
g) tax collection and payment	-	-
h) management of multi-lateral trading systems	-	-
i) current account holding and management	621	783
j) other services	23.543	10.345
Total	**91.194**	**67.885**

The increase in commissions was influenced by the merger of the subsidiary IFIS Leasing into the Bank: the fees for the distribution of third-party products and other services associated with the leasing segment totalled 15,4 million Euro at 31 December 2018.

2.3 Commission expense: breakdown

Services/Amounts	31.12.2018	31.12.2017
a) guarantees received	(486)	(754)
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	(617)	(2.898)
e) other services	(8.590)	(3.422)
Total	**(9.705)**	**(7.169)**

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 Bank 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	-	-	-	-	-
3. Financial assets and financial liabilities: exchange differences	**X**	**X**	**X**	**X**	**(2.011)**
4. Derivative instruments	**11.121**	**11.749**	**(11.992)**	**(9.641)**	**1.237**
4.1 Financial derivatives:	11.121	11.749	(11.992)	(9.641)	1.237
- On debt securities and interest rates	11.121	11.749	(11.992)	(9.641)	1.237
- On equity instruments and share indexes	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
4.2 Derivatives on loans	-	-	-	-	-
Of which: natural hedges connected to the fair value option	**X**	**X**	**X**	**X**	**-**
Total	**11.135**	**11.749**	**(14.017)**	**(9.641)**	**(774)**

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
A. Financial assets						
1. Financial assets measured at amortised cost:	2.143	(121)	2.023	19.020	(4)	19.016
1.1 Due from banks	-	-	-	-	-	-
1.2 Due from customers	2.143	(121)	2.023	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)	**2.143**	**(121)**	**2.022**	**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**
B. 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 Bank 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".

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	378	-	3.490	-	(3.112)
1.4 Loans	1.775	-	9.909	-	(8.134)
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	**-**	**-**	**-**	**224**	**-**	**224**	**-**
- loans	-	-	-	224	-	224	-
- debt securities	-	-	-	-	-	-	-
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	n.a.
B. Loans to customers	**(3.737)**	**(4.155)**	**(191.930)**	**-**	**179.643**	**(20.180)**	**86.124**
- loans	(3.352)	(4.155)	(191.930)	-	179.643	(19.795)	86.124
- debt securities	(385)	-	-	-	-	(385)	-
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	n.a.
Total	**(3.737)**	**(4.155)**	**(191.930)**	**224**	**179.643**	**(19.956)**	**86.124**

* The Bank 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".

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	(1.019)	-	-	-	-	(1.019)	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 Bank 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 10 – Administrative expenses - Item 160

10.1 Personnel expenses: breakdown

Type of expense/Sectors	31.12.2018	31.12.2017
1) Employees	(94.336)	(79.121)
a) salaries and wages	(67.242)	(58.000)
b) social security contributions	(19.092)	(16.170)
c) post-employment benefits	-	-
d) pension expense	-	(318)
e) allocations for post-employment benefits	(3.833)	(3.387)
f) allocations to pensions and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments made to supplementary external funds:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
h) costs arising from share-based payment agreements	-	-
i) other employee benefits	(4.169)	(1.246)
2) Other serving employees	(33)	(153)
3) Directors and Statutory Auditors	(4.019)	(4.207)
4) Retired personnel	-	-
5) Recovery of expenses for seconded personnel	840	504
6) Reimbursements of expenses for seconded parties working in the bank	(484)	(289)
Total	**(98.032)**	**(83.266)**

At 98,0 million Euro, **personnel expenses** rose 17,7% (83,3 million Euro in December 2017). Overall, the Bank's employees numbered 1.174, down from 1.218 at 31 December 2017—largely because some resources were transferred to the new subsidiary IFIS NPL S.p.A..

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.

10.2 Average number of employees by category

Employees:	31.12.2018	31.12.2017
Employees:	**1.196,0**	**1.025,0**
(a) senior managers	54,5	39,5
(b) middle managers	419,5	293,0
(c) remaining personnel	722,0	692,5
Other personnel	**-**	**-**

10.5 Other administrative expenses: breakdown

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	YEAR		CHANGE	
	2018	2017	ABSOLUTE	%
Expenses for professional services	**38.985**	**43.887**	**(4.902)**	**(11,2)%**
Legal and consulting services	28.967	26.831	2.136	8,0%
Auditing	444	346	98	28,3%
Outsourced services	9.574	16.710	(7.136)	(42,7)%
Direct and indirect taxes	**32.757**	**26.565**	**6.192**	**23,3%**
Expenses for purchasing goods and other services	**57.684**	**72.449**	**(14.765)**	**(20,4)%**
Software licensing and support	14.580	19.589	(5.009)	(25,6)%
Customer information	10.056	12.422	(2.366)	(19,0)%
Property expenses	6.262	5.459	803	14,7%
FITD and Resolution fund	5.983	8.753	(2.770)	(31,6)%
Postage and archiving of documents	4.213	6.988	(2.775)	(39,7)%
Car fleet management and maintenance	3.365	2.960	405	13,7%
Telephone and data transmission expenses	3.167	2.519	648	25,7%
Business trips and transfers	3.096	3.285	(189)	(5,8)%
Advertising and inserts	2.547	2.694	(147)	(5,5)%
Securitisation costs	1.642	1.669	(27)	(1,6)%
Transitional services agreement	-	3.373	(3.373)	(100,0)%
Other sundry expenses	2.773	2.738	35	1,3%
Total administrative expenses	**129.426**	**142.901**	**(13.475)**	**(9,4)%**

Despite the spin-off of the business unit dedicated to NPL operations, **"legal and consulting"** expenses were up year-on-year because of the already mentioned impact of the costs incurred by the Bank in the first half of 2018 for the judicial debt collection actions undertaken by the former business unit. 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 Bank recognised 5,0 million Euro in costs associated with judicial collection operations through profit or loss. These costs had been previously deferred until the issue of the Garnishment Order (identification of the individual cash flows).

"Direct and indirect taxes", totalling 32,8 million Euro (26,6 million Euro at 31 December 2017), mainly included the registration fees paid for the judicial debt collection actions concerning receivables of the Non-Performing Loans business unit—which was spun off on 1 July 2018—amounting to 18,7 million Euro at 31 December 2018. The line item also comprised 10,7 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 increase compared to the prior year, which occurred despite the spin-off of the business unit dedicated to NPL operations, was associated with the mentioned statistical model for estimating cash flows, as this caused the expenses for registration fees to rise by 9,8 million Euro in the first half of 2018.

The "**Expenses for purchasing goods and other services**" were down 20,4% from the prior year (from 72,4 million Euro at 31 December 2017 to 57,7 million Euro at 31 December 2018). This result was attributable to opposite changes in major line items, specifically:

- Software licensing and support was down 25,6% from 19,6 to 14,6 million Euro, essentially because of the costs incurred in 2017 for the migration of the core banking systems;
- Customer information expenses were down 19,0% from 12,4 to 10,1 million Euro, largely because of the costs incurred by the business unit dedicated to Non-Performing Loans, which was spun off during 2018.
- Property expenses rose from 5,5 to 6,3 million Euro, mainly as a result of lease and maintenance costs;
- "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 39,7% from 7,0 to 4,2 million Euro, as the Bank started paring back purchases of new portfolios towards the end of the previous year and continued doing so for much of 2018;
- Telephone expenses increased from 2,5 to 3,2 million Euro, largely due to mobile phone and internet expenses;
- 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.

Section 11 – Net allocations to provisions for risks and charges – Item 170

11.1 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 311 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.

11.3 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.

Section 12 – Net impairment losses/reversals on property, plant and equipment – Item 180

12.1 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	(4.538)	-	-	(4.538)
- for functional use	(4.538)	-	-	(4.538)
- for investment purposes	-	-	-	-
- Inventories	X	-	-	-
A.2 Acquired under finance leases	-	-	-	-
- for functional use	-	-	-	-
- for investment purposes	-	-	-	-
Total	**(4.538)**	**-**	**-**	**(4.538)**

Section 13 – Net impairment losses/reversals on intangible assets - Item 190

13.1 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	(5.848)	-	-	(5.848)
- Internally generated	-	-	-	-
- Other	(5.848)	-	-	(5.848)
A.2 Acquired under finance leases	-	-	-	-
Total	**(5.848)**	**-**	**-**	**(5.848)**

Section 14 – Other operating income (expenses) - Item 200

14.1 Other operating expenses: breakdown

Type of expense/Amounts	31.12.2018	31.12.2017*
a) Transactions with customers	(130)	(483)
b) Other expenses	(1.039)	(1.959)
Total	**(1.169)**	**(2.442)**

* The Bank 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".

14.2 Other operating income: breakdown

Amounts/Income	31.12.2018	31.12.2017*
a) Recovery of third party expenses	13.861	4.986
b) Receivable rental fees	981	1.009
c) Other income	10.472	4.035
Total	**25.314**	**10.030**

* The Bank 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 net 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.

Section 19 - Income taxes for the year relating to current operations - Item 270

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

Income components/Sectors	31.12.2018	31.12.2017
1. Current tax expense (-)	(5.855)	-
2. Changes in current taxes of previous years (+/-)		116
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	9.404
4. Changes in deferred tax assets (+/-)	(26.216)	(66.094)
5. Changes in deferred tax liabilities (+/-)	(1.668)	(3.936)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(33.720)	(60.510)

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

Items/Components	31.12.2018	31.12.2017
Pre-tax profit (loss) from continuing operations	**116.526**	**215.416**
Corporate tax (IRES) – theoretical tax charge (27,5%)	(32.045)	(59.239)
- effect of non-taxable income and other reductions - permanent	*6.279*	*8.297*
- Effect of non-deductible charges and other increases - permanent	*-*	*(1.650)*
- Non-current corporate tax	*(5)*	*1.688*
Corporate tax – Effective tax charges	**(25.771)**	**(50.904)**
Regional tax on productive activities (IRAP) – theoretical tax charges (5,57%)	(6.490)	(11.999)
- effect of income/charges that are not part of the taxable base	*(1.473)*	*3.152*
- non-current regional tax on productive activities	*14*	*(759)*
Regional tax on productive activities – Effective tax charges	**(7.949)**	**(9.606)**
Effective tax charges for the year	**(33.720)**	**(60.510)**

The Bank's tax rate was 28,94%.

Section 21 – Other information

21.1 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 Bank.

Grantor	Reference	Amount of the government grant
Italian Fund for the support of employment in the credit industry	-	430
Italian Social Security Administration	L. 248/2005	292
Italian Social Security Administration	L. 190/2014 TRIE	139
Italian Social Security Administration	L. 205/2017	45
Italian Social Security Administration	L. 208/2015 BIEN	31
Total		**937**

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.

Section 22 – Earnings per share

22.1 Average number of ordinary diluted shares

Earnings per share and diluted earnings per share	31.12.2018	31.12.2017
Profit for the period (in thousands of Euro)	82.806	154.906
Average number of outstanding shares	53.438.425	53.431.314
Average number of diluted shares	53.438.425	53.431.314
Earnings per share (Units of Euro)	**1,55**	**2,90**
Diluted earnings per share (Units of Euro)	**1,55**	**2,90**

04.4. Part D - Statement of comprehensive income

ANALYTIC STATEMENT OF COMPREHENSIVE INCOME

	ITEMS (in thousands of Euro)	31.12.2018	31.12.2017*
10.	**Profit (loss) for the period**	**82.806**	**154.906**
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**1.703**	**(466)**
20.	Equity securities designated as at fair value through other comprehensive income	2.370	(795)
	a) fair value gains (losses)	2.379	(795)
	b) transfers to other components of equity	(8)	-
70.	Defined benefit plans	161	91
100.	Income taxes related to other comprehensive income not to be reclassified to profit or loss	(828)	238
	Other comprehensive income, net of taxes, to be reclassified to profit or loss	**(12.546)**	**1.852**
150.	Financial assets (other than equity securities) at fair value through other comprehensive income	(18.745)	2.767
	a) fair value gains (losses)	(20.268)	4.477
	b) reclassification to profit or loss	1.523	(1.160)
	- credit risk losses	1.523	-
	- gains/losses on sale	-	(1.160)
	c) other changes	-	(551)
180.	Income taxes related to other comprehensive income to be reclassified to profit or loss	6.199	(915)
190.	**Total other comprehensive income**	**(10.843)**	**1.386**
200.	**Total comprehensive income (Item 10190)**	**71.962**	**156.292**

* The Bank 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

Background

This Part of the Notes includes quantitative information on risks referring to Banca IFIS S.p.A.. For qualitative information on the risk management and monitoring process, please refer to Part E in the "Notes to the Consolidated Financial Statements".

As permitted under the transitional provisions of IFRS 9, Banca IFIS 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 – Credit risk

Qualitative information

For qualitative information, please refer to Part E in the Notes to the Consolidated Financial Statements.

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 in the financial statements.

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:	79.462	180.237	95.898	297.098	6.482.939	7.135.634
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	**79.462**	**227.190**	**95.898**	**297.098**	**6.907.925**	**7.607.573**
Total 31.12.2017*	**588.921**	**488.297**	**107.556**	**253.244**	**6.304.908**	**7.742.926**

* The Bank 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:	629.224	273.627	355.597	2.044	6.811.106	31.069	6.780.037	7.135.634
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	**676.177**	**273.627**	**402.550**	**2.044**	**7.231.102**	**32.356**	**7.205.023**	**7.607.572**
Total 31.12.2017*	**1.998.902**	**814.128**	**1.184.774**	**-**	**6.589.598**	**31.446**	**6.558.152**	**7.742.926**

* The Bank 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	27.021
2. Hedging derivatives	-	-	-
Total 31.12.2018	**850**	**4.429**	**27.021**
Total 31.12.2017	**3.283**	**3.173**	**34.383**

A.1.3 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:	102.775	4	3	7.127	80.934	182.478	173.929	21.136	160.531
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31.12.2018	**102.775**	**4**	**3**	**7.127**	**80.934**	**182.478**	**173.929**	**21.136**	**160.531**
Total 31.12.2017*	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

* The Bank 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 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				of which: purchased or originated credit impaired financial 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		Stage 1	Stage 2	Stage 3	
Opening balance*	**27.531**	**412**	**-**	**-**	**3.915**	**-**	**-**	**-**	**848.744**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**880.602**
Impact of IFRS 9	(8.409)	-	-	-	(1.143)	-	-	-	(347.183)	-	-	-	-	2.264	1.033	-	(353.438)
Increases from purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net credit risk losses/reversals (+/-)	1.516	401	-	1.516	1.676	-	-	1.676	94.324	-	94.324	-	-	(517)	(1.033)	1.877	98.243
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	415	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	415
Write off	-	-	-	-	-	-	-	-	(340.838)	-	-	-	-	-	-	-	(340.838)
Other changes	5.438	474	-	-	130	-	-	-	18.580	-	-	-	-	-	-	-	24.622
Closing balance	**26.490**	**1.287**	**-**	**1.516**	**4.579**	**-**	**-**	**1.676**	**273.627**	**-**	**94.324**	**-**	**-**	**1.746**	**-**	**1.877**	**309.606**
Reversals from collections on financial assets written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* The Bank 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 December 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.1.5 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	356.832	54.295	22.722	21.035	155.964	21.432
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Loan commitments and financial guarantees granted	1	-	-	-	1.877	19
Total 31.12.2018	**356.833**	**54.295**	**22.722**	**21.035**	**157.841**	**21.451**
Total 31.12.2017*	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

* The Bank 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.1.6 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	403.232	784	402.448	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**403.234**	**784**	**402.450**	**-**
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)	**-**	**419.022**	**784**	**418.238**	**-**

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.1.7 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					
a) Bad loans	258.726	X	179.264	79.462	1.337
- of which: forborne exposures	13.532	X	10.263	3.269	157
b) Unlikely to pay	312.601	X	85.411	227.190	-
- of which: forborne exposures	99.059	X	4.690	94.369	-
) Non-performing past due exposures	104.850	X	8.953	95.898	-
- of which: forborne exposures	2.284	X	373	1.910	-
d) Performing past due exposures	X	299.330	2.091	297.239	-
- of which: forborne exposures	X	4.525	271	4.254	-
e) Other performing exposures	X	6.534.815	29.482	6.505.334	878
- of which: forborne exposures	X	25.733	446	25.287	-
Total (A)	**676.177**	**6.834.145**	**305.201**	**7.205.123**	**2.215**
B. Off-balance-sheet credit exposures					
a) Non-performing	125.197	X	1.877	123.321	**-**
b) Performing	X	971.803	1.746	970.057	**-**
Total (B)	**125.197**	**971.803**	**3.623**	**1.093.378**	**-**
Total (A+B)	**801.374**	**7.805.948**	**308.824**	**8.298.501**	**2.215**

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.1.9 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*	**1.262.445**	**662.069**	**112.110**
- of which: transferred and not derecognised	-	-	-
Impact of IFRS 9	(249.109)	(141.608)	(32)
B. Increases	**145.855**	**233.025**	**71.118**
B.1 inflows from performing exposures	7.817	114.885	55.983
B.2 inflows from purchased or originated credit impaired financial assets	62.578	29.532	15.011
B.3 transfers from other non-performing loan categories	63.637	17.770	86
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	11.823	70.838	38
C. Reductions	**900.465**	**440.885**	**78.346**
B.1 outflows to performing exposures	-	6.391	36.076
C.2 write-offs	326.552	15.322	-
C.3 collections	6.990	30.751	22.812
C.4 collections from sales	-	55.875	-
C.5 losses on disposal	-	-	-
C.4 transfers to other non-performing loan categories	96	62.383	19.014
C.7 contractual modifications without derecognition	-	-	-
C.8 other reductions	566.827	270.164	444
D. Closing gross exposure	**258.726**	**312.601**	**104.850**
- of which: transferred and not derecognised	6.966	-	-

* The Bank 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 December 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.1.9 bis 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*	**351.625**	**45.024**
- of which: transferred and not derecognised	-	-
Impact of IFRS 9	(41.703)	(2.707)
B. Increases	**24.138**	**60.120**
B.1 inflows from non-forborne performing exposures	13.973	16.594
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	-	30.196
C. Reductions	**219.186**	**72.179**
C.1 outflows to non-forborne performing exposures	X	3.711
C.2 outflows to forborne performing exposures	13.330	X
B.3 outflows to non-performing forborne exposure	X	10.165
C.4 write-offs	14.511	-
C.5 collections	63.687	26.305
C.6 collections from sales	-	-
C.7 losses on sale	-	-
C.8 other reductions	127.657	31.998
D. Closing gross exposure	**114.874**	**30.258**
- of which: transferred and not derecognised	180	1.746

* The Bank 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 December 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.1.11 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*	**673.725**	**40.671**	**170.296**	**103.887**	**4.723**	**24**
- of which: transferred and not derecognised	-	-	-	-	-	-
Impact of IFRS 9	(249.109)	-	(99.070)	(79.354)	996	-
B. Increases	**104.103**	**341**	**94.229**	**2**	**7.264**	**511**
B.1 impairment losses from purchased or originated credit impaired financial assets	23.570	X	12.397	X	4.461	X
B.2. other impairment losses	31.442	341	71.881	-	1.343	510
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposure categories	23.808	-	637	2	4	-
B.5 contractual modifications without derecognition	-	X	-	X	-	X
B.6 other increases	25.283	-	9.313	-	1.456	1
C. Reductions	**349.455**	**30.749**	**80.044**	**19.845**	**4.030**	**162**
C.1 impairment reversals from measurement	-	-	-	-	-	-
C.2 impairment reversals from collection	7.483	308	41.038	15.429	2.249	3
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	325.632	14.511	15.206	-	-	-
C.5 transfers to other non-performing exposure categories	50	-	23.800	4.416	600	5
C.6 contractual modifications without derecognition	-	X	-	X	-	X
C.7 other decreases	16.291	15.930	-	-	1.181	154
D. Closing balance of total impairment losses/ reversals of impairment losses	**179.264**	**10.263**	**85.411**	**4.690**	**8.953**	**373**
- of which: transferred and not derecognised	-	-	697	2	-	-

* The Bank 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 December 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.2 Classification of financial assets, loan commitments and financial guarantees granted by external and internal rating

A.2.1 Breakdown of financial assets, loan commitments and financial guarantees granted by external rating class (gross amounts)

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 Breakdown of financial assets, loan commitments and financial guarantees granted by internal rating class (gross amounts)

The Bank does not use internal ratings for the purposes of calculating capital absorption. The Bank 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 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 counterpartie s	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 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	CLN	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 distribution of exposures

B.1 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 credit exposures										
A.1 Bad loans	1.423	4.294	1.662	8.478	-	-	61.451	152.410	14.926	14.082
- of which forborne exposures	-	-	533	5.732	-	-	2.722	4.522	14	9
A.2 Unlikely to pay	2.614	395	38.296	1.093	-	-	164.699	76.981	21.582	6.943
- of which forborne exposures	1.666	322	37.306	4	-	-	50.247	2.794	5.150	1.570
A.3 Non-performing past due exposures	47.619	2.934	108	75	-	-	39.998	4.221	8.172	1.722
- of which forborne exposures	44	1	18	8	-	-	1.145	79	703	286
A.4 Performing exposures	1.115.671	1.643	1.151.002	1.979	-	-	4.106.493	23.545	429.407	4.405
- of which forborne exposures	51	-	3.839	-	-	-	16.446	191	9.205	525
Total (A)	**1.167.327**	**9.266**	**1.191.068**	**11.625**	**-**	**-**	**4.372.641**	**257.157**	**474.087**	**27.152**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	108.477	1.877	14.844	-
B.2 Performing exposures	440	440	490.676	703	-	-	471.177	602	7.765	2
Total (B)	**440**	**440**	**490.676**	**703**	**-**	**-**	**579.654**	**2.479**	**22.609**	**2**
Total (A+B) 31.12.2018	**1.167.767**	**9.706**	**1.681.744**	**12.328**	**-**	**-**	**4.952.295**	**259.636**	**496.696**	**27.154**
Total (A+B) 31.12.2017*	**1.225.702**	**6.710**	**647.150**	**31.222**	**368**	**-**	**3.701.151**	**845.050**	**810.431**	**13.791**

* The Bank 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.1 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	79.462	179.176	-	88	-	-	-	-	-	-
A.2 Unlikely to pay	224.700	83.325	2.489	2.086	-	-	-	-	-	-
A.3 Non-performing past due exposures	93.129	8.823	2.749	129	19	1	-	-	-	-
A.4 Performing exposures	6.457.475	28.550	231.111	1.890	97.532	1.002	16.288	129	166	1
Total (A)	**6.854.766**	**299.874**	**236.349**	**4.193**	**97.551**	**1.003**	**16.288**	**129**	**166**	**1**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	121.574	1.877	1.747	-	-	-	-	-	-	-
B.2 Performing exposures	1.009.679	1.702	82.639	44	78	-	122.422	-	82	-
Total (B)	**1.131.253**	**3.579**	**84.386**	**44**	**78**	**-**	**122.422**	**-**	**82**	**-**
Total (A+B) 31.12.2018	**7.986.019**	**303.453**	**320.735**	**4.237**	**97.629**	**1.003**	**106.134**	**129**	**248**	**1**
Total (A+B) 31.12.2017*	**6.716.130**	**865.834**	**265.870**	**24.858**	**60.527**	**3.308**	**18.108**	**182**	**335**	**1.552**

* The Bank 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.1 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	377.912	723	14.518	36	10.020	25	-	-	-	-
Total (A)	**377.912**	**723**	**14.518**	**36**	**10.020**	**25**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	3.885	-	643	-	11.261	-	-	-	-	-
Total (B)	**3.885**	**-**	**643**	**-**	**11.261**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2018	**381.797**	**723**	**15.161**	**36**	**21.281**	**25**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2017*	**1.523.940**	**-**	**15.125**	**-**	**25.097**	**-**	**-**	**-**	**-**	**-**

* The Bank 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	3.040.298	3.504.943
b)	Weighted amount	436.692	418.922
c)	Number	3	3

The overall weighted amount of major exposures at 31 December 2018 consisted of 223 million Euro in tax assets and 213 million Euro in exposures to equity investments not included in the prudential scope of consolidation.

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 Financial Statements on liquidity risk.

Qualitative information

Objective, strategies, and processes

The Bank 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 Bank'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 Bank 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 Bank 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 Bank'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 Bank 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 Bank participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior tranches (totalling 19,8 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 Bank participated as Senior Noteholder and Sponsor, subscribing for 100% of the senior tranches (35,0 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 Bank 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 Bank 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 Bank owns mezzanine and junior notes issued by the "Berenice" securitisation transaction, totalling a combined 0,1 million Euro.

Quantitative information

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

Type of securitised asset/ Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	-	-	**138.288**	-	-	-	-	-	-	-	-	-	-	-	-	-
- non-performing loans to customers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- performing loans to customers	-	-	-	-	138.288	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Type of securitised asset/ Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	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 Special purpose vehicle 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	-	-

E. Disposals

A. Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised referred to securitised receivables.

Quantitative information

E.1. 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							
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							
1. Debt securities	-	-	-	-	-	-	-
2. Loans	767.627	767.627	-	-	-	-	-
Total 31.12.2018	**767.627**	**767.627**	**-**	**-**	**146.305**	**146.305**	**-**
Total 31.12.2017*	**220.919**	**220.220**	**-**	**-**	**95.463**	**95.463**	**-**

* The Bank 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 2 - Market risks

2.1 Interest rate risk and price risk – supervisory trading book

Qualitative information

For qualitative information, please refer to Part E in the "Notes to the Consolidated Financial Statements".

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	43.002	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	-	13.819	-	-	-	-	-	-
+ short positions	-	192.618	-	-	-	-	-	-

2.2 Interest rate risk and price risk – banking portfolio

Qualitative information

For qualitative information, please refer to Part E in the “Notes to the Consolidated Financial Statements”.

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	**2.249.935**	**2.723.071**	**1.146.544**	**278.086**	**886.202**	**97.096**	**6.454**	**-**
1.1 Debt securities	-	142.387	410.887	847	23.954	226	6.060	-
- with early redemption option	-	64.813	477	847	23.954	226	6.060	-
- other	-	77.573	410.410	-	-	-	-	-
1.2 Loans to banks	67.559	303.597	5.534	194	1.000	3	-	-
1.3 Loans to customers	2.182.377	2.277.087	730.123	277.045	861.247	96.867	394	-
- current accounts	159.429	3.979	2.800	-	-	1.657	-	-
- other loans	2.022.948	2.273.108	727.323	277.045	861.247	95.210	394	-
- with early redemption option	195.418	931.383	510.922	63.681	461.508	83.496	268	-
- other	1.827.530	1.341.726	216.401	213.364	399.739	11.714	127	-
2. On-balance-sheet liabilities	**1.145.897**	**1.418.566**	**260.158**	**658.384**	**3.403.403**	**407.438**	**-**	**-**
2.1 Due to customers	1.032.333	1.418.075	260.154	658.317	2.201.584	5.753	-	-
- current accounts	237.929	52.684	5.221	10.375	3.325	3.180	-	-
- other payables	794.405	1.365.391	254.933	647.942	2.198.259	2.573	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	794.405	1.365.391	254.933	647.942	2.198.259	2.573	-	-
2.2 Due to banks	24.466	460	-	-	713.701	-	-	-
- current accounts	21.062	-	-	-	-	-	-	-
- other payables	3.404	460	-	-	713.701	-	-	-
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								
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	356.998	-	-	-	-	-	-	-
+ short positions	180.374	3.033	1.574	-	105.319	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	**37.391**	**123.750**	**7.693**	**261**	**327**	**12**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	9.294	6.970	-	-	-	-	-	-
1.3 Loans to customers	28.096	116.780	7.693	261	327	12	-	-
- current accounts	2.357	-	-	-	-	-	-	-
- other loans	25.740	116.780	7.693	261	327	12	-	-
- with early redemption option	43	26.908	6.970	67	327	12	-	-
- other	25.696	89.872	722	328	-	-	-	-
2. On-balance-sheet liabilities	**139**	**17.761**	**-**	**44**	**701**	**-**	**-**	**-**
2.1 Due to customers	139	-	-	-	701	-	-	-
- current accounts	139	-	-	-	701	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	17.761	-	44	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	-	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	-	-	-	-	-	-	-

2.3 Currency risk

Qualitative information

For qualitative information, please refer to Part E in the "Notes to the Consolidated Financial Statements".

Quantitative information

1. Breakdown of assets, liabilities and derivatives by currency

Items	Currencies					
	US DOLLAR	UK STERLING	JAPANESE YEN	CANADIAN DOLLAR	SWISS FRANC	OTHER CURRENCIES
A. Financial assets	**(185.945)**	**(3.638)**	**(18)**	**(35)**	**(308)**	**(17.890)**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	(30.540)	-	-	-	-	(1.153)
A.3 Loans to banks	(11.692)	(836)	(16)	(34)	(43)	(5.501)
A.4 Loans to customers	(143.713)	(2.802)	(2)	(1)	(265)	(11.236)
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**16.332**	**3.693**	**-**	**-**	**133**	**6.139**
C.1 Due to banks	15.533	3.691	-	-	133	6.096
C.2 Due to customers	799	2	-	-	-	43
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives						
- Options						
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other						
+ long positions	-	-	-	-	-	(13.819)
+ short positions	(166.750)	-	-	-	-	(25.868)
Total assets	**(185.945)**	**(3.638)**	**(18)**	**(35)**	**(308)**	**(31.709)**
Total liabilities	**183.082**	**3.693**	**-**	**-**	**133**	**32.007**
Unbalance (+/-)	**(2.863)**	**55**	**(18)**	**(35)**	**(175)**	**298**

Section 3 - Derivative instruments and hedging policies

3.1 Derivative instruments held for trading

A. Financial derivatives

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	**-**	**-**	**206.437**	**-**	**-**	**-**	**249.875**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	206.437	-	-	-	249.875	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**498.149**	**-**	**-**	**-**	**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	-	-	218	-	-	-	284	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**31.188**	**-**	**-**	**-**	**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	14.362	-	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	13.819	-
- positive fair value	X	1.426	-	-
- negative fair value	X	184	33	-
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 held for trading: 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	206.437	-	-	206.437
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2018	**247.127**	**192.885**	**58.137**	**498.149**
Total 31.12.2017	**319.819**	**229.218**	**92.335**	**641.372**

Section 4 - Liquidity risk

Qualitative information

For qualitative information, please refer to Part E in the “Notes to the Consolidated Financial Statements”.

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
A. Cash 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	979.299	54.576	203.018	452.451	1.243.257	534.794	604.477	2.128.039	501.498	327.913
- banks	63.510	-	-	-	20.917	790	2.222	8.024	3	280.960
- customers	915.789	54.576	203.018	452.451	1.222.340	534.004	602.255	2.120.015	501.495	46.953
B. On-balance-sheet liabilities										
B.1 Deposits and current accounts	1.041.173	35.247	40.361	71.315	1.272.223	261.653	668.515	1.306.519	3.180	-
- banks	21.062	-	-	460	-	-	-	-	-	-
- customers	1.020.111	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	-	-	28	57	85	1.195	1.597.502	2.573	-
C. Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of underlying assets										
- long positions	-	-	17.700	60.000	115.200	-	-	-	-	-
- short positions	-	-	-	-	13.800	-	-	-	-	-
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	78.783	-	-	4.471	37	1.979	698	182.376	88.654	-
- short positions	180.374	-	-	3.033	-	1.574	-	105.319	66.697	-
C.5 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.7 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
A. Cash assets										
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	30.540	-	-	-	-	-	-	-	-	-
A.4 Loans	32.128	12.640	10.596	26.462	58.977	7.752	11.171	23.705	979	-
- banks	11.180	6.988	-	-	-	-	-	-	-	-
- customers	20.949	5.652	10.596	26.462	58.977	7.752	11.171	23.705	979	-
B. On-balance-sheet liabilities										
B.1 Deposits and current accounts	144	1.954	5.168	9.324	9.020	-	45	701	-	-
- banks	-	1.954	5.168	9.324	9.020	-	45	-	-	-
- customers	144	-	-	-	-	-	-	701	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of underlying assets										
- long positions	-	-	-	-	13.819	-	-	-	-	-
- 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.7 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 Bank, through the now-merged 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, Banca IFIS S.p.A. repurchased all the senior notes issued by the vehicle. Therefore, at 31 December 2018 the Bank 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.

Section 5 - Operational risks

Qualitative information

For qualitative information, please refer to Part E in the "Notes to the Consolidated Financial Statements".

04.6. Part F - Equity

Section 1 – Equity

A. Qualitative information

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

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

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

The Bank's capital adequacy is further assessed and monitored every time an extraordinary operation is planned. In these cases, based on available information regarding said operations, the Bank 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, the Bank 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 Company's equity: breakdown

Equity items	31.12.2018	31.12.2017*
1. Share capital	53.811	53.811
2. Share premiums	102.116	101.864
3. Reserves	1.141.385	1.027.748
- retained earnings	-	-
a) legal reserve	-	-
b) statutory reserve	-	-
c) treasury shares	-	-
d) other	-	-
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	(3.103)	(3.168)
6. Valuation reserves:	(8.549)	2.133
- Equity securities designated as at fair value through other comprehensive income	*(8.692)*	*2.275*
- 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	-	-
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Foreign investment hedges	-	-
- Cash flow hedges	-	-
– Hedging instruments (non-designated items)	-	-
- Exchange differences	-	-
- 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	*143*	*(142)*
- Share of valuation reserves of equity accounted investments	-	-
- Specific revaluation laws	-	-
7. Profit (loss) for the period	82.806	154.906
Total	**1.368.466**	**1.337.294**

* The Bank 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.2 Valuation reserves for financial assets at fair value through other comprehensive income: breakdown

Assets/amounts	31.12.2018		31.12.2017*	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	-	(10.279)	2.627	-
2. Equity securities	2.102	(515)	-	(352)
3. Loans	-	-	-	-
Total 31.12.2018	**2.102**	**(10.794)**	**2.627**	**(352)**

* The Bank 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 (31.12.17)*	**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 Bank 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, Valuation reserves for defined benefit plans amounted to a positive 118 thousand Euro attributable to the Bank. the increase compared to the positive 20 thousand Euro at the end of the previous year was largely the result of net actuarial gains of the period on the Bank'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.

	31.12.2018	31.12.2017
A. Common Equity Tier 1 (CET1) before application of prudential filters	**1.312.353**	**1.283.861**
- 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)	1.312.353	1.283.861
D. Items to be deducted from CET1	172.841	188.717
E. Transitional regime - Impact on CET1 (+/-), including non-controlling interests subject to transitional provisions	(29)	30.900
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**1.139.483**	**1.126.044**
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime	-	-
- of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions	-	-
L. Total Additional Tier 1 Capital (AT1) (G-H+/-I)	**-**	**-**
M. Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime	400.000	400.000
- of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions	-	189
P. Total Tier 2 Capital (T2) (M-N+/-O)	**400.000**	**400.189**
Q. Total own funds (F+L+P)	**1.539.483**	**1.526.233**

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	9.637.194	9.830.705	6.678.451	5.750.800
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			534.276	460.064
B.2 Credit and counterparty valuation adjustment risk			1.264	1.726
B.3 Settlement risk			-	-
B.4 Market risks			-	-
1. Standard method			464	1.166
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk				
1. Basic indicator approach			67.374	53.060
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation factors			-	-
B.7 Total prudential requirements			603.378	516.016
C. RISK ASSETS AND CAPITAL REQUIREMENT RATIOS				
C.1 Risk-weighted assets			7.542.228	6.450.215
C.2 Common equity tier 1 capital / Risk-weighted assets (CET1 Capital ratio)			15,11%	17,46%
C.2 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)			15,11%	17,46%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			20,41%	23,66%

04.7. Part G - Business combinations

Section 1 - Transactions carried out during the year

1.1 Business combinations

In May 2018, the subsidiary IFIS Leasing S.p.A.—a company specialising in finance and operating leases that was part of the former GE Capital Interbanca Group, which was acquired in 2016—was merged into Banca IFIS.

The merger was carried out using the pooling of interest method based on the Group's Consolidated Financial Statements; this resulted in an 11,3 million Euro increase in equity.

1.2 Corporate spin-offs

IFIS NPL S.p.A., the subsidiary into which Banca IFIS spun off the business unit dedicated to non-performing loans, became fully operational on 1 July 2018.

IFIS NPL S.p.A. 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.

IFIS NPL S.p.A.

Below are the financial highlights of the new entity IFIS NPL S.p.A at the date of the spin-off:

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	01.07.2018
Equity	**360.000**
Financial assets measured at amortised cost	856.465
Property, plant and equipment and intangible assets	22.965
Net tax assets and liabilities	28
Other assets	50.584
Other liabilities	46.273
Post-employment benefits	169
Provisions for risks and charges	101

Section 2 - Transactions carried out after the end of the year

On 7 January 2019, the Bank 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.

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

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 Banca IFIS include:

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

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

1. Information on the remuneration of key management personnel

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

In compliance with the provisions of the Bank of Italy's Circular no. 262 of 22 December 2005 (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	Subsidiaries	Key management personnel	Other related parties	Total	As a % of the item
Financial assets held for trading at fair value through profit or loss	-	1.659	-	-	**1.659**	5,3%
Financial assets at fair value through other comprehensive income	-	-	-	6.918	**6.918**	1,6%
Loans to customers measured at amortised cost	-	904.906	253	5.464	**910.623**	13,5%
Other assets	108.860	306	-	-	**109.166**	34,4%
Total assets	**108.860**	**905.212**	**253**	**12.382**	**1.026.707**	**11,3%**
Due to customers measured at amortised cost	-	16.434	41	2.908	**19.383**	0,3%
Financial liabilities held for trading	-	33	-	-	**33**	0,1%
Other liabilities	-	282	-	-	**282**	0,1%
Reserves	-	-	-	327	**327**	0,0%
Total liabilities	**-**	**16.749**	**41**	**3.235**	**20.025**	**0,2%**
Commitments and guarantees granted	-	355.176	15	8.965	**364.156**	n.a.

Items	Parent company	Subsidiaries	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	7.270	-	1.342	**8.612**	2,3%
Interest expense	-	-	(1)	(21)	**(22)**	0,0%
Commission income	-	-	-	4	**4**	0,0%
Commission expense	-	(72)	-	-	**(72)**	0,7%
Other administrative expenses	-	101	-	(16)	**85**	0,1%
Other operating income and expenses	-	4.331	-	-	**4.331**	17,9%

The transactions with the **parent company** concern the application of Group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree 917/86. Transactions between these companies were regulated by means of a private written agreement between the parties, signed in the month of April 2016. This agreement will lapse after three years. Banca IFIS has an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company. Under this tax regime, Banca IFIS's taxable income is transferred to La Scogliera S.p.A., which is responsible for calculating the overall Group income. As a result, at 31 December 2018 Banca IFIS recognised net receivables due from the parent company amounting to 108,9 million Euro.

Transactions with **subsidiaries** relate to:

- the 1,7 million Euro derivative outstanding with the subsidiary Two Solar Park 2008 S.r.l.;
- 904,9 million Euro in loans Banca IFIS granted to its subsidiaries;
- 7,3 million Euro in interest on loans and current accounts;
- 4,3 million Euro in chargebacks for the lease of spaces and secondment agreements.

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: Bank'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 Bank 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 Bank. 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 Banca IFIS share-based payment agreements do not fall within the category concerned by said table.

2. Other information

The portion to be settled in shares of Top Management's variable pay awarded for the year 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

In accordance with IFRS 8, Banca IFIS S.p.A., Parent Company of the Banca IFIS Group, presents the segment reporting in Part L of the Notes to the Consolidated Financial Statements.

Venice - Mestre, 7 March 2019

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

05

Attachments to the Separate Financial Statements:

05.1. Independent auditors' fees and other fees as per art. 149 duodecies of Consob Regulation no. 11971 of 14 May 1999

Type of services	Service provider	Beneficiary	Fees (units of Euro)
Independent auditors' fees	EY S.p.A	Banca IFIS S.p.A.	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[1]	EY S.p.A	Banca IFIS S.p.A.	75.000
		Subsidiaries	-
Total			**587.556**

(1) The line item "Other services" refers to fees largely related to services associated with the EMTN Programme.

05.2. Certification of the 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 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 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 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.

   3.2. the management report contains a reliable analysis of the business outlook and management result, the financial position of the issuer and a description of the main risks and uncertainties it is exposed to.

Venice, March 7th, 2019

CEO

Giovanni Bossi

Manager charged with preparing the Company's financial reports

Mariacristina Taormina

05.3. 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.

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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.

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In the course of the activity performed and on the basis of the information obtained, no omissions, reprehensible facts, irregularities or in any case other significant circumstances were detected that would require reporting to the Supervisory Authorities or mention in this report.

In conclusion, the Board of Statutory Auditors - taking into account the specific tasks conferred to the external auditing firm regarding auditing of the accounts and of the reliability of the financial 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.

05.4. Independent auditors' report on the Separate Financial Statements

Building a better working world

Banca IFIS S.p.A.

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.
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37126 Verona

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Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca IFIS S.p.A. ("the Company"), which comprise the statement of financial position as at December 31, 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 financial statements give a true and fair view of the financial position of the Banca IFIS S.p.A. 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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
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Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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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 amount to Euro 6,741 million, net of analytical and portfolio value adjustments for a total of Euro 304 million, and represent 74% 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 Bank has recognized the cumulative retrospective effects deriving from the transition to the new standard, equal to Euro 1 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 Company 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 Bank operated in the first half of 2018 with an operating segment ("NPL Sector"), which was then transferred to the subsidiary IFIS NPL S.p.A., 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 banking margin of 28.6%, equivalent to Euro 122.6 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 Company 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 financial statements, the criteria for recognizing and assessing the loans of the NPL Sector are described, as well as the

In relation to these aspects, our review procedures included, inter alia:

- an understanding of the policies, processes and controls implemented by the Company for the acquisition, recognition and periodic assessment of NPL Sector loans, based on the evolution of the recovery estimate, and the performance of compliance procedures on the checks considered key among those detected;
- 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 Company, 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

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 about the differences, considered as most significant; • the analysis of the adequacy of the information provided in the notes to the financial statements.

Responsibilities of Directors and Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Directors are responsible for assessing Banca IFIS S.p.A.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banca IFIS S.p.A.'s internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banca IFIS S.p.A.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholder of Banca IFIS S.p.A., in the general meeting held on April 17, 2014, engaged us to perform the audits of the separate and consolidated financial statements of each years ending December 31, 2014 to December 31, 2022.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of Banca IFIS S.p.A. in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the Board of Statutory Auditors ("Collegio Sindacale") in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Banca IFIS S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Banca IFIS S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Banca IFIS S.p.A. as at December 31, 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 financial statements of Banca IFIS S.p.A. 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.