BANCA IFIS

Value to your business.

Consolidated interim report at 31st March 2019

1Q19

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

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Corporate Bodies

Corporate Bodies

Board of Directors

Chairman	Sebastien Egon Fürstenberg
Deputy Chairman	Ernesto Fürstenberg Fassio
CEO	Luciano Colombini (1)
Directors	Simona Arduini
	Monica Billio
	Beatrice Colleoni
	Alessandro Csillaghy De Pacser
	Roberto Diacetti
	Divo Gronchi
	Luca Lo Giudice
	Antonella Malinconico
	Daniele Umberto 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	Marinella Monterumisi
	Franco Olivetti
Alternate Auditors	Alessandro Carducci Artenisio
	Giuseppina Manzo

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

BANCA IFIS

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

Member of FCI

02

Interim Directors’ report on the Group

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 16: effective 1 January 2019, the Group adopted the new accounting standard "IFRS 16 Leases". As permitted under the transitional provisions of IFRS 16, the Group elected not to restate the comparative information in the year of initial application of IFRS 16; therefore, the amounts for 2018, calculated under IAS 17, are not fully comparable. Specifically, the Group used the so-called "modified retrospective approach B" (paragraph C5 letter b, C7 and C8 letter b.ii in Appendix C to IFRS 16), under which entities may recognise the right-of-use asset at the date of initial application at the same amount as the lease liability; no differences concerning the Banca IFIS Group's opening consolidated equity emerged at the date of initial application under this approach. The right-of-use asset, and therefore the corresponding financial liability, recognised at 1 January 2019 totalled 12,8 million Euro.

  As concerns income statement figures for the first quarter of 2019, the following is underlined on the basis of the provisions of IFRS 16:

  - net interest income includes, within interest expense, interest accrued on financial liabilities for leases;
  - net depreciation and impairment losses on property, plant and equipment includes depreciation of the right-of-use assets resulting from lease contracts;
  - rentals relating to contracts falling within the scope of application of IFRS 16 are no longer recognised within "Other administrative expenses".

  In view of the above, the income statement figures for the comparative periods are not fully comparable.

- Acquisition of the FBS Group: on 7 January 2019, Banca IFIS finalised the acquisition of control over the FBS Group, which specialises in servicing (including both master and special services), the management of secured and unsecured NPL portfolios, and due diligence advisory services. The FBS Group is an investor authorised to conduct NPL transactions. The overall cost of the business combination was provisionally estimated at 67,7 million Euro, and the first consolidation process gave rise to a 40,7 million Euro difference between the acquisition cost and the FBS Group's equity that was provisionally allocated to goodwill in its entirety.

02.2. Results and Strategy

02.2.1 Comment by the CEO

My initial impression is that the Bank is a dynamic, innovative, and profitable entity relying on a cohesive team of young and capable managers with complementing professional experiences. The quarterly earnings show 130 million Euro in net banking income—and all the Bank's business areas contributed to this result. Banca IFIS boasts a one-of-a-kind business model with a strong level of diversification and specialisation in different market segments.

Our strategy shall focus on growing the various business units while continuing to place special emphasis on the quality of our assets as well as operating costs. In the NPL segment, we will keep on buying portfolios and improving collection processes, leveraging also the recent acquisition of FBS—which will allow us to act as buyers and servicers of NPL portfolios on behalf of third parties, including in the secured and corporate segment. In the Enterprises segment, we will expand our offering of financing and services to Small and Medium Enterprises.

We are extremely well positioned to continue growing in the coming quarters, as the positions subject to Garnishment Orders and those in the Secured and Corporate category of the NPL segment show: their Gross Book Value rose by over 5% in the last quarter alone. The Enterprises segment, which serves SMEs—representing one of the most attractive markets in terms of growth and returns—is well diversified in terms of sectors, geographies, and customers. The net profit for the first quarter of 2019 amounted to 30 million Euro, while the cost of credit stabilised after the one-off provisions set aside for some individual positions in 2018.

We must now place special emphasis on the cost/income ratio and operating costs without affecting the investments in digital innovation, technology, and the NPL segment that are necessary to ensure our growth in the future.

We continue paying the utmost attention to the Bank's capital requirements. In the first three months of 2019, the CET1 ratio was essentially unchanged from the previous quarter at 10,29% (10,37% on a pro-forma basis, considering the profit for the first quarter), even when including 41 million Euro in goodwill arising from the acquisition of FBS. The CET1 ratio remains comfortably above the 2019 SREP requirement of 8,12%. Total capital stood at 14,02%, compared to a SREP requirement of 12,5%.

The Bank is thus well positioned to move forward on the growth path of the next few years, to which I will give my best efforts—and I am happy to be part of such a dynamic group. The controlling shareholder has reaffirmed support for the Bank's strategy and growth.

02.2.2 Highlights - reclassified data

Consolidated **net banking income** amounted to 130,1 million Euro, -6,7% compared to the prior-year period. The NPL segment reported 62,6 million Euro in net banking income (65,1 million Euro at 31 March 2018, -3,8%), as the positive contribution associated with the consolidation of the FBS Group was offset by the introduction of the "pre-garnishment order collective model" and the recalibration of the collective model used for non-judicial operations.

The Enterprises Segment was down 15,3% year-on-year: the growth reported by the Trade Receivables business area (+1,8% compared to 31 March 2018) and the Leasing business area (+9,2% from 31 March 2018) was offset by the inevitably lower contribution from the "reversal PPA"[1] in the Corporate Banking area compared to the prior-year period.

Net credit risk losses[2] totalled 13,1 million Euro (compared to 11,0 million Euro at 31 March 2018) and were entirely related to the Enterprises segment. The year-on-year increase in provisions set aside during the first quarter of 2019 by the Enterprises segment were in part associated with the additional provisions on unlikely to pay in the construction segment, which became necessary because of the events that transpired during the period.

1 "Reversal PPA" means the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the former GE Capital Interbanca Group—acquired on 30 November 2016—over time.

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

Operating costs totalled 74,4 million Euro (73,4 million Euro at 31 March 2018, +1,3%). The cost/income ratio stood at 57,2%, compared to 52,7% at 31 March 2018.

Personnel expenses totalled 31,4 million Euro, up 17,2% (26,8 million Euro at 31 March 2018). The Group's employees numbered 1.764 at 31 March 2019, up 14,5% from the prior-year period (1.541 units). 100 employees were acquired following the inclusion of the subsidiaries FBS S.p.A. and FBS Real Estate in the Group's scope.

Other administrative expenses amounted to 43,3 million Euro, down 7,1% from 46,6 million Euro at 31 March 2018. The change during the period stemmed from the increase in costs associated with the acquisition of the FBS Group, which was more than offset by the decline in registration fees paid for the judicial debt collection actions concerning the NPL segment's receivables: these fell from 10,7 million Euro at 31 March 2018 to 5,6 million Euro at 31 March 2019.

The Group net profit for the period totalled 29,9 million Euro at 31 March 2019, down 20,9% from 37,9 million Euro at 31 March 2018.

As for the contribution of individual segments to the operating and financial results at 31 March 2019, here below are the highlights:

- **The Enterprises Segment's net banking income**, which accounted for 51,2% of the total, amounted to 66,6 million at 31 March 2018, down 15,3% from 78,6 million Euro in the prior-year period, as the growth of the business areas included within this segment was offset by the lower contribution of the "reversal PPA"[1] in Corporate Banking (13,4 million Euro at 31 March 2019 compared to 19,0 million Euro at 31 March 2018, -29,2%). The Enterprises segment's receivables totalled 5.954,8 million Euro at 31 March 2019, up 0,6% from 31 December 2018.

- Specifically, the **Trade Receivables Area** generated 40,6 million Euro in net banking income (39,9 million Euro at 31 March 2018, +1,8%); turnover rose to 3,4 billion Euro (+19,1% from 31 March 2018), and the number of corporate customers was up 11,0% compared to the prior year. Outstanding loans in the Trade Receivables area totalled 3,6 million Euro ,+0,3% from 31 December 2018.

- **Corporate Banking Area** generated 9,4 million Euro in net banking income, down 60,1% largely because of the 7,8 million Euro decline in assets measured at Fair Value as well as the lower contribution of the "reversal PPA"[1] (13,4 million Euro vs 19,0 million Euro at 31 March 2018). This decline was to be expected, as the underlying loans are gradually reaching maturity; in addition, it was fuelled by the early repayments occurred in the prior-year period. Outstanding loans in the Corporate Banking segment amounted to 805,5 million Euro, +0,9% from the end of 2018.

- In the first quarter, **Leasing Area** generated 13,6 million Euro in net banking income, up 9,2% year-on-year—largely thanks to the lower impact of brokerage commission expense.
  In the first three months of 2019, the segment extended 165,1 million Euro in new financing (-3,9% year-on-year), largely in the autolease sector (-10,4% from the first quarter of 2018). Loans to customers totalled 1.412,3 million Euro, +0,9% from 31 December 2018.

- The **NPL Segment**[2], dedicated to acquiring and converting non-performing loans into sustainable and mostly unsecured settlement plans, reported 62,6 million Euro in **net banking income** (65,1 million Euro at 31 March 2018, -3,8%). However, the following factors must be taken into account in order to properly compare the results:
  - The contribution of the FBS Group to Net profit from financial activities, amounting to 8,2 million Euro in the first quarter of 2019.

- The negative 9 million Euro impact of the introduction of the new "pre-garnishment order collective model" in the first quarter of 2019, as the measurement models accounted for inefficiencies of the external courts (so-called "haircut") that did not affect the first quarter of 2018 only because of timing.
- The approximately 3 million Euro positive impact on the first quarter of 2018 arising mainly from the recalibration of the models, which was carried out to account for the changes in both cash receipts and the characteristics of the portfolios acquired over time. No such impact was recognised in the first quarter of 2019.

Excluding these factors, net profit from financial activities would have risen from 62,1 million Euro to 63,5 million Euro at 31 March 2019 (+2,1%). This growth was fuelled by the strong performance in the management of existing portfolios, resulting in better payment arrangements, as well as the higher number of writs and attachments obtained.

At 31 March 2019, the nominal amount of outstanding receivables totalled 16,6 billion Euro, and their net value was 1.123,4 million Euro. Cash receipts rose from 40,1 million Euro in the first quarter of 2018 to 56,7 million Euro at 31 March 2019. Estimated Remaining Collections (ERC) amounted to approximately 2,4 billion Euro.

In the first quarter of 2019, the Group continued with its strategy to consolidate wholesale funding, so as to strike a better balance with retail funding: the first half of the year saw a number of transactions with institutional investors on the debt market. At 31 March 2019, the Group's funding structure was as follows:

- 64,2% customers;
- 12,8% ABS;
- 12,2% debt securities;
- 8,9% TLTRO;
- 1,9% other.

As for the assets backing the collateralisation of part of the funding, at 31 March 2019 the Group held 423 million Euro worth of government bonds (fair value: 411,3 million Euro, +0,2% from 31 December 2018) with limited duration, classified as financial assets at fair value through other comprehensive income.

Below is the **breakdown of net non-performing exposures measured at amortised cost in the Enterprises Segment** (totalling 307,3 million Euro):

- net bad loans amounted to 67,8 million Euro, essentially unchanged from 67,9 million Euro at 31 December 2018 (-0,1%); the net bad-loan ratio was 1,1%, in line with 31 December 2018. The coverage ratio stood at 73,1% (73,0% at 31 December 2018);
- the balance of net unlikely to pay was 150,2 million Euro, +1,9% from 147,5 million Euro at 31 December 2018; the coverage ratio rose to 38,0% from 36,9% at 31 December 2018;
- net non-performing past due exposures totalled 89,2 million Euro, compared to 95,0 million Euro at 31 December 2018 (-6,1%). The coverage ratio of net non-performing past due exposures stood at 11,3%, in line with 31 December 2018.

Overall, the Enterprises segment reported a Gross NPE Ratio of 9,5% (9,5% at 31 December 2018) and a Net NPE Ratio of 5,2% (5,2% at 31 December 2018).

At 31 March 2019, the **Group's consolidated equity** totalled 1.489,3 million Euro, up 2,1% from 1.459,0 million Euro at 31 December 2018.

At 31 March 2019, the consolidated **Common Equity Tier 1 (CET1)** and Total Own Funds Ratio including the prudential consolidation within La Scogliera amounted to 10,29% and 14,02%, respectively, compared to 10,30% and 14,01% at 31 December 2018.

At 31 March 2019, the consolidated **Common Equity Tier 1 (CET1)** and Total Own Funds Ratio of the Banca IFIS Group alone, excluding the effect of the consolidation within the Parent Company La Scogliera[3], amounted to 13,53% and 18,03%, respectively, compared to 13,74% and 18,20% at 31 December 2018.

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

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

At 31 March 2019, the Banca IFIS Group already met the above prudential requirements.

3 The reported total own funds refers only to the scope of the Banca IFIS Group, thus excluding the effects of the prudential consolidation within the parent La Scogliera S.p.A. Consolidated own funds, risk-weighted assets and solvency ratios at 31 March 2019 were calculated based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were transposed in the Bank of Italy's Circulars no. 285 and 286 of 17 December 2013. Article 19 of the CRR requires to include the unconsolidated holding of the banking Group in equity for the purposes of prudential consolidation.

02.3. Highlights

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2019	31.12.2018	ABSOLUTE	%
Financial assets at fair value through other comprehensive income	432.901	432.094	807	0,2%
Receivables due from banks measured at amortised cost	996.333	590.595	405.738	68,7%
Loans to customers measured at amortised cost	7.322.130	7.313.972	8.158	0,1%
Total assets	9.863.632	9.382.261	481.371	5,1%
Due to banks measured at amortised cost	844.790	785.393	59.397	7,6%
Due to customers measured at amortised cost	5.021.481	4.673.299	348.182	7,5%
Debt securities issued	1.955.400	1.979.002	(23.602)	(1,2)%
Equity	1.489.301	1.459.000	30.301	2,1%

RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	FIRST THREE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net banking income	**130.109**	**139.378**	**(9.269)**	**(6,7)%**
Net credit risk losses/reversals	(13.088)	(10.957)	(2.131)	19,4%
Net profit (loss) from financial activities	**117.021**	**128.421**	**(11.400)**	**(8,9)%**
Operating costs	(74.364)	(73.421)	(943)	1,3%
Pre-tax profit from continuing operations	42.657	55.000	(12.343)	(22,4)%
Net profit for the period attributable to the Parent company	**29.920**	**37.854**	**(7.934)**	**(21,0)%**

CONSOLIDATED COMPREHENSIVE INCOME (in thousands of Euro)	31.03.2019	31.03.2018
Profit (Loss) for the period	**29.941**	**37.854**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	54	179
Other comprehensive income, net of taxes, to be reclassified to profit or loss	187	3.191
Comprehensive Income	**30.182**	**41.224**
Total consolidated comprehensive income attributable to non-controlling interests	21	-
Total consolidated comprehensive income attributable to the Parent	**30.161**	**41.224**

GROUP KPIs	31.03.2019	31.12.2018
Ratio - Total Own Funds	14,02%	14,01%
Ratio - Common Equity Tier 1	10,29%	10,30%
Number of company shares (in thousands)	53.811	53.811
Number of shares outstanding at period end[1] (in thousands)	53.441	53.441
Book value per share	27,87	27,30
EPS	0,56	2,75

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

02.4. Results by business segments

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

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Financial assets held for trading through profit or loss				
Amounts at 31.03.2019	-	-	26.426	**26.426**
Amounts at 31.12.2018	*-*	*-*	*29.809*	***29.809***
% Change	*-*	*-*	*(11,3)%*	***(11,3)%***
Financial assets mandatorily measured at fair value through profit or loss				
Amounts at 31.03.2019	121.921	2.663	49.924	**174.508**
Amounts at 31.12.2018	*114.619*	*-*	*49.226*	***163.845***
% Change	*6,4%*	*n.a.*	*1,4%*	***6,5%***
Financial assets at fair value through other comprehensive income				
Amounts at 31.03.2019	12.419	-	420.482	**432.901**
Amounts at 31.12.2018	*12.188*	*-*	*419.906*	***432.094***
% Change	*1,9%*	*-*	*0,1%*	***0,2%***
Receivables due from banks measured at amortised cost				
Amounts at 31.03.2019	-	-	996.333	**996.333**
Amounts at 31.12.2018	*-*	*-*	*590.595*	***590.595***
% Change	*-*	*-*	*68,7%*	***68,7%***
Loans to customers measured at amortised cost				
Amounts at 31.03.2019	5.954.756	1.125.396	241.978	**7.322.130**
Amounts at 31.12.2018	*5.918.496*	*1.092.799*	*302.677*	***7.313.972***
% Change	*0,6%*	*3,0%*	*(20,1)%*	***0,1%***
Due to banks				
Amounts at 31.03.2019	-	-	844.790	**844.790**
Amounts at 31.12.2018	*-*	*-*	*785.393*	***785.393***
% Change	*-*	*-*	*7,6%*	***7,6%***
Due to customers				
Amounts at 31.03.2019	-	-	5.021.481	**5.021.481**
Amounts at 31.12.2018	*-*	*-*	*4.673.299*	***4.673.299***
% Change	*-*	*-*	*7,5%*	***7,5%***
Debt securities issued				
Amounts at 31.03.2019	-	-	1.955.400	**1.955.400**
Amounts at 31.12.2018	*-*	*-*	*1.979.002*	***1.979.002***
% Change	*-*	*-*	*(1,2)%*	***(1,2)%***

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 31.03.2019	66.644	62.579	886	130.109
Amounts at 31.03.2018	*78.637*	*65.059*	*(4.318)*	***139.378***
% Change	*(15,3%)*	*(3,8%)*	*n.s.*	*(6,7%)*
Net profit (loss) from financial activities				
Amounts at 31.03.2019	53.459	62.579	983	117.021
Amounts at 31.03.2018	*67.635*	*65.059*	*(4.273)*	***128.421***
% Change	*(21,0%)*	*(3,8%)*	*n.s.*	*(8,9%)*

SEGMENT KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality			
Amounts at 31.03.2019	0,88%	-	-
Amounts at 31.12.2018	*1,70%*	*-*	*-*
% Change	*(0,82)%*	*-*	*-*
Net bad loans/Loans to customers			
Amounts at 31.03.2019	1,1%	-	4,8%
Amounts at 31.12.2018	*1,1%*	*-*	*4,0%*
% Change	*0,0%*	*-*	*0,8%*
Coverage ratio on gross bad loans			
Amounts at 31.03.2019	73,1%	-	18,7%
Amounts at 31.12.2018	*73,0%*	*-*	*15,4%*
% Change	*0,1%*	*-*	*3,3%*
Net non-performing exposures/Net loans to customers			
Amounts at 31.03.2019	5,2%	99,5%	14,3%
Amounts at 31.12.2018	*5,2%*	*99,9%*	*11,8%*
% Change	*0,0%*	*(0,4)%*	*2,5%*
Gross non-performing exposures/Gross loans to customers			
Amounts at 31.03.2019	9,5%	99,5%	16,7%
Amounts at 31.12.2018	*9,5%*	*99,6%*	*13,8%*
% Change	*0,0%*	*(0,1)%*	*2,9%*
RWAs[(1) (2)]			
Amounts at 31.03.2019	4.949.928	1.567.330	422.847
Amounts at 31.12.2018	*4.793.273*	*1.584.420*	*657.733*
% Change	*3,3%*	*(1,1)%*	*(35,7)%*

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

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

02.5. Quarterly Evolution

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2019	YEAR 2018			
	31.03	31.12	30.09	30.06	31.03
ASSETS					
Other financial assets mandatorily measured at fair value through profit or loss	174.508	163.845	133.665	130.520	115.597
Financial assets at fair value through other comprehensive income	432.901	432.094	428.253	433.827	453.847
Receivables due from banks measured at amortised cost	996.333	590.595	1.452.011	1.568.042	1.565.449
Loans to customers measured at amortised cost	7.322.130	7.313.972	6.919.486	6.710.457	6.457.208
Property, plant and equipment	145.869	130.650	131.247	130.399	127.005
Intangible assets	65.855	23.277	25.500	24.815	25.250
Tax assets	396.280	395.084	409.324	400.773	408.270
Other assets	329.756	332.744	343.443	333.910	368.176
Total assets	**9.863.632**	**9.382.261**	**9.842.929**	**9.732.743**	**9.520.802**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2019	YEAR 2018			
	31.03	31.12	30.09	30.06	31.03
LIABILITIES AND EQUITY					
Due to banks measured at amortised cost	844.790	785.393	837.565	882.324	820.190
Due to customers measured at amortised cost	5.021.481	4.673.299	4.985.206	4.840.864	5.022.110
Debt securities issued	1.955.400	1.979.002	2.094.785	2.095.844	1.774.973
Tax liabilities	63.066	52.722	51.116	50.519	48.140
Other liabilities	489.594	432.845	476.827	490.109	442.400
Equity:	1.489.301	1.459.000	1.397.430	1.373.083	1.412.989
- Share capital, share premiums and reserves	*1.459.381*	*1.312.237*	*1.308.436*	*1.306.874*	*1.375.135*
- Profit for the period	*29.920*	*146.763*	*88.994*	*66.209*	*37.854*
Total liabilities and equity	**9.863.632**	**9.382.261**	**9.842.929**	**9.732.743**	**9.520.802**

CONSOLIDATED INCOME STATEMENT: RECLASSIFIED QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2019	YEAR 2018			
	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	**115.264**	**140.014**	**99.670**	**110.097**	**119.480**
Net commission income	**23.828**	**24.525**	**20.206**	**19.954**	**19.820**
Other components of net banking income	(8.983)	8.414	5.557	8.688	78
Net banking income	**130.109**	**172.953**	**125.433**	**138.739**	**139.378**
Net credit risk losses/reversals	(13.088)	(31.179)	(28.879)	(29.079)	(10.957)
Net profit (loss) from financial activities	**117.021**	**141.774**	**96.554**	**109.660**	**128.421**
Personnel expenses	(31.447)	(28.303)	(27.830)	(28.624)	(26.827)
Other administrative expenses	(43.321)	(42.707)	(38.734)	(48.460)	(46.625)
Net allocations to provisions for risks and charges	(2.512)	3.207	(6.254)	3.754	(2.806)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(4.062)	(3.685)	(3.148)	(3.116)	(2.809)
Other operating income/expenses	6.978	6.922	11.277	5.691	5.646
Operating costs	**(74.364)**	**(64.566)**	**(64.689)**	**(70.755)**	**(73.421)**
Pre-tax profit from continuing operations	**42.657**	**77.208**	**31.865**	**38.905**	**55.000**
Income taxes for the period relating to continuing operations	(12.716)	(19.447)	(9.025)	(10.550)	(17.146)
Profit for the period	**29.941**	**57.761**	**22.840**	**28.355**	**37.854**
Profit (Loss) for the period attributable to non-controlling interests	21	(8)	55	-	-
Profit for the period attributable to the Parent company	**29.920**	**57.769**	**22.785**	**28.355**	**37.854**

INCOME STATEMENT DATA BY SEGMENT: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2019	YEAR 2018			
	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**130.109**	**172.953**	**125.433**	**138.739**	**139.378**
Enterprises	*66.644*	*93.957*	*76.483*	*86.435*	*78.637*
NPL	*62.579*	*75.991*	*48.953*	*54.231*	*65.059*
Governance & Services	*886*	*3.005*	*(3)*	*(1.927)*	*(4.318)*
Net profit (loss) from financial activities	**117.021**	**141.774**	**96.554**	**109.660**	**128.421**
Enterprises	*53.459*	*64.963*	*47.006*	*58.471*	*67.634*
NPL	*62.579*	*75.991*	*48.953*	*54.231*	*65.059*
Governance & Services	*983*	*821*	*595*	*(3.042)*	*(4.273)*

02.6. Group historical data

Reclassified data: in the following statements, net impairment losses/reversals on receivables of the NPL segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

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

HISTORICAL DATA [1] (in thousands of Euro)	31.03.2019	31.03.2018	31.03.2017	31.03.2016	31.03.2015
Financial assets at fair value through other comprehensive income (IFRS 9)	432.901	453.847	631.568	n.a.	n.a.
Available for sale financial assets (IAS 39)	n.a.	n.a.	n.a.	1.066.413	5.069.781
Loans to customers measured at amortised cost	7.322.130	6.457.208	5.803.700	3.307.793	2.921.902
Due to banks measured at amortised cost	844.790	820.190	1.028.971	182.568	200.953
Due to customers measured at amortised cost	5.021.481	5.022.110	5.055.558	3.722.501	7.241.379
Debt securities issued	1.955.400	1.774.973	1.122.879	-	-
Equity	1.489.301	1.412.989	1.253.638	550.243	571.878
Net banking income	130.109	139.378	103.543	76.604	72.595
Net profit (loss) from financial activities	117.021	128.421	101.375	68.339	65.109
Profit (loss) for the period attributable to the Parent company	29.920	37.854	32.687	22.045	26.229
Cost/Income ratio	57,2%	52,7%	53,7%	46,7%	35,2%
Ratio - Total Own Funds	14,02%	15,35%	14,90%	14,67%	14,62%
Ratio - Common Equity Tier 1	10,29%	11,10%	14,02%	13,63%	13,94%

(1) For comparison purposes, the data for 2017 and 2018 has been restated to ensure accounting consistency with the amounts at 31 March 2019 in order to account for the changes introduced by IFRS 9; the data for prior periods are those originally published. This restatement has not been applied to the calculation of comparative indicators, which remained aligned with the previously reported amounts.

03

Contribution of operating segments to Group results

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

03.1. The organisational structure

Consistently with the structure used by the Head Office to analyse the Group's results, segment reporting is divided as follows:

- Enterprises Segment: it corresponds to the former Trade Receivables, Corporate Banking, Leasing, and Tax Receivables areas, and represents the Group's commercial offerings for businesses. The segment's results include also the investee Credifarma S.p.A., which joined the Group effective 2 July 2018.
- NPL Segment, dedicated to non-recourse factoring and managing distressed retail loans. Starting from 7 January 2019, the segment's results include also the contribution from the FBS Group.
- Governance & Services Segment, which provides the segments operating in the Group's core businesses with the financial resources and services necessary to perform their respective activities. It includes also the Bank's growing business with individuals—and specifically the operations of the subsidiary Cap.Ital.Fin. S.p.A., which recently joined the Group and extends salary- or pension-backed loans as well as portfolios of personal loans.

ENTERPRISES

The Enterprises Segment includes the following business areas:

- Trade Receivables: this area is dedicated to supporting the trade receivables of SMEs operating in the domestic market as well as companies growing abroad or based abroad and working with Italian customers; this area also includes medium/long-term financing to supporting the company's operating cycle through services ranging from funding optimisation to working capital financing and the support for productive investments; moreover, it includes an organisational unit dedicated to supporting the trade receivables of local health services' suppliers as well as an organisational unit specialising in lending to pharmacies—including through the subsidiary Credifarma.
- Leasing: this area provides finance and operating leases—but not real estate leases, as the Group does not offer them—to small economic operators and SMEs.
- Corporate Banking: this organisational unit includes several areas: the Structured Finance area, which supports companies and private equity funds in arranging bilateral or syndicated loans; the Special Situations area, which supports the financial recovery of businesses that managed to overcome financial distress; and the Equity Investment area, dedicated to investing in non-financial companies and intermediaries.
- Tax Receivables: it is the area specialised in purchasing tax receivables from insolvency proceedings; it operates under the Fast Finance brand and buys both accrued and accruing tax receivables on which repayment has already been requested or which shall be requested in the future, and that arose during insolvency proceedings or in prior years. As a complement to its core business, this segment seldom acquires also trade receivables from insolvency proceedings.

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2019	31.03.2018	CHANGE	
			ABSOLUTE	%
Net interest income	52.679	58.851	(6.172)	(10,5)%
Net commission income	22.307	19.796	2.511	12,7%
Other components of net banking income	(8.342)	(10)	(8.332)	n.s.
Net banking income	**66.644**	**78.637**	**(11.993)**	**(15,3)%**
Net credit risk losses/reversals	(13.185)	(11.002)	(2.183)	19,8%
Net profit (loss) from financial activities	**53.459**	**67.635**	**(14.176)**	**(21,0)%**

The contribution of the organisational units that comprise the Enterprises segment—detailed in the following paragraphs—to net banking income in the first quarter of 2019 can be broken down as follows: Trade Receivables 40,6 million Euro (+0,7 million Euro compared to the first quarter of 2018), Corporate Banking 9,4 million Euro (-14,2 million Euro), Leasing 13,6 million Euro (+1,1 million Euro), and Tax Receivables 3,0 million Euro (+0,3 million Euro).

Trade Receivables contributed to the increase in net banking income, growing by 1,8% compared to the prior-year period thanks to the rise in turnover (+19,1% from 31 March 2018) as well as the number of corporate customers (+11,0%, without accounting for the positive contribution from the acquisition of Credifarma in July).

As for Corporate Banking, net banking income was down as a result of the 7,8 million Euro decline in assets measured at FV (Fair Value), largely attributable to two individual counterparties, as well as the 5,5 million Euro reduction resulting from the inevitably lower contribution of the "reversal PPA"[4], which fell from 19,0 million Euro in the first quarter of 2018 to 13,4 million Euro in 2019 (-29,2%). This decline was to be expected, as it is associated with the residual average life of the underlying loans, and was more pronounced relative to the comparative period as a result of early repayments occurred in the first quarter of 2018.

The remainder of the mentioned "reversal PPA" for the entire Enterprises segment amounted to 171,4 million Euro at 31 March 2019 (185,7 million Euro at 31 December 2018) and will make a positive contribution to the results for future years, considering that the average life of the underlying portfolio is estimated at approximately 3 years.

The Leasing area's net banking income climbed 9,2% year-on-year as brokerage commission expense fell and net interest income remained essentially stable.

In the first quarter of 2019, the Enterprises Segment recognised 13,2 million Euro in credit risk losses (+2,2 million Euro year-on-year), of which 9,3 million Euro referred to exposures of the Trade Receivables unit, 2,3 million Euro to Corporate Banking, and 1,5 million Euro to Leasing. The increase in provisions referred to Trade Receivables and was largely attributable to positions already classified as unlikely to pay in the construction sector.

The Enterprises segment's financial assets included 5.954,8 million Euro in Loans to customers (+0,6% from 31 December 2018), 121,9 million Euro in Other financial assets mandatorily measured at fair value through profit or loss (+6,4%), and 12,4 million Euro in Financial assets at fair value through other comprehensive income (+1,9%): the last two categories mainly referred to investments in UCITS units made as part of Corporate Banking operations as well as loans to customers that failed the SPPI test.

Below is the breakdown of non-performing exposures relating to Loans to customers by risk category.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.03.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net bad loans	67.847	67.947	(100)	(0,1)%
Net unlikely to pay	150.246	147.458	2.788	1,9%
Net non-performing past due exposures	89.195	94.953	(5.758)	(6,1)%
Total net non-performing exposures to customers (stage 3)	**307.288**	**310.358**	**(3.070)**	**(1,0)%**
Net performing loans (stages 1 and 2)	5.647.468	5.608.138	39.330	0,7%
Total on-balance-sheet loans to customers	**5.954.756**	**5.918.496**	**36.260**	**0,6%**

In addition, please note that the Enterprises segment comprises receivables that qualify as POCI, referring to the non-performing assets that arose from the business combination with the former GE Capital Interbanca Group at the acquisition date, including:

- 67,3 million Euro in gross non-performing exposures at 31 March 2019 (66,7 million Euro at 31 December 2018);
- 22,6 million Euro in gross performing exposures (stage 2) at 31 March 2019 (22,2 million Euro at 31 December 2018).

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

[4]"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.

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

ENTERPRISES SEGMENT (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 31.03.2019						
Nominal amount	251.827	242.396	100.509	**594.732**	5.678.127	**6.272.859**
Impairment losses	(183.980)	(92.150)	(11.314)	**(287.444)**	(30.659)	**(318.103)**
Book value	67.847	150.246	89.195	**307.288**	5.647.468	**5.954.756**
Coverage ratio	*73,1%*	*38,0%*	*11,3%*	***48,3%***	*0,5%*	***5,1%***
Gross ratio	*4,0%*	*3,9%*	*1,6%*	***9,5%***	*90,5%*	***100,0%***
Net ratio	*1,1%*	*2,5%*	*1,5%*	***5,2%***	*94,8%*	***100,0%***
BALANCE AT 31.12.2018						
Nominal amount	251.456	233.526	107.108	**592.090**	5.637.795	**6.229.885**
Impairment losses	(183.509)	(86.068)	(12.155)	**(281.732)**	(29.657)	**(311.389)**
Book value	67.947	147.458	94.953	**310.358**	5.608.138	**5.918.496**
Coverage ratio	*73,0%*	*36,9%*	*11,3%*	***47,6%***	*0,5%*	***5,0%***
Gross ratio	*4,0%*	*3,7%*	*1,7%*	***9,5%***	*90,5%*	***100,0%***
Net ratio	*1,1%*	*2,5%*	*1,6%*	***5,2%***	*94,8%*	***100,0%***

The Enterprises segment's net non-performing exposures totalled 307,3 million Euro at 31 March 2019, down 3,1 million Euro from 31 December 2018 (310,4 million Euro): bad loans declined by 0,1 million Euro (-0,1%), unlikely to pay rose by 2,8 million Euro (+1,9%), and past due exposures fell by 5,8 million Euro (-6,1%).

The coverage ratio of non-performing exposures was up from 47,6% at 31 December 2018 to 48,3% at 31 March 2019. At 31 March 2019, net bad loans amounted to 67,9 million Euro, resulting in a stable net bad-loan ratio of 1,1%.

KPIs	31.03.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Cost of credit quality	0,88%	1,70%	-	(0,82)%
Net NPE ratio	5,2%	5,2%	-	0,0%
Gross NPE ratio	9,5%	9,5%	-	0,0%
Total RWA per segment	4.949.928	4.793.273	156.655	3,3%

The cost of credit quality for the first quarter stood at 88 bps, compared to 170 bps at 31 December 2018; excluding the specific provisions set aside for positions operating in the construction sector, the cost of credit quality would have amounted to 62 bps in the first quarter of 2019, compared to 65 bps at 31 December 2018.

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

Trade receivables

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2019	31.03.2018	CHANGE	
			ABSOLUTE	%
Net interest income	22.984	25.326	(2.342)	(9,2)%
Net commission income	17.606	14.557	3.049	20,9%
Net banking income	**40.590**	**39.883**	**707**	**1,8%**
Net credit risk losses/reversals	(9.348)	(6.993)	(2.355)	33,7%
Net profit (loss) from financial activities	**31.242**	**32.890**	**(1.648)**	**(5,0)%**

In the first quarter of 2019, the Trade Receivables Area contributed 40,6 million Euro to the Enterprises Segment's net banking income, up 1,8% from the prior-year period. The performance of the Trade Receivables area in the current year benefits from the acquisition of Credifarma S.p.A., which joined the Group in the third quarter of 2018.

Net interest income was down 9,2% (-2,3 million Euro) from March 2018 largely because of the higher imputed interest expense that the Governance and Services segment allocated to the area as a result of rising volumes and the increased internal transfer rate; by contrast, net commission income climbed 20,9% (+3,0 million Euro) thanks to the improved performance of the area dedicated to supporting the trade receivables of SMEs operating in the domestic market.

Net credit risk losses/reversals amounted to 9,3 million Euro, up 2,4 million Euro from 7,0 million Euro in the first quarter of 2018. The increase was largely attributable to the individual provisions set aside on unlikely to pay relating to the construction sector. Therefore, net profit from financial activities amounted to 31,2 million Euro, down 1,6 million Euro (-5,0%).

The change in net banking income during the reporting period was consistent with the trend in volumes concerning both conventional factoring operations and medium/long-term financing—which the Bank started providing to SMEs following the merger of Interbanca, expanding its offerings with new products. As for factoring volumes, in the first quarter of 2019 turnover totalled 3,4 billion Euro, up 0,5 billion Euro (+19,1%) from the prior-year period. The nominal amount of outstanding receivables at the end of March 2019 was 3,8 billion Euro, up nearly 220,4 million Euro (+6,2%) from March 2018. As for medium/long-term financing, in 2019 the Group extended 91,7 million Euro in new loans, compared to 48,6 million Euro in the first three months of 2018 (+88,9%).

At 31 March 2019, the Area's total net loans amounted to 3,6 billion Euro, up 0,3% from 31 December 2018.

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

TRADE RECEIVABLES AREA (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 31.03.2019						
Nominal amount	209.098	177.812	84.298	**471.208**	3.392.627	**3.863.835**
Impairment losses	(171.195)	(78.477)	(4.437)	**(254.109)**	(14.856)	**(268.965)**
Book value	37.903	99.335	79.861	**217.099**	3.377.771	**3.594.870**
Coverage ratio	*81,9%*	*44,1%*	*5,3%*	***53,9%***	*0,4%*	***7,0%***
BALANCE AT 31.12.2018						
Nominal amount	209.948	170.319	89.198	**469.465**	3.377.558	**3.847.023**
Impairment losses	(171.287)	(72.581)	(4.620)	**(248.488)**	(14.418)	**(262.906)**
Book value	38.661	97.738	84.578	**220.977**	3.363.140	**3.584.117**
Coverage ratio	*81,6%*	*42,6%*	*5,2%*	***52,9%***	*0,4%*	***6,8%***

Leasing

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2019	31.03.2018	CHANGE	
			ABSOLUTE	%
Net interest income	10.334	9.939	395	4,0%
Net commission income	3.308	2.558	750	29,3%
Net banking income	**13.642**	**12.497**	**1.145**	**9,2%**
Net credit risk losses/reversals	(1.509)	(2.482)	973	(39,2)%
Net profit (loss) from financial activities	**12.133**	**10.015**	**2.118**	**21,1%**

The Leasing segment's net banking income totalled 13,6 million Euro, up 9,2% (+1,1 million Euro in absolute terms) compared to 31 March 2018. This positive change was largely driven by the lower impact of brokerage commission expense.

In the first three months of 2019, the segment extended 165,1 million Euro in new financing (-3,9% year-on-year), largely in the autolease sector (-10,4% from the first quarter of 2018).

Net impairment losses on receivables amounted to 1,5 million Euro, down 1,0 million Euro from the prior-year period. The decline was largely attributable to the lower amount of provisions set aside for non-performing exposures.

At 31 March 2019, the Area's total net loans amounted to 1.412,3 million Euro, up 0,9% from 1.399,9 million Euro at 31 December 2018.

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

LEASING AREA (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 31.03.2019						
Nominal amount	14.334	18.089	15.776	**48.199**	1.399.802	**1.448.001**
Impairment losses	(11.673)	(10.555)	(6.877)	**(29.105)**	(6.631)	**(35.736)**
Book value	2.661	7.534	8.899	**19.094**	1.393.171	**1.412.265**
Coverage ratio	*81,4%*	*58,4%*	*43,6%*	***60,4%***	*0,5%*	***2,5%***
BALANCE AT 31.12.2018						
Nominal amount	14.492	16.554	17.473	**48.519**	1.387.814	**1.436.333**
Impairment losses	(12.222)	(10.295)	(7.535)	**(30.052)**	(6.342)	**(36.394)**
Book value	2.270	6.259	9.938	**18.467**	1.381.472	**1.399.939**
Coverage ratio	*84,3%*	*62,2%*	*43,1%*	***61,9%***	*0,5%*	***2,5%***

Corporate Banking

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2019	31.03.2018	CHANGE	
			ABSOLUTE	%
Net interest income	16.354	20.876	(4.523)	(21,7)%
Net commission income	1.376	2.682	(1.306)	(48,7)%
Other components of net banking income	(8.342)	(10)	(8.332)	n.s.
Net banking income	**9.388**	**23.548**	**(14.161)**	**(60,1)%**
Net credit risk losses/reversals	(2.292)	(1.501)	(791)	52,7%
Net profit (loss) from financial activities	**7.096**	**22.047**	**(14.952)**	**(67,8)%**

The Corporate Banking segment's net banking income totalled 9,4 million Euro, down 14,2 million Euro compared to 31 March 2018. This change was largely driven by the 7,8 million Euro decline in assets measured at FV (included under Other components of net banking income) and the 5,5 million Euro reduction resulting from the inevitably lower contribution of the “reversal PPA” compared to the prior year (included under Net interest income).

At 31 March 2019, the area had extended 37 million Euro in new financing, compared to 57 million Euro (-61,0%) in the prior-year period; the decline was driven by the market performance of the reference sector.

Net impairment losses on receivables totalled 2,3 million Euro, up from the prior-year period—during which the Group had recognised a significant reversal amounting to 2,9 million Euro.

The Corporate Banking area contributed 7,1 million Euro to the Enterprises segment's net profit from financial activities, down 67,8% year-on-year—largely because of impairment losses as well as the lower impact of the “reversal PPA”.

At 31 March 2019, the Area's total net loans to customers amounted to 805,5 million Euro, up 0,9% from 798,4 million Euro at 31 December 2018.

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

CORPORATE BANKING AREA (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 31.03.2019						
Nominal amount	28.395	46.184	435	**75.014**	743.731	**818.745**
Impairment losses	(1.112)	(3.118)	-	**(4.230)**	(9.018)	**(13.248)**
Book value	27.283	43.066	435	**70.784**	734.713	**805.497**
Coverage ratio	*3,9%*	*6,8%*	*0,0%*	***5,6%***	*1,2%*	***1,6%***
BALANCE AT 31.12.2018						
Nominal amount	27.016	46.325	437	**73.778**	736.523	**810.301**
Impairment losses	-	(3.192)	-	**(3.192)**	(8.750)	**(11.942)**
Book value	27.016	43.133	437	**70.586**	727.773	**798.359**
Coverage ratio	*0,0%*	*6,9%*	*0,0%*	***4,3%***	*1,2%*	***1,5%***

Tax Receivables

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2019	31.03.2018	CHANGE	
			ABSOLUTE	%
Net interest income	3.007	2.710	297	11,0%
Net commission income	17	(2)	19	n.s.
Net banking income	**3.024**	**2.708**	**316**	**11,7%**
Net credit risk losses/reversals	(36)	(25)	(11)	42,3%
Net profit (loss) from financial activities	**2.988**	**2.683**	**305**	**11,4%**

The Tax Receivables Area contributed 3,0 million Euro to the Enterprises segment's net banking income, up 11,7% from 31 March 2018.

The increase was essentially driven by the increase in loans as a result of the purchases finalised in late 2018 and early 2019.

Concerning volumes, in 2019 the area acquired receivables with a par value of 16,7 million Euro, compared to 11,7 million Euro in the prior-year period.

At 31 March 2019, the Area's total net loans amounted to 142,1 million Euro, up 4,4% from 136,1 million Euro at 31 January 2018. The segment's receivables are classified as “performing loans” within stage 1 and 2, considering the nature of the counterparty.

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

TAX RECEIVABLES AREA (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 31.03.2019						
Nominal amount	-	311	-	**311**	141.967	**142.278**
Impairment losses	-	-	-	**-**	(154)	**(154)**
Book value	-	311	-	**311**	141.813	**142.124**
Coverage ratio	-	*0,0%*	-	***0,0%***	*0,1%*	***0,1%***
BALANCE AT 31.12.2018						
Nominal amount	-	328	-	**328**	135.900	**136.228**
Impairment losses	-	-	-	**-**	(147)	**(147)**
Book value	-	328	-	**328**	135.753	**136.081**
Coverage ratio	-	*0,0%*	-	***0,0%***	*0,1%*	***0,1%***

NPL

This is the Banca IFIS Group’s business area dedicated to non-recourse factoring and managing distressed retail loans. Starting from 7 January 2019, the segment's results include also the contribution from the FBS Group in addition to the NPL business unit.

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

The Bank manages the portfolio of acquired receivables using two different methods: non-judicial and judicial operations. Under these two methods, the Bank pursues multiple activities and goals.

The following table shows the breakdown of the NPL segment's loan portfolio by conversion method and method of accounting; the impact recognised through profit or loss, totalling 65,5 million Euro, is the result of 30,7 million Euro in interest income from amortised cost and 34,8 million Euro in other components of net interest income from change in cash flows. Said amount does not comprise funding costs, net commission income, and the gains on sales of receivables, which are included in the table “Income Statement Data” presented below. In addition, it includes the returns on the receivables of the newly acquired FBS S.p.A..

Please note that the presentation of this table has been improved compared to the past in order to better highlight the correlation regarding both the operating and financial impacts of transferring positions between different categories.

NPL Segment Portfolio (in thousands of Euro)	Outstanding nominal amount	Carrying amount	Carr. amount / Out. nom. amount	Impact through profit or loss	ERC	Main methods of accounting
Cost	**2.863.615**	**174.066**	**6,1%**	**0**	**393.925**	Acquisition cost
Non-judicial	**9.745.007**	**306.082**	**3,1%**	**19.440**	**567.083**	
of which: Collective (curves)	9.393.369	162.002	1,7%	-2.841	284.167	Cost = NPV of flows from model
of which: Plans	351.638	144.080	41,0%	22.281	282.916	Cost = NPV of flows from model
Judicial	**4.014.894**	**643.350**	**16,0%**	**46.062**	**1.425.132**	
of which: Other positions undergoing judicial processing	1.822.389	204.653	11,2%	0	499.971	Acquisition cost
of which: Writs, Attachments, Garnishment Orders	1.025.328	345.021	33,6%	36.631	781.243	Cost = NPV of flows from model
of which: Secured and Corporate	1.167.177	93.676	8,0%	9.431	143.918	Cost = NPV of flows from model
Total	**16.623.516**	**1.123.498**	**6,8%**	**65.502**	**2.386.140**	

Post-acquisition management

Right after the acquisition, pending the completion of information retrieval operations to help decide the most appropriate conversion method, the receivable is classified in a so-called "staging" area and recognised at cost (174,1 million Euro at 31 March 2019, compared to 224,7 million Euro at 31 December 2018) with no contribution to profit or loss.

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

Non-judicial operations

As for the positions not eligible for judicial operations, after completing the groundwork for processing them, they are classified in a "collective" portfolio pending the collection of the mentioned settlement plans. In this phase, the positions are measured at amortised cost (162,0 million Euro at 31 March 2019, compared to 153,4 million Euro at 31 December 2018), calculated as the net present value of estimated cash flows based on a proprietary statistical model built using internal historical data series. This model calculates conversion estimates for clusters of similar receivables and is regularly updated to account for changes in receipts as well as the characteristics of the acquired portfolios.

When finalising a settlement plan or bill of exchange, if an amount equal to at least 3 times the average instalment has been paid since the collection date, the positions included in this portfolio are reclassified to "Plans"; these are measured at amortised cost (144,1 million Euro at 31 March 2019, compared to 137,9 million Euro at 31 December 2018), calculated as the net present value of estimated cash flows based on the settlement plans, net of the historical default rate.

Judicial operations

The positions eligible for judicial operations are managed accordingly. Specifically, judicial operations, i.e. garnishment proceedings, consist of several legal stages aimed at obtaining an enforcement order. Overall, they usually take 18-24 months and consist in the following: obtaining a payment order, writ, attachment of property, and garnishment order. At the end of the first quarter of 2018, the Bank put a statistical model based on proprietary data series into production for the purposes of estimating the cash flows of positions undergoing judicial operations and for which a garnishment order has not yet been obtained ("pre-garnishment order collective model"), which until the previous year had been measured at cost. The Bank estimates future cash flows from these positions by accounting for both the average time required for each stage (writ, attachment) and the probability of success of the different stages (from writ to attachment, and from attachment to garnishment order), as well as the observed average time from the issuing of a garnishment order to the first receipt. These cash flows are used for the purposes of the measurement at amortised cost, which is calculated by discounting the expected cash flows using the internal rate of return. Overall, at 31 March 2019 the positions subject to writ, attachment of property, and garnishment order totalled 345,0 million Euro, compared to 315,7 million Euro at the end of 2018.

The remaining positions undergoing judicial processing continue to be measured at cost until the above requirements are met or a garnishment order is issued. In the above table, they are included in the category "Other positions undergoing judicial processing", totalling 204,7 million Euro at 31 December 2019 compared to 188,5 million Euro at 31 December 2018.

In short, during the first stage of judicial operations the Bank does everything necessary to obtain a payment order, and the positions are measured at cost. In the following stages, when the writ and the order of attachment are served on the third party (employer) as well as the debtor, and the garnishment order is obtained, the positions are measured at amortised cost, calculated as the net present value of the cash flows expected from the individual position, considering the debtor's age and the risk of loss of employment

Finally, the "Secured and Corporate" category, totalling 93,7 million Euro at 31 March 2019 compared to 72,7 million Euro at the end of 2018, includes portfolios originated in corporate banking or real estate sectors that are measured individually (considering any mortgages on real estate assets used as collateral)

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

* * *

Finally, the Group occasionally seizes market opportunities in accordance with its business model by selling portfolios of positions yet to be processed to third parties.

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2019	31.03.2018	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	30.682	20.813	9.869	47,4%
Other components of net interest income	34.820	45.914	(11.094)	(24,2)%
Funding costs	(4.400)	(2.430)	(1.970)	81,1%
Net interest income	**61.102**	**64.297**	**(3.195)**	**(5,0)%**
Net commission income	1.381	(292)	1.673	n.s.
Other components of net banking income	96	1.054	(958)	(90,9)%
Net banking income	**62.579**	**65.059**	**(2.480)**	**(3,8)%**
Net profit (loss) from financial activities	**62.579**	**65.059**	**(2.480)**	**(3,8)%**

"Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, climbed 47,4% from 20,8 million Euro to 30,7 million Euro, largely thanks to the increase in receivables at amortised cost. This was mainly driven by writs, attachments and garnishment orders (15 million Euro) as well as, to a lesser extent, settlement plans (5,8 million Euro). This line item included also 1,6 million Euro arising from the newly acquired FBS.

"Other components of net interest income" included the economic impact of the change in expected cash flows based on the higher or lower actual or estimated cash receipts compared to forecasts, and declined by 24,2% from 45,9 million Euro to 34,8 million Euro. Settlement plans contributed nearly 16 million Euro to this line item, while writs, attachments and garnishment orders added approximately 21,5 million Euro. This line item included also 5,1 million Euro arising from the newly acquired FBS.

The cost of funding was up because of the higher imputed interest expense that the Governance and Services segment allocated to the area as a result of rising volumes and the increased internal transfer rate.

The increase in net commission income was almost entirely driven by the contribution from the newly acquired FBS, which is related to the Group's servicing operations.

The net profit from financial activities of the NPL segment amounted to 62,6 million Euro (65,1 million Euro at 31 March 2018, -3,8%). However, the following factors must be taken into account in order to properly compare the results:

- The contribution of the FBS Group to Net profit from financial activities, amounting to 8,2 million Euro in the first quarter of 2019.
- The negative 9 million Euro impact of the up and running application of the new pre-garnishment order model in the first quarter of 2019, as the measurement models accounted for inefficiencies of the external courts (so-called "haircut") that did not affect the first quarter of 2018 only because of timing.
- The approximately 3 million Euro positive impact on the first quarter of 2018 arising mainly from the recalibration of the models, which was carried out to account for the changes in both cash receipts and the characteristics of the portfolios acquired over time. No such impact was recognised in the first quarter of 2019.

Excluding these factors, net profit from financial activities would have risen from 62,1 million Euro in the first quarter of 2018 to 63,5 million Euro in the first quarter of 2019 (+2,1%). This growth was fuelled by the strong performance in the management of existing portfolios, resulting in better payment arrangements, as well as the higher number of writs and attachments obtained. In this regard, cash receipts rose from 40,1 million Euro in the first quarter of 2018 to 56,7 million Euro in the first quarter of 2019 (+41,4%).

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

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.03.2019(1)	31.12.2018	CHANGE	
			ABSOLUTE	%
Bad loans	818.342	781.572	36.770	4,7%
Unlikely to pay	301.312	306.348	(5.036)	(1,6)%
Non-performing past due exposures	67	131	(64)	(48,9)%
Total net non-performing exposures to customers (stage 3)	**1.119.721**	**1.088.051**	**31.670**	**2,9%**
Net performing loans (stage 2)	5.675	4.748	927	19,5%
Total on-balance-sheet loans to customers	**1.125.396**	**1.092.799**	**32.597**	**3,0%**

(1) At 31 March 2019, the portfolio included 1.898 thousand Euro in receivables for invoices to be issued arising from the subsidiary FBS S.p.A.'s servicing operations.

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

KPI	31.03.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	16.623.516	15.756.372	867.144	5,5%
Total RWA per segment	1.567.330	1.584.420	(17.090).	(1,1)%

NPL SEGMENT LOAN PORTFOLIO PERFORMANCE	31.03.2019	FY 2018
Opening loan portfolio	**1.092.799**	**799.436**
Business combinations	16.043	-
Purchases	9.395	240.863
Sales	(3.514)	(21.214)
Gains on sales	-	17.100
Interest income from amortised cost	30.681	99.801
Other components of net interest income from change in cash flow	34.820	138.150
Collections	(56.726)	(181.337)
Closing loan portfolio	**1.123.498**	**1.092.799**

The line item "Business combinations" referred to the loan portfolio acquired as part of the business combination with the FBS Group.

The purchases made in the first quarter of 2019 totalled 9,4 million Euro, compared to 6 million Euro in the prior-year period.

The line item "Sales" included 3,5 million Euro in loans involved in sales finalised at the end of the previous year, when the Group accepted the buyer's binding offers.

The line item "Collections" included the instalments received during the period under settlement plans, pursuant to garnishment orders, and as part of the transactions carried out.

Funding from settlement plans (equal to the nominal amount of all the instalments under the plan entered into with the debtor) was up year-on-year (75,5 million Euro in 2019 compared to 71,5 million Euro in the prior year).

At the end of the period, the portfolio managed by the NPL segment included 1.690.696 positions, for a par value of 16,6 billion Euro.

GOVERNANCE & SERVICES

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

INCOME STATEMENT DATA (in thousands of Euro)	31.03.2019	31.03.2018	CHANGE	
			ABSOLUTE	%
Net interest income	1.483	(3.668)	5.151	(140,4)%
Net commission income	140	316	(176)	(55,7)%
Other components of net banking income	(737)	(966)	229	(23,7)%
Net banking income	**886**	**(4.318)**	**5.204**	**(120,5)%**
Net credit risk losses/reversals	97	45	52	115,6%
Net profit (loss) from financial activities	**983**	**(4.273)**	**5.256**	**(123,0)%**

The segment reported a 1,0 million Euro net profit from financial activities, up from 31 March 2018. The change was attributable to the 5,2 million Euro increase in net interest income, which was driven by several factors.

- Approximately 3,2 million Euro rise in revenues as a result of the internal transfer rate system, given the increase in the average volumes managed by the various Business units;
- Increased "reversal PPA" relating to the Retail Mortgage (formerly Leasing) portfolio, which is now included in the Governance segment: the relevant positive contribution was up from 1,4 million Euro in the first quarter of 2018 to 2,3 million

Euro in the first quarter of 2019. The remainder of the "reversal PPA" for the Governance segment totalled 41,4 million Euro at 31 March 2019.

- 1,4 million Euro decline in interest income as a result of the lower profitability of the banking book (largely consisting of inflation-indexed Italian government bonds that did not benefit from the revaluation of the principal and interest amounts in the first 3 months of 2019).
- As for funding, Rendimax and Contomax still represent the Group's main source of funding. The relevant cost totalled 15,5 million Euro in the first quarter of 2019, in line with the prior-year period, and the assets under management rose to 4.662 million Euro (4.606 million Euro at 31 March 2018, +1,2%, and 4.425 million Euro at 31 December 2018, +5,3%). Starting from the end of the first quarter of 2017, the Bank has been pursuing a series of initiatives in the wholesale segment to diversify funding sources and gradually reduce its dependence on retail funding. At 31 March 2019, outstanding bond issues totalled 954,9 million Euro and referred to 5 different instruments (a senior unsecured bond with a par value of 300 million Euro and maturity in 2020; a Tier 2 Subordinated bond with a par value of 400 million Euro and maturity in October 2027 that is callable in October 2022; a senior preferred unsecured bond that was partially bought back in late 2018 and is currently outstanding with a par value of 185 million Euro; and the bonds of the merged entity Interbanca). The interest expense on said issues was essentially unchanged from the prior-year period. The cost of the cash deposits held with the Bank of Italy was down year-on-year, resulting in a negative 0,6 million Euro contribution in the first quarter of 2019 compared to 1,5 million Euro in the prior-year period—consistently with the lower amount of cash deposits held with said institution. As for other funding sources, the Group reported approximately 0,6 million Euro in savings on the interest expense associated with securitisations of trade receivables after the relevant terms and conditions were revised on 29 March 2018.

At 31 March 2019, the segment's total net loans amounted to 242 million Euro, with net receivables down approximately 60,7 million Euro from 31 December 2018 (-20%).

The decline compared to the end of the previous year was attributable to a repurchase agreement with Cassa Compensazione that amounted to 49,8 million Euro at 31 December 2018 and reached maturity—as well as the reimbursement of part of the senior tranche related to a securitisation backed by the Italian government's state-guarantee scheme for NPL-backed securities (GACS). Conversely, at the end of the quarter the receivables of the subsidiary Cap.Ital.Fin were essentially unchanged at 33,5 million Euro, compared to 32,4 million Euro at 31 December 2018, and other retail portfolios totalled 126,4 million Euro compared to 128,5 million Euro at 31 December 2018.

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

GOVERNANCE & SERVICES (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 31.03.2019						
Nominal amount	14.152	23.850	4.057	**42.059**	210.278	**252.337**
Impairment losses	(2.651)	(4.343)	(530)	**(7.524)**	(2.835)	**(10.359)**
Book value	11.501	19.507	3.527	**34.535**	207.443	**241.978**
Coverage ratio	*18,7%*	*18,2%*	*13,1%*	***17,9%***	*1,3%*	***4,1%***
BALANCE AT 31.12.2018						
Nominal amount	14.318	23.286	5.651	**43.255**	270.039	**313.294**
Impairment losses	(2.209)	(4.674)	(739)	**(7.622)**	(2.995)	**(10.617)**
Book value	12.109	18.612	4.911	**35.632**	267.045	**302.677**
Coverage ratio	*15,4%*	*20,1%*	*13,1%*	***17,6%***	*1,1%*	***3,4%***

04

Reclassified Financial Statements

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

04.1. Reclassified Consolidated Statement of Financial Position

ASSETS (in thousands of Euro)	31.03.2019	31.12.2018
Cash and cash equivalents	72	48
Financial assets held for trading through profit or loss	26.426	29.809
Financial assets mandatorily measured at fair value through profit or loss	174.508	163.845
Financial assets at fair value through other comprehensive income	432.901	432.094
Receivables due from banks measured at amortised cost	996.333	590.595
Loans to customers measured at amortised cost	7.322.130	7.313.972
Equity investments	6	-
Property, plant and equipment	145.869	130.650
Intangible assets	65.855	23.277
of which:		
- goodwill	*42.263*	*1.515*
Tax assets:	396.280	395.084
a) current	47.063	46.820
b) deferred	349.217	348.264
Other assets	303.252	302.887
Total assets	**9.863.632**	**9.382.261**

LIABILITIES AND EQUITY (in thousands of Euro)	31.03.2019	31.12.2018
Due to banks	844.790	785.393
Due to customers	5.021.481	4.673.299
Debt securities issued	1.955.400	1.979.002
Financial liabilities held for trading	30.254	31.155
Tax liabilities:	63.066	52.722
a) current	23.225	13.367
b) deferred	39.841	39.355
Other liabilities	422.549	367.872
Post-employment benefits	9.878	8.039
Provisions for risks and charges	26.913	25.779
Valuation reserves	(14.362)	(14.606)
Reserves	1.315.418	1.168.543
Share premiums	102.116	102.116
Share capital	53.811	53.811
Treasury shares (-)	(3.103)	(3.103)
Equity attributable to non-controlling interests (+ / -)	5.501	5.476
Profit (loss) for the period (+/-)	29.920	146.763
Total liabilities and equity	**9.863.632**	**9.382.261**

04.2. Reclassified Consolidated Income Statement

ITEMS (in thousands of Euro)	31.03.2019	31.03.2018
Net interest income	**115.264**	**119.480**
Net commission income	**23.828**	**19.820**
Other components of net banking income	(8.983)	78
Net banking income	**130.109**	**139.378**
Net credit risk losses/reversals	(13.088)	(10.957)
Net profit (loss) from financial activities	**117.021**	**128.421**
Administrative expenses:	(74.768)	(73.452)
a) personnel expenses	(31.447)	(26.827)
b) other administrative expenses	(43.321)	(46.625)
Net allocations to provisions for risks and charges	(2.512)	(2.806)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(4.062)	(2.809)
Other operating income/expenses	6.978	5.646
Operating costs	**(74.364)**	**(73.421)**
Pre-tax profit (loss) for the period from continuing operations	**42.657**	**55.000**
Income taxes for the period relating to continuing operations	(12.716)	(17.146)
Profit (Loss) for the period	**29.941**	**37.854**
Profit (Loss) for the period attributable to non-controlling interests	21	-
Profit (Loss) for the period attributable to the Parent company	**29.920**	**37.854**

04.3. Reclassified Consolidated Statement of Comprehensive Income

ITEMS (in thousands of Euro)	31.03.2019	31.03.2018
Profit (Loss) for the period	**29.941**	**37.854**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**54**	**179**
Equity securities designated as at fair value through other comprehensive income	339	150
Defined benefit plans	(285)	29
Other comprehensive income, net of taxes, to be reclassified to profit or loss	**187**	**3.191**
Exchange differences	5	(288)
Financial assets (other than equity securities) at fair value through other comprehensive income	182	3.479
Total other comprehensive income, net of taxes	**241**	**3.370**
Comprehensive Income	**30.182**	**41.224**
Total consolidated comprehensive income attributable to non-controlling interests	21	-
Total consolidated comprehensive income attributable to the Parent	**30.161**	**41.224**

05

Notes

05.1. Accounting Policies

05.1.1 Basis of preparation

This Consolidated Interim Report at 31 March 2019 of the Banca IFIS Group was prepared in accordance with Borsa Italiana's Rules for companies listed on the STAR segment (article 2.2.3 paragraph 3), which require publishing an interim report within 45 days of the end of each quarter, and considering Borsa Italiana's notice no. 7587 of 21 April 2016. Therefore, in accordance with said notice, concerning the contents of the Consolidated Interim Report, the Group made reference to the pre-existing paragraph 5 of article 154-ter of Italian Legislative Decree no. 58 of 24 February 1998.

The Consolidated Interim Report at 31 March 2019 does not include all of the disclosures required by IFRSs when preparing the annual consolidated financial statements. Therefore, this Consolidated Interim Report is to be read in conjunction with the consolidated financial statements at 31 December 2018. The bases of preparation, measurement and consolidation as well as the accounting policies used to prepare this Consolidated interim Report are consistent with the accounting policies used to prepare the consolidated financial statements at 31 December 2018, except for the adoption of the following new or amended accounting standards issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

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

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

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

The criteria for recognising, measuring, and derecognising assets and liabilities as well as the methods for recognising revenue and costs adopted in preparing the Consolidated Interim Report at 31 March 2019 are unchanged from those used to prepare the Consolidated Financial Statements for the year ended 31 December 2018, to which reference should be made for further details, except for the impact related to the introduction of the new accounting standard IFRS 16 - Leases. For more details, please see the paragraph "Impact of the first-time adoption of IFRS 16" below.

05.1.2 Consolidation scope and method

The Consolidated Interim Report has been drawn up on the basis of the accounts at 31 March 2019 prepared by the directors of the companies included in the consolidation scope. At 31 March 2019, the Group was composed of the parent company, Banca IFIS S.p.A., the wholly-owned subsidiaries IFIS Finance Sp. Z o. o., IFIS Rental Services S.r.l., IFIS NPL S.p.A., Cap.Ital.Fin. S.p.A., Two Solar Park 2008 S.r.l., the 70%-owned subsidiary Credifarma S.p.A., and, following the acquisition of the FBS Group on 7 January 2018, the 90%-owned subsidiary FBS S.p.A., the 99,28%-owned subsidiary FBS Real Estate S.p.A., and the 50%-owned joint venture Elipso Finance S.r.l..

All the companies were consolidated using the line-by-line method except for the joint venture Elipso Finance S.r.l., which was consolidated using the equity method.

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

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

Starting with the financial statements for periods beginning after 1 July 2009, business combinations must be recognised by applying the principles established by IFRS 3 (revised in 2008); purchases of equity investments in which control is obtained and counting as "business combinations" must be recognised by applying the acquisition method, which requires:

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

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

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed by the Group. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

As for the subsidiary IFIS Finance Sp. Z o.o., the consolidation process has brought about goodwill for 815 thousand Euro at the period-end exchange rate, recognised under "Intangible assets".

On 7 January 2019, the Group finalised the acquisition of control over the FBS S.p.A. Group, 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, Banca IFIS acquired 90% of the FBS Group for 58,5 million Euro. When entering into the acquisition agreement, the parties also finalised the contracts governing the Put and Call option agreements with the FBS Group's minority shareholders concerning the remaining shares in the Group.

The combination of said put and call options makes these agreements similar to a deferred acquisition under which, at the date of the business combination, the Banca IFIS Group de facto acquired 100% of the FBS Group in exchange for a deferred fixed amount and, only in part, an earn-out to be determined based on the investee's performance.

The estimated fair value of the liability equal to the sum of such fixed amount and the earn-out at the date of the business combination was 9,2 million Euro. Therefore, the overall cost of the business combination was provisionally estimated at 67,7 million Euro, and the consolidation process gave rise to a 40,7 million Euro difference between said cost and the FBS Group's equity that was provisionally allocated to goodwill.

In addition, the closing account process did not trigger price adjustments.

Under IFRS 3, the allocation of the cost of the business combination must be definitively quantified within 12 months of the acquisition date. At the reporting date, the allocation process is to be considered provisional in respect of both the calculation of the cost and the PPA process.

Name of the company	Registered office	Head office	Type (1)	Investment		Voting rights % (2)
				Held by	Share %	
IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	1	Banca IFIS S.p.A.	100%	100%
IFIS Rental Services S.r.l.	Milan	Milan	1	Banca IFIS S.p.A.	100%	100%
Cap.Ital.Fin. S.p.A.	Naples	Naples	1	Banca IFIS S.p.A.	100%	100%
IFIS NPL S.p.A.	Mestre	Florence, Milan and Mestre	1	Banca IFIS S.p.A.	100%	100%
Two Solar Park 2008 S.r.l.	Milan	Milan	1	Banca IFIS S.p.A.	100%	100%
FBS S.p.A.	Milan	Milan	1	Banca IFIS S.p.A.	90%	90%
FBS Real Estate S.p.A.	Milan	Milan	1	FBS S.p.A.	99,28%	99,28%
Credifarma S.p.A.	Rome	Rome	1	Banca IFIS S.p.A.	70%	70%
Elipso Finance S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	FBS S.p.A.	50%	50%
IFIS ABCP Programme S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%
Indigo Lease S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%

Key:

(1) Type of relationship:

1 = majority of voting rights in the Annual Shareholders' Meeting

2 = dominant influence in the Annual Shareholders' Meeting

3 = agreements with other shareholders

4 = other forms of control

5 = exclusive control as per article 26, paragraph 1, of Legislative Decree no. 87/92

6 = exclusive control as per article 26, paragraph 2, of Legislative Decree no. 87/92

(2) Voting rights in the Annual Shareholders' Meeting, distinguishing between effective and potential voting rights.

Significant judgements and assumptions in determining the scope of consolidation

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

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

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

Jointly controlled entities are entities over which control is contractually shared between the Parent company, directly or indirectly, and one or multiple parties external to the Group. Joint control exists when decisions about the relevant activities require the unanimous consent of all the parties sharing control.

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

05.1.3 Impact of the first-time adoption of IFRS 16

IFRS 16 introduces new criteria for the accounting of lease agreements that largely apply to lessees, 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)—if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of use asset reflects that the lessee will exercise a purchase option—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. In this regard, the Banca IFIS Group elected the option under IFRS 16 not to apply the new accounting requirements concerning the recognition and measurement of the right-of-use asset and the liability for short-term leases, defined as leases with a term of less than 12 months considering also any extension options and termination options in the contract. Similarly, the Group elected the option not to apply the new accounting requirements to contracts for which the underlying asset has a value of less than 5 thousand Euro.

To determine the lease term, meaning "the non-cancellable period of a lease, together with both: (IFRS 16.18)

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option",

the Group, considering the types of outstanding lease agreements, uses past renewals as the main factor to determine whether an economic incentive to extend the lease exists, and may make additional considerations in the future.

At the commencement date, the lease liability corresponds to "the present value of the lease payments that are not paid at that date". (IFRS 16.26). To determine the discount rate, the Banca IFIS Group uses the interest rate implicit in the lease, if available. If that rate is not available, the Group uses its funding cost as the discount rate.

As for the lessor, the accounting requirements for leases in IAS 17 remain essentially unchanged, differentiating between operating and finance leases. In the case of a finance lease, the lessor shall continue recognising future lease payments as a credit in the statement of financial position.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and, although earlier application is permitted, the Group decided not to adopt it early.

The Group exercised 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 B" (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 an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease ; no differences concerning the Banca IFIS Group's opening consolidated equity emerged at the date of initial application under this approach. The right-of-use asset, and therefore the corresponding financial liability, recognised at 1 January 2019 totalled 12,8 million Euro.

The following table shows the impact of applying IFRS 16 to the Banca IFIS Group at 1 January 2019.

Assets/amounts	31.12.2018	Right-of-use assets acquired with leases	01.01.2019
Property, plant and equipment for functional use	**129.930**	**12.777**	**142.707**
a) Land	35.902	204	36.106
b) Buildings	68.508	10.416	78.924
c) Furnishings	1.985	-	1.985
d) Electronic systems	4.741	155	4.896
e) Others	18.794	2.002	20.796
Property, plant and equipment held for investment purpose	**720**	**-**	**720**
a) Buildings	720	-	720
Total	**130.650**	**12.777**	**143.427**

IFRS 16 did not introduce significant changes to lessor accounting, therefore the Group was not affected in this sense.

05.1.4 Risks and uncertainties related to estimates

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

Specifically, it made estimates concerning the carrying amounts of some items recognised in the Consolidated Interim Report at 31 March 2019, as per the relevant accounting standards. These estimates are largely based on the expected future recoverability of the amounts recognised and were made on a going concern basis. Such estimates support the carrying amounts reported at 31 March 2019.

Estimates are reviewed at least annually when preparing the financial statements.

The risk of uncertainty in the estimates, considering the materiality of the reported amounts of assets and liabilities and the judgement required of management, substantially concerns the measurement of:

- fair value of financial instruments not quoted in active markets;
- receivables of the NPL segment;
- receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable;
- credit risk losses
- provisions for risks and charges;
- post-employment benefits;
- goodwill and other intangible assets.

Fair value of financial instruments not quoted in active markets

Financial instruments not quoted in active markets or illiquid and complex instruments require conducting appropriate assessments that involve exercising considerable judgement to select the measurement models and the relevant inputs, which may often not be observable in the market. There is a degree of subjectivity involved in assessing whether certain inputs are observable and categorising them within the fair value hierarchy accordingly.

NPL segment exposures

Concerning specifically the measurement of the NPL segment's exposures, as part of the Internal Capital Adequacy Assessment Process (ICAAP), Risk Management regularly assesses the so-called model risk, 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 addition, the Bank applies a model for estimating cash flows 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. The application of this model allows for the early identification of cash flows in a collective manner. The other positions undergoing judicial operations continue to be recognised at cost until said requirements are met or a garnishment order is issued.

Following the garnishment order, the Group individually estimates future cash flows based on objective information about each position; in this case, the estimates made largely concern identifying the term of the payment plan.

Receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable

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

Credit risk losses

Allocating receivables and debt securities classified as Financial assets at amortised cost and Financial assets at fair value through other comprehensive income to the three credit risk stages in IFRS 9, as well as calculating the relevant expected credit losses, requires a complex estimation process that mainly consists in:

- defining the parameters for a significant increase in credit risk, which are essentially based on models for measuring the probabilities of default (PD) at the origination of financial assets and at the reporting date;
- assessing certain factors necessary to estimate the future cash flows from non-performing exposures: expected recovery times, the estimated realisable value of guarantees, if any, the costs expected to be incurred to recover the exposure, and the probability of disposal for positions for which there is a disposal plan.

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

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

05.2. Group equity and income situation

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

05.2.1 Reclassified Statement of financial positions items

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2019	31.12.2018	ABSOLUTE	%
Financial assets mandatorily measured at fair value through profit or loss	174.508	163.845	10.663	6,5%
Financial assets at fair value through other comprehensive income	432.901	432.094	807	0,2%
Receivables due from banks measured at amortised cost	996.333	590.595	405.738	68,7%
Loans to customers measured at amortised cost	7.322.130	7.313.972	8.158	0,1%
Property, plant and equipment and intangible assets	211.724	153.927	57.797	37,5%
Tax assets	396.280	395.084	1.196	0,3%
Other assets	329.756	332.744	(2.988)	(0,9)%
Total assets	**9.863.632**	**9.382.261**	**481.371**	**5,1%**
Due to banks	844.790	785.393	59.397	7,6%
Due to customers	5.021.481	4.673.299	348.182	7,5%
Debt securities issued	1.955.400	1.979.002	(23.602)	(1,2)%
Provisions for risks and charges	63.066	52.722	10.344	19,6%
Tax liabilities	26.913	25.779	1.134	4,4%
Other liabilities	462.681	407.066	55.615	13,7%
Equity	1.489.301	1.459.000	30.301	2,1%
Total liabilities and equity	**9.863.632**	**9.322.261**	**481.371**	**5,1%**

Financial assets mandatorily measured at fair value through profit or loss

The line item essentially includes the loans and debt securities that did not pass the SPPI test, equity securities represented by equity instruments, and UCITS units, pursuant to the accounting standard IFRS 9.

Excluding the impact of the change in fair value, this line item increased as the Group subscribed for 2,4 million Euro worth of UCITS units, entered into 9,5 million Euro in new loans measured at fair value, and recognised an additional 2,6 million Euro in debt securities following the acquisition of the FBS Group. These changes more than offset the 4,7 million Euro impairment loss on an equity instrument.

Below is the breakdown of this line item.

FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2019	31.12.2018	ABSOLUTE	%
Debt securities	4.488	1.935	2.553	131,9%
Equity securities	6.588	11.266	(4.678)	(41,5)%
UCITS units	101.644	99.349	2.295	2,3%
Loans	61.788	51.295	10.493	20,5%
Total	**174.508**	**163.845**	**10.663**	**6,5%**

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income totalled 432,9 million Euro at 31 March 2019, essentially in line with 31 December 2018 (+0,2%), and included the debt securities that passed the SPPI test as well as equity securities (shares) for which the Bank elected the so-called OCI option pursuant to IFRS 9.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2019	31.12.2018	ABSOLUTE	%
Debt securities	419.164	418.709	455	0,1%
Equity securities	13.737	13.385	352	2,6%
Total	**432.901**	**432.094**	**807**	**0,2%**

Debt securities amounted to 419,2 million Euro at 31 March 2019, essentially in line with 31 December 2018.

In particular, the line item included 411,3 million Euro worth of Italian government bonds (Par Value 423 million Euro), amounting to 4,2% as a proportion of total assets and 27,6% as a proportion of the Group's Equity. The relevant negative net fair value reserve totalled 8,5 million Euro.

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	30.018	-	-	273.357	107.891	411.266
% of total	*7,2%*	-	-	*65,2%*	*25,7%*	*98,1%*
Banks	-	-	-	-	7.898	7.898
% of total	-	-	-	-	*1,9%*	*1,9%*
Total	**30.018**	**-**	**-**	**273.357**	**115.789**	**419.164**
% of total	***7,2%***	**-**	**-**	***65,2%***	***27,6%***	***100,0%***

This line item includes also equity securities relating to non-controlling interests, amounting to 13,7 million Euro (+2,6% compared to 31 December 2018). The change was attributable to the fair value adjustment of the securities in the portfolio. The positive net fair value reserve for these securities totalled 1,9 million Euro.

Receivables due from banks measured at amortised cost

At 31 March 2019, receivables due from banks measured at amortised cost totalled 996,3 million Euro, compared to 590,6 million Euro at 31 December 2018—also because of the greater amount of liquidity arising specifically from retail funding (Rendimax and Contomax), which was up 5,4% from 31 December 2018. The line item largely refers to Receivables due from central banks (707,4 million Euro at 31 March 2019, compared to 280,9 million Euro at 31 December 2018). These deposits are maintained to ensure ordinary business operations. Such levels of liquidity cause regulatory ratios (LCR/NSFR) to comfortably exceed the minimum requirements—especially in the case of the LCR.

Loans to customers measured at amortised cost

Total loans to customers measured at amortised cost amounted to 7.322,1 million Euro, in line with 31 December 2018 (+0,1%). While the NPL segment was up 3,0%—also thanks to the contribution from the FBS Group—and the Enterprises segment grew more moderately (+0,6% compared to 31 December 2018), the Governance & Services segment's portfolio was down nearly 60,7 million Euro (-20,1%). This decline was closely related to the settlement of a 49,8 million Euro repurchase agreement, the 8,8 million Euro reimbursement associated with a securitisation transaction backed by the Italian government's state-guarantee scheme for NPL-backed securities (GACS), and the regular amortisation of run-off portfolios.

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

LOANS TO CUSTOMERS BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2019	31.12.2018	ABSOLUTE	%
Enterprises	5.954.756	5.918.496	36.260	0,6%
- *of which non-performing*	*307.288*	*310.358*	*(3.070)*	*(1,0)%*
NPL	1.125.396	1.092.799	32.597	3,0%
- *of which non-performing*	*1.119.721*	*1.088.051*	*31.670*	*2,9%*
Governance & Services	241.978	302.677	(60.699)	(20,1)%
- *of which non-performing*	*34.535*	*35.632*	*(1.097)*	*(3,1)%*
Total loans to customers	**7.322.130**	**7.313.972**	**8.158**	**0,1%**
- of which non-performing	***1.461.544***	***1.434.041***	***27.503***	***1,9%***

Total net non-performing exposures, which are significantly affected by the receivables of the NPL segment, amounted to 1.461,5 million Euro at 31 March 2019, compared to 1.434,0 million Euro at 31 December 2018 (+1,9%).

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

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 65,9 million Euro, compared to 23,3 million Euro at 31 December 2018 (+182,3%). The increase was largely attributable to the recognition of goodwill associated with the acquisition of the FBS Group on 7 January 2019, provisionally estimated at 40,7 million Euro.

The line item also included 23,6 million Euro worth of software, 0,8 million Euro in goodwill arising from the consolidation of the investment in IFIS Finance Sp.Z o.o.., and 0,7 million Euro in goodwill arising from the acquisition of the subsidiary Cap.Ital.Fin. S.p.A..

Property, plant and equipment and investment property totalled 145,9 million Euro, compared to 130,6 million Euro at 31 December 2018. The increase largely resulted from the recognition of the right-of-use asset associated with leases in accordance with the new standard IFRS 16 – Leases, which became effective on 1 January 2019, and the contribution arising from the acquisition of the FBS Group (5,7 million Euro at 31 March 2019).

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

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

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.

Tax assets totalled 396,3 million Euro, essentially unchanged from 31 December 2018 (+0,3%).

Current tax assets amounted to 47,1 million Euro, compared to 46,8 million Euro at 31 December 2018. Deferred tax assets totalled 349,2 million Euro, compared to 348,3 million Euro at 31 December 2018, and included 98,8 million Euro relating to past tax losses as well as ACE (Aid for Economic Growth) benefits (102 million Euro at 31 December 2018).

Tax liabilities totalled 63,1 million Euro, up 19,6% from 31 December 2018.

Current tax liabilities, amounting to 23,2 million Euro, represent the tax burden for the period (13,4 million Euro at 31 December 2018).

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

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

Here below is the breakdown of the different treatments by type and the relevant impact on CET1 and risk-weighted assets at 31 March 2019:

- the "deferred tax assets that rely on future profitability and do not arise from temporary differences" are deducted from CET1; at 31 March 2019, the 100% deduction amounted to 98,8 million Euro, in addition to 38,3 million Euro referring to the Banking Group's Holding; in this regard, please note that this deduction will be gradually absorbed by the future use of such deferred tax assets;
- the "deferred tax assets that rely on future profitability and arise from temporary differences" are not deducted from CET1 and receive instead a 250% risk weight: at 31 March 2019, these assets, which amounted to 32,0 million Euro, were essentially offset by the corresponding deferred tax liabilities;
- the "deferred tax assets pursuant to Italian Law 214/2011", concerning impairment losses on receivables that can be converted into tax credits, receive a 100% risk weight; at 31 March 2019, the corresponding weight totalled 218,4 million Euro;
- "current tax assets" receive a 0% weight as they are exposures to the Central Government.

Overall, the Tax Assets recognised at 31 March 2019 and 100% deducted from Own Funds resulted in an expense amounting to 1,54% as a proportion of CET1, which will decline in the future as said assets are utilised against taxable income.

Other assets and liabilities

Other assets, amounting to 329,8 million Euro—compared to 332,7 million Euro at 31 December 2018—included 26,5 million Euro in financial assets held for trading (29,8 million Euro at 31 December 2018), and 303,3 million Euro in other assets (302,9 million Euro at 31 December 2018).

Other assets included 116,1 million Euro in receivables due from the parent company La Scogliera S.p.A. (including 61,4 million Euro as a result of the tax consolidation regime and 54,7 million Euro in tax credits claimed by the latter for excess tax payments from prior years); 8,4 million Euro in funds placed in an escrow account pending the resolution of a dispute; 8,2 million Euro in net receivables due from tax authorities for payments on account (stamp duty); and 41,6 million Euro in VAT credits claimed. Finally, the line item included 26,7 million Euro in costs associated with the NPL segment's positions that are deferred until these started to be measured at amortised cost (27,0 million Euro at 31 December 2018).

Other liabilities amounted to 462,7 million Euro, compared to 407,1 million Euro at 31 December 2018, and included 30,3 million Euro in derivatives held for trading (31,2 million Euro at 31 December 2018), 9,9 million Euro in liabilities for post-employment benefits (8,0 million

Euro at 31 December 2018), and 422,5 million Euro in other liabilities (367,9 million Euro at 31 December 2018). The latter largely referred to amounts due to customers that have not yet been credited as well as included a 24,6 million Euro payable to the parent company La Scogliera deriving from the tax consolidation regime.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2019	31.12.2018	ABSOLUTE	%
Due to banks	**844.790**	**785.393**	**59.397**	**7,6%**
- Eurosystem	694.385	695.075	(690)	(0,1)%
- Other payables	150.405	90.318	60.087	66,5%
Due to customers	**5.021.481**	**4.673.299**	**348.182**	**7,5%**
- Rendimax and Contomax	*4.661.682*	*4.424.467*	*237.215*	*5,4%*
- Other term deposits	*82.929*	*37.669*	*45.260*	*120,2%*
- Other payables	*276.870*	*211.163*	*65.707*	*31,1%*
Debt securities issued	**1.955.399**	**1.979.002**	**(23.603)**	**(1,2)%**
Total funding	**7.821.670**	**7.437.694**	**383.976**	**5,2%**

Total **funding**, which amounted to 7.821,7 million Euro at 31 March 2019 (+5,2% compared to 31 December 2018), is represented for 64,2% by Payables due to customers (compared to 62,8% at 31 December 2018), for 10,8% by Payables due to banks (compared to 10,6% at 31 December 2018), and for 25,0% by Debt securities issued (26,6% at 31 December 2018).

Payables due to customers at 31 March 2019 totalled 5.021,5 million Euro (+7,5% compared to 31 December 2018). This was essentially because of the increase in retail funding (Rendimax and Contomax) from 4.424,5 million Euro at 31 December 2018 to 4.661,7 million Euro at 31 March 2019—including 3.942,0 million Euro in short-term funding, of which 1.322,3 million Euro related to the “Like” product (with a term of 33 days), and 719,7 million Euro in medium/long-term funding.

Payables due to banks amounted to 844,8 million Euro (+7,6% compared to 31 December 2018). The line item mainly included the 694,4 million Euro TLTRO tranche obtained in 2017 as well as 150,4 million Euro in term deposits at other banks.

Debt securities issued amounted to 1.955,4 million Euro. The item included 1.000,0 million Euro (in line with 31 December 2018) in notes issued by the special purpose vehicles as part of the securitisation of trade receivables launched at the end of 2016 as well as 490,5 million Euro (including interest) in senior bonds issued by Banca IFIS and the 406,1 million Euro (including interest) Tier 2 bond. The rest of debt securities issued at 31 March 2019 included 58,3 million Euro in bonds previously issued by the merged entity Interbanca.

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2019	31.12.2018	ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	2.410	3.896	(1.486)	(38,1%)
Legal and tax disputes	15.427	14.566	861	5,9%
Other provisions	9.076	7.317	1.759	24,0%
Total provisions for risks and charges	**26.913**	**25.779**	**1.134**	**4,4%**

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

Provisions for credit risk related to commitments and financial guarantees granted

At 31 March 2019, this line item amounted to 2,4 million Euro and reflected the impairment losses on commitments and financial guarantees granted by the Group recognised in accordance with the new standard IFRS 9. The decline from the end of 2018 was associated with the use of a specific provision after enforcing collateral during the period.

Legal and tax disputes

At 31 March 2019, the Bank had set aside 15,4 million Euro in provisions. Below is the breakdown of this amount:

- 8,4 million Euro for 27 disputes concerning the Trade Receivables area (the plaintiffs seek 28,3 million Euro in damages);
- 3,5 million Euro (the plaintiffs seek 50,5 million Euro in damages) for 8 disputes concerning the former Interbanca;
- 1,9 million Euro (the plaintiffs seek 4,0 million Euro in damages) for 51 disputes concerning the Leasing area;
- 0,7 million Euro (the plaintiffs seek the same amount in damages) for a dispute concerning the investee IFIS Rental;
- 0,8 million Euro for various disputes concerning Credifarma;
- 58 thousand Euro (the plaintiffs seek 373 thousand Euro in damages) for 6 disputes with customers and agents associated with Cap.Ital.Fin.;
- 51 thousand Euro (the plaintiffs seek 102 thousand Euro in damages) for 7 disputes concerning receivables of the subsidiary IFIS NPL;
- 123 thousand Euro for 10 disputes concerning the newly acquired FBS, with the plaintiffs seeking 1,9 million Euro in damages.

Other provisions for risks and charges

At 31 March 2019, the Bank had set aside 9,1 million Euro in provisions, including 3,7 million Euro in supplementary customer allowances associated with the Leasing area's operations, 2,0 million Euro associated with the estimated contribution to the Resolution Fund, 0,8 million Euro in personnel-related expenses, 0,8 million Euro in the provision for complaints, and 0,4 million Euro in probable plant upgrade costs. The 1,8 million Euro rise in “Other provisions” compared to 31 December 2018 was largely due to the amount set side in the first quarter of 2019 for the contribution to the Resolution Fund.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 31 March 2019. Based on the opinion of the legal advisers assisting the subsidiaries, they are considered possible, and therefore they are only disclosed.

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 reversed between 2005 and 2013—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.

Reimbursements

In line with market practice, under the purchase agreement for the former GE Capital Interbanca Group, the seller (GE Capital International Limited) made a series of representations and warranties related to Interbanca and other Investees. In addition, the agreement includes a series of special reimbursements paid by the seller related to the main legal and tax disputes involving the former GE Capital Interbanca Group companies.

Consolidated equity

At 31 March 2019, consolidated Equity totalled 1.489,3 million Euro, up +2,1% from 1.459,0 million Euro at 31 December 2018.

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

EQUITY: BREAKDOWN (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.03.2019	31.12.2018	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	102.116	102.116	-	0,0%
Valuation reserves:	(14.362)	(14.606)	244	(1,7)%
- Securities	*(8.168)*	*(8.692)*	*524*	*(6,0)%*
- Post-employment benefits	*(167)*	*118*	*(285)*	*(241,5)%*
- exchange differences	*(6.027)*	*(6.032)*	*5*	*(0,1)%*
Reserves	1.315.418	1.168.543	146.875	12,6%
Treasury shares	(3.103)	(3.103)	-	0,0%
Equity attributable to non-controlling interests	5.501	5.476	25	0,5%
Profit for the period	29.920	146.763	(116.843)	(79,6)%
Equity	**1.489.301**	**1.459.000**	**30.301**	**2,1%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2018	**1.459.000**
Change in opening balances	-
Increases:	**30.586**
Profit for the period	29.920
Change in valuation reserve:	526
- Securities	*521*
- exchange differences	*5*
Other changes	115
Equity attributable to non-controlling interests	25
Decreases:	**285**
Dividends distributed	-
Change in valuation reserve:	285
- Post-employment benefits	*285*
Equity at 31.03.2019	**1.489.301**

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	
	31.03.2019	31.12.2018
Common equity Tier 1 Capital (CET1)	916.545	924.285
Tier 1 Capital (T1)	972.389	980.463
Total own funds	**1.249.484**	**1.257.711**
Total RWA	**8.909.641**	**8.974.645**
Common Equity Tier 1 Ratio	10,29%	10,30%
Tier 1 Capital Ratio	10,91%	10,92%
Ratio - Total Own Funds	**14,02%**	**14,01%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds do not include the profits generated at 31 March 2019 by the Banking Group.

Consolidated own funds, risk-weighted assets and prudential ratios at 31 March 2019 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. Specifically, Article 19 of the CRR requires to include the unconsolidated Holding of the Banking Group in prudential consolidation.

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

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

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

At 31 March 2019, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 720 thousand Euro, net of the tax effect. Therefore, in accordance with the transitional arrangements —"dynamic approach"—309 thousand Euro were included in the Common Equity Tier 1 (CET1) capital attributable to the Group.

The 8,2 million Euro decrease in Own Funds compared to 31 December 2018 was largely attributable to:

- the 40,7 million Euro deduction from CET 1, consisting in the difference between the acquisition cost and the equity resulting from the initial consolidation of the FBS Group—which was provisionally allocated to goodwill in its entirety.
- 22,8 million Euro arising from the higher amount of non-controlling interests included in the calculation (art. 84 of the CRR);
- the lower deduction of 100% of "deferred tax assets that rely on future profitability and do not arise from temporary differences" from CET1, totalling 137,1 million Euro—compared to 145,9 million Euro deducted at 31 December 2018; in this regard, please note that this deduction will be gradually absorbed by the future use of such deferred tax assets;
- the remainder referred to the positive change in reserves, including the profits generated by the Companies not included in the Banking Group's scope and attributable to the Group.

The modest decline in risk-weighted assets, totalling nearly 65 million Euro, and the 8,2 million Euro reduction in Own Funds caused the Total capital ratio to amount to 14,02% at 31 March 2019, essentially in line with 14,01% at 31 December 2018; similarly, the CET1 ratio was substantially unchanged at 10,29% compared to 10,30% at the end of the previous year.

Here below is the breakdown of risk-weighted assets.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Total RWA per segment	4.949.928	1.567.330	422.847	6.940.104
Off-balance-sheet exposures: payable, guarantees granted				447.923
Other assets: sundry receivables, suspense accounts				257.277
Tax assets				232.263
Market risk				80.264
Operational risk (basic indicator approach)				936.684
Credit valuation adjustment risk on derivatives				15.126
Total RWAs				**8.909.641**

When comparing the results, please note that the Bank of Italy, following the Supervisory Review and Evaluation Process (SREP) concerning the capitalisation targets of the system's largest intermediaries, required the Banca IFIS Group to meet the following consolidated capital requirements in 2019, including a 2,5% capital conservation buffer:

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

At 31 March 2019, the Banca IFIS Group met the above prudential requirements.

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

OWN FUNDS AND CAPITAL ADEQUACY RATIOS WITHOUT IFRS 9 TRANSITIONAL ARRANGEMENTS (in thousands of Euro)	AMOUNTS AT	
	31.03.2019	31.12.2018
Common equity Tier 1 Capital (CET1)	916.235	924.063
Tier 1 Capital (T1)	972.079	980.241
Total own funds	**1.249.174**	**1.257.489**
Total RWA	**8.909.211**	**8.974.328**
Common Equity Tier 1 Ratio	10,28%	10,30%
Tier 1 Capital Ratio	10,91%	10,92%
Ratio - Total Own Funds	**14,02%**	**14,01%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds do not include the profits generated at 31 March 2019 by the Banking Group.

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

OWN FUNDS AND CAPITAL ADEQUACY RATIOS: BANCA IFIS BANKING GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	31.03.2019	31.12.2018
Common equity Tier 1 Capital (CET1)	1.204.005	1.231.537
Tier 1 Capital (T1)	1.204.005	1.231.537
Total own funds	**1.604.431**	**1.631.858**
Total RWA	**8.900.603**	**8.966.099**
Common Equity Tier 1 Ratio	13,53%	13,74%
Tier 1 Capital Ratio	13,53%	13,74%
Total Own Funds Capital Ratio	**18,03%**	**18,20%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds do not include the profits generated at 31 March 2019 by the Banking Group.

Major exposures

		31.03.2019	31.12.2018
a)	Book value	1.925.390	1.573.611
b)	Weighted amount	468.253	602.111
c)	Number	3	4

The overall weighted amount of major exposures at 31 March 2019 consisted of 229 million Euro in tax assets and 239 million Euro in exposures to equity investments not included in the prudential scope of consolidation.

Disclosure regarding Sovereign Debt

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

Pursuant to said communication, please note that at 31 March 2019 the exposures to sovereign debt entirely consisted of Italian government bonds; their carrying amount—recognised under “Financial assets at fair value through other comprehensive income”—totalled 411,2 million Euro, net of the negative 12,9 million Euro valuation reserve gross of tax effect.

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 March 2019 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 March 2019 totalled 841 million, including 102,6 million Euro relating to tax receivables.

05.2.2 Reclassified income statement items

Formation of net banking income

Net banking income totalled 130,1 million Euro, down 6,7% from 139,4 million Euro in the prior-year period.

Specifically, the Enterprises segment's net banking income totalled 66,6 million Euro (-15,3% from the prior-year period): the growth reported by the Trade Receivables business area (+1,8% compared to 31 March 2018) and the Leasing area (+9,2% from 31 March 2018) was offset by the inevitably lower contribution from the "reversal PPA" in the Corporate Banking area compared to the previous year (13,4 million Euro at 31 March 2019, compared to 19,0 million Euro at 31 March 2018, -29,2%) as well as the fair value losses recognised on financial assets in the portfolio. The NPL segment reported 62,6 million Euro (-3,8% year-on-year), as the initial consolidation of the FBS Group mitigated the impact of the introduction of the "pre-garnishment order collective model" as well as the recalibration of the collective model used for non-judicial operations: for more details, see the paragraph "Contribution of business segments to Group results" in this document. The net banking income of the Governance & Services segment was also up to a positive 0,9 million Euro, largely thanks to interest income arising from the internal transfer rate system, given the increase in the average volumes managed by the various Business Areas.

NET BANKING INCOME (in thousands of Euro)	FIRST THREE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	115.264	119.480	(4.216)	(3,5)%
Net commission income	23.828	19.820	4.008	20,2%
Other components of net banking income	(8.983)	78	(9.061)	n.s.
Net banking income	**130.109**	**139.378**	**(9.269)**	**(6,7)%**

Net interest income fell from 119,5 million Euro at 31 March 2018 to 115,3 million Euro at 31 March 2019 (-3,5%) because of the reasons previously discussed with reference to net banking income.

Net commission income totalled 23,8 million Euro, up 20,2% from 31 March 2018—largely because of the positive 1,4 million Euro contribution arising from the acquisition of the FBS Group.

Commission income, totalling 25,4 million Euro (compared to 23,3 million Euro at 31 March 2019), 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, and servicing on behalf of third parties, as well as from other fees usually charged to customers for services.

Commission expense, totalling 1,6 million Euro compared to 3,5 million Euro in the prior-year period, largely referred to fees paid to banks and financial intermediaries such as management fees, fees paid to third parties for the distribution of leasing products, as well as brokerage operations carried out by approved banks and other credit brokers.

The other components of net banking income included the 1,3 million Euro loss from trading and the net result of other financial assets and liabilities at fair value through profit or loss. The latter was negative 7,5 million Euro and included the 4,7 million Euro fair value loss on an equity instrument as well as 2,7 million Euro in fair value losses on loans.

Formation of net profit from financial activities

The Group's net profit from financial activities totalled 117,0 million Euro, compared to 128,4 million Euro at 31 March 2018 (-8,9%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	FIRST THREE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net banking income	**130.109**	**139.378**	**(9.269)**	**(6,7)%**
Net credit risk losses/reversals	(13.088)	(10.957)	(2.131)	19,4%
Net profit (loss) from financial activities	**117.021**	**128.421**	**(11.400)**	**(8,9)%**

Net credit risk losses totalled 13,1 million Euro (compared to 11,0 million Euro at 31 March 2018) and were entirely related to the Enterprises segment. The year-on-year increase in provisions set aside during the first quarter of 2019 by the Enterprises segment were in part associated with the additional provisions on unlikely to pay in the construction segment, which became necessary because of the events that transpired during the period.

In the first quarter, the cost of credit quality amounted to 88 bps, compared to 170 bps at 31 December 2018.

Formation of net profit for the period

FORMATION OF NET PROFIT (in thousands of Euro)	FIRST THREE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net profit (loss) from financial activities	**117.021**	**128.421**	**(11.400)**	**(8,9)%**
Operating costs	(74.364)	(73.421)	(943)	1,3%
Pre-tax profit (loss) for the period from continuing operations	**42.657**	**55.000**	**(12.343)**	**(22,4)%**
Income taxes for the period relating to continuing operations	(12.716)	(17.146)	4.430	(25,8)%
Profit (Loss) for the period	**29.941**	**37.854**	**(7.913)**	**(20,9)%**
Profit (Loss) for the period attributable to non-controlling interests	21	-	21	n.s.
Profit (loss) for the period attributable to the Parent company	**29.920**	**37.854**	**(7.934)**	**(21,0)%**

Operating costs totalled 74,4 million Euro (73,4 million Euro at 31 March 2019, +1,3%). The cost/income ratio stood at 57,2%, compared to 52,7% at 31 March 2018.

OPERATING COSTS (in thousands of Euro)	FIRST THREE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Administrative expenses:	74.768	73.452	1.316	1,8%
a) personnel expenses	31.447	26.827	4.620	17,2%
b) other administrative expenses	43.321	46.625	(3.304)	(7,1)%
Net allocations to provisions for risks and charges	2.512	2.806	(294)	(10,5)%
Net impairment losses/reversals on property, plant and equipment and intangible assets	4.062	2.809	1.253	44,6%
Other operating income/expenses	(6.978)	(5.646)	(1.332)	23,6%
Operating costs	**74.364**	**73.421**	**943**	**1,3%**

Personnel expenses totalled 31,4 million Euro, up 17,2% (26,8 million Euro at 31 March 2018), in line with the growth in the Group's employees, who numbered 1.764 at 31 March 2019—up 14,5% from the prior-year period (1.541 units). 100 employees were acquired following the inclusion of the subsidiaries FBS S.p.A. and FBS Real Estate in the Group's scope.

Other administrative expenses amounted to 43,3 million Euro, down 7,1% from 46,6 million Euro at 31 March 2018. The line item is broken down below:

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	FIRST THREE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Expenses for professional services	**16.601**	**16.489**	**112**	**0,7%**
Legal and consulting services	11.378	11.678	(300)	(2,6)%
Auditing	274	158	116	73,4%
Outsourced services	4.949	4.653	296	6,4%
Direct and indirect taxes	**9.804**	**13.959**	**(4.155)**	**(29,8)%**
Expenses for purchasing goods and other services	**16.916**	**16.177**	**739**	**4,6%**
Customer information	5.504	4.043	1.461	36,1%
Software licensing and support	3.116	3.236	(120)	(3,7)%
Postage and archiving of documents	2.000	2.427	(427)	(17,6)%
Property expenses	1.484	1.789	(305)	(17,0)%
Telephone and data transmission expenses	820	710	110	15,5%
Business trips and transfers	688	870	(182)	(20,9)%
Advertising and inserts	677	1.060	(383)	(36,1)%
Car fleet management and maintenance	553	791	(238)	(30,1)%
Securitisation costs	299	321	(22)	(6,9)%
FITD and Resolution fund	11	6	5	83,3%
Other sundry expenses	1.764	924	840	90,9%
Total administrative expenses	**43.321**	**46.625**	**(3.304)**	**(7,1)%**

The subline item "**Legal and consulting**" expenses totalled 11,4 million Euro in the first quarter of 2019, down 2,6% from 11,7 million Euro in the first quarter of 2018, and referred to the costs associated with the judicial collection actions for the NPL segment's receivables, amounting to 7,1 million Euro at 31 March 2019 (in line with the prior-year period).

"Direct and indirect taxes", amounting to 9,8 million Euro (down 29,8% from 14,0 million Euro at 31 March 2018), mainly included the registration fees paid for the judicial debt collection actions concerning the NPL segment's receivables, totalling 5,6 million Euro at 31 March 2019 (10,7 million Euro at 31 March 2018). The line item also comprised 2,7 million Euro in stamp duty costs: the relevant chargeback to customers is recognised under "Other operating income".

The **"expenses for purchasing goods and services"** amounted to 16,9 million Euro, up 4,6% from 16,2 million Euro in the first quarter of 2018. This result was attributable to opposite changes in major line items, specifically:

- Customer information expenses climbed 36,1% from 4,0 million Euro to 5,5 million Euro: the increase largely referred to the NPL segment and stemmed from the processing of the new receivables acquired in late 2018;
- Property and car fleet management expenses were down 0,5 million Euro overall, essentially because of the application of the new standard IFRS 16 starting from 1 January 2018.

Net allocations to provisions for risks and charges totalled 2,5 million Euro, compared to 2,8 million Euro at 31 March 2018. In both quarters, the line item referred to the amount set aside for the estimated 2,0 million contributions to the Resolution Fund.

Other net operating income totalled 7,0 million Euro (5,6 million Euro at 31 March 2018) 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 42,7 million Euro (-22,4% from the prior year).

Income tax expense amounted to 12,7 million Euro (-25,8% from the first quarter of 2018). The tax rate for the first quarter of 2019 was 29,81%, compared to 31,2% in the prior-year period. The tax rate for the first quarter of 2019 reflected the positive impact of the tax realignment of the provisionally estimated goodwill, which allows the Group to take advantage of the difference between the theoretical tax rate at which the relevant deferred tax assets are recognised and the substitute tax to be paid for the realignment.

Excluding 21 thousand Euro in profit attributable to non-controlling interests, the **net profit for the period attributable to the Parent Company** totalled 29,9 million Euro (-21,0% from the prior-year period).

05.3. Significant events occurred in the period

The Banca IFIS Group transparently and timely discloses information to the market, constantly publishing information on significant events through press releases. Please visit the "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.

05.3.1 Closing of 90% acquisition of FBS S.p.A.

On 7 January 2019, the Group finalised the acquisition of FBS S.p.A., Italy's fourth-largest player specialised in servicing property-backed and corporate NPLs. The deal, announced on 15 May 2018 and funded entirely through Banca IFIS's liquidity, involved the acquisition of 90% of FBS for 58,5 million Euro in cash. Paolo Strocchi, a majority shareholder in FBS since its foundation, stays on as CEO and shareholder along with FBS's top management, retaining a 10% stake in the company that is the subject of put and call options entered into by the top management and Banca IFIS—with a number of exercise windows over a period ranging from 2 to 4 years and prices varying according to, among other things, FBS S.p.A.'s performance.

05.4. Significant subsequent events

05.4.1 The Shareholders' Meeting approves the 2018 financial statements. New Board of Directors appointed, Luciano Colombini takes over as CEO

The Ordinary Shareholders' Meeting of Banca IFIS S.p.A. held on 19 April 2019 approved the financial statements for the year 2018 as well as the distribution of a 1,05 Euro dividend per ordinary share with ex-dividend date (coupon no. 22) on 29 April 2019, record date on 30 April 2019, and payment date on 2 May 2019. The Meeting resolved to increase the number of directors from 9 to 12 and appointed the members of the Board for the three-year period from 2019 to 2021. Luciano Colombini was appointed Banca IFIS S.p.A.'s CEO effective 19 April 2019.

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

Venice – Mestre, May 9th, 2019

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Luciano Colombini

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

The undersigned Mariacristina Taormina, Manager charged with preparing the financial reports of Banca IFIS S.p.A., pursuant to the provisions of Art. 154 bis, paragraph 2 of Italian Legislative Decree no.58 dated 24 February 1998, declares that the financial information included into the Consolidated Interim Report as at 31 March 2019 corresponds to the related books and accounting records.

Venice – Mestre, May 9th, 2019

Manager charged with preparing the Company's financial reports

Mariacristina Taormina