BANCA IFIS

Consolidated half year report at 30th June 2019

1H19

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
ABI 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 – 30174 Mestre – Venice
Website: www.bancaifis.it

FCI Facilitating Open Account - Receivables Finance

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 application of IFRS 16:** as from 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. In particular, the modified retrospective approach B (paragraph C5 letter b, C7 and C8 letter b.ii of appendix C to IFRS 16) has been applied, which provides for the possibility of recognising the asset consisting of the right of use at the date of initial application for an amount equal to the liability of the lease; according to this approach, at the date of first application, no difference emerges in the opening consolidated shareholders' equity of the Banca IFIS Group. The right of use, and consequently the related financial liability, amounted to 12,8 million Euro at 1 January 2019.
  With regard to the economic data for the first half of 2019, based on the provisions of IFRS 16, it should be noted that:
  - net interest income includes, among interest expense, the interest accrued on financial liabilities for leases;
  - net impairment losses/reversals on property, plant and equipment include the amortisation of rights to use assets under lease contracts;
  - other administrative expenses no longer include lease payments relating to contracts falling within the scope of application of IFRS 16.

  In view of the above, the economic data for the comparison periods are not fully comparable.
- **Acquisition of the FBS Group:** on 7 January 2019, Banca IFIS completed the acquisition of control of the FBS 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. The total cost of the business combination was provisionally determined at 67,7 million Euro and the first-time consolidation process showed a difference to be allocated between the acquisition cost and the equity of the FBS Group of 40,7 million Euro, recognised under "Intangible assets".

02.2. Results and Strategy

02.2.1. Comment by the CEO

During these first six months of the year, the Bank has performed well in all its main activities, showing a solid business and results in line with expectations. In detail, the figures for the last quarter show a net profit up to 38,4 million Euro (+35,3% on the second quarter of 2018) and net banking income of 149,1 million Euro (+7,5% on the second quarter of 2018) thanks to the more than positive contribution of the non-performing loans business (44% of the total) and the Enterprises segment.

Regarding SMEs, we are now well positioned and competitive.

In the NPL business, in the second quarter, we recorded a double-digit increase in cash recoveries on our NPL portfolio of +19% compared to the first quarter (+66% the trend change) for 67 million Euro. In this first half of 2019, the Banca IFIS Group signed acquisition contracts for 700 million new unsecured NPLs.

At 30 June, the Banca IFIS Group's portfolio amounted to 16,4 billion Euro nominal amount, plus 6,4 billion Euro in third-party management through the subsidiary FBS for a total amount of 22,8 billion Euro (nominal amount).

In terms of capital requirements, CET1 at the end of June rose to 10,81% (+0,52% on the previous quarter) thanks to profits made in the first six months of the year. The level is well above the 8,12% required by SREP.

With the team, we are already outlining the guidelines of the new Business Plan that we will present this autumn and that will be the result of teamwork.

02.2.2. Highlights - reclassified data

The main economic items of the Banca IFIS Group's results for the first half of 2019 are set out below.

Net banking income

Net banking income amounted to 279,2 million Euro, substantially in line with the same period of 2018, +0,4%. The NPL segment totalled 127,7 million Euro (119,3 million Euro at 30 June 2018, +7,0%) while the margin of the Enterprises segment amounted to 152,5 million Euro (165,1 million Euro at 30 June 2018, -7,6%), where the growing results of the Trade Receivables business area (+3,7% compared to 30 June 2018) and the Leasing business area (+7,6% compared to 30 June 2018) were offset by the 34,2% decrease in the Corporate Banking area, mainly as a result of the physiological lower contribution of the "reversal PPA[1]"3 compared to the same period of the previous year.

Net impairment losses[2]

Net credit risk losses for the first half amounted to 35,0 million Euro, down 12,5% compared to net losses of 40,0 million Euro at 30 June 2018 and are referred almost entirely to the Enterprises segment. Allocations are attributable to the Trade Receivables Area for 27,3 million Euro (28,6 million Euro in the first half of 2018) and include adjustments to positions already classified as unlikely to pay in the construction sector.

Operating costs

Operating costs totalled 138,4 million Euro (144,2 million Euro at 30 June 2018, -4,0%). The cost/income ratio stood at 49,6%, compared to 51,8% at 30 June 2018.

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.

At 64,2 million Euro, personnel expenses rose 15,7% (55,5 million at 30 June 2018). The Group's employees numbered 1.793 at 30 June 2019, up 13,7% compared to the corresponding figure at 30 June 2018 (1.577). This increase includes 141 employees acquired following the inclusion of the subsidiaries Credifarma S.p.A., FBS S.p.A. and FBS Real Estate S.p.A. in the Group's scope.

Other administrative expenses, amounting to 114,4 million Euro compared to 95,1 million Euro at 30 June 2018, include the expense of 30,9 million Euro relating to the settlement of certain tax disputes regarding the former subsidiary Interbanca, the economic impact of which is fully offset in the item "other net operating income" - including the related tax effect - against the activation of outstanding guarantees.

Group net profit

The Group net profit totalled 68,3 million Euro at 30 June 2019, up 3,2% from 66,2 million Euro at 30 June 2018.

Focus on individual segments

As for the contribution of individual segments to the operating and financial results at 30 June 2019, here below are the highlights:

- **The Enterprises segment's net banking income**, which accounted for 54,6% of the total, amounted to 152,5 million Euro, down 7,6% from 165,1 million Euro in the corresponding period of 2018, as the growth of the business areas included within this segment was offset by the lower contribution of the reversal PPA[3] (33,0 million Euro at 30 June 2019 compared to 40,5 million Euro at 30 June 2018, -18,5%). The Enterprises segment's receivables totalled 5.934,1 million Euro at 30 June 2019, up 0,3% compared to 31 December 2018.
- Specifically, the **Trade Receivables area** generated 83,3 million Euro in net banking income (80,3 million Euro at 30 June 2018, +3,7%); turnover rose to 6,9 billion Euro (+13,7% from 30 June 2018), and the number of corporate customers was up 4,9% (without the positive effect of Credifarma) compared to the corresponding period of the previous year. Outstanding loans in the Trade Receivables area amounted to 3,6 billion Euro, -0,7% from 31 December 2018.
- In the first half of the year, **the Leasing business area** recorded revenues of 28,2 million Euro, up 7,6% compared to the same period in 2018, mainly due to the improvement in net interest income following an increase in average loans.
  New disbursements in the first six months of 2019 amounted to 330,5 million Euro (-0,7% compared to the first half of 2018) and mainly related to the auto lease segment. Loans to customers amounted to 1.430,4 million Euro, +2,2% compared to 31 December 2018.
- **Corporate Banking** reported net banking income of 34,5 million Euro, a decrease of 34,2%, mainly due to the lower measurement of assets at fair value for 13,8 million Euro and the lower contribution of the "PPA reversal"3 (31,3 million Euro compared to 35,8 million at 30 June 2018). This decrease is physiological as it is related to the progressive natural settlement of the underlying loans. Outstanding loans of the Corporate Banking segment amounted to 758,6 million Euro, -5,0% compared to the end of 2018.

The NPL segment's net banking income[4] amounted to 127,7 million Euro (119,3 million Euro at 30 June 2018, +7,0%).

"Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, was up 37,6% from 45,8 million Euro to 63,0 million Euro, largely thanks to the increase in receivables at amortised cost, the highest amount of which is related for 31,2 million to writs, attachments of property, and garnishment orders, and for 11,8 million to settlement plans. It should also be noted that this item includes 3,7 million Euro deriving from the newly acquired FBS.

The item "Interest income from changes in cash flow" includes the economic effect deriving from the change in expected cash flows as a result of higher or lower collections realised or expected compared to previous forecasts and went from 76,8 million Euro to 62,7 million Euro, with a decrease of 18,4%; this item includes the contribution of the settlement plans for approximately 31,6 million Euro and the contribution of writs, attachments of property and garnishment orders for approximately 33,2 million Euro and the secured and corporate basin for approximately 11 million Euro. This item includes 5,1 million Euro deriving from the newly acquired FBS.

The increase in the cost of funding is due to higher interest expense attributed by the Governance & Services segment, both as a result of higher volumes traded and the increase in the internal transfer rate.

3 "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.

4 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.

The increase in net commissions is almost entirely due to the contribution of the newly acquired FBS and related to the Group's servicing business with respect to a managed portfolio of 6,4 billion Euro.

Finally, profits from the sale of receivables recorded strong growth in the first half of 2019, reaching 7,9 million Euro compared to 2,0 million Euro in the first half of 2018. Disposals relate to portfolios consisting of processing queues with an amortised cost value of 3,0 million Euro.

At 30 June 2019, the nominal amount of outstanding receivables totalled 16,4 billion Euro, and their net value was 1.173,9 million Euro. Collections went from 80,7 million Euro in the first half of 2018 to 123,9 million Euro at 30 June 2019.

Estimated Remaining Collections (ERC) amounted to approximately 2,4 billion Euro.

The breakdown of the main statement of financial position items of the Banca IFIS Group at 30 June 2019 is shown below.

Loans to customers measured at amortised cost

Total **loans to customers measured at amortised cost** amounted to 7.343,9 million Euro, in line with the balance at 31 December 2018 (+0,4%). Against growth in the NPL segment of 7,4%, also thanks to the contribution of the FBS Group, and lower growth in the Enterprises segment (+0,3% compared to the balance at 31 December 2018), the portfolio of the Governance & Services segment declined by approximately 66,7 million Euro (or -22,0%). This decrease is closely linked to the closure of a repurchase agreement for 49,8 million Euro, the repayment of 19,8 million Euro relating to securitisations, of which 13,8 million Euro relating to a transaction backed by a government guarantee (GACS), and the normal amortisation of portfolios in run-off.

Below is the **breakdown of net non-performing loans measured at amortised cost in the Enterprises segment** (totalling 314,6 million Euro):

- net bad loans amounted to 71,6 million Euro, an increase of 5,4% compared to 67,9 million Euro at 31 December 2018, while the ratio of net bad loans to net loans remained substantially stable (1,2% compared to 1,1% at 31 December 2018). The coverage ratio stood at 68,9% compared to 73,0% at 31 December 2018, a change also driven by the write-offs of fully impaired exposures during the period;
- the balance of net unlikely to pay was 139,6 million Euro from 147,5 million Euro at 31 December 2018 (-5,3%) also following the increase in the coverage ratio to 42,5% at 30 June 2019 from 36,9% at 31 December 2018;
- net non-performing past due exposures amounted to 103,4 million Euro compared to 95,0 million Euro at 31 December 2018 (+8,9%) with a coverage ratio of 8,6% compared to 11,3% at 31 December 2018; the increase in non-performing past due exposures is mainly attributable to the public sector, which has lower levels of coverage compared to the private sector.

Overall, the Enterprises segment reported a Gross NPE Ratio of 9,4% (9,5% at 31 December 2018) and a Net NPE Ratio of 5,3% (5,2% at 31 December 2018).

Funding

During the first half of 2019, the Group continued its strategy of consolidating wholesale funding in order to ensure a better balance with respect to retail funding. At 30 June 2019, the Group's funding structure was as follows:

- 60,7% customers deposit;
- 14,4% ABS;
- 12,0% debt securities;
- 8,7% TLTRO;
- 4,2% other.

Equity and ratios

At 30 June 2019, the **Group's consolidated equity** totalled 1.472,3 million Euro, up 0,9% from 1.459,0 million Euro at 31 December 2018.

The **Common Equity Tier 1 (CET1)** and Total Own Funds Ratios including the effect of the prudential consolidation in the Parent Company La Scogliera at 30 June 2019, amounted to 10,81%(compared to 10,30% at 31 December 2018), while the consolidated Total Own Funds Ratio amounted to 14,51% (compared to 14,01% at 31 December 2018).

The **Common Equity Tier 1 (CET1)** and Total Own Funds Ratios of the Banca IFIS Group alone, excluding the effect of the consolidation in the Parent Company La Scogliera[4] at 30 June 2019, amounted to 14,03% (compared to 13,74% at 31 December 2018) while the consolidated Total Own Funds Ratio amounted to 18,49% (compared to 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%.

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	
	30.06.2019	31.12.2018	ABSOLUTE	%
Financial assets measured at fair value through other comprehensive income	693.533	432.094	261.439	60,5%
Due from banks measured at amortised cost	726.052	590.595	135.457	22,9%
Loans to customers measured at amortised cost	7.343.892	7.313.972	29.920	0,4%
Total assets	9.888.042	9.382.261	505.781	5,4%
Due to banks measured at amortised cost	781.199	785.393	(4.194)	(0,5)%
Due to customers measured at amortised cost	5.069.334	4.673.299	396.035	8,5%
Debt securities issued	2.102.076	1.979.002	123.074	6,2%
Equity	1.472.257	1.459.000	13.257	0,9%

RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Net banking income	**279.197**	**278.117**	**1.080**	**0,4%**
Net credit risk losses/reversals	(35.046)	(40.036)	4.990	(12,5)%
Net profit (loss) from financial activities	**244.151**	**238.081**	**6.070**	**2,5%**
Operating costs	(138.363)	(144.176)	5.813	(4,0)%
Gains (Losses) on disposal of investments	(1.295)	-	(1.295)	n.a.
Pre-tax profit from continuing operations	104.493	93.905	10.588	11,3%
Net profit for the period attributable to the Parent company	**68.266**	**66.209**	**2.057**	**3,1%**

QUARTERLY RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	2ND QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net banking income	**149.088**	**138.739**	**10.349**	**7,5%**
Net credit risk losses/reversals	(21.958)	(29.079)	7.121	(24,5)%
Net profit (loss) from financial activities	**127.130**	**109.660**	**17.470**	**15,9%**
Operating costs	(63.999)	(70.755)	6.756	(9,5)%
Gains (Losses) on disposal of investments	(1.295)	-	(1.295)	n.a.
Pre-tax profit from continuing operations	61.836	38.905	22.931	58,9%
Net profit for the period attributable to the Parent company	**38.346**	**28.355**	**9.991**	**35,2%**

CONSOLIDATED COMPREHENSIVE INCOME (in thousands of Euro)	30.06.2019	30.06.2018
Profit (Loss) for the period	**68.308**	**66.209**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	(1.251)	1.136
Other comprehensive income, net of taxes, to be reclassified to profit or loss	2.124	(12.897)
Comprehensive Income	**69.181**	**54.448**
Total consolidated comprehensive income attributable to non-controlling interests	46	-
Total consolidated comprehensive income attributable to the Parent company	**69.135**	**54.448**

GROUP KPIs	30.06.2019	31.12.2018	30.06.2018
Ratio - Total Own Funds	14,51%	14,01%	15,43%
Ratio - Common Equity Tier 1	10,81%	10,30%	11,11%
Number of company shares (in thousands)	53.811	53.811	53.811
Number of shares outstanding at period end(1) (in thousands)	53.452	53.441	53.441
Book value per share	27,54	27,30	25,69
EPS	1,28	2,75	1,24

(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 DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Financial assets held for trading through profit or loss				
Amounts at 30.06.2019	-	-	26.410	26.410
Amounts at 31.12.2018	*-*	*-*	*29.809*	*29.809*
% Change	*-*	*-*	*(11,4)%*	*(11,4)%*
Financial assets mandatorily measured at fair value through profit or loss				
Amounts at 30.06.2019	129.294	2.811	49.989	182.094
Amounts at 31.12.2018	*114.619*	*-*	*49.226*	*163.845*
% Change	*12,8%*	*n.a.*	*1,5%*	*11,1%*
Financial assets measured at fair value through other comprehensive income				
Amounts at 30.06.2019	11.482	-	682.051	693.533
Amounts at 31.12.2018	*12.188*	*-*	*419.906*	*432.094*
% Change	*(5,8)%*	*-*	*62,4%*	*60,5%*
Due from banks measured at amortised cost				
Amounts at 30.06.2019	-	-	726.052	726.052
Amounts at 31.12.2018	*-*	*-*	*590.595*	*590.595*
% Change	*-*	*-*	*22,9%*	*22,9%*
Loans to customers measured at amortised cost				
Amounts at 30.06.2019	5.934.082	1.173.868	235.942	7.343.892
Amounts at 31.12.2018	*5.918.496*	*1.092.799*	*302.677*	*7.313.972*
% Change	*0,3%*	*7,4%*	*(22,0)%*	*0,4%*
Due to banks				
Amounts at 30.06.2019	-	-	781.199	781.199
Amounts at 31.12.2018	*-*	*-*	*785.393*	*785.393*
% Change	*-*	*-*	*(0,5)%*	*(0,5)%*
Due to customers				
Amounts at 30.06.2019	-	-	5.069.334	5.069.334
Amounts at 31.12.2018	*-*	*-*	*4.673.299*	*4.673.299*
% Change	*-*	*-*	*8,5%*	*8,5%*
Debt securities issued				
Amounts at 30.06.2019	-	-	2.102.076	2.102.076
Amounts at 31.12.2018	*-*	*-*	*1.979.002*	*1.979.002*
% Change	*-*	*-*	*6,2%*	*6,2%*

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 30.06.2019	152.506	127.690	(999)	**279.197**
Amounts at 30.06.2018	*165.072*	*119.290*	*(6.245)*	***278.117***
% Change	*(7,6)%*	*7,0%*	*(84,0)%*	***0,4%***
Net profit (loss) from financial activities				
Amounts at 30.06.2019	117.924	127.690	(1.463)	**244.151**
Amounts at 30.06.2018	*126.106*	*119.290*	*(7.315)*	***238.081***
% Change	*(6,5)%*	*7,0%*	*(80,0)%*	***2,5%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
2nd quarter 2019	85.862	65.111	(1.885)	**149.088**
2nd quarter 2018	*86.435*	*54.231*	*(1.927)*	***138.739***
% Change	*(0,7)%*	*20,1%*	*(2,2)%*	***7,5%***
Net profit (loss) from financial activities				
2nd quarter 2019	64.465	65.111	(2.446)	**127.130**
2nd quarter 2018	*58.471*	*54.231*	*(3.042)*	***109.660***
% Change	*10,3%*	*20,1%*	*(19,6)%*	***15,9%***

SECTOR KPIs (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality			
Amounts at 30.06.2019	1,12%	-	-
Amounts at 31.12.2018	*1,70%*	*-*	*-*
% Change	*(0,58)%*	*-*	*-*
Net bad loans/Loans to customers			
Amounts at 30.06.2019	1,2%	73,6%	4,8%
Amounts at 31.12.2018	*1,1%*	*71,5%*	*4,0%*
% Change	*0,1%*	*2,1%*	*0,8%*
Coverage ratio on gross bad loans			
Amounts at 30.06.2019	68,9%	-	22,3%
Amounts at 31.12.2018	*73,0%*	*-*	*15,4%*
% Change	*(4,1)%*	*-*	*6,8%*
Net non-performing exposures/Net loans to customers			
Amounts at 30.06.2019	5,3%	99,4%	13,5%
Amounts at 31.12.2018	*5,2%*	*99,6%*	*11,8%*
% Change	*0,1%*	*(0,2)%*	*1,7%*
Gross non-performing exposures/Gross loans to customers			
Amounts at 30.06.2019	9,4%	99,4%	16,5%
Amounts at 31.12.2018	*9,5%*	*99,6%*	*13,8%*
% Change	*(0,1)%*	*(0,2)%*	*2,7%*
RWA(1)(2)			
Amounts at 30.06.2019	4.883.115	1.628.555	444.069
Amounts at 31.12.2018	*4.793.273*	*1.584.420*	*657.733*
% Change	*1,9%*	*2,8%*	*(32,5)%*

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

(2) The Governance & Services segment'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			
	30.06	31.03	31.12	30.09	30.06	31.03
ASSETS						
Other financial assets mandatorily measured at fair value through profit or loss	182.094	174.508	163.845	133.665	130.520	115.597
Financial assets measured at fair value through other comprehensive income	693.533	432.901	432.094	428.253	433.827	453.847
Due from banks measured at amortised cost	726.052	996.333	590.595	1.452.011	1.568.042	1.565.449
Loans to customers measured at amortised cost	7.343.892	7.322.130	7.313.972	6.919.486	6.710.457	6.457.208
Property, plant and equipment	128.809	145.869	130.650	131.247	130.399	127.005
Intangible assets	65.282	65.855	23.277	25.500	24.815	25.250
Tax assets	390.503	396.280	395.084	409.324	400.773	408.270
Other assets	357.877	329.756	332.744	343.443	333.910	368.176
Total assets	**9.888.042**	**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			
	30.06	31.03	31.12	30.09	30.06	31.03
LIABILITIES AND EQUITY						
Due to banks measured at amortised cost	781.199	844.790	785.393	837.565	882.324	820.190
Due to customers measured at amortised cost	5.069.334	5.021.481	4.673.299	4.985.206	4.840.864	5.022.110
Debt securities issued	2.102.076	1.955.400	1.979.002	2.094.785	2.095.844	1.774.973
Tax liabilities	65.913	63.066	52.722	51.116	50.519	48.140
Other liabilities	397.263	489.594	432.845	476.827	490.109	442.400
Group equity:	1.472.257	1.489.301	1.459.000	1.397.430	1.373.083	1.412.989
- Share capital, share premiums and reserves	*1.403.991*	*1.459.381*	*1.312.237*	*1.308.436*	*1.306.874*	*1.375.135*
- Parent Company net profit for the period	*68.266*	*29.920*	*146.763*	*88.994*	*66.209*	*37.854*
Total liabilities and equity	**9.888.042**	**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			
	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	**118.293**	**115.264**	**140.014**	**99.670**	**110.097**	**119.480**
Net commission income	**22.711**	**23.828**	**24.525**	**20.206**	**19.954**	**19.820**
Other components of net banking income	8.084	(8.983)	8.414	5.557	8.688	78
Net banking income	**149.088**	**130.109**	**172.953**	**125.433**	**138.739**	**139.378**
Net credit risk losses/reversals	(21.958)	(13.088)	(31.179)	(28.879)	(29.079)	(10.957)
Net profit (loss) from financial activities	**127.130**	**117.021**	**141.774**	**96.554**	**109.660**	**128.421**
Personnel expenses	(32.716)	(31.447)	(28.303)	(27.830)	(28.624)	(26.827)
Other administrative expenses	(71.034)	(43.321)	(42.707)	(38.734)	(48.460)	(46.625)
Net allocations to provisions for risks and charges	(2.974)	(2.512)	3.207	(6.254)	3.754	(2.806)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(4.214)	(4.062)	(3.685)	(3.148)	(3.116)	(2.809)
Other operating income/expenses	46.939	6.978	6.922	11.277	5.691	5.646
Operating costs	**(63.999)**	**(74.364)**	**(64.566)**	**(64.689)**	**(70.755)**	**(73.421)**
Gains (Losses) on disposal of investments	(1.295)	-	-	-	-	-
Pre-tax profit from continuing operations	**61.836**	**42.657**	**77.208**	**31.865**	**38.905**	**55.000**
Income taxes for the period relating to continuing operations	(23.469)	(12.716)	(19.447)	(9.025)	(10.550)	(17.146)
Profit for the period	**38.367**	**29.941**	**57.761**	**22.840**	**28.355**	**37.854**
Profit (Loss) for the period attributable to non-controlling interests	21	21	(8)	55	-	-
Profit for the period attributable to the Parent company	**38.346**	**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			
	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**149.088**	**130.109**	**172.953**	**125.433**	**138.739**	**139.378**
Enterprises	*85.862*	*66.644*	*93.957*	*76.483*	*86.435*	*78.637*
NPL	*65.111*	*62.579*	*75.991*	*48.953*	*54.231*	*65.059*
Governance & Services	*(1.885)*	*886*	*3.005*	*(3)*	*(1.927)*	*(4.318)*
Net profit (loss) from financial activities	**127.130**	**117.021**	**141.774**	**96.554**	**109.660**	**128.421**
Enterprises	*64.465*	*53.459*	*64.963*	*47.006*	*58.471*	*67.634*
NPL	*65.111*	*62.579*	*75.991*	*48.953*	*54.231*	*65.059*
Governance & Services	*(2.446)*	*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 periods of the last 5 years.

HISTORICAL DATA (1) (in thousands of Euro)	30.06.2019	30.06.2018	30.06.2017	30.06.2016	30.06.2015
Financial assets measured at fair value through other comprehensive income (IFRS 9)	693.533	433.827	634.694	-	-
Available for sale financial assets (IAS 39)	-	-	-	1.027.770	3.803.216
Loans to customers measured at amortised cost	7.343.892	6.710.457	6.047.860	3.355.998	3.152.145
Due to banks measured at amortised cost	781.199	882.324	967.285	43.587	457.384
Due to customers measured at amortised cost	5.069.334	4.840.864	5.291.594	3.928.261	6.037.552
Debt securities issued	2.102.076	2.095.844	1.352.375	-	-
Equity	1.472.257	1.373.083	1.293.061	562.197	524.266
Net banking income	279.197	278.117	253.219	150.923	265.441
Net profit (loss) from financial activities	244.151	238.081	265.328	135.162	247.772
Profit (loss) for the period attributable to the Parent company	68.266	66.209	103.657	39.120	130.779
Cost/Income ratio	49,6%	51,8%	49,0%	50,9%	19,5%
Ratio - Total Own Funds	14,51%	15,43%	15,64%	14,20%	16,11%
Ratio - Common Equity Tier 1	10,81%	11,11%	14,79%	13,17%	15,43%

(1) For comparison purposes, the data for 2017 and 2018 has been restated to ensure accounting consistency with the amounts at 30 June 2019 in order to account for the changes introduced by IFRS 9; the data for prior periods are those originally published. Restatement has not been applied to the calculation of comparative ratios which remain in line with previously published figures.

02.7. APM – Alternative Performance Measures

The Banca IFIS Group has defined a number of indicators, listed in the tables of the Group's KPIs, that provide Alternative Performance Measures (APM) to help investors identify significant operational trends and financial ratios. For the interim financial statements, some indicators presented in the Annual report are not considered representative.

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

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

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

Cost/income ratio (in thousands of Euro)	30.06.2019	30.06.2018
A. Operating costs	138.363	144.176
B. Net banking income	279.197	278.117
Reclassified cost/income ratio (A/B)	**49,6%**	**51,8%**

Book value per share	30.06.2019	30.06.2018
A. Number of shares outstanding	53.451.951	53.440.983
B. Group equity (in thousands of Euro)	1.472.257	1.373.083
Book value per share (B/A) Euro	**27,54**	**25,69**

02.8. Impact of regulatory changes

Here below are the regulatory changes introduced in the first half of 2019 impacting the Banca IFIS Group.

- Effective 1 January 2019, the following international accounting standard became effective (the impact of its first-time adoption is detailed in the paragraph Accounting Policies of the Condensed Consolidated Half-Year Financial Statements):
  - IFRS 16 Leases, endorsed by the European Commission with Regulation no. 1986/2017, which annulled and replaced IAS 17, IFRIC 4, SIC 15 and SIC 27; please refer to the paragraph Impact of the first-time adoption of IFRS 17.
- Among the latest regulations on tax matters, the following will impact the determination of the Banca IFIS Group's income tax expense for 2019 the most. In particular, it is recalled:
  - Reintroduction of the 30% depreciation increase for new capital goods (super depreciation) from 1 April 2019 until 31 December 2019, with a maximum ceiling for eligible investments of 2,5 million Euro (Growth Decree - Law no. 58 of 28/06/2019 converting Decree Law no. 34 of 30/04/2019).
  - Introduction of Mini-IRES, i.e. the progressive reduction of IRES rates for companies that reinvest their profits or proceed with new hires. The new measure provides for the lowering of the more gradual rate, which goes from 22,5% for the tax year 2019 to 20% from 2023, on the profits for the year allocated to reserves other than those of unavailable profits, within the limits of the increase in equity (Growth Decree - Law no. 58 of 28/06/2019 converting Decree Law no. 34 of 30/04/2019).
  - Repeal of the framework for aid for economic growth (ACE) as from 2019, without prejudice to the possibility of carrying over past surpluses into subsequent tax periods (Budget Law 2019 - Law no. 145 of 30/12/2018).
  - Introduction of the facilitated definition (Tax peace) of tax disputes in which the Revenue Agency is a party, concerning tax acts, pending in every state and level of justice, in which the first instance appeal was notified to the counterparty by the date of entry into force of the same decree, i.e. by 24 October 2018 (Law no. 136 of 17/12/2018 converting Decree Law no. 119 of 23/10/2018).

    To adhere to the facilitated settlement, taxpayers had to submit, electronically, an application for each dispute by 31 May 2019. By the same date, the payment of the amounts due or the first instalment was also to be made using form F24 (Law no. 136 of 17/12/2018 converting Decree Law no. 119 of 23/10/2018).
  - Introduction of amnesty to settle incorrect formal obligations (Formal Irregularities) that are not relevant for the purposes of determining the tax base and taxes paid (income tax, VAT and IRAP). In particular, it is provided that violations committed up to 24 October 2018 can be settled by paying 200 Euro for each tax period.

02.9. Contribution of segments to Group results – reclassified data

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.

02.9.1. The organisational structure

In line with the structure used by Management to analyse the Group's results, the information by segment is broken down as follows:

- Enterprises segment, represents the commercial offer of the Group dedicated to companies and consists of the Business Areas Trade Receivables, Corporate Banking, Leasing and Tax Receivables. The segment results include the investee company Credifarma S.p.A. as from the second half of 2018.
- NPL segment, dedicated to non-recourse acquisition and managing distressed retail loans. Since 7 January 2019, the results of the segment also include the contribution of 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. The Segment also includes financing to individuals; in particular, it includes the disbursement of loans against assignment of one-fifth of salary or pension and some portfolios of personal loans.

ENTERPRISES

The Enterprises Segment includes the following business areas:

- Trade receivables: Area dedicated to supporting the trade receivables of SMEs operating in the domestic market growing abroad or based abroad and working with Italian customers; the Area includes the Group's medium/long-term operations, oriented 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 the support of trade receivables of local health services' suppliers and an organisational unit specialised in receivables of pharmacists; said activity is also carried out through the subsidiary Credifarma.
- Leasing: Area that 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: A business area that aggregates multiple units: Structured Finance, which supports companies and private equity funds in arranging bilateral or syndicated loans; the Special Situations, which supports the financial recovery of businesses that managed to overcome financial distress; and the Equity Investment, dedicated to investing in non-financial companies and intermediaries.
- Tax Receivables: 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)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	115.111	115.675	(564)	(0,5)%
Net commission income	43.834	40.789	3.045	7,5%
Other components of net banking income	(6.439)	8.608	(15.047)	(174,8)%
Net banking income	**152.506**	**165.072**	**(12.566)**	**(7,6)%**
Net credit risk losses/reversals	(34.582)	(38.966)	4.384	(11,3)%
Net profit (loss) from financial activities	**117.924**	**126.106**	**(8.182)**	**(6,5)%**

INCOME STATEMENT DATA (in thousands of Euro)	2ND QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	62.432	56.824	5.608	9,9%
Net commission income	21.527	20.993	534	2,5%
Other components of net banking income	1.903	8.618	(6.715)	(77,9)%
Net banking income	**85.862**	**86.435**	**(573)**	**(0,7)%**
Net credit risk losses/reversals	(21.397)	(27.964)	6.567	(23,5)%
Net profit (loss) from financial activities	**64.465**	**58.471**	**5.994**	**10,3%**

The contribution to net banking income for the first half of 2019 made by the organisational units making up the Enterprises segment, as described in greater detail in the following paragraphs, can be broken down as follows: Trade receivables 83,3 million Euro (+3,0 million Euro compared to the first half of 2018), Corporate Banking 34,5 million Euro (-18,0 million Euro), Leasing 28,2 million Euro (+2,0 million Euro) and Tax receivables 6,5 million Euro (+0,4 million Euro).

Trade receivables contributed to the growth in net banking income, up 3,7% compared to the same period of 2018. This trend is favoured by the growth in turnover (+13,7% compared to 30 June 2018) and number of corporate clients (+4,9%, without considering the positive contribution deriving from the acquisition of Credifarma in July 2018).

With regard to Corporate Banking, the decrease in net banking income is due for 13,8 million Euro to the net negative change in the fair value measurement of equity instruments recognised in the first half of 2019 compared to the net positive change recognised in the first half of 2018 (-2,6 million Euro at 30 June 2019 compared to +11,2 million Euro at 30 June 2018) and for 4,5 million Euro to the physiological lower contribution of the "reversal PPA"[5], which went from 35,8 million Euro in the first half of 2018 to 31,3 million Euro in 2019 (-12,5%).

The remainder of said "Reversal PPA" related to the entire Enterprises segment, net of the reallocation of some positions in the Governance & Services segment of about 1 million Euro, amounted to 151,7 million Euro at 30 June 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 net banking income of the Leasing Area increased by 7,6% compared to the same period of the previous year, mainly due to an increase in average lending.

In the first half of 2019, the Enterprises segment generated credit risk losses for a total of 34,6 million Euro (-4,4 million Euro compared to the first half of 2018, -11,3%), of which 27,3 million Euro relating to exposures of the Trade Receivables unit (-4,4%), 2,5 million Euro to Corporate Banking (-53,4%) and 4,7 million Euro to Leasing (-5,2%).

The financial assets of the Enterprises segment relate to loans to customers for 5.934,1 million Euro (+0,3% compared to 31 December 2018), Other financial assets mandatorily measured at fair value through profit or loss of 127,2 million Euro (+11,0%) and Financial assets

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

measured at fair value through other comprehensive income of 11,5 million Euro (-5,8%); the latter two categories mainly refer to investments made in units of UCITS funds as part of corporate banking activities and loans to customers who failed the SPPI test.

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

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	30.06.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net bad loans	71.632	67.947	3.685	5,4%
Net unlikely to pay	139.594	147.458	(7.864)	(5,3)%
Net non-performing past due exposures	103.389	94.953	8.436	8,9%
Total net non-performing exposures to customers (stage 3)	**314.615**	**310.358**	**4.257**	**1,4%**
Net performing loans (stages 1 and 2)	5.619.467	5.608.138	11.329	0,2%
Total on-balance-sheet loans to customers	**5.934.082**	**5.918.496**	**15.586**	**0,3%**

It should be noted that within the Enterprises segment, there are receivables belonging to the POCI category, mainly referring to non-performing exposures resulting from the business combination with the former GE Capital Interbanca Group and composed as follows:

- 67,9 million Euro at 30 June 2019 (66,7 million Euro at 31 December 2018) classified as gross non-performing exposures;
- 25,4 million Euro at 30 June 2019 (22,2 million Euro at 31 December 2018) classified as gross performing exposures (stage 2).

These amounts already incorporate the effects connected with the temporal dismantling of the PPA and the effects of expected losses over the useful life of the asset, as required by IFRS 9.

The following table provides a detail of 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 EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 30.06.2019						
Nominal amount	230.659	242.885	113.081	**586.625**	5.649.148	**6.235.773**
Impairment losses	(159.027)	(103.291)	(9.692)	**(272.010)**	(29.681)	**(301.691)**
Carrying amount	71.632	139.594	103.389	**314.615**	5.619.467	**5.934.082**
Coverage ratio	*68,9%*	*42,5%*	*8,6%*	***46,4%***	*0,5%*	***4,8%***
Gross ratio	*3,7%*	*3,9%*	*1,8%*	***9,4%***	*90,6%*	***100,0%***
Net ratio	*1,2%*	*2,4%*	*1,7%*	***5,3%***	*94,7%*	***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)**
Carrying amount	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%***

Net impaired assets in the Enterprises segment stood at 314,6 million Euro at 30 June 2019, up by 4,3 million Euro compared to the value at 31 December 2018 (310,4 million Euro, +1,4%): bad loans increased by 3,7 million Euro (+5,4%), although the ratio of net bad loans to total loans remained substantially stable (1,2% compared to 1,1% at 31 December 2018), unlikely to pay fell by 7,9 million Euro (-5,3%) partly as a result of the increase in average coverage and, lastly, past due exposures increased by 8,4 million Euro (+8,9%) mainly to the public sector, which has lower levels of coverage than the private sector.

The overall coverage ratio of non-performing exposures went from 47,6% at 31 December 2018 to 46,4% at 30 June 2019. This effect is also driven by the write-offs of fully impaired exposures in the period.

KPI	30.06.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Cost of credit quality	1,12%	1,70%	-	(0,58)%
Net NPE ratio	5,3%	5,2%	-	0,1%
Gross NPE ratio	9,4%	9,5%	-	(0,1)%
Total RWA per segment	4.883.115	4.793.273	89.842	1,9%

The cost of credit quality for the half-year was 112 bps, compared to 170 bps at 31 December 2018 and 138 bps in the first six months of 2018.

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

Trade receivables

INCOME STATEMENT DATA (in thousands of Euro)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	48.670	50.785	(2.115)	(4,2)%
Net commission income	34.623	29.522	5.101	17,3%
Net banking income	**83.293**	**80.307**	**2.986**	**3,7%**
Net credit risk losses/reversals	(27.347)	(28.615)	1.268	(4,4)%
Net profit (loss) from financial activities	**55.946**	**51.692**	**4.254**	**8,2%**

INCOME STATEMENT DATA (in thousands of Euro)	2ND QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	25.686	25.459	227	0,9%
Net commission income	17.017	14.965	2.052	13,7%
Net banking income	**42.703**	**40.424**	**2.279**	**5,6%**
Net credit risk losses/reversals	(17.999)	(21.622)	3.623	(16,8)%
Net profit (loss) from financial activities	**24.704**	**18.802**	**5.902**	**31,4%**

In the first half of 2019, the Trade Receivables Area contributed 83,3 million Euro to the Enterprises Segment's net banking income, up 3,7% compared to the same period of the previous year. The results of Trade Receivables for the current year benefited also from the contribution of the acquisition of Credifarma S.p.A., which became part of the Group in the second half of 2018.

Net interest income fell by 4,2% (-2,1 million Euro) compared to June 2018, despite the increase in interest income, as a result of the higher interest expense attributed by the Governance & Services segment and the higher volumes handled and as a result of the increase in the internal transfer rate; net commissions, on the other hand, rose by 17,3% (+5,1 million Euro), driven by management fees related to the increase in turnover of the area dedicated to supporting the trade receivable of SMEs operating in the domestic market.

Net credit risk losses amounted to 27,3 million Euro, down 1,3 million Euro compared to 28,6 million Euro in the first half of 2018 and include adjustments to positions already classified as unlikely to pay in the construction sector.

Net profit from financial activities amounted to 55,9 million Euro, up 4,3 million Euro (+8,2%).

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 Group started providing to SMEs following the merger of Interbanca, expanding its offerings with new products. As for factoring volumes, in the first half of 2019, turnover totalled 6,9 billion Euro, up 0,8 billion Euro (+13,7%) compared to the related period of the previous year. The nominal amount of the loans managed (total loans) at the end of June 2019 was 3,9 billion Euro, an increase of approximately 35,1 million Euro (+0,9%) compared to June 2018. With regard to medium/long-term operations, 141,0 million Euro of new loans were granted in 2019 compared to 72,8 million Euro in the first six months of 2018 (+93,7%).

At 30 June 2019, the Area's total net loans amounted to 3,5 billion Euro, down 1,6% compared to 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 (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 30.06.2019						
Nominal amount	184.209	174.382	95.143	**453.734**	3.357.852	**3.811.586**
Impairment losses	(146.050)	(86.579)	(4.376)	**(237.005)**	(14.541)	**(251.546)**
Carrying amount	38.159	87.803	90.767	**216.729**	3.343.311	**3.560.040**
Coverage ratio	*79,3%*	*49,6%*	*4,6%*	***52,2%***	*0,4%*	***6,6%***
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)**
Carrying amount	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)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	21.741	19.159	2.582	13,5%
Net commission income	6.424	7.009	(585)	(8,3)%
Net banking income	**28.165**	**26.168**	**1.997**	**7,6%**
Net credit risk losses/reversals	(4.693)	(4.952)	259	(5,2)%
Net profit (loss) from financial activities	**23.472**	**21.216**	**2.256**	**10,6%**

INCOME STATEMENT DATA (in thousands of Euro)	2ND QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	11.407	9.220	2.187	23,7%
Net commission income	3.116	4.451	(1.335)	(30,0)%
Net banking income	**14.523**	**13.671**	**852**	**6,2%**
Net credit risk losses/reversals	(3.184)	(2.470)	(714)	28,9%
Net profit (loss) from financial activities	**11.339**	**11.201**	**138**	**1,2%**

The Leasing segment's net banking income totalled 28,2 million Euro, up 7,6% (+2,0 million Euro in absolute terms) compared to 30 June 2018. This positive change is mainly due to the higher net interest income following an increase in average loans (approximately +100 million Euro compared to the first half of 2018).

New disbursements in the first six months of 2019 amounted to 330,5 million Euro (-0,7% compared to the first half of 2018) and mainly related to the auto lease segment.

Net impairment losses on receivables amounted to 4,7 million Euro, down 0,3 million Euro compared to the corresponding period of 2018. The decrease is mainly due to lower provisions for non-performing positions.

At 30 June 2019, total net loans in the area amounted to 1.430,4 million Euro compared to 1.399,9 million Euro at 31 December 2018, with a change of 2,2%.

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

LEASING (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 30.06.2019						
Nominal amount	14.766	19.454	15.888	**50.108**	1.417.497	**1.467.605**
Impairment losses	(11.868)	(13.199)	(5.258)	**(30.325)**	(6.864)	**(37.189)**
Carrying amount	2.898	6.255	10.630	**19.783**	1.410.633	**1.430.416**
Coverage ratio	*80,4%*	*67,8%*	*33,1%*	***60,5%***	*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)**
Carrying amount	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)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	38.195	39.593	(1.398)	(3,5)%
Net commission income	2.744	4.260	(1.516)	(35,6)%
Other components of net banking income	(6.439)	8.608	(15.047)	(174,8)%
Net banking income	**34.500**	**52.461**	**(17.961)**	**(34,2)%**
Net credit risk losses/reversals	(2.460)	(5.278)	2.818	(53,4)%
Net profit (loss) from financial activities	**32.040**	**47.183**	**(15.143)**	**(32,1)%**

INCOME STATEMENT DATA (in thousands of Euro)	2ND QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	21.841	18.717	3.124	16,7%
Net commission income	1.368	1.578	(210)	(13,3)%
Other components of net banking income	1.903	8.618	(6.715)	(77,9)%
Net banking income	**25.112**	**28.913**	**(3.801)**	**(13,1)%**
Net credit risk losses/reversals	(168)	(3.777)	3.609	(95,6)%
Net profit (loss) from financial activities	**24.944**	**25.136**	**(192)**	**(0,8)%**

Corporate Banking's net banking income amounted to 34,5 million Euro, a decrease of 18,0 million Euro compared to the figure at 30 June 2018. This decrease was mainly due to the lower valuation of assets measured at fair value (FV) of 13,8 million Euro (included in the line Other components of net banking income) and to the physiological lower contribution of the "reversal PPA" of 4,5 million Euro compared to the first half of 2018 (included in net interest income).

New disbursements at 30 June 2019 amounted to 69,2 million Euro, a decrease of 74,6 million Euro compared to the first half of 2018 (-51,9%); this slowdown was influenced by the market performance of the reference sector.

Net impairment losses on receivables amounted to 2,5 million Euro, a decrease of 2,8 million Euro compared to the same period of the previous year, which recorded net impairment losses on receivables of 5,3 million Euro mainly for impaired positions in run-off.

The Corporate Banking Area contributed 32,0 million Euro to the Enterprises segment's net profit from financial activities, down 32,1% compared to the same period of the previous year, mainly following the impairment losses of FV (Fair Value) receivables and the lower impact of the "reversal PPA".

At 30 June 2019, total net loans to customers in the Area amounted to 758,6 million Euro compared to 798,2 million Euro at 31 December 2018, with a negative change of 5,0%.

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

CORPORATE BANKING (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 30.06.2019						
Nominal amount	31.684	48.782	1.738	**82.204**	689.177	**771.381**
Impairment losses	(1.109)	(3.513)	(58)	**(4.680)**	(8.075)	**(12.755)**
Carrying amount	30.575	45.269	1.680	**77.524**	681.102	**758.626**
Coverage ratio	*3,5%*	*7,2%*	*3,3%*	***5,7%***	*1,2%*	***1,7%***
BALANCE AT 31.12.2018						
Nominal amount	27.016	46.191	437	**73.644**	736.523	**810.167**
Impairment losses	-	(3.192)	-	**(3.192)**	(8.750)	**(11.942)**
Carrying amount	27.016	42.999	437	**70.452**	727.773	**798.225**
Coverage ratio	*0,0%*	*6,9%*	*0,0%*	***4,3%***	*1,2%*	***1,5%***

Tax Receivables

INCOME STATEMENT DATA (in thousands of Euro)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	6.505	6.138	367	6,0%
Net commission income	43	(2)	45	n.s.
Net banking income	**6.548**	**6.136**	**412**	**6,7%**
Net credit risk losses/reversals	(82)	(121)	39	(32,2)%
Net profit (loss) from financial activities	**6.466**	**6.015**	**451**	**7,5%**

INCOME STATEMENT DATA (in thousands of Euro)	2ND QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	3.498	3.428	70	2,0%
Net commission income	26	-	26	n.a.
Net banking income	**3.524**	**3.428**	**96**	**2,8%**
Net credit risk losses/reversals	(46)	(96)	50	(52,1)%
Net profit (loss) from financial activities	**3.478**	**3.332**	**146**	**4,4%**

The Tax Receivables Area contributed 6,5 million Euro to the Enterprises segment's net banking income, up 6,7% from 30 June 2018.

This increase is mainly due to the interest income recorded on the purchases made during the period.

The volumes of receivables purchased increased from a nominal 30,8 million Euro in the first half of 2018 to a nominal 71,8 million Euro in the first half of 2019.

At 30 June 2019, the Area's total net loans amounted to 185 million Euro, up 36% from 136,1 million Euro at 31 December 2018. Receivables in this segment are classified as performing loans, in stages 1 and 2, given 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 (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 30.06.2019						
Nominal amount	-	267	312	**579**	184.622	**185.201**
Impairment losses	-	-	-	**-**	(201)	**(201)**
Carrying amount	-	267	312	**579**	184.421	**185.000**
Coverage ratio	-	*0,0%*	*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)**
Carrying amount	-	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 segment dedicated to non-recourse acquisition and managing distressed retail loans. Since 7 January 2019, the results of the segment also include the contribution of the FBS Group in addition to the traditional NPL business unit.

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

The Group 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 receivables portfolio by conversion and accounting methods; the impact recognised through profit or loss, totalling 125,7 million Euro, is the result of 63,0 million Euro in interest income from amortised cost and for 62,6 million Euro in other components of net interest income from change in cash flows. Also included are the loan yields of the newly acquired FBS S.p.A. Instead, 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.

It should be noted that the presentation methods of this table have been refined in the early months of 2019 with respect to those previously published, in order to represent a closer correlation with regard to the effects, both at balance sheet and income statement level, of the transfers of positions between the various operating categories.

NPL Segment Portfolio (in thousands of Euro)	Outstanding nominal amount	Carrying amount	Carrying amount /Nominal amount Outstanding	Impact through profit or loss	ERC	Methods of accounting
Cost	**1.598.156**	**147.957**	**9,3%**	**-**	**333.786**	Acquisition cost
Non-judicial	**9.861.790**	**312.954**	**3,2%**	**38.159**	**567.590**	
of which: Collective (curves)	9.491.175	164.166	1,7%	(5.253)	279.126	Cost = NPV of flows from model
of which: Plans	370.615	148.788	40,1%	43.412	288.464	Cost = NPV of flows from model
Judicial	**4.913.286**	**711.088**	**14,5%**	**87.517**	**1.496.988**	
of which: Other positions undergoing judicial processing	1.930.743	206.855	10,7%	-	484.573	Acquisition cost
of which: Writs, Property Attachments, Garnishment Orders	1.096.521	362.605	33,1%	64.325	811.118	Cost = NPV of flows from model
of which: Secured and Corporate	1.886.022	141.628	7,5%	23.192	201.297	Cost = NPV of flows from model
Total	**16.373.232**	**1.171.999**	**7,2%**	**125.676**	**2.398.364**	

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 (148,0 million Euro at 30 June 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 consist mostly 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 (164,2 million Euro at 30 June 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 the item "Plans"; these are measured at amortised cost (148,8 million Euro at 30 June 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 that meet requirements for judicial processing are sent for the relative management; in particular, judicial processing, understood as a garnishment action, requires a number of legal phases intended to obtain an enforcement order, which overall typically last 18-24 months and include: obtaining the injunction, obtaining the writ, attachment of property and lastly the garnishment order by the court. At the end of the first quarter of 2018, the Bank released into production a statistical model developed on proprietary data to estimate the cash flows of positions in judicial processing that have not yet reached the garnishment order ("pre-garnishment order bulk model"), until the previous year valued at cost. The future cash inflows were estimated for these cases, taking into consideration both the average timing observed for each processing phase (writ, attachment of property), as well as the likelihood of success of the various phases (from writ to attachment of property, from attachment of property to garnishment order) and the average timing observed between obtaining a garnishment order and the registration of the first collection. These cash flows are used in the valuation at amortised cost which is calculated as the discounting of expected cash flows at the internal rate of return. The total amount of all positions in the writ, attachment of property and assignment order phase was 362,6 million Euro at 30 June 2019, compared to 315,7 million Euro at the end of 2018.

The remaining positions undergoing judicial processing are valued at purchase cost until the above requirements are met or until the garnishment order is obtained and is included in the table above in the category "Other positions undergoing judicial processing", which amounts to 206,9 million Euro at 30 June 2019, compared to 188,5 million Euro at 31 December 2018.

In summary, judicial processing involves a first stage, during which everything necessary is done to obtain a payment order and the positions continue to be measured at purchase cost. In the following stages, when the writ and the order of attachment are served on the third party (employer) and the debtor and the garnishment order is obtained, the positions are measured at amortised cost, calculated as the net present value of expected cash flows based on the individual position, taking into account the age restrictions of the debtor and the risks of losing the job.

Finally, the "Secured and Corporate" category, amounting to 141,6 million Euro at 30 June 2019 compared to 72,7 million Euro at the end of 2018, includes portfolios originating in corporate banking or real estate sectors, valued on a case-by-case basis or using a model for estimating expected cash flows for positions guaranteed by properties on which a mortgage is present.

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)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Interest income from amortised cost	63.000	45.785	17.215	37,6%
Interest income notes	473	-	473	n.a.
Interest income from changes in cash flow	62.662	76.821	(14.159)	(18,4)%
Funding costs	(8.914)	(4.998)	(3.916)	78,4%
Net interest income	**117.221**	**117.608**	**(387)**	**(0,3)%**
Net commission income	2.796	(276)	3.072	n.s.
Gain on sale of receivables	7.901	1.958	5.943	303,5%
Other components of net banking income	(228)	-	(228)	n.a.
Net banking income	**127.690**	**119.290**	**8.400**	**7,0%**
Net profit (loss) from financial activities	**127.690**	**119.290**	**8.400**	**7,0%**

INCOME STATEMENT DATA (in thousands of Euro)	2ND QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Interest income from amortised cost	32.318	24.972	7.346	29,4%
Interest income notes	473	-	473	n.a.
Interest income from changes in cash flow	27.842	30.907	(3.065)	(9,9)%
Funding costs	(4.514)	(2.569)	(1.945)	75,7%
Net interest income	**56.118**	**53.310**	**2.808**	**5,3%**
Net commission income	1.415	16	1.399	n.s.
Gain on sale of receivables	7.901	904	6.997	n.s.
Other components of net banking income	(324)	-	(324)	n.a.
Net banking income	**65.111**	**54.231**	**10.880**	**20,1%**
Net profit (loss) from financial activities	**65.111**	**54.231**	**10.880**	**20,1%**

"Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, was up 37,6% from 45,8 million Euro to 63,0 million Euro, largely thanks to the increase in receivables at amortised cost, the highest amount of which is related for 31,2 million to writs, attachments of property, and garnishment orders, and for 11,8 million to settlement plans. It should also be noted that this item includes 3,7 million Euro deriving from the newly acquired FBS.

The item "Interest income from changes in cash flow" includes the economic effect deriving from the change in expected cash flows as a result of higher or lower collections realised or expected compared to previous forecasts and went from 76,8 million Euro to 62,7 million Euro, with a decrease of 18,4%; this item includes the contribution of the settlement plans for approximately 31,6 million Euro, the contribution of writs, attachments of property and garnishment orders for approximately 33,2 million Euro and the contribution of the "secured and corporate" category for approximately 11 million Euro. This item includes 5,1 million Euro deriving from the newly acquired FBS.

The increase in the cost of funding is due to higher interest expense attributed by the Governance & Services segment, both as a result of higher volumes traded and the increase in the internal transfer rate.

The increase in net commissions is almost entirely due to the contribution of the newly acquired FBS and related to the Group's servicing business with respect to a managed portfolio of 6,4 billion Euro.

Finally, profits from the sale of receivables recorded strong growth in the first half of 2019, reaching 7,9 million Euro compared to 2,0 million Euro in the first half of 2018. Disposals relate to portfolios consisting of processing queues with an amortised cost value of 3,0 million Euro.

The net profit from financial activities of the NPL segment therefore amounted to 127,7 million Euro (119,3 million Euro at 30 June 2018, +7%). Collections went from 80,7 million Euro in the first half of 2018 to 123,9 million Euro in the first six half of 2019 (+47%).

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

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	30.06.2019[(1)]	31.12.2018	CHANGE	
			ABSOLUTE	%
Net bad loans	864.027	781.572	82.455	10,5%
Net unlikely to pay	302.833	306.348	(3.515)	(1,1)%
Net non-performing past due exposures	252	131	121	92,4%
Total net non-performing exposures to customers (stage 3)	**1.167.112**	**1.088.051**	**79.061**	**7,3%**
Net performing loans (stages 1 and 2)	6.756	4.748	2.008	42,3%
Total on-balance-sheet loans to customers	**1.173.868**	**1.092.799**	**81.069**	**7,4%**

(1) At 30 June 2019, this item included 1.869 thousand Euro in receivables for invoices to be issued arising from the servicing activities of the subsidiary FBS S.p.A.

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

KPIs	30.06.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	16.373.232	15.756.372	616.860	3,9%
Total RWA per segment	1.628.555	1.584.420	44.135	2,8%

Estimated Remaining Collections (ERC) amounted to approximately 2,4 billion Euro.

NPL SEGMENT LOAN PORTFOLIO PERFORMANCE	30.06.2019	FY 2018
Opening loan portfolio	**1.092.799**	**799.436**
Business combinations	16.043	-
Purchases	68.004	240.863
Sales	(14.456)	(21.214)
Gains on sales	7.901	17.100
Interest income from amortised cost	63.000	99.801
Other components of net interest income from change in cash flow	62.676	138.150
Collections	(123.968)	(181.337)
Closing loan portfolio	**1.171.999**	**1.092.799**

The item "Business combinations" refers to the loan portfolio acquired through the business combination with the FBS Group.

Total purchases in the first half of 2019 amounted to 68 million Euro, up from the same period in 2018 when 10,5 million Euro were purchased.

The item "Sales" includes 3,5 million Euro in receivables falling within the disposal perimeter concluded at the end of the previous year with the acceptance by the Group of the binding offers presented by the purchaser, and 10,9 million Euro in the sale price of disposals concluded in the first half of 2019.

The item "Collections" includes the instalments collected during the period from settlement plans, garnishment orders and transactions carried out.

Funding from settlement plans (equal to the nominal amount of all the instalments under the plans entered into with the debtors in the period) was up slightly from the first half of 2018, reaching 156,8 million Euro in the first half of 2019 compared to 152,7 million Euro in the same period of the previous year.

At the end of the period, the portfolio managed by the NPL segment included 1.684.267 positions, for a nominal amount of 16,4 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 also includes developing activities whose served customers are natural persons; in particular, it includes the activities of the subsidiary Cap. Ital. Fin. S.p.A., that deals with the disbursement of loans against the assignment of one-fifth of salary or pension and some portfolios of personal loans.

INCOME STATEMENT DATA (in thousands of Euro)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	1.226	(3.705)	4.931	(133,1)%
Net commission income	(91)	(738)	647	(87,7)%
Other components of net banking income	(2.134)	(1.802)	(332)	18,4%
Net banking income	**(999)**	**(6.245)**	**5.246**	**(84,0)%**
Net credit risk losses/reversals	(464)	(1.070)	606	(56,6)%
Net profit (loss) from financial activities	**(1.463)**	**(7.315)**	**5.852**	**(80,0)%**

INCOME STATEMENT DATA (in thousands of Euro)	2ND QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	(257)	(37)	(220)	594,8%
Net commission income	(231)	(1.054)	823	(78,1)%
Other components of net banking income	(1.397)	(836)	(561)	67,1%
Net banking income	**(1.885)**	**(1.927)**	**42**	**(2,2)%**
Net credit risk losses/reversals	(561)	(1.115)	554	(49,7)%
Net profit (loss) from financial activities	**(2.446)**	**(3.042)**	**596**	**(19,6)%**

The segment reported a 1,5 million Euro net loss from financial activities in the first half of 2019, an improvement compared to 30 June 2018. The change is attributable to the increase in net interest income of 4,9 million Euro, due to various factors, of which the main ones are highlighted:

- An increase of approximately 7,9 million Euro in revenues from the internal transfer rate system, due to the higher average volumes handled by the various Business Units and the upward revision of TIT to the Group segments;
- Greater "PPA reversal" in relation to Governance, mainly in the retail mortgage portfolio (formerly Leasing), with a greater positive contribution from 3,6 million Euro in the first half of 2018 to 4,5 million Euro in the first half of 2019. The total residual amount of the PPA reversal for the Governance segment was 40,1 million Euro at 30 June 2019, net of the reallocation of some positions in the Governance & Services segment from the Enterprises segment for approximately 1 million Euro.

- A 0,5 million Euro reduction in interest income on securities in the portfolio, mainly relating to Italian government securities indexed to inflation, compared to the first half of 2018 due to a lower revaluation of principal and coupons in the first half of 2019.
- In terms of funding, the Rendimax and Contomax products continue to be the Group's main source of funding, with a cost in the first half of the year of 32,6 million Euro, up on the first half of last year (29,0 million Euro) mainly due to assets under management that reached 4.748 million Euro (4.476 million Euro at 30 June 2018, +6,1% and 4.424 million Euro at 31 December 2018, +7,3%). It is recalled that, 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. At 30 June 2019, the value of the total amortised cost of bond issues amounted to 953,7 million Euro attributable to 4 different instruments (a senior unsecured bond with a nominal amount of 300 million Euro and a maturity of May 2020, a subordinated Tier 2 bond with a nominal amount of 400 million Euro and a final maturity of October 2027 that was callable in October 2022, a senior preferred unsecured bond, partially repurchased at the end of 2018 and now outstanding with a nominal amount of 185 million Euro, and the bond of the merged Interbanca for nominal 42,0 million Euro). On the economic side, the interest expense accrued on total issues is substantially in line with the corresponding period of the previous year. The cost of liquidity held by the Bank of Italy decreased compared with the first half of 2018, with a negative contribution of 1,3 million Euro in the first half of 2019 compared with 2,9 million Euro in the same period of 2018, consistent with the lower liquidity deposited there. At the end of the first half of 2019, 259 million Euro in short-term Italian government securities had been purchased in order to reduce the amount of liquidity held with the Bank of Italy, which contributed negatively to net interest income.

At 30 June 2019, the segment's total net loans amounted to 235,9 million Euro, with net receivables down approximately 66,7 million Euro from 31 December 2018 (-22.0%).

The reduction compared with the end of the year is due to the maturity of a repurchase agreement with Cassa Compensazione, which at 31 December 2018 amounted to 49,8 million Euro, and the repayment of part of the senior tranche relating to a securitisation supported by a State guarantee (GACS) for 13,8 million Euro. On the other hand, there was a growth of 7,4% regarding the receivables of the subsidiary Cap. Ital. Fin. S.p.A., which stood at 34,8 million Euro at the end of the half year compared to 32,4 million Euro at 31 December 2018, and a 5% reduction in receivables relating to other retail portfolios, which stood at 122,3 million Euro compared to 128,3 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 EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 30.06.2019						
Nominal amount	14.579	22.139	4.306	**41.024**	206.881	**247.905**
Impairment losses	(3.244)	(5.330)	(591)	**(9.165)**	(2.798)	**(11.963)**
Carrying amount	11.335	16.809	3.715	**31.859**	204.083	**235.942**
Coverage ratio	*22,3%*	*24,1%*	*13,7%*	***22,3%***	*1,4%*	***4,8%***
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)**
Carrying amount	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%***

02.10. Banca IFIS shares

The share price

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

OFFICIAL SHARE PRICE	30.06.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Share price at period-end	11,87	15,44	40,77	26,00	28,83

Price/book value

The following table shows the ratio of the stock market value at period-end to consolidated equity with respect to the shares outstanding.

Price/book value	30.06.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Share price at period-end	11,87	15,44	40,77	26,00	28,83
Consolidated Equity per share	27,54	27,30	25,62	22,99	10,81
Price/book value	**0,43**	**0,57**	**1,59**	**1,13**	**2,67**

Outstanding shares	30.06.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Number of shares outstanding at period-end (in thousands)(1)	53.452	53.441	53.433	53.431	53.072

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

Earnings per share and Price/Earnings

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

Earnings per share (EPS)	30.06.2019	30.06.2018
Net profit for the period attributable to the Parent company (in thousands of Euro)	68.266	66.209
Consolidated earnings per share	**1,28**	**1,24**

Earnings per share and diluted earnings per share	30.06.2019	30.06.2018
Net profit for the period attributable to the Parent company (in thousands of Euro)	68.266	66.209
Average number of outstanding shares	53.448.405	53.438.425
Average number of diluted shares	53.448.405	53.438.425
Consolidated earnings per share for the period (Units of Euro)	**1,28**	**1,24**
Consolidated diluted earnings per share for the period (Units of Euro)	**1,28**	**1,24**

Corporate governance rules

Banca IFIS has adopted the Corporate Governance Code for listed companies. The Bank's Board of Directors has established the Control and Risk Committee, the Appointments Committee and the Remuneration Committee. The Board of Directors has also appointed a Supervisory Body with autonomous powers of initiative and control pursuant to Legislative Decree no. 231/2001.

Internal dealing rules

Banca IFIS regulations on internal dealing is aligned with the relevant EU legislation (EU Regulation no. 596/2014, Market Abuse Regulation).

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

Specifically, this Policy governs:

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

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

Rules for handling inside information

Internal procedures for handling inside information and the list of individuals who have access to inside information are aligned with the mentioned Market Abuse Regulation.

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

In addition, it adopted a Group inside information handling policy to:

- prevent persons who, by reason of their duties, have no reason to know this information from having access to it;
- identify continuously the persons who have access to the information itself.

It also describes the process of handling inside information of third-party issuers, also with reference to the management of passive market surveys.

02.11. 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 in the period.

02.11.1 Finalised acquisition of 90% of the capital of FBS S.p.A.

On 7 January 2019, the acquisition was finalised of FBS S.p.A., the fourth national operator specialising in the management of mortgage and corporate NPLs. The operation, announced on 15 May 2018 and financed entirely from the liquidity available to Banca IFIS, involved 90% of the capital of FBS for a total amount of 58,5 million Euro paid in cash. Paolo Strocchi, the majority shareholder of FBS since its foundation, has remained the CEO and shareholder together with the top management of FBS with a 10% stake in the capital of FBS, the subject of put and take options granted, reciprocally, by the top management and Banca IFIS, which provide for some ranges of exercise over a period of between 2 and 4 years and variable valuations also depending on the performance of FBS S.p.A..

02.11.2 The Shareholders' Meeting approves the 2018 financial statements. New Board of Directors elected, Luciano Colombini Chief Executive Officer

The ordinary shareholders' meeting of Banca IFIS S.p.A. held on 19 April 2019 approved the 2018 financial statements, the distribution of a dividend of 1,05 Euro for each ordinary share with detachment of coupon (no. 22) on 29 April 2019, record date 30 April and payment from 2 May 2019. The Shareholders' Meeting approved the increase in the number of directors from 9 to 12, appointing members of the Board of Directors for the three-year period 2019-2021. Luciano Colombini has been the new Chief Executive Officer of Banca IFIS S.p.A. since 19 April 2019.

02.12. Significant subsequent events

02.12.1 Fitch confirms BB+ rating, outlook stable

On 19 July 2019, the agency Fitch Rating Inc. confirmed its Long-term Issuer Default Rating (IDR) of BB+, outlook stable.

02.12.2 Results of the Bank of Italy's inspection report

On 2 August 2019, the results of the Bank of Italy's inspection, which began on 28 January 2019 and ended on 30 April 2019, were received. It revealed no conformity issues and did not lead to the initiation of any sanction proceedings

No other significant events occurred between the end of the reporting period and the approval of the Consolidated Half-Year Financial Report by the Board of Directors.

02.13. Outlook

The international economic situation continues to show signs of a slowdown, in addition to the uncertainties due to the outcome of Brexit and the continuing US-China trade tensions. The possible increase in protectionism and the persistent weakness of the manufacturing sector, especially in the automotive industry, are perceived as major downside risks to the international economy. The EU Commission's economic forecasts for 2019 estimate an increase in GDP of 1,2% for the Eurozone and 0,1% for Italy, the lowest in the Eurozone.

To offset the negative effects of the slowdown in world trade, fiscal and monetary policies in the main advanced countries remained expansionary. At its June meeting, the Board of the European Central Bank decided to postpone any monetary restriction by one year. The Federal Reserve also left interest rates at a standstill, signalling its willingness to cut interest rates in order to limit economic risks due to trade tensions and weak inflation, with a positive effect on financial markets.

In this scenario, in 2019, the Banca IFIS Group will continue to consolidate its presence in the typical sectors of support to small and medium-sized enterprises and management of impaired loans.

In the impaired loan management sector, the Banca IFIS Group will continue to accelerate its recovery process and to acquire unsecured portfolios in the second half of 2019.

Credit to small and medium-sized enterprises has been declining for years, and this is only partly due to a lack of demand. It is in fact on the supply side that there are recurring signs of decline, concentrated in the market of smaller companies. In this context, the ability to provide support to small and medium-sized enterprises in a manner suitable for mitigating credit risk will continue to represent a competitive advantage for the Banca IFIS Group, which will hopefully enable the institution to acquire new customers.

Regarding funding, the availability of resources is high and in recent months, there has been a substantial reduction in returns on the wholesale market as a result of the policies implemented by the European Central Bank. European and Italian banks have taken advantage of this by issuing new bonds. However, the cost of funding for Italian banks is affected by higher interest rates on government bonds compared to other European countries, with differences depending on the creditworthiness of the institutions and the technical forms of funding. In this context, Banca IFIS' technical forms of disbursement and funding can be reviewed relatively quickly.

As regards the government bond portfolio, used as collateral for refinancing operations with the Eurosystem, it is small in size in relation to other relevant institutions and has a short maturity; therefore, it will expose the Bank to non-material impacts in the presence of physiological price fluctuations. In order to invest liquidity but with the aim of limiting interest rate risk, short-term government securities were purchased.

The management of Banca IFIS is working on a new business plan, which is expected to be presented in the autumn and which will focus on credit and services to small and medium-sized enterprises and on the management of impaired credit, with particular attention (i) to the allocation of capital and liquidity between the different business units and (ii) to the containment of operating costs without compromising the necessary investments in IT/digitization to compete efficiently in the markets of reference.

In light of the above, the Group can reasonably expect to remain profitable also in the second half of 2019.

02.14. Other information

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

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

Parent company management and coordination

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

National consolidated tax regime

The companies Banca IFIS S.p.A., IFIS NPL S.p.A., IFIS Rental Services S.r.l., Cap.Ital.Fin. S.p.A., and Credifarma S.p.A. together with the parent company, La Scogliera S.p.A., opted for the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree no. 917/86.

Relations between the individual companies and the consolidating company are governed by private agreements signed between the parties for a renewable three-year period.

As envisaged by applicable regulations, adhering entities have an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company.

As a result of the application of this regime, the tax losses and profits of each company made solely for IRES purposes in the tax year 2019 are transferred to the tax consolidating company La Scogliera S.p.A..

Due mainly to the offsetting of the net result for the first half of 2019 with the previous tax losses, the net receivable from the parent company at 30 June 2019 decreased to 28,8 million Euro, compared to 42,5 million Euro at the end of the previous year.

Transactions on treasury shares

At 31 December 2018, Banca IFIS held 370.112 treasury shares recognised at a market value of 3,1 million Euro and a nominal amount of 370.112 Euro.

During the period, Banca IFIS, as variable pay for the 2015 financial results, awarded the Top Management 10.968 treasury shares at an average price of 15,33 Euro, for a total of 168 thousand Euro and a nominal amount of 10.968 Euro, making profits of 77 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve.

The remaining balance at the end of the period was 359.144 treasury shares with a market value of 3,0 million Euro and a nominal amount of 359.144 Euro.

Related-party transactions

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

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

During the first half of 2019, no significant related-party transactions were undertaken.

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

Atypical or unusual transactions

During the first half of 2019, the Banca IFIS Group did not carry out atypical or unusual transactions as defined by Consob Communication no. 6064293 of 28 July 2006.

Research and development activities

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

Venice - Mestre, 2 August 2019

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Luciano Colombini

03

Condensed consolidated half-year financial statements

Consolidated Financial Statements

03.1. Consolidated Statement of Financial Position

ASSETS (in thousands of Euro)		AMOUNTS AT	
		30.06.2019	31.12.2018
10.	Cash and cash equivalents	57	48
20.	Financial assets measured at fair value through profit or loss	208.504	193.654
	a) financial assets held for trading	26.410	29.809
	c) other financial assets mandatorily measured at fair value	182.094	163.845
30.	Financial assets measured at fair value through other comprehensive income	693.533	432.094
40.	Financial assets measured at amortised cost	8.069.944	7.904.567
	a) due from banks	726.052	590.595
	b) loans to customers	7.343.892	7.313.972
70.	Equity investments	6	-
90.	Property, plant and equipment	128.809	130.650
100.	Intangible assets	65.282	23.277
	of which:		
	- goodwill	*42.271*	*1.515*
110.	Tax assets:	390.503	395.084
	a) current	48.471	46.820
	b) deferred	342.032	348.264
130.	Other assets	331.404	302.887
	Total assets	**9.888.042**	**9.382.261**

LIABILITIES AND EQUITY (in thousands of Euro)		AMOUNTS AT	
		30.06.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	7.952.609	7.437.694
	a) due to banks	781.199	785.393
	b) due to customers	5.069.334	4.673.299
	c) debt securities issued	2.102.076	1.979.002
20.	Financial liabilities held for trading	26.525	31.155
60.	Tax liabilities:	65.913	52.722
	a) current	25.501	13.367
	b) deferred	40.412	39.355
80.	Other liabilities	332.470	367.872
90.	Post-employment benefits	10.240	8.039
100.	Provisions for risks and charges:	28.028	25.779
	a) commitments and guarantees granted	2.813	3.896
	c) other provisions for risks and charges	25.215	21.883
120.	Valuation reserves	(13.748)	(14.606)
150.	Reserves	1.259.129	1.168.543
160.	Share premiums	102.285	102.116
170.	Capital	53.811	53.811
180.	Treasury shares (-)	(3.012)	(3.103)
190.	Equity attributable to non-controlling interests (+ / -)	5.526	5.476
200.	Profit (loss) for the period (+/-)	68.266	146.763
	Total liabilities and equity	**9.888.042**	**9.382.261**

03.2. Consolidated Income Statement

	ITEMS (in thousands of Euro)	30.06.2019	30.06.2018
10.	Interest receivable and similar income	224.804	204.198
	of which: interest income calculated using the effective interest method	*224.114*	*201.242*
20.	Interest due and similar expenses	(53.908)	(51.442)
30.	**Net interest income**	**170.896**	**152.756**
40.	Commission income	52.020	46.885
50.	Commission expense	(5.481)	(7.111)
60.	**Net commission income**	**46.539**	**39.774**
70.	Dividends and similar income	81	301
80.	Net profit (loss) from trading	(3.050)	(352)
100.	Profit (loss) from sale or buyback of:	8.017	1.997
	a) financial assets measured at amortised cost	7.973	1.999
	b) financial assets measured at fair value through other comprehensive income	44	-
	c) financial liabilities	-	(2)
110.	Net result of other financial assets and liabilities measured at fair value through profit or loss	(5.947)	6.820
	b) other financial assets mandatorily measured at fair value	(5.947)	6.820
120.	**Net banking income**	**216.536**	**201.296**
130.	Net credit risk losses/reversals on:	27.615	36.785
	a) financial assets measured at amortised cost	27.590	37.069
	b) financial assets measured at fair value through other comprehensive income	25	(284)
150.	**Net profit (loss) from financial activities**	**244.151**	**238.081**
190.	Administrative expenses:	(178.518)	(150.536)
	a) personnel expenses	(64.163)	(55.451)
	b) other administrative expenses	(114.355)	(95.085)
200.	Net allocations to provisions for risks and charges	(5.486)	948
	a) commitments and guarantees granted	(148)	1.140
	b) other net allocations	(5.338)	(192)
210.	Net impairment losses/reversals on property, plant and equipment	(4.713)	(2.846)
220.	Net impairment losses/reversals on intangible assets	(3.563)	(3.079)
230.	Other operating income/expenses	53.917	11.337
240.	**Operating costs**	**(138.363)**	**(144.176)**
280.	Gains (Losses) on disposal of investments	(1.295)	-
290.	**Pre-tax profit (loss) from continuing operations**	**104.493**	**93.905**
300.	Income taxes for the period relating to continuing operations	(36.185)	(27.696)
330.	**Profit (Loss) for the period**	**68.308**	**66.209**
340.	Profit (Loss) for the period attributable to non-controlling interests	42	-
350.	**Profit (loss) for the period attributable to the Parent company**	**68.266**	**66.209**

03.3. Consolidated Statement of Comprehensive Income

	ITEMS (in thousands of Euro)	30.06.2019	30.06.2018
10.	**Profit (Loss) for the period**	**68.308**	**66.209**
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**(1.251)**	**1.136**
20.	Equity securities measured at fair value through other comprehensive income	(690)	1.081
30.	Financial liabilities measured at fair value through profit or loss (changes in own credit risk)	-	-
40.	Hedging of equity securities measured at fair value through other comprehensive income	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(561)	55
80.	Non-current assets and disposal groups	-	-
90.	Share of valuation reserves of equity accounted investments	-	-
	Other comprehensive income, net of taxes, to be reclassified to profit or loss	**2.124**	**(12.897)**
100.	Foreign investment hedges	-	-
110.	Exchange differences	438	(1.602)
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated items)	-	-
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	1.686	(11.295)
150.	Non-current assets and disposal groups	-	-
160.	Share of valuation reserves of equity accounted investments	-	-
170.	**Total other comprehensive income, net of taxes**	**873**	**(11.761)**
180.	**Total comprehensive income (Item 10+170)**	**69.181**	**54.448**
190.	Total consolidated comprehensive income attributable to non-controlling interests	46	-
200.	**Total consolidated comprehensive income attributable to the Parent company**	**69.135**	**54.448**

03.4. Statement of Changes in Consolidated Equity at 30 June 2019

	Balance at 31.12.2018	Change in opening balances	Balance at 01.01.2019	Allocation of profit from previous year		Changes in the period										Shareholders' equity at 30.06.2019	Equity attributable to non-controlling interests at 30.06.2019
							Equity transactions									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity interests	Comprehensive income for the period		
Share capital:																
a) ordinary shares	53.811		53.811	-			-	-					-		53.811	4.434
b) other shares	-		-	-			-	-					-		-	-
Share premiums	102.116		102.116	-		169	-						-		102.285	-
Reserves:																
a) retained earnings	1.163.194	-	1.163.194	90.638		(95)	-	-	-				-		1.253.737	978
b) other	5.349	-	5.349	-		43	-		-		-	-	-		5.392	-
Valuation reserves:	(14.606)	-	(14.606)			(15)							-	873	(13.748)	72
Equity instruments	-		-							-			-		-	-
Treasury shares	(3.103)		(3.103)				-	91							(3.012)	-
Profit (loss) for the period	146.763	-	146.763	(90.638)	(56.125)									68.308	68.266	42
Equity attributable to the Parent company	**1.453.524**	**-**	**1.453.524**	**-**	**(56.125)**	**102**	**-**	**91**	**-**	**-**	**-**	**-**	**-**	**69.181**	**1.466.731**	
Equity attributable to non-controlling interests	**5.476**	**-**	**5.476**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**46**		**5.526**

03.5. Statement of Changes in Consolidated Equity at 30 June 2018

				Allocation of profit from previous year		Changes in the period										
							Equity transactions									
	Balance at 31.12.2017	Change in opening balances	Balance at 01.01.2018	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity interests	Comprehensive income for the period	Shareholders' equity at 30.06.2018	Equity attributable to non-controlling interests at 30.06.2018
Share capital:																
a) ordinary shares	53.811	-	53.811	-	-	-	-	-	-	-	-	-	-	-	53.811	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	101.864	-	101.864	-	-	188	-	-	-	-	-	-	-	-	102.052	-
Reserves:																
a) retained earnings	1.032.741	2.948	1.035.689	127.533	-	-	-	-	-	-	-	-	-	-	1.163.222	-
b) other	5.414	-	5.414	-	-	(44)	-	-	-	-	-	-	-	-	5.370	-
Valuation reserves:	(2.710)	(7)	(2.717)	-	-	-	-	-	-	-	-	-	-	(11.761)	(14.478)	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(3.168)	-	(3.168)	-	-	65	-	-	-	-	-	-	-	-	(3.103)	-
Profit (loss) for the period	180.767	-	180.767	(127.533)	(53.234)	-	-	-	-	-	-	-	-	66.209	66.209	-
Equity attributable to the Parent company	**1.368.719**	**2.941**	**1.371.660**	**-**	**(53.234)**	**209**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**54.448**	**1.373.083**	**-**
Equity attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

03.6. Consolidated Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT	AMOUNT	
Indirect method	30.06.2019	30.06.2018
A. OPERATING ACTIVITIES		
1. Operations	**96.937**	**68.070**
- profit (loss) for the period (+/-)	68.266	66.209
- profit/loss on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)	8.997	352
- net credit risk losses/reversals (+/-)	(27.615)	(36.785)
- net impairment losses/reversals on property, plant and equipment and intangible assets (+/-)	8.276	5.925
- net allocations to provisions for risks and charges and other expenses/income (+/-)	5.580	(948)
- unpaid taxes, duties and tax credits (+/-)	36.185	27.696
- other adjustments (+/-)	(2.752)	5.621
2. Cash flows generated/absorbed by financial assets	**(445.208)**	**(177.679)**
- Financial assets held for trading	349	4.637
- other assets mandatorily measured at fair value	(14.880)	(71.713)
- financial assets measured at fair value through other comprehensive income	(260.556)	(5.571)
- financial assets measured at amortised cost	(110.401)	(88.111)
- other assets	(59.720)	(16.921)
3. Cash flows generated/absorbed by financial liabilities	**471.332**	**171.811**
- financial liabilities measured at amortised cost	507.247	93.873
- financial liabilities held for trading	(4.630)	456
- other liabilities	(31.285)	77.482
Net cash flows generated/absorbed by operating activities A (+/-)	**123.061**	**62.202**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**100**	**-**
- sales of subsidiaries and business units	100	-
2. Cash flows absorbed by	**(67.311)**	**(8.775)**
- purchases of property, plant and equipment	(4.005)	(5.364)
- purchases of intangible assets	(4.820)	(3.411)
- purchases of subsidiaries and business units	(58.487)	-
Net cash flows generated/absorbed by investing activities B (+/-)	**(67.211)**	**(8.775)**
C. FINANCING ACTIVITIES		
- issues/buyback of treasury shares	260	253
- issues/buyback of equity instruments	24	(250)
- distribution of dividends and other	(56.124)	(53.433)
Net cash flows generated/absorbed by financing activities C (+/-)	**(55.840)**	**(53.430)**
NET CASH GENERATED/USED DURING THE PERIOD D=A+/-B+/-C	**9**	**(3)**
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	**48**	**50**
TOTAL NET CASH GENERATED/USED DURING THE PERIOD D	**9**	**(3)**
CASH AND CASH EQUIVALENTS: EFFECT OF CHANGES IN EXCHANGE RATES F	**-**	**-**
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	**57**	**47**

04

Notes

04.1. Accounting Policies

04.1.1 Statement of compliance with international accounting standards

The Condensed Consolidated Half-Year Financial Statements at 30 June 2019 have been drawn up in accordance with the IASs/IFRSs in force at said date issued by the International Accounting Standards Board (IASB), together with the relevant interpretations (IFRICs and SICs). These standards were endorsed by the European Commission in accordance with the provisions in article 6 of European Union Regulation no. 1606/2002. This regulation was implemented in Italy with Legislative Decree no. 38 of 28 February 2005.

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

The Condensed Consolidated Half-Year Financial Statements included in the consolidated half-year financial report are audited only to a limited extent by EY S.p.A.

04.1.2 Basis of preparation

The Condensed Consolidated Half-Year Financial Statements consist of:

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

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

The Condensed Consolidated Half-Year Financial Statements have been drawn up according to the provisions of art. 154-ter of Legislative Decree no. 58 of 24 February 1998 and in application of the general principles of IAS 1, also referring to IASB's Framework for the preparation and presentation of financial statements, with particular attention to the fundamental principles of substance over legal form, the concepts of relevance and materiality of information, and the accruals and going concern accounting concepts.

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

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

The recognition, measurement and derecognition criteria for assets and liabilities, and the procedures for recognising revenues and costs, adopted in the Condensed Consolidated Half-Year Financial Statements at 30 June 2019 have remained substantially unchanged from those adopted for the preparation of the 2018 financial statements of the Banca IFIS Group, with the exception of the amendments that derive essentially from the mandatory application, as of 1 January 2019, of the new international accounting standard IFRS 16 Leases.

For more details, please see the paragraph "Impact of the first-time adoption of IFRS 16" below.

Information on the business as a going concern

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

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

In this regard, having examined the risks and uncertainties connected to the present macro-economic context, and considering the financial and economic forecasts drawn up by the parent company for 2019, the Banca IFIS Group can indeed be considered as a going concern, in that it can be reasonably expected to continue operating in the foreseeable future. Therefore, the Condensed Consolidated Half-Year Financial Statements at 30 June 2019 have been prepared in accordance with this fact.

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

04.1.3 Scope and methods of consolidation

The Condensed Consolidated Half-Year Financial Statements of the Banca IFIS Group have been drawn up on the basis of the accounts at 30 June 2019 prepared by the directors of the companies included in the scope of consolidation.

At 30 June 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. and Cap.Ital.Fin. S.p.A., by the 70% subsidiary Credifarma S.p.A. and, following the acquisition of the FBS Group completed on 7 January 2019, by the companies FBS S.p.A. 90% controlled, FBS Real Estate S.p.A. 99,28% controlled and by the company Elipso Finance S.r.l. 50% jointly controlled. It should also be noted that the 100% stake in the company Two Solar Park 2008 S.r.l. was sold to third parties on 26 June 2019.

All companies have been consolidated using the line-by-line method, with the exception of the joint venture Elipso Finance S.r.l., which is 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.

Business combinations must be recognised by applying the standard IFRS 3; purchases of equity investments in which control is obtained and counting as business combinations must be recognised by applying the acquisition method, which requires:

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

The cost of an acquisition is determined as the sum of the amount transferred, measured at fair value at the acquisition date and the amount of the minority shareholding in the acquiree. For each business combination, the Group decides whether to measure any minority interest in the acquiree at fair value or in proportion to the minority share of the acquiree's net identifiable assets. Acquisition costs are expensed in the period and classified as administrative expenses.

Any contingent amount is recognised at the fair value at the acquisition date.

Goodwill is initially stated at cost represented by the excess of the total amount paid and the amount recognised for minority interests in respect of the net identifiable assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the total amount paid, the Group again verifies whether it correctly identified all the assets acquired and all the liabilities assumed and revises the procedures used to determine the amounts to be recognised at the acquisition date. If the new valuation still shows a fair value of the net assets acquired higher than the amount, the difference (profit) is recognised in the income statement.

After its initial recognition, goodwill is valued at cost net of accumulated impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash generating units expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of the disposal. The goodwill associated with the operation disposed of is determined on the basis of the relative values of the disposed operation and the portion of the cash-generating unit retained.

The consolidation process of the subsidiaries resulted in the following goodwill being recognised under the item intangible assets: 823 thousand Euro at period-end exchange rates for the subsidiary IFIS Finance Sp. Z o. o. and 700 thousand Euro for the subsidiary Cap.Ital.Fin S.p.A..

It should also be noted that on 7 January 2019, the Group completed the acquisition of control of the FBS Group through the acquisition of 90% of the capital of the FBS Group for a total value of 58,5 million Euro. At the same time as the sale and purchase agreement, contracts were defined for the purpose of regulating the put and call option agreements with the minority shareholders of the FBS Group and concerning the remaining shares of the latter.

The combination of the contractual put and call options makes these agreements similar to a deferred purchase in which, at the date of the business combination, the Banca IFIS Group has in fact acquired 100% of the capital of the FBS Group through the recognition of a fixed deferred amount and, only in part, an earn-out to be determined on the basis of the performance of the subsidiary's results.

The estimate of the fair value of the liability, equal to the sum of this fixed amount and the earn-out at the business combination date, is 9,2 million Euro. The total cost of the business combination was therefore provisionally determined at 67,7 million Euro and the consolidation process shows a difference to be allocated between the acquisition cost and the equity of the FBS Group of 40,7 million Euro, recognised under "Intangible assets".

It should also be noted that the closing account process did not result in any price adjustments.

Under IFRS 3, the allocation of the cost of the business combination must be quantified within twelve months of the acquisition date. In this regard, it should be noted that, as at the reference date of these condensed consolidated half-year financial statements, the Purchase Price allocation (hereinafter also referred to as PPA) process is to be considered provisional with reference to both the determination of the cost of the business combination and the valuation of the assets acquired and liabilities assumed.

Investments in exclusively controlled companies

Company Name	Head office	Registered office	Type (1)	Investment		Voting rights % (2)
				Held by	Share %	
Cap.Ital.Fin. S.p.A.	Naples	Naples	1	Banca IFIS S.p.A.	100%	100%
Credifarma S.p.A.	Rome	Rome	1	Banca IFIS S.p.A.	70%	70%
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%
IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	1	Banca IFIS S.p.A.	100%	100%
IFIS NPL S.p.A.	Florence, Milan and Mestre	Mestre	1	Banca IFIS S.p.A.	100%	100%
IFIS Rental Services S.r.l.	Milan	Milan	1	Banca IFIS S.p.A.	100%	100%
IFIS 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%

Legend

(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 = joint management pursuant to article 26, paragraph 1, legislative decree no. 87/92

6 = joint management ex Art. 26, paragraph 2, 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:

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

Generally, there is a presumption that a majority of voting rights gives control over the investee. The Group reconsiders whether or not it has control of an investee if the facts and circumstances indicate that there have been changes in one or more of the three elements relevant to the definition of control. The consolidation of a subsidiary begins when the Group obtains control and ceases when the Group loses control. The assets, liabilities, revenues and costs of the subsidiary acquired or sold during the year are included in the Consolidated

Financial Statements from the date on which the Group obtains control until the date on which the Group no longer exercises control over the company.

The profit (loss) for the period and each of the other components of the Statement of Comprehensive Income are attributed to the shareholders of the parent company and minority holdings, even if this implies that the minority holdings have a negative balance. When necessary, appropriate adjustments are made to the Financial Statements of the subsidiaries, in order to ensure compliance with the Group's accounting standards. All assets and liabilities, equity, revenues, costs and inter-group financial flows relating to transactions between Group entities are derecognised completely during the consolidation phase.

Changes in the investment in a subsidiary that do not involve the loss of control are recognised in equity.

If the Group loses control of a subsidiary, it must derecognise the related assets (including goodwill), liabilities, minority interests and other components of equity, while any profit or loss is recognised in the Income Statement. Any retained interest must be recognised at fair value.

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

Investments in exclusively controlled companies with significant minority interests

Minority interests, availability of minority votes and dividends distributed to minorities

Company Name	Minority interests %	Availability of minority votes %(1)	Dividends distributed to minorities
Credifarma S.p.A.	30%	30%	-

(1) Availability of voting rights in the Annual Shareholders' Meeting

Equity investments with significant minority interests: accounting information

Company Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Equity	Net interest income	Net banking income	Operating costs	Pre-tax profit (loss) from continuing operations	Profit (loss) from continuing operations, net of taxes	Profit (loss) of disposal groups, net of taxes	Profit (loss) for the period (1)	Other comprehensive income, net of taxes (2)	Comprehensive income (3) = (1) + (2)
Credifarma S.p.A.	126.166	6	118.057	2.008	104.349	18.409	1.995	3.231	(2.826)	328	140	-	140	-	140

04.1.4 Subsequent events

No significant events occurred between the end of the reporting period and the preparation of these Condensed Consolidated Half-Year Financial Statements other than those already considered in preparing them.

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

04.1.5 Other aspects

Risks and uncertainties related to estimates

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

Specifically, it made estimates on the carrying amounts of some items in the Condensed Consolidated Half-Year Financial Statements at 30 June 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 30 June 2019.

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 impairment losses;
- provisions for risks and charges;
- post-employment benefits;
- goodwill and other intangible assets;
- business combination.

Fair value of financial instruments not quoted in active markets

In the presence of financial instruments not quoted in active markets or illiquid and complex instruments, it is necessary to activate adequate valuation processes characterised with certain judgement on the choice of valuation models and related input parameters, which may sometimes not be observable in the market. Subjective margins exist in the evaluation of the observability or otherwise of certain parameters and in the consequent classification in correspondence with the levels of the fair value hierarchy. For qualitative and quantitative information on the method to determine the fair value of instruments measured in the financial statements at fair value, reference should be made to the contents of the valuation criteria described in paragraph A.2 - Part relating to the main items of the consolidated financial statements at 31 December 2018.

Receivables of the NPL segment

Concerning specifically the measurement of the receivables in the NPL segment, the Risk Management, when assessing the Bank's capital adequacy (ICAAP), 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.

In particular, for receivables undergoing non-judicial operations, 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 settlement plan funding characteristics, a deterministic model based on the measurement of the future instalments of the plan, net of the historical default rate is used. Therefore, the timely and careful management of cash flows is particularly important. To ensure expected cash flows are correctly assessed, also with a view to correctly pricing the transactions undertaken, the Group carefully monitors the trend in collections compared to expected flows.

For receivables undergoing judicial operations, i.e. for positions for which the presence of a job or a pension has been verified, a model has been developed for estimating cash flows prior to obtaining the Garnishment Order (ODA). In particular, cash flows are estimated for all those positions that have obtained a decree not opposed by the debtor from 1 January 2018.

The other positions undergoing judicial operations continue to be recognised at cost until said requirements are met or a garnishment order is issued.

Upon garnishment order, future cash flows are analytically determined on the basis of the objective elements known for each individual position; in this case, therefore, the estimates applied relate mainly to the identification of the duration of the payment plan.

Reference should be made to the section on Information on risks and related hedging policies with specific reference to the subsidiary IFIS NPL.

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 no. 231/2002 on performing loans purchased outright.

Credit risk impairment losses

The allocation of receivables and debt instruments classified as Financial assets measured at amortised cost and Financial assets measured at fair value through other comprehensive income in the three credit risk stages set forth in IFRS 9 and the calculation of the relative expected losses requires a detailed estimation process that regards primarily:

- the determination of parameters for a significant increase in credit risk, based essentially on models for the measurement of the probability of default (PD) at the origination of the financial assets and at the reporting date;
- the measurement of certain elements necessary for the determination of estimated future cash flows arising from impaired loans: the expected debt collection times, the presumed realisable value of any guarantees, the costs that it is deemed will be incurred to recover the credit exposure and lastly the likelihood of sale for positions for which there is a disposal plan.

With reference to the determination of the Expected Credit Loss, reference should be made to paragraph A.2 - Part relating to the main items of the consolidated financial statements at 31 December 2018.

Business combinations

Accounting for business combinations entails allocating the difference between purchase cost and net carrying amount to the assets and liabilities of the acquired company. For the majority of assets and liabilities this difference is allocated by measuring the assets and liabilities at fair value. If positive, the unallocated portion is recognised as goodwill; if negative, it is recognised in the income statement as revenue. In the process of allocating the cost of the combination, the Banca IFIS Group uses all available information; however, this process implies, by definition, complex and subjective elements of estimation. With regard to the subsidiary FBS, it should be noted that the Purchase Price Allocation process, with particular reference to the valuation of the assets acquired and the liabilities assumed, is still to be considered provisional and will be definitively quantified within the deadline of twelve months from the date of business combination.

For the other cases listed, reference should be made to the valuation criteria described in paragraph A.2 - Part relating to the main items of the consolidated financial statements at 31 December 2018.

Coming into effect of new accounting standards

Standards issued, effective and applicable to these financial statements

The Condensed Consolidated Half-Year Financial Statements at 30 June 2019 have been drawn up in accordance with the IASs/IFRSs in force at the reporting date. See the paragraph *Statement of compliance with international accounting standards.*

The accounting standards used in preparing these Condensed Consolidated Half-Year Financial Statements at 30 June 2019, as far as the classification, recognition, measurement, and derecognition of financial assets and liabilities as well as the methods for recognising revenues and costs are concerned, changed compared to the ones used in preparing the Consolidated Financial Statements at 31 December 2018. These changes are essentially attributable to the application of the following international accounting standard, which became effective on 1 January 2019:

- IFRS 16 Leases, endorsed by the European Commission with Regulation no. 1986/2017, which annulled and replaced IAS 17, IFRIC 4, SIC 15 and SIC 27; please refer to the paragraph Impact of the first-time adoption of IFRS 17; please refer to the paragraph Impact of the first-time adoption of IFRS 16.

The Group has also adopted for the first time some accounting standards and amendments effective for annual periods beginning on or after 1 January 2019. Below are the new accounting standards and the amendments to existing accounting standards endorsed by the EU, which have not materially affected the amounts reported in the Group's Condensed Consolidated Half-Year Financial Statements at 30 June 2019:

- IFRIC 23 Uncertainty over Tax Treatments;
- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- Annual cycle of improvements to IFRS 2015-2017 - amendments to IFRS 3, IFRS 1, IAS 12 and IAS 23;

Standards issued but not yet effective

The following are the new international accounting standards or amendments to them approved by the European Commission, which are mandatory from 1 January 2020. The Group does not consider the impact of the adoption of the following interpretations and amendments to the existing international accounting standards to be significant:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendment to IFRS 3 Business Combinations);
- Definition of Material (Amendment to IAS 1 and IAS 8);
- IFRS 17 Insurance Contracts.

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

Deadlines for the approval and publication of the Consolidated Half-Year Financial Report

Pursuant to art. 154-ter of Italian Legislative Decree no. 59/98 (Consolidated Law on Finance), the Company must publish the Consolidated Half-Year Financial Report, including the Condensed Consolidated Half-Year Financial Statements, the interim directors' report, and the declaration as per article 154-bis, paragraph 5, as soon as possible, and in any case within three months of the end of the first half of the year. Banca IFIS's Consolidated Half-Year Financial Report at 30 June 2019 was submitted to the approval of the Parent company's Board of Directors on 2 August 2019.

Impact of the first-time adoption of IFRS 16

IFRS 16 introduces new criteria for the accounting presentation of lease contracts mainly for lessees, replacing the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27). Lease is defined as a contract the performance of which depends on the use of an identified asset and which gives the right to control the use of the asset for a period of time in exchange for a fee.

IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases. The purpose is to ensure that lessees and lessors provide appropriate information in a manner that faithfully represents transactions. The information provides users of financial statements with information to evaluate the effect of the lease on the financial position, profit or loss and cash flows of the entity.

The standard applies to all contracts that contain the right to use an asset (Right of Use) for a certain period of time in exchange for a certain fee. IFRS 16 applies to all transactions that provide for a right to use the asset, regardless of the contractual form, i.e. financial or operating lease, lease or rental.

The main amendment concerns the representation of the lessee in the statement of financial position with reference to the Right of Use and the commitment made in relation to operating leases, through the recognition of an asset and a liability. In particular, the lessee will have to recognise a liability on the basis of the present value of the future lease payments, as a contra entry to the assets of the right to use the asset covered by the lease contract.

After initial recognition:

- the right of use will be subject to amortisation over the duration of the contract or the useful life of the asset (on the basis of IAS 16), if the lease contract transfers ownership of the underlying asset to the lessee at the end of the lease period or if the cost of the asset consisting of the right of use reflects the fact that the lessee will exercise the purchase option, or valued using an alternative criterion - revaluation or fair value model - (respectively IAS 16 or IAS 40);
- the liability will be progressively reduced as a result of the payment of the instalments and interest to be charged to the income statement will be recognised on the same.

Contracts with a duration of less than 12 months or which have a unit value when brought forward of the asset subject to leasing of modest value may be excluded from IFRS 16. In this regard, the Banca IFIS Group has decided to exercise the option provided for by IFRS 16 not to apply the new accounting requirements relating to the recognition and measurement of the right of use and the liability for short-term leases defined as leases with a duration of less than 12 months, also taking into account any extension or withdrawal options in the contract. Similarly, the Group has decided to exercise the option of not applying the new accounting requirements contracted with a unit value of the asset of less than 5 thousand Euro.

For the purposes of determining the lease term, to be understood as "the non-cancellable period of the lease, to which both of the following periods should be added: (IFRS 16.18)

- periods covered by a lease extension option, if the lessee has reasonable certainty to exercise the option; and
- periods covered by the option to terminate the lease, if the lessee has reasonable certainty to not exercise the option",

in view of the types of lease contracts in place, the Group uses as the main factor for assessing the existence of an economic incentive to extend the lease, the historical value of the renewals made, without excluding the possibility of making further considerations.

The lease liability at the commencement date is the "present value of the payments due under the lease not paid at that date". (IFRS 16.26). In order to determine the discount rate, the Banca IFIS Group uses the interest rate implicit in the lease contract, where available. In the absence of the latter, the Group adopts its own funding cost as the discount rate.

For the lessor, the accounting rules for leasing contracts in IAS 17, which differ according to whether it is an operating lease or a finance lease, remain substantially confirmed. In the event of a finance lease, the lessor will continue to recognise a receivable for future lease payments in the statement of financial position.

IFRS 16 is applicable from 1 January 2019 and, although its early application is possible, the Group has decided not to proceed with early adoption.

The Group has availed itself of the option provided for by IFRS 16 not to recalculate the comparative values on a homogeneous basis in the year of first-time adoption of IFRS 16, in accordance with the provisions of the modified retrospective approach B (paragraph C5 letter b, C7 and C8 letter b.ii of Appendix C to IFRS 16), which provides for the possibility of recognising the asset consisting of the right of use at the date of initial application for an amount equal to the liability of the lease adjusted by the amount of any deferred income or accrued expenses relating to the lease; according to this approach, at the date of first application, there were no differences in the opening consolidated equity of the Banca IFIS Group. The right of use, and consequently the related financial liability, amounted to 12,8 million Euro at 1 January 2019.

The table below shows the effects at 1 January 2019 of the application of IFRS 16 in the Banca IFIS Group.

Assets/Amounts	31.12.2018	Rights of use acquired through 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) Furniture	1.985	-	1.985
d) Electronic equipment	4.741	155	4.896
e) Other	18.794	2.002	20.796
Property, plant and equipment held for investment purpose	**720**	**-**	**720**
b) Buildings	720	-	720
Total	**130.650**	**12.777**	**143.427**

IFRS 16 did not make any significant changes to the accounting policies for leases for the lessor. Therefore, the Group did not have any impact in this respect.

04.1.6 Main items of the financial statements

The accounting principles adopted for the preparation of these Condensed Consolidated Half-Year Financial Statements, with reference to the classification, recognition, measurement and derecognition phases of financial assets and liabilities, as well as the procedures for the recognition of revenues and costs, have remained substantially unchanged from those adopted for the preparation of the 2018 financial statements of the Banca IFIS Group, to which reference should be made for a full presentation, with the exception of the amendments that derive essentially from the mandatory application, as from 1 January 2019, of the new international accounting standard IFRS 16 Leases, of which the items subject to updating are reported below.

Property, plant and equipment

Classification criteria

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

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

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

Property, plant and equipment for functional use include:

- land;
- buildings;
- furniture and accessories;
- electronic office machines;
- various machines and equipment;
- photovoltaic plants;
- vehicles;
- leasehold improvements on third-party property.

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

This item also includes the rights of use acquired through leases and relating to the use of a tangible asset.

Under IFRS 16, a lease is a contract, or part of a contract, that, in exchange for a fee, transfers the right to use an asset (the underlying asset) for a period of time.

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

Recognition criteria

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

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

According to IFRS 16, leases are accounted for on a right of use basis, with the lessee having a financial obligation at the inception date to make payments due to the lessor to compensate for its right to use the underlying asset during the lease term.

When the asset is made available to the lessee for use (start date), the lessee recognises both the liability and the asset consisting of the right of use.

Measurement criteria

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

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

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

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

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

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

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

The usually estimated useful lives are the following:

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

With reference to the asset consisting of the right of use, recorded pursuant to IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment; in this case, the asset is subsequently depreciated on a straight-line basis over the term of the lease contract and subject to an impairment test if impairment indicators emerge.

Derecognition criteria

Property, plant and equipment and investment property are derecognised from the statement of financial position on disposal or when they are withdrawn from use and no future economic benefits are expected from their disposal. Any profit/loss that arises at the time the asset is derecognized (calculated as the difference between the net carrying amount of the asset and the amount received) is recognised in the Income Statement when the item is derecognised.

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

Financial liabilities measured at amortised cost

Classification criteria

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

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

Recognition criteria

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

Measurement criteria

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

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

Lease payables are revalued when there is a lease modification (e.g. a change in the perimeter of the contract), which is not accounted for/considered as a separate contract.

Derecognition criteria

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

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

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

04.1.7 Disclosure on transfers between portfolios of financial assets

No transfers of financial assets between portfolios were made in the first half of 2019.

04.1.8 Fair value disclosure

Qualitative disclosure

Fair value is the price for the sale of an asset or payable for the transfer of a liability in a regular transaction in the main (or more advantageous) market at the valuation date, at current market conditions (i.e. a closing price), irrespective of whether said price is directly observable or is estimated using another valuation technique.

The fair value of an asset or liability is valued by adopting the assumptions that market operators would use in the determination of price of the asset or liability, assuming that market operators act to best meet their own economic interest.

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

- Level 1: the instrument's fair value is measured based on quoted prices (unadjusted) in active markets.
- Level 2: the fair value of instruments is determined on the basis of valuation models that use observable inputs in active markets, such as:
- quoted prices for similar assets or liabilities;
- quoted prices for identical or similar assets or liabilities in non-active markets;
- observable parameters such as interest rates or yield curves, implicit volatilities, default rates and illiquidity factors;
- inputs that are not observable but supported and confirmed by market data.
- Level 3: the instrument's fair value is measured based on valuation models using mainly inputs that are unobservable in active markets.

Each financial asset or liability of the Group is categorised in one of the above levels, and the relevant measurements may be recurring or non-recurring (see IFRS 13, paragraph 93, letter a). The fair value is entirely classified in the same level of the fair value hierarchy in which the input of the lowest level is classified.

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

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

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

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

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

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

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

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

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

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

- model adjustments: adjustments that take into account any deficiencies in the valuation models highlighted during calibration;

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

With regard to the valuation of financial assets and liabilities measured at fair value on a recurring basis, the method used by the Group for receivables mandatorily measured at fair value is the Discounted Cash Flow Model, which discounts the expected cash flows of each loan at a market rate that takes into account elements such as the risk-free rate for equal maturities, the funding cost, the lifetime credit risk of the counterparty and the cost of capital absorption.

For the valuation of unlisted equity securities, income and financial models are mainly used (Discounted Cash Flow Model or Market Multiples of comparable companies).

With specific reference to the valuation of UCITS units, the approach used on the basis of the methods presented above for the valuation is the Net Asset Value determined by the AMC. It must be verified whether, in determining the NAV, the fund's assets have been measured at fair value in accordance with the IVS (International Valuation Standards) and/or the RICS Valuation (Professional Standards Red Book). A discount is applied to the NAV determined in this way using a structured rate as described above.

Finally, with reference to derivatives not quoted on active markets, over-the-counter (OTC), the fair value must be quantified on the basis of valuation techniques that take into account all the risk factors that could affect the value of the financial instrument to be valued, using market parameters (interest rates, exchange rates, stock market indices, etc.) appropriately adjusted to take account of the creditworthiness of the specific counterparty, to include the counterparty's credit risk (CVA, Credit Value Adjustment) and/or its credit risk (DVA, Debt Value Adjustment).

With regard to the measurement of financial assets and liabilities measured at fair value on a non-recurring basis, the reference loan portfolio consists of cash exposures classified as performing with a residual life of more than one year (medium/long-term). Therefore, all exposures classified as non-performing, the ones with a residual life less than one year, and unsecured loans are excluded from the valuation, as it is believed that their amortised cost can be used as an approximation of fair value.

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

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

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

- market rates calculated, according to market practice, using either money market rates for maturities less than one year, and swap rates for greater maturities, or the rates quoted in the market for similar transactions;
- credit spread of Banca IFIS;
- financial statements and information from business plans.

Measurement processes and sensitivity

In compliance with IFRS 13, for financial assets and liabilities measured at fair value within level 3, the Group tests their sensitivity to changes in one or more unobservable inputs used in the fair value measurements, such as, by way of example and not exhaustively, the elements that make up the discount curve for cash flows, or the expected cash flows.

Fair value hierarchy

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

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

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

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

Quantitative disclosure

Fair value hierarchy

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

Financial assets/liabilities measured at fair value (in thousands of Euro)	30.06.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	-	76.255	132.249	-	78.891	114.763
a) financial assets held for trading	-	*26.410*		-	*29.809*	-
b) financial assets measured at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	*49.845*	*132.249*	-	*49.082*	*114.763*
2. Financial assets measured at fair value through other comprehensive income	680.916	-	12.617	418.709	-	13.385
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**680.916**	**76.255**	**144.866**	**418.709**	**78.891**	**128.148**
1. Financial liabilities held for trading	-	26.525	-	-	31.155	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**26.525**	**-**	**-**	**31.155**	**-**

Key:
L1= Level 1: fair value of a financial instrument quoted in an active market;
L2= Level 2: fair value measured using valuation techniques based on observable market inputs other than the financial instrument's price;
L3= Level 3: fair value calculated using valuation techniques based on unobservable market inputs.

At 30 June 2019, the impact of the application of the Credit Value Adjustment on the assets of derivatives with a positive mark-to-market is 0,8 thousand Euro (relating to trading derivatives); with regard to instruments with a negative mark-to-market, there is no impact of the application of the Debt Value Adjustment on the assets of derivatives.

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis (in thousands of Euro)	30.06.2019				31.12.2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	8.069.944	14.155	-	8.182.827	7.904.567	14.155	-	8.054.188
2. Property, plant and equipment held for investment purpose	720	-	-	880	720	-	-	880
3. Non-current assets and disposal groups	-	-	-	-	-	-	-	-
Total	**8.070.664**	**14.155**	**-**	**8.183.707**	**7.905.287**	**14.155**	**-**	**8.055.068**
1. Financial liabilities measured at amortised cost	7.952.609	702.169	-	7.107.674	7.437.694	708.742	-	6.610.659
2. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	**7.952.609**	**702.169**	**-**	**7.107.674**	**7.437.694**	**708.742**	**-**	**6.610.659**

Legend
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

04.1.9 Disclosure on day one profit/loss

With reference to the provisions of IFRS 7 par. 28, it is established that a financial instrument must initially be recognised at a value equal to its fair value which, unless there is evidence to the contrary, is equal to the price paid/collected in trading. The above standard regulates these situations by establishing that it is legitimate to recognise the financial instrument at a fair value other than the amount paid/collected only if the fair value is determined:

- referring to current and observable market transactions in the same instrument;
- through valuation techniques using exclusively, as variables, data from observable markets.

In other words, the presumption in IFRS 9 that the fair value is equal to the price paid/collected can only be overcome if there is objective evidence that the price paid/collected is not representative of the real market value of the financial instrument being traded.

Such evidence must be derived only from objective and non-refutable parameters, thus eliminating any hypothesis of discretion on the part of the evaluator.

The difference between the fair value and the negotiated price, only when the above conditions are met, is representative of the day one profit and is immediately recognised in the income statement.

As part of the Group's activities in the first half of 2019, there were no transactions attributable to this case.

04.2. Group equity and income situation

04.2.1. Statement of financial positions items

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2019	31.12.2018	ABSOLUTE	%
Financial assets mandatorily measured at fair value through profit or loss	182.094	163.845	18.249	11,1%
Financial assets measured at fair value through other comprehensive income	693.533	432.094	261.439	60,5%
Due from banks measured at amortised cost	726.052	590.595	135.457	22,9%
Loans to customers measured at amortised cost	7.343.892	7.313.972	29.920	0,4%
Property, plant and equipment and intangible assets	194.091	153.927	40.164	26,1%
Tax assets	390.503	395.084	(4.581)	(1,2)%
Other assets	357.877	332.744	25.133	7,6%
Total assets	**9.888.042**	**9.382.261**	**505.781**	**5,4%**
Due to banks	781.199	785.393	(4.194)	(0,5)%
Due to customers	5.069.334	4.673.299	396.035	8,5%
Debt securities issued	2.102.076	1.979.002	123.074	6,2%
Tax liabilities	65.913	52.722	13.191	25,0%
Provisions for risks and charges	28.028	25.779	2.249	8,7%
Other liabilities	369.235	407.066	(37.831)	(9,3)%
Group equity	1.472.257	1.459.000	13.257	0,9%
Total liabilities and equity	**9.888.042**	**9.382.261**	**505.781**	**5,4%**

Financial assets mandatorily measured at fair value through profit or loss

This item mainly includes loans and debt securities that did not pass the SPPI test, equity securities represented by equity financial instruments, as well as UCITS units, as required by IFRS 9.

Excluding the effect of the change in fair value, the increase in this item is due to net subscriptions of UCITS units for 5,3 million Euro, to the subscription of new loans measured at fair value for 12,6 million Euro, to 3,4 million Euro in interest accrued on these financial assets and to the increase in debt securities for 2,8 million Euro as a result of the acquisition of the FBS Group. These changes more than offset the reduction in fair value for the period of 5,9 million Euro

Below is the breakdown of this line item.

FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2019	31.12.2018	ABSOLUTE	%
Debt securities	4.637	1.935	2.702	139,6%
Equity securities	8.632	11.266	(2.634)	(23,4)%
UCITS units	103.768	99.349	4.419	4,4%
Loans	65.057	51.295	13.762	26,8%
Total	**182.094**	**163.845**	**18.249**	**11,1%**

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income totalled 693,5 million Euro at 30 June 2019, a significant increase from 31 December 2018 (+60,5%), and included the debt securities that passed the SPPI test as well as equity securities (shares) for which the Group elected the OCI option pursuant to the new standard IFRS 9.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2019	31.12.2018	ABSOLUTE	%
Debt securities	680.916	418.709	262.207	62,6%
Equity securities	12.617	13.385	(768)	(5,7)%
Total	**693.533**	**432.094**	**261.439**	**60,5%**

Debt securities held in the portfolio at 30 June 2019 amounted to 680,9 million Euro, up 62,6% compared to the balance at 31 December 2018 following the purchase of Italian government securities for 259,0 million Euro with short-term maturity mainly aimed at the use of liquidity in stock at the Bank of Italy.

Specifically, this item includes 672,6 million Euro Italian government securities (nominal amount 683 million Euro), representing 6,8% of total assets and 45,7% of Group equity. The related net negative fair value reserve amounts to 7,2 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	110.251	179.754	-	327.719	54.833	672.557
% of total	*16,2%*	*26,4%*	-	*48,1%*	*8,1%*	*98,8%*
Banks	-	-	-	-	8.359	8.359
% of total	-	-	-	-	*1,2%*	*1,2%*
Total	**110.251**	**179.754**	**-**	**327.719**	**63.192**	**680.916**
% of total	***16,2%***	***26,4%***	**-**	***48,1%***	***9,3%***	***100,0%***

This item includes also equity securities relating to non-controlling interests, amounting to 12,6 million Euro (-5,7% compared to 31 December 2018). The change was attributable to the fair value adjustment of the securities in the portfolio. The net positive fair value reserve for these securities amounts to 0,9 million Euro.

Due from banks measured at amortised cost

Total Due from banks measured at amortised cost at 30 June 2019 amounted to 726,1 million Euro, compared to 590,6 million Euro at 31 December 2018. This item mainly refers to Receivables from central banks (541,4 million Euro at 30 June 2019 compared to 280,9 million Euro at 31 December 2018), maintained in order to ensure the orderly performance of management activities. These liquidity levels place the regulatory indices (LCR/NSFR) above the minimums, particularly with regard to the LCR index.

Loans to customers measured at amortised cost

Total loans to customers measured at amortised cost amounted to 7.343,9 million Euro, in line with the balance at 31 December 2018 (+0,4%). Against growth in the NPL segment of 7,4%, also thanks to the contribution of the FBS Group, and lower growth in the Enterprises segment (+0,3% compared to the balance at 31 December 2018), the portfolio of the Governance & Services segment declined by approximately 66,7 million Euro (or -22,0%). This decrease is closely linked to the closure of a repurchase agreement for 49,8 million Euro, the repayment of 19,8 million Euro relating to securitisations, of which 13,8 million Euro relating to a transaction backed by a government guarantee (GACS), and the normal amortisation of portfolios in run-off.

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

LOANS TO CUSTOMERS BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2019	31.12.2018	ABSOLUTE	%
Enterprises	5.934.082	5.918.496	15.586	0,3%
- of which non-performing	*314.615*	*310.358*	*4.257*	*1,4%*
NPL	1.173.868	1.092.799	81.069	7,4%
- of which non-performing	*1.167.112*	*1.088.051*	*79.061*	*7,3%*
Governance & Services	235.942	302.677	(66.735)	(22,0)%
- of which non-performing	*31.859*	*35.632*	*(3.773)*	*(10,6)%*
Total loans to customers	**7.343.892**	**7.313.972**	**29.920**	**0,4%**
- of which non-performing	***1.513.586***	***1.434.041***	***79.545***	***5,5%***

Total net non-performing exposures, which are significantly affected by the receivables of the NPL segment, amounted to 1.513,6 million Euro at 30 June 2019, compared to 1.434,0 million Euro at 31 December 2018 (+5,5%).

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

Intangible assets and property, plant and equipment and investment property

Intangible assets amounted to 65,3 million Euro, compared to 23,3 million Euro at 31 December 2018 (+182,3%). The increase was largely attributable to the recognition of the difference to be allocated due to the application of IFRS 3 provisionally estimated as 40,7 million Euro, arising from the acquisition of FBS Group on 7 January 2019.

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

Property, plant and equipment amounted to 128,8 million Euro, compared to 130,6 million Euro at 31 December 2018, down 1,4% mainly due to the effect of the sale of the subsidiary Two Solar Park that contributed to this item for 16,1 million Euro (substantially related to photovoltaic plants), offset by the effect of the recognition of 15,3 million Euro for the right of use as required by the new IFRS 16 - Leases in force from 1 January 2019 and the contribution due to the acquisition of the FBS Group equal to 5,7 million Euro at 30 June 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 depreciated, 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 amounted to 390,5 million Euro, substantially in line with the figure at 31 December 2018 (-1,2%).

Current tax assets amounted to 48,5 million Euro compared with 46,8 million Euro at 31 December 2018. Deferred tax assets amounted to 342,0 million Euro, compared with 348,3 million Euro at 31 December 2018, of which 88,2 million Euro for previous tax losses and ACE benefits (102 million Euro at 31 December 2018).

Tax liabilities amounted to 65,9 million Euro, up 25,0% from 31 December 2018.

Current tax liabilities, amounting to 25,5 million Euro, represent the tax burden for the period (13,4 million Euro at 31 December 2018).

Deferred tax liabilities, amounting to 40,4 million Euro, mainly include 25,8 million Euro on receivables recognised for interest on arrears that will be taxed upon collection, 9,3 million Euro on property revaluations and 3,2 million Euro on misalignments 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 30 June 2019:

- the "deferred tax assets that rely on future profitability and do not arise from temporary differences" are deducted from CET1; at 30 June 2019, the 100% deduction amounted to 88,1 million Euro, in addition to 30,8 million Euro referring to the Banking Group's holding: in this regard, please note that this deduction will be gradually absorbed by the future use of such deferred tax assets;
- the "deferred tax assets that rely on future profitability and arise from temporary differences" are not deducted from CET1 and receive instead a 250% risk weight: at 30 June 2019, these assets, which amounted to 35,4 million Euro, were essentially offset by the corresponding deferred tax liabilities;
- the "deferred tax assets pursuant to Italian Law 214/2011", concerning impairment losses on receivables that can be converted into tax credits, receive a 100% risk weight; at 30 June 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 30 June 2019 and 100% deducted from Own Funds resulted in an expense amounting to 1,32% as a proportion of CET1, which will decline in the future as said assets are utilised against taxable income.

Other assets and liabilities

Other asset items, amounting to 357,9 million Euro compared to a balance of 332,7 million Euro at 31 December 2018, include financial assets held for trading of 26,4 million Euro (29,8 million Euro at 31 December 2018), and other assets of 331,4 million Euro (302,9 million Euro at 31 December 2018).

Other assets included 117,2 million Euro in receivables due from the parent company La Scogliera S.p.A., of which 62,5 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; 10,4 million Euro in net receivables due from tax authorities for payments on account (stamp duty); and 43,3 million Euro in VAT credits claimed (in particular from Leasing). Finally, the item included 27,0 million Euro in deferred costs associated with the NPL segment's positions undergoing judicial operations until said positions initiate valuation at amortised cost (27,0 million Euro also at 31 December 2018).

Other liabilities amounted to 369,2 million Euro compared to 407,1 million Euro at 31 December 2018 and included 26,5 million Euro in derivatives held for trading (31,2 million Euro at 31 December 2018), 10,2 million Euro in liabilities for post-employment benefits (8,0 million Euro at 31 December 2018), and 332,5 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 a 33,8 million Euro payable to the parent company La Scogliera deriving from the tax consolidation regime.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2019	31.12.2018	ABSOLUTE	%
Due to banks	**781.199**	**785.393**	**(4.194)**	**(0,5)%**
- Eurosystem	*693.687*	*695.075*	*(1.388)*	*(0,2)%*
- Other payables	*87.512*	*90.318*	*(2.806)*	*(3,1)%*
Due to customers	**5.069.334**	**4.673.299**	**396.035**	**8,5%**
- Rendimax and Contomax	*4.747.991*	*4.424.467*	*323.524*	*7,3%*
- Other term deposits	*75.975*	*37.669*	*38.306*	*101,7%*
- Other payables	*245.368*	*211.163*	*34.205*	*16,2%*
Debt securities issued	**2.102.076**	**1.979.002**	**123.074**	**6,2%**
Total funding	**7.952.609**	**7.437.694**	**514.915**	**6,9%**

Total **funding**, which amounted to 7.952,6 million Euro at 30 June 2019 (+6,9% compared to 31 December 2018), is represented for 63,7% by Payables due to customers (compared to 62,8% at 31 December 2018), for 9,8% by Payables due to banks (compared to 10,6% at 31 December 2018), and for 26,4% by Debt securities issued (26,6% at 31 December 2018).

Payable due to customers at 30 June 2019 amounted to 5.069,3 million Euro (+8,5% compared to 31 December 2018), essentially due to the increase in retail funding (Rendimax and Contomax), from 4.424,5 at 31 December 2018 to 4.748,0 million Euro at 30 June 2019 and that is composed of 3.900,5 million Euro short-term, of which 1.397,9 million Euro on the "Like" product (restricted to 33 days) and 847,5 million Euro medium/long-term.

Payables due to banks amounted to 781,2 million Euro (-0,5% compared to 31 December 2018). This item mainly refers to the TLTRO tranche of 693,7 million Euro subscribed in 2017 and to deposits with other banks of 87,5 million Euro.

Debt securities issued amounted to 2.102,1 million Euro. The item included 1.147,9 million Euro (+14,8% compared to 31 December 2018) in securities issued by the special purpose vehicles as part of the securitisation of trade receivables launched at the end of 2016. The item also comprised 484,1 million Euro (including interest) in senior bonds issued by Banca IFIS, as well as the 410,7 million Euro (including interest) Tier 2 bond. The rest of debt securities issued at 30 June 2019 included 58,9 million Euro in a bond loan issued at the time by the merged entity Interbanca.

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2019	31.12.2018	ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	2.813	3.896	(1.082)	(27,8)%
Legal and tax disputes	18.992	14.566	4.426	30,4%
Other provisions	6.223	7.317	(1.094)	(15,0)%
Total provisions for risks and charges	**28.028**	**25.779**	**2.250**	**8,7%**

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

Provisions for credit risk related to commitments and financial guarantees granted

At 30 June 2019, this item amounted to 2,8 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 decrease compared to the figure at the end of 2018 is linked to the use of a specific provision for a guarantee enforced during the period.

Legal and tax disputes

At 30 June 2019, the Group had set aside 19,0 million Euro in provisions. This amount breaks down as follows:

- 11,2 million Euro for 30 disputes concerning the Trade Receivables segment (the plaintiffs seek 31,1 million Euro in damages);
- 3,5 million Euro (the plaintiffs seek 50,8 million Euro in damages) for 9 disputes concerning the former Interbanca;
- 2,1 million Euro (the plaintiffs seek 4,2 million Euro in damages) for 52 disputes concerning the Leasing area;
- 0,8 million Euro (the plaintiffs seek the same amount in damages) for disputes concerning the investee IFIS Rental;
- 0,8 million Euro for various disputes concerning Credifarma;
- 224 thousand Euro (the plaintiffs seek 2,354 thousand Euro) for 16 disputes with customers and agents relating to Cap. Ital. Fin. S.p.A.;
- 248 thousand Euro (the plaintiffs seek 496 thousand Euro in damages) for 32 disputes concerning receivables of the subsidiary IFIS NPL;
- 123 thousand Euro for 9 disputes relating to the newly acquired FBS, and the plaintiffs seek a total of 1,9 million Euro.

Other provisions for risks and charges

At 30 June 2019, there were provisions of 6,2 million Euro (7,3 million Euro at 31 December 2018) consisting mainly of 4,6 million Euro for supplementary indemnities for customers connected with the operations of the Leasing Area compared to 3,7 million Euro at 31 December 2018, 0,7 million Euro for staff-related charges (1,0 million Euro at 31 December 2018) and 0,3 million Euro for the provision for complaints. The change with respect to 31 December 2018 is mainly due to the release of a provision for risks of 0,9 million Euro related to probable costs of formal upgrading of plants of the former subsidiary Two Solar Park sold at the end of the current half-year.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 30 June 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 the write-off of receivables. Company involved IFIS Leasing S.p.A. (former GE Capital Interbanca Group)

The Italian Revenue Agency has reclassified the write-off of receivables made by the Company in 2004, 2005, 2006 and 2007 and added in the years between 2005 and 2013 to losses on receivables—without any actual evidence.

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

Dispute concerning the Notice of Settlement of 3% registration tax. Companies involved: Banca IFIS as the merging company of Interbanca S.p.A. and IFIS Rental S.r.l. - (former GE Capital Interbanca Group)

The Italian Revenue Agency has reclassified the restructuring operation of the company GE Capital Services S.r.l. as a Transfer of business unit, requesting the application of the registration tax proportionally equal to 3% of the value of the company for a total of 3,6 million Euro.

Regarding the above tax disputes, the Group, supported by its tax advisers, evaluated the risk of defeat possible, but not probable and therefore, it did not allocate funds to the provision for risks and charges.

Reimbursements

In line with market practice, under the purchase agreement for the former GE Capital Interbanca Group, the seller 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.

With specific reference to some tax disputes relating to the former GE Capital Interbanca Group, requests for facilitated settlement of tax disputes pursuant to articles 6 and 7 of Decree Law no. 119 of 23 October 2018, converted, with amendments, by Law no. 136 of 17 December 2018 and whose terms expired on 31 May 2019, were submitted.

The settlement was completed with the incurrence of a total charge of approximately 30,9 million Euro, accounted for as Other administrative expenses, fully covered by the guarantee received; therefore, there are no impacts on the net result from the closure of the dispute.

Consolidated equity

At 30 June 2019, consolidated Equity totalled 1.472,3 million Euro, up +0,9% 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	
	30.06.2019	31.12.2018	ABSOLUTE	%
Capital	53.811	53.811	-	0,0%
Share premiums	102.285	102.116	169	0,2%
Valuation reserves:	(13.748)	(14.606)	858	(5,9)%
- Securities	*(7.712)*	*(8.692)*	*980*	*(11,3)%*
- Post-employment benefits	*(442)*	*118*	*(560)*	*(474,6)%*
- exchange differences	*(5.594)*	*(6.032)*	*438*	*(7,3)%*
Reserves	1.259.129	1.168.543	90.586	7,8%
Treasury shares	(3.012)	(3.103)	91	(2,9)%
Equity attributable to non-controlling interests	5.526	5.476	50	0,9%
Group net profit for the period	68.266	146.763	(78.497)	(53,5)%
Group equity	**1.472.257**	**1.459.000**	**13.257**	**0,9%**

EQUITY: CHANGES	(in thousands of Euro)
Group equity at 31.12.2018	**1.459.000**
Change in opening balances	-
Increases:	**69.943**
Profit for the period	68.266
Change in valuation reserve:	1.419
- Securities	*981*
- exchange differences	*438*
Other changes	208
Equity attributable to non-controlling interests	50
Decreases:	**56.686**
Dividends distributed	56.125
Change in valuation reserve:	561
- Post-employment benefits	*561*
Group equity at 30.06.2019	**1.472.257**

The change in the valuation reserve for the period was attributable to the fair value adjustment of the financial instruments classified as Financial assets measured 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	
	30.06.2019	31.12.2018
Common equity Tier 1 Capital (CET1)	970.572	924.285
Tier 1 capital (T1)	1.026.132	980.463
Total own funds	**1.303.602**	**1.257.711**
Total RWA	**8.981.677**	**8.974.645**
Common Equity Tier 1 Ratio	10,81%	10,30%
Tier 1 Capital Ratio	11,42%	10,92%
Ratio - Total Own Funds	**14,51%**	**14,01%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 30 June 2019 net of the estimated dividend.

Consolidated own funds, risk-weighted assets and prudential ratios at 30 June 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 no. 286. In particular, 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 30 June 2019, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 195 thousand Euro, net of the tax effect. Therefore, in accordance with the transitional arrangements - "dynamic approach" - 69 thousand Euro were included in the Common Equity Tier 1 (CET1) capital attributable to the Group.

The 45,9 million Euro increase in Own Funds compared to 31 December 2018 was largely attributable to:

- 15,8 million Euro arising from the inclusion of the profit for the period at 30 June 2019 attributable to the Group and calculated for regulatory purposes, net of the estimated dividend;
- the deduction from CET1 for an amount of 40,7 million Euro, as the difference between the acquisition cost and the equity resulting from the first-time consolidation of the FBS Group and provisionally allocated entirely to goodwill;
- 39,0 million Euro arising from the higher amount of minority interests included in the calculation (art. 84 CRR);
- the lower 100% deduction from CET1 of "deferred tax assets that rely on future profitability and do not arise from temporary differences" totalling 119,0 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 positive change in reserves for the remaining part, including profits generated by Companies not included in the scope of the Banking Group, for the portion attributable to the Group itself.

The moderate increase in risk-weighted assets, equal to about 7 million Euro, combined with the growth in Own Funds for 45,9 million Euro, caused the Total capital ratio to amount to 14,51% at 30 June 2019, up from the results achieved at 31 December 2018 of 14,01%; this trend was also reported for the CET1 ratio now 10,81%, compared to the previous figure of 10,30%.

Here below is the breakdown of risk-weighted assets.

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Total RWA per segment	4.883.115	1.628.555	444.069	6.955.739
Off-balance sheet exposures: stipulated to be disbursed, guarantees granted				476.172
Other assets: sundry receivables, suspense accounts				340.611
Tax assets				219.732
Market risk				39.838
Operational risk (basic indicator approach)				936.684
Credit valuation adjustment risk on derivatives				12.901
Total RWAs				**8.981.677**

When comparing the results, please note that the Bank of Italy, following the Supervisory Review and Evaluation Process (SREP) to review 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 30 June 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 Banking Group Banca IFIS must disclose the Own Funds and the relevant capital ratios it would report without applying the transitional arrangements. The moderate impact of the adoption of IFRS 9 did not give rise to material differences between the results with and without these transitional arrangements.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS WITHOUT IFRS 9 TRANSITIONAL ARRANGEMENTS (in thousands of Euro)	AMOUNTS AT	
	30.06.2019	31.12.2018
Common equity Tier 1 Capital (CET1)	970.502	924.063
Tier 1 capital (T1)	1.026.063	980.241
Total own funds	**1.303.533**	**1.257.489**
Total RWA	**8.981.582**	**8.974.328**
Common Equity Tier 1 Ratio	10,81%	10,30%
Tier 1 Capital Ratio	11,42%	10,92%
Ratio - Total Own Funds	**14,51%**	**14,01%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 30 June 2019 net of the estimated dividend.

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

OWN FUNDS AND CAPITAL ADEQUACY RATIOS: BANCA IFIS BANKING GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	30.06.2019	31.12.2018
Common equity Tier 1 Capital (CET1)	1.258.430	1.231.537
Tier 1 capital (T1)	1.258.430	1.231.537
Total own funds	**1.658.864**	**1.631.858**
Total RWA	**8.972.344**	**8.966.099**
Common Equity Tier 1 Ratio	14,03%	13,74%
Tier 1 Capital Ratio	14,03%	13,74%
Ratio - Total Own Funds	**18,49%**	**18,20%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 30 June 2019 net of the estimated dividend.

04.2.2. Income statements items

Formation of net banking income

Net banking income totalled 216,5 million Euro, up 7,6% from 201,3 million Euro in the prior-year period.

This change is mainly due to the increase in "interest income from amortised cost" in the NPL segment, which, as commented in more detail in the section "Contribution of the business segments to the Group's results", increased by 37,6% compared to the same period of the previous year. This change, together with the positive effect of the consolidation of Credifarma S.p.A. and the FBS Group of approximately 10,5 million Euro, more than compensated for the physiological decrease in the temporary dismantling of the difference between the fair value determined during the business combination and the book value of the receivables of the former GE Capital Interbanca Group (37,5 million Euro at 30 June 2019 compared with 44,1 million Euro at 30 June 2018).

NET BANKING INCOME (in thousands of Euro)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	170.896	152.756	18.140	11,9%
Net commission income	46.539	39.774	6.765	17,0%
Other components of net banking income	(899)	8.766	(9.665)	(110,3)%
Net banking income	**216.536**	**201.296**	**15.240**	**7,6%**

Net interest income went from 152,8 million Euro at 30 June 2018 to 170,9 million Euro at 30 June 2019 (+12,0%) because of the reasons previously discussed with reference to net banking income.

Net commission amounted to 46,5 million Euro, up 17,0% compared to 30 June 2018, benefiting from the positive contribution of 3,3 million Euro resulting from the acquisition of the FBS Group.

Commission income, totalling 52,0 million Euro (compared to 46,9 million Euro at 30 June 2018), 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, third-party servicing, as well as from other fees usually charged to customers for services.

Commission expense, totalling 5,5 million Euro compared to 7,1 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 are made up as follows:

- 3,1 million Euro in the negative result from trading activities (0,4 million Euro in the first half of 2018), mainly relating to the cost of cross currency swaps entered into in order to neutralise the exchange rate risk deriving from loans to customers in currencies other than the Euro;
- 8,0 million Euro in gains on the disposal of assets measured at amortised cost, almost entirely attributable to the NPL segment (2,0 million Euro in the first half of 2018);
- 5,9 million Euro in the negative net result of other financial assets and liabilities measured at fair value through profit or loss (6,8 million positive in the first half of 2018) that includes the negative change in the fair value of equity securities for 2,6 million Euro, the negative change in the fair value of loans for 2,7 million Euro and the negative change in the fair value of other financial assets for 0,6 million Euro.

Formation of net profit from financial activities

The Group's **net profit from financial activities** totalled 244,2 million Euro, compared to 238,1 million Euro at 30 June 2018 (+2,5%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Net banking income	**216.536**	**201.296**	**15.240**	**7,6%**
Net credit risk losses/reversals	27.615	36.785	(9.170)	(24,9)%
Net profit (loss) from financial activities	**244.151**	**238.081**	**6.070**	**2,5%**

Credit risk reversals totalled 27,6 million Euro, compared to 36,8 million Euro in net reversals at 30 June 2018. This item includes the impact of the changes in estimated cash flows from the NPL segment's receivables, which, pursuant to IFRS 9, are included within POCI (Purchased or originated credit-impaired) loans. These effects, described in more detail in the paragraph on the Contributions of the segments to the Group's results, amounted to 62,6 million Euro at 30 June 2019, compared with 76,8 million Euro in the same period of the previous year (-18,4%).

Net of the component relating to the NPL segment, net credit risk losses for the first half amounted to 35,0 million Euro, down 12,5% compared to net losses of 40,0 million Euro at 30 June 2018 and are referred almost entirely to the Enterprises segment and include adjustments to positions already classified as unlikely to pay in the construction sector.

Formation of net profit for the period

FORMATION OF NET PROFIT (in thousands of Euro)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Net profit (loss) from financial activities	**244.151**	**238.081**	**6.070**	**2,5%**
Operating costs	(138.363)	(144.176)	5.813	(4,0)%
Gains (Losses) on disposal of investments	(1.295)	-	(1.295)	n.a.
Pre-tax profit (loss) from continuing operations	**104.493**	**93.905**	**10.588**	**11,3%**
Income taxes for the period relating to continuing operations	(36.185)	(27.696)	(8.489)	30,7%
Profit (Loss) for the period	**68.308**	**66.209**	**2.099**	**3,2%**
Profit (Loss) for the period attributable to non-controlling interests	42	-	42	n.a.
Profit (loss) for the period attributable to the Parent company	**68.266**	**66.209**	**2.057**	**3,1%**

Operating costs totalled 138,4 million Euro (144,2 million Euro at 30 June 2018, -4,0%).

OPERATING COSTS (in thousands of Euro)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Administrative expenses:	178.518	150.536	27.982	18,6%
a) personnel expenses	64.163	55.451	8.712	15,7%
b) other administrative expenses	114.355	95.085	19.270	20,3%
Net allocations to provisions for risks and charges	5.486	(948)	6.434	(678,7)%
Net impairment losses/reversals on property, plant and equipment and intangible assets	8.276	5.925	2.351	39,7%
Other operating income/expenses	(53.917)	(11.337)	(42.580)	375,6%
Operating costs	**138.363**	**144.176**	**(5.813)**	**(4,0)%**

Personnel expenses totalled 64,2 million Euro, up 15,7% (55,5 million Euro at 30 June 2018), in line with the growth in the number of the Group's employees that at 30 June 2019 was 1.793, up 13,7% compared to 30 June 2018 (1.577 units). This increase includes 141 employees acquired following the inclusion of the subsidiaries Credifarma S.p.A., FBS S.p.A. and FBS Real Estate S.p.A. in the Group's scope.

Other administrative expenses, amounting to 114,4 million Euro compared to 95,1 million Euro at 30 June 2018, include the expense of 30,9 million Euro relating to the settlement of certain tax disputes regarding the former subsidiary Interbanca, the economic impact of which is fully offset in the item "other net operating income" - including the related tax effect - against the activation of outstanding guarantees.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	1ST HALF		CHANGE	
	2019	2018	ABSOLUTE	%
Expenses for professional services	**30.990**	**33.596**	**(2.606)**	**(7,8)%**
Legal and consulting services	20.664	24.297	(3.633)	(15,0)%
Auditing	438	409	29	7,1%
Outsourced services	9.888	8.890	998	11,2%
Direct and indirect taxes	**50.900**	**25.555**	**25.345**	**99,2%**
Expenses for purchasing goods and other services	**32.466**	**35.934**	**(3.468)**	**(9,7)%**
Customer information	9.450	7.981	1.469	18,4%
Software assistance and hire	6.579	7.993	(1.414)	(17,7)%
Property expenses	3.042	3.561	(519)	(14,6)%
Postage and archiving of documents	2.998	4.664	(1.666)	(35,7)%
FITD and Resolution fund	2.624	2.255	369	16,4%
Telephone and data transmission expenses	1.533	1.682	(149)	(8,9)%
Business trips and transfers	1.261	1.707	(446)	(26,1)%
Car fleet management and maintenance	1.161	1.885	(724)	(38,4)%
Advertising and inserts	1.137	1.761	(624)	(35,4)%
Securitisation costs	638	761	(123)	(16,2)%
Other sundry expenses	2.043	1.684	359	21,3%
Total administrative expenses	**114.355**	**95.085**	**19.270**	**20,3%**

The sub-item "**Legal and consulting services**" amounted to 20,7 million Euro in the first half of 2019, a decrease of 15,0% compared to 24,3 million Euro in the first half of 2018, and refers to costs associated with the judicial recovery of receivables in the NPL segment for a total of 10,6 million Euro at 30 June 2019, down compared to 13,8 million Euro in the first half of 2018.

"**Outsourced services**", amounting to 9,9 million Euro in the first half of 2019, increased compared with the 8,9 million Euro of the same period of the previous year, mainly refers to the recovery of non-judicial operations in the NPL segment.

The item **Direct and indirect taxes**, equal to 50,9 million Euro compared to 25,6 million Euro at 30 June 2018, is significantly influenced by the charge of approximately 30,9 million Euro related to the requests for facilitated settlement of tax disputes presented during the half year. Net of this effect, the item mainly refers to the registration tax incurred for the judicial recovery of receivables in the NPL segment for a total of 12,8 million Euro at 30 June 2019 compared to 18,7 million Euro at 30 June 2018. The item also includes stamp duty of 5,2 million Euro, the charge-back of which to customers is included in the item Other operating income.

Expenses for the purchase of goods and services amounted to 32,5 million Euro, down 9,7% from 35,9 million Euro in the first half of 2018. The change in this item is due to the contrasting effect in the change in some of the most significant items, in particular:

- Expenses for customer information, which went from 8,0 million Euro to 9,5 million Euro, +18,4%: the increase refers mainly to the NPL segment mainly related to the valuation of assets to guarantee the portfolios managed;

- Software assistance and hire, which decreased by 17,7% from 7,9 million Euro at 30 June 2018 to 6,6 million Euro at 30 June 2019. The figure for the first half of 2018 was influenced by the costs incurred to bring the core operating systems up to speed;
- Property and vehicle management expenses, which decreased by a total of 1,2 million Euro, essentially due to the application from 1 January 2019 of the new IFRS 16 standard;
- Postage and archiving of documents went from 4,7 million Euro to 3,0 million Euro, -35,7%; the performance of this item is closely linked to the initial processing of acquired portfolios, which is usually carried out in the 6-9 months following the purchase.

Net allocations to provisions for risks and charges amounted to 5,5 million Euro compared to net releases of 0,9 million Euro at 30 June 2018. Net allocations for the period include 5,2 million Euro for disputes relating to trade receivables and 1,6 million Euro for provisions for risks and charges relating to leases, offset only in part by releases of about 1,3 million Euro, of which 0,9 million Euro relating to a provision set up for regulatory adjustments to the plants of the former subsidiary Two Solar Park sold at the end of this half-year.

Other net operating income (53,9 million Euro compared with 11,3 million Euro at 30 June 2018) includes the effects of the aforementioned activation of guarantees in place in view of the closure of certain tax disputes for 38,5 million Euro at 30 June 2019; net of this amount, other net operating income mainly refers to revenues deriving from the recovery of expenses charged to third parties, the related cost item of which is included in other administrative expenses, in particular under legal expenses and indirect taxes, as well as from the recovery of expenses connected with leasing activities.

Losses on disposal of investments include the effects of the sale of the controlling interest in Two Solar Park 2008 S.r.l. at the end of the half-year.

Profit from continuing operations before tax amounted to 104,5 million Euro (+11,3% compared to 30 June 2018).

Income taxes amounted to 36,2 million Euro (+30,7% compared to the first half of 2018). The tax rate for the first half of 2019 was 34,63%, compared with 29,81% in the same period of the previous year. The tax rate used in the first half of 2019 was adversely affected by the repeal of the rules governing aid for economic growth (ACE) and the non-deductibility of the charge incurred in connection with the aforementioned requests for the facilitated settlement of tax disputes. It includes the positive effect deriving from the tax redemption of the provisionally determined goodwill, which makes it possible to benefit from the difference between the theoretical rate at which the related deferred tax assets are recorded and the substitute tax that will be paid on redemption.

Excluding 42 thousand Euro in profit attributable to non-controlling interests, the **net profit attributable to the Parent company** amounted to 68,3 million Euro (+3,1% compared to the prior-year period).

04.3. Information on Risks and Risk Management Policies

Organisation of risk governance

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

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

This examination accompanied the preparation and submission to the Supervisory Body in May 2019 of the annual ICAAP and ILAAP Report at 31 December 2018.

In the same period, again with reference to 31 December 2018 and in compliance with the obligations in the Pillar 3 provisions, Banca IFIS published, along with the 2018 consolidated financial statements, information on its capital adequacy, its exposure to risks, and the general characteristics of the systems it has put in place to identify, measure and manage these risks. This document has been published on Banca IFIS's website www.bancaifis.it in the Investor relations section.

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

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

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

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

- Line audits aim to ensure operations are carried out correctly. These audits are carried out by the operational structures themselves, incorporated in procedures, or performed as part of back office operations. The operational structures are primarily responsible for the risk management process: as part of their day-to-day operations, they shall identify, measure or assess, monitor, mitigate, and report the risks arising from ordinary operations in accordance with the risk management process; they shall comply with the operational limits assigned to them in accordance with the risk objectives and the procedures that form part of the risk management process;
- risk and compliance controls ("second line of defence") are intended to ensure the risk management process is correctly implemented in accordance with the operational limits assigned to the various functions, and that business operations comply with regulations - including corporate governance rules;

- internal auditing ("third line of defence") is aimed at identifying breaches of procedures and regulations as well as regularly assessing the comprehensiveness, adequacy, functionality (in terms of both efficiency and effectiveness), and reliability of the internal control and IT systems on a regular basis based on the nature and extent of the risks.

The role of the different players involved in the Internal Control System (the Board of Directors, the Control and Risks Committee, the Executive Director in charge of the Internal Control System, the Supervisory Body as per Legislative Decree no. 231/2001, Internal Audit Function, Risk Management Function, Compliance Function, Anti-Money Laundering Function) in addition to the Corporate Accounting Reporting Officer according to the connotation of banking reality with listed shares, are described in detail in the Report on corporate governance and ownership structures prepared in accordance with the third paragraph of article 123 bis of Legislative Decree no. 58 of 24 February 1998 (TUF), as amended, the latest edition of which was approved by the Board of Directors on 7 March 2019 and subsequently published on the Bank's website in the Corporate Governance section.

Risk culture

The Parent company facilitates the development and dissemination at all levels of an integrated risk culture in relation to the various types of risk and extended to the entire Group. In particular, in collaboration with the various company departments and Human Resources, training programmes are developed and implemented to make employees aware of their responsibilities in terms of risk prevention and management.

In this context, the Parent company's control functions (Risk Management, Compliance and Anti-Money Laundering, Compliance) are active parties in the training processes as far as they are concerned. A culture of widespread responsibility is promoted, with capillary staff training, aimed both at acquiring knowledge of the risk management framework (approaches, methodologies, operational applications, rules and limits, controls), and at internalising the Group's value profiles (code of ethics, behaviour, rules of conduct and relations).

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

- credit risk;
- market risks:
  - interest rate risk,
  - price risk,
  - currency risk,
- liquidity risk;
- operational risks.

Risks of accounting consolidation

Quantitative information

The gross exposures reported in the following tables account for the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiaries over time.

Credit quality

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

Portfolio/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Financial assets measured at amortised cost	946.994	459.236	107.355	325.142	6.231.217	8.069.944
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	680.916	680.916
3. Financial assets measured at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	4.575	56.001	-	-	9.118	69.694
5. Financial assets under disposal	-	-	-	-	-	-
Total 30.06.2019	**951.569**	**515.237**	**107.355**	**325.142**	**6.921.251**	**8.820.554**
Total 31.12.2018	**861.628**	**519.371**	**99.995**	**316.825**	**6.578.687**	**8.376.506**

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

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

Portfolio/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall impairment losses/reversals	Net exposure	Overall partial write-offs	Gross exposure	Overall impairment losses/reversals	Net exposure	
1. Financial assets measured at amortised cost	1.794.761	281.175	1.513.586	2.342	6.589.226	32.868	6.556.358	8.069.944
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	682.080	1.164	680.916	680.916
3. Financial assets measured at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	60.576	-	60.576	-	X	X	9.118	69.694
5. Financial assets under disposal	-	-	-	-	-	-	-	-
Total 30.06.2019	**1.855.337**	**281.175**	**1.574.162**	**2.342**	**7.271.306**	**34.032**	**7.246.392**	**8.820.554**
Total 31.12.2018	**1.770.349**	**289.355**	**1.480.994**	**2.045**	**6.923.956**	**34.721**	**6.895.512**	**8.376.506**

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

Portfolio/Quality	Low credit quality assets		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	731	2.582	26.957
2. Hedging derivatives	-	-	-
Total 30.06.2019	**731**	**2.582**	**26.957**
Total 31.12.2018	**850**	**4.429**	**25.380**

Unconsolidated structured entities

Qualitative information

There were no unconsolidated structured entities at 30 June 2019.

Risks of prudential consolidation

Credit risk

Qualitative information

General aspects.

In accordance with the guidelines approved by the Parent company's Governing Body and the changes in the supervisory regulatory framework, the Group seeks to strengthen its competitive position in the market offered to small and medium businesses. In this context, the Group aims to expand its market share in the trade receivable segments, including those with specialist needs such as pharmacies, leasing, tax credit and credit of doubtful collectability, by offering high-quality financial services, a high level of customisation, credit risk control and profitability consistent with the quality offered.

The banking group currently operates in the following fields:

- the factoring business is characterised by the direct assumption of risks related to granting advances and loans, as well as guarantees, if any, on trade receivables of mainly small- and medium-sized enterprises. As part of its operations, the factoring segment purchases receivables due from public health service and local authorities outright;
- corporate lending and structured finance operations focus on offering medium and long-term financing and secured and unsecured products to support companies operating in Italy in their organic or inorganic growth through extraordinary operations to reposition or expand their business, establish alliances or pursue integrations, promote restructuring processes, or introduce new investors and partners into the company. The clients of this segment are usually corporations;
- the leasing segment targets mainly small economic operators as well as small- and medium-sized businesses (SMEs). In general, finance leases help independent contractors and businesses finance company cars and commercial vehicles as well as facilitate equipment investments for businesses and resellers. Meanwhile, long-term leases mainly focus on equipment finance - specifically on office and IT products and, to a lesser extent, industrial and healthcare equipment;
- the acquisition of non-performing retail loans managed by the subsidiary IFIS NPL S.p.A. mainly from retail customers, refers to the set of actions aimed at collecting (through both judicial and non-judicial actions) the distressed loans acquired;
- servicing (master and special services), management of secured and unsecured NPL portfolios, consultancy in due diligence activities and authorised investors in NPL transactions, managed by the newly-controlled companies of the FBS S.p.A. Group acquired on 7 January 2019;
- the granting of loans to retail customers, including through the definition and refinancing of transferred non-performing loans, to be settled through salary- or pension-backed loan schemes, managed by the subsidiary Cap.Ital.Fin. S.p.A.;

- the activity of granting short and medium-term loans to pharmacies, managed by the subsidiary Credifarma S.p.A., consists mainly in the sale of receivables due to the latter from the National Health Service and public and private bodies providing health services.

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

Credit risk management policies.

In carrying out its lending activities, the Banca IFIS Group is exposed to the risk that an unexpected change in the creditworthiness of a counterparty may generate a corresponding unexpected change in the value of the related credit exposure leading to the total or partial cancellation of loans. This risk is always inherent in the traditional activity of granting credit, regardless of the form in which the credit line is expressed.

The main reasons for non-compliance are the lack of the borrower's independent capacity to service and repay the debt (due to lack of liquidity, insolvency, etc.) and the occurrence of circumstances that affect the borrower's economic and financial conditions, such as the "country risk".

Organisational aspects

Within the Banca IFIS Group, a fundamental role in the management and control of credit risk is played by the Corporate Bodies of the Bank and its financial subsidiaries, which, in accordance with their respective responsibilities, ensure adequate control of credit risk by identifying strategic guidelines, risk management and control policies, continuously monitoring their efficiency and effectiveness and defining the tasks and responsibilities of the corporate functions involved in the related processes.

In the current organisational structure, specific central areas of responsibility are involved in the monitoring and management of credit risk, which guarantee, with an adequate level of segregation, the performance of management activities and first- and second-level risk controls, through the adoption of adequate IT processes and applications.

Overall, despite some differences deriving from the various products/portfolios, the lending process follows a shared organisational approach with various operational stages and roles, responsibilities, and controls at different levels.

Therefore, Banca IFIS's organisational structure particularly consists of the following Business Units divided by type of activity:

- **Trade Receivable (Italy)**, organisational unit dedicated to the provision of short and medium/long-term financing services to domestic companies;
- **Pharma**, organisational unit dedicated to purchasing receivables due from local health agencies and hospitals;
- **Pharmacies**, organisational unit dedicated to the provision of financing services to Italian pharmacies, both internally developed and reported by the commercial network of the subsidiary Credifarma;
- **International**, organisational unit that provides financing services for Italian exporters as well as foreign companies;
- **Tax Receivables**, organisational unit dedicated to purchasing tax receivables, mainly from companies in insolvency proceedings or liquidation;
- **Corporate Finance**, organisational unit dedicated to structured finance transactions or investments in performing non-financial companies and intermediaries;
- **Special Situations**, organisational unit responsible for identifying and assessing new opportunities for lending to Italian companies that, despite reporting positive operating profits, have gone through or are recovering from financial distress;
- **Leasing**, organisational unit dedicated to offering and managing leasing products.

At the reference date of this report, the credit activities carried out by the subsidiaries are also involved in the credit process:

- **IFIS NPL S.p.A.**, company dedicated to the acquisition, management and sale of non-performing loans, mainly originating from financial institutions and banks, resulting from the transfer of the business unit of Banca IFIS dedicated to the NPL business during the previous year;

- **FBS S.p.A.**, company specialising in the management of mortgage and corporate NPLs and servicing and recovery activities on behalf of third parties;
- **Cap.Ital.Fin. S.p.A.**, company operating in the sector of salary/pension backed loans, payment delegations and in the distribution of financial products such as mortgages and personal loans;
- **Credifarma S.p.A.**, reference company for pharmacies for the granting of advances, medium and long-term loans, leases and financial services;
- **IFIS Finance Sp. Zo.o.**, factoring company operating in Poland;
- **IFIS Rental Service S.r.l.**, an unregulated entity specialising in operating leases.

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

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

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

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

In carrying out their operations, the subsidiaries can independently take certain decisions within the operational and organisational limits defined by the Parent company Banca IFIS.

The line of credit is then **finalised**, which involves stipulation of the contract, obtaining guarantees, if any, and granting the credit line. Throughout these stages, the business units are aided by specific supporting units responsible for preparing the agreement in accordance with the terms of the approval as well ensuring all activities leading to the granting of the credit facility are properly carried out.

The operational management of credit, carried out for performing customers, mainly includes the **ordinary management** and **monitoring** activities carried out by structures set up at each Group company in order to ensure the continuous and proactive verification of the entrusted customers. This activity is supported by a monitoring activity carried out at Group level by a specific organisational unit set up at the Parent company, in order to identify counterparties with anomalous performance, to anticipate the occurrence of problematic cases and to provide adequate reporting to the competent corporate functions.

If the credit position is in an objective situation of distress, it is transferred to specific functions specialised per product in managing the **recovery** of non-performing exposures.

The process for the **acquisition of non-performing loan portfolios** adopted by the subsidiary IFIS NPL consists of similar stages that can be summarised as follows:

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

Purchases are made directly by originators and/or dedicated vehicles (primary market) or, in some circumstances, by operators who have purchased on the primary market and who intend to dispose of their investment for various reasons (secondary market). Receivables - deriving from traditional consumer credit operations, credit cards and special purpose loans - are mainly unsecured; there are also current account balances in the event of transfers by banks.

Right after the acquisition, pending the completion of information retrieval operations to help decide the most appropriate debt recovery method, the receivable is classified in a so-called "staging" area and recognised at cost with no contribution to profit or loss.

After this phase, which normally lasts 6-12 months, the positions are directed towards the form of management most appropriate to their characteristics (non-judicial and judicial operations), which carries out an activity closely related to the transformation into paying positions and the collection of receivables.

Collection operations for receivables deriving from purchases of distressed retail loans are the responsibility of resources within the subsidiary IFIS NPL S.p.A., as well as of a broad and proven network of debt collection companies and financial agents operating across Italy.

The non-judicial operations consist mainly in the activation of the credit through the debtor's subscription of bills of exchange or voluntary settlement plans; the judicial operations consist, instead, in the transformation through legal action aimed at obtaining from the court the garnishment order of one-fifth of the pension or salary (the existence of which is the necessary prerequisite for the start of this form of transformation) or the sale on the market of the asset to guarantee the credit (secured management). Specific information regarding these operations is provided below.

Finally, there is also an assessment of the expediency of selling non-performing loan portfolios, mainly represented by processing codes, to be submitted for approval to the competent decision-making bodies, consistently with the established profitability targets and after analysing the relevant accounting, reporting, legal, and operational impacts. To do so, it relies on the in-depth inquiries conducted by the Parent company's competent business functions within their area of expertise.

Similar operational management of the recovery of receivables acquired and managed is followed, albeit with the specific characteristics associated with the type of receivable, by the newly-controlled subsidiary **FBS S.p.A**. which avails itself of legal professionals (asset managers) who take care of non-judicial and judicial credit recovery activities, also availing themselves of the contribution of FBS RE, a subsidiary company specialising in the valuation of real estate assets.

Non-judicial operations, IFIS NPL

As for the positions not eligible for judicial operations, after completing the groundwork for processing them, they are classified in a "collective" portfolio pending that the recovery process through call centers or recovery networks can culminate with a collection of settlement plans referred to above (in the form of a proposal/acceptance from customer to bank). At this stage, the positions are valued at amortised cost, calculated as the present value of expected cash flows determined on the basis of a proprietary statistical model developed by the Risk Management function on the basis of historical internal data, referred to as "curve model"; this model projects collection expectations onto clusters of homogeneous receivables based on the recovery profile historically observed (macro region, amount of credit, natural person/legal person, seniority of the file with respect to the DBT date, type of purchase market), in addition to prudential adjustments, such as, by way of example, the cap of simulated cash flows for debtors who are older than the life expectancy present in the mortality tables provided by Istat. This method of valuing credit recovery flows means that the expected recovery profile is decreasing as time passes with respect to the date of purchase of the credit, until the asset value of the credit is reduced to zero when it reaches the 10th year from the date of purchase by IFIS NPL.

Expectations of collection also take into account the probability of obtaining a settlement plan net of the relative probability of default.

There are two types of settlement (collection) plans that can be entered into:

- bills of exchange: that is, the set of credit positions for which the debtor has signed a settlement plan supported by the issue of bills of exchange;
- manifestations of Will (MdV): those practices for which the recovery process has led to the collection of a formalised settlement plan by the debtor.

The moment the position obtains a paying settlement plan ("active plans"), i.e. after having observed the payment of at least three times the value of the average instalment of the plan, the cash flows of the "curve model" are replaced by the cash flows of the "deterministic model", which projects the future instalments of the settlement plan agreed with the debtor net of the historically observed default rate and taking into account also in this case a cap to the simulated cash flows if the age of the debtor exceeds what is indicated in the mortality tables of ISTAT in relation to life expectancy.

Positions that do not obtain a paying settlement plan remain valued by means of the "curve model"; this means that as time passes, the probability of collection is reduced also by means of the plan and consequently the expected cash flows are reduced.

These models are regularly updated by the Risk Management function to account for changes in collections as well as the characteristics of the acquired portfolios.

Judicial operations, IFIS NPL

Positions that meet the requirements (presence of a job or a pension) for judicial processing are initiated in the relevant operations. This also includes (minority) practices that are processed in a logic of real estate attachment of property.

Judicial processing, understood as **real estate enforcement action against third parties**, is characterised by several legal steps aimed at obtaining an enforcement title, which as a whole usually last 18-24 months (the durations and the relative volatility depend on the court in which the case is handled) and are thus as follows:

- obtaining an injunction,
- writ,
- attachment of property and
- garnishment order.

Up to 31 December 2017, the positions included within all the stages prior to the garnishment order were recognised at cost with no contribution to profit or loss, as there were no specific statistical models allowing to estimate cash flows in order to calculate the relevant amortised cost as well as the flows for the individual positions, since the garnishment order had not yet been obtained.

During the first quarter of 2018, the Bank released into production, once the internal development and testing phase by Risk Management had been completed, a statistical model based on proprietary data for estimating the cash flows of positions undergoing judicial operations that have not yet reached the garnishment order ("pre-garnishment order Legal Factory model"). More specifically, cash flows are valued using the new statistical model for all those positions that have obtained an injunction not opposed by the debtor (transition to the writ phase), starting from 1 January 2018. The future cash inflows were estimated for these cases, taking into consideration both the average timing observed for each processing phase (phase to obtain the writ, phase to obtain the attachment of property) for each court, as well as the likelihood of success of the various phases (from writ to attachment of property, from attachment of property to garnishment order) and the average timing necessary between obtaining a garnishment order and the registration of the first collection. These cash flows are used for the purposes of the measurement at amortised cost (as opposed to the previous measurement at cost), which is calculated by discounting the expected cash flows using the internal rate of return. If the estimated timing for progress in the various judicial phases is not respected, the model reduces the probability of obtaining ODA with a progressive reduction effect on the relative estimated cash flows. Finally, if the debtor's job is lost during the various processing phases, the position is removed from the valuation by means of this model and is enhanced by the curve model mentioned above, pending verification that the debtor has obtained a new use.

Therefore, effective 1 January 2018, the measurement of the positions undergoing judicial operations can be summarised as follows:

- in the first stage, during which everything necessary is done to obtain a payment order and the positions continue to be measured at purchase cost;
- in the following stages, when the writ and the order of attachment are served on the third party (employer) and the debtor, the positions are measured at amortised cost, calculated as the net present value of expected cash flows based on the mentioned statistical model (only if there is an injunction decree not opposed issued after 1 January 2018);
- upon obtaining the garnishment order (last stage of judicial processing), the positions are valued at amortised cost calculated as the present value of the expected cash flows on the individual position, estimated cash flow based on the value of the deed issued by the court and the estimated average instalment in addition to the cap based on the age of the debtor.

In addition to the above, the judicial processing is completed with recovery activities understood as **real estate enforcement action**, also characterised by different phases and applied to portfolios originating in corporate, banking or real estate sectors.

During the third quarter of 2018, the Bank defined a model for estimating expected cash flows from positions secured by real estate on which there is a first mortgage in favour of IFIS NPL; more specifically, recovery values are valued on the basis of expert opinions and CTU. The dates of estimated realisation are instead calculated on the basis of the average timing of the courts relating to the real estate enforcement procedures.

Management, measurement and control systems

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

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

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

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

Credit risk exposures to Italian companies are assigned an internal rating based on a model developed in-house for the trade receivable portfolio. A project is underway that envisages the evolution of the current management model of counterparty rating of domestic companies in view of the expansion of the group perimeter and the products offered.

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

Concerning credit risks, the Risk Management function:

- oversees, monitors and assesses credit risks, carrying out audits and analysis in accordance with the relevant guidelines; specifically, it: i) assesses credit quality, ensuring compliance with lending strategies and guidelines by monitoring credit risk indicators on an ongoing basis; ii) constantly monitors the exposure to credit risk as well as compliance with the operational limits assigned to the different structures with reference to the assumption of credit risk; iii) ensures, through second line of defence controls, that the performance of individual exposures, and specifically non-performing ones, is properly monitored, and assesses the consistency of the classifications as well as the level of provisions; iv) monitors the exposure to concentration risk as well as the performance of Major Exposures;
- performs quantitative analyses to support the business units in using risk measures;
- oversees the supervision of the value of collateral as well as personal and financial guarantees.

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

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

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

In order to assess its vulnerabilities in terms of capital and liquidity management, the Parent company Banca IFIS has developed quantitative and qualitative techniques with which it assesses its exposure to exceptional but plausible events. These analyses, called stress analyses, measure the effects on the Bank and its subsidiaries, in terms of riskiness, of joint movements of economic and financial variables in the event of adverse scenarios. These analyses are relevant to credit risk.

Stress analyses make it possible to verify the Group's resilience, simulating and estimating the impacts of adverse situations, and provide important indications regarding its exposure to risks and instruments, the adequacy of the related mitigation and control systems and its ability to cope with unexpected losses, also from a prospective and planning perspective.

For regulatory purposes, the Parent company Banca IFIS carries out stress tests within the framework of the definition of the Risk Appetite Framework, the preparation of the Recovery Plan and the ICAAP and ILAAP report, at least on an annual basis, as required by current prudential supervisory regulations. In this context, it assesses, among other things, the sustainability of credit strategies under adverse conditions.

Measurement of expected credit losses

According to IFRS 9, all financial assets not measured at fair value through profit or loss, represented by debt securities and loans, and off-balance sheet exposures (commitments and guarantees granted) must be subject to the impairment model based on expected losses (ECL - Expected Credit Losses).

The most significant aspects that characterise this approach, concern:

- the classification of loans into three different levels (or "Stages") to which different methods correspond for calculating the losses to be recorded; Stage 1 includes performing positions that have not undergone a significant increase in credit risk otherwise placed in Stage 2; Stage 3 includes all positions classified as non-performing, bad loans, unlikely-to-pay, non-performing past due in accordance with the criteria and rules specifically adopted by the Group;
- the calculation of the expected loss calculated at 12 months for Stage 1 or for the entire useful life of the credit (lifetime) for Stage 2 and 3;
- the conditions of the current economic cycle (Point-in-Time) instead of a measurement of the parameters along the economic cycle (Through the cycle) required for regulatory purposes;
- forecast information regarding the future dynamics of macroeconomic factors (forward looking) considered to have the potential to influence the debtor's situation.

In this context, the Group has adopted a method for determining the "significant" increase in credit risk with respect to the initial recognition date, which involves classifying the instruments in Stages 1 and 2, combining statistical (quantitative) and performance (qualitative) elements, as part of the estimate of impairment of performing loans.

To identify the significant increase in credit risk, the Banca IFIS Group applies the following quantitative and qualitative transfer criteria to the loan portfolio according to the type of counterparty defined by segmenting receivables into portfolios.

Quantitative transfer criteria:

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

Qualitative transfer criteria:

- "Rebuttable presumption – 30 days past due": the Standard establishes that, regardless of how the entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The entity can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not increased significant since initial recognition even though the contractual payments are more than 30 days past due. However, the Banca IFIS Group has not pursued this option;
- "Forbearance": according to this criterion, a financial instrument is allocated to Stage 2 when the exposure is classified as forborne;
- "Watchlist": it identifies qualitative deterioration criteria defined by the Group as part of the process for defining especially risky positions during credit monitoring.

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

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

The Expected Credit Loss (ECL) assessment considers the cash shortfall, the probability of default, and the monetary value of time. Specifically, the Group measures the loss allowance for the financial instrument as:

- expected losses at 12 months for positions that have not suffered a significant deterioration in creditworthiness (Stage 1); i.e. an estimate of the non-payments resulting from possible default events in the following 12 months, weighted by the probability that such events will occur;
- expected "Lifetime" losses for positions that have suffered a significant deterioration in creditworthiness (Stage 2); in this case, it estimates the cash shortfalls resulting from default events that are possible over the expected life of the financial instrument, weighted by the probability of that default occurring and discounted at the measurement date(ECL).

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

- estimated Probability of Default (PD);
- estimated Loss Given Default (LGD);
- estimated Exposure at Default (EAD);
- definition of the stage allocation transfer logic;
- calculation of the expected credit losses including point-in-time factors.

Concerning the exposures to Banks, Central Governments, and Public-sector Entities (low default portfolios), the Group used default rates associated with migration matrices provided by public information of Moody's ratings or other external providers.

As for the securities portfolio, considering the methodological complexity associated with developing a dedicated model, the Group decided to use the calculation of impairment under IFRS 9 that Cedacri provides at consortium level (i.e. estimating risk parameters, calculating the Stage allocation and ECLs). Specifically, the formula used to calculate the impairment of the tranches allocated to Stage 1 and 2 is consistent with the approach to credit exposures. The Stage allocation of performing debt securities requires using an external rating of the issue or, if this is not available, the issuer; in short, the securities are allocated to the different Stages based on specific transfer criteria associated with this type of portfolio. Exposures are allocated to stage 3 if credit risk has deteriorated to the point that the security is considered impaired, i.e. classified as non-performing, including in the case of financial instruments in default.

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

A multi-period approach to risk parameters has been developed exclusively for the PD; the other credit risk parameters (LGD and CCF) are applied on a constant basis until maturity. LGD has been estimated on the basis of proprietary historical data with the exception of the counterparties Banks, Central Governments, and Public-sector Entities (excluding municipalities), for which, in the absence of objective historical data, a sector LGD has been estimated.

For Stage 3 exposures that are not individually tested for impairment, the Group defines a lifetime provision in line with the concept of expected credit loss. Specifically concerning LGD, to calculate the collective losses for Stage 3 exposures (mainly past due non-performing and unlikely-to-pay), the Group made certain adjustments to ensure consistency with the measures used for performing loans. In addition, if the Group's operating plan for the management of non-performing loans envisages a scenario for the sale of non-performing positions, the models for assessing expected losses will also include the relative probability of occurrence in the ECL estimation process.

Credit risk mitigation techniques

Credit risk mitigation techniques include instruments that contribute to reducing the loss that the Group would incur in the event of counterparty default; specifically, they refer to guarantees received from customers, both collateral and personal, and to any contracts that may lead to a reduction in credit risk.

In general, as part of the process of granting and managing credit, for certain types of lines, the release by customers of suitable guarantees to reduce their risk is encouraged. They can be represented by collaterals on assets, such as pledges on financial assets, mortgages on real estate (residential/non-residential) and/or personal guarantees (typically sureties) on a third party where the person (natural or legal) is the guarantor of the customer's debt position in the event of insolvency.

In particular:

- as part of factoring operations, when the type and/or quality of factored receivables do not fully satisfy requirements or, more generally, the invoice seller is not sufficiently creditworthy, the bank's established practice is to hedge the credit risk assumed by the Group by obtaining additional surety bonds from the shareholders or directors of the invoice seller. As for the account debtors in factoring relationships, wherever the Bank believes that the elements available to assess the account debtor do not allow to properly measure/assume the related credit risk, or the proposed amount of risk exceeds the limits identified during the debtor's assessment, the Bank adequately hedges the risk of default of the account debtor. Guarantees issued by correspondent factors and/or insurance policies underwritten with specialised operators are the main hedge against non-domestic account debtors in non-recourse operations;
- as for the Lending segment, based on the peculiarities of its products, it demands adequate collateral according to the counterparty's standing as well as the term and type of the facility. Said collateral includes mortgage guarantees, liens on plant and equipment, pledges, surety bonds, credit insurance, and collateral deposits;
- as for finance leases, the credit risk is mitigated by the leased asset. The lessor maintains the ownership until the purchase option is exercised, ensuring a higher recovery rate in the event the client defaults;
- as for operations concerning distressed loans and purchases of tax receivables arising from insolvency proceedings, as well as the relevant business model, generally no action is taken to hedge credit risks;
- salary-backed loans certainly have low risk, considering the particular characteristics of this product: it requires having insurance against the customer's risk of death and/or loss of employment as well as imposing a lien on the Post-employment benefits earned by the customer as additional collateral for the loan;
- financing operations to pharmacies include an advance accompanied by a transfer or a mandate to collect receivables with the possibility of using the advances subsequent to the curtailment of existing loans.

The acquired NPL portfolios include positions secured by mortgages on properties with a lower level of risk than the total portfolio acquired.

The determination of the total amount of credit granted to the same customer and/or legal and economic group takes into account specific criteria for the weighting of the different categories of risk and guarantees. In particular, the estimated value of collateral is subject to prudential "haircuts", differentiated by type of collateral.

The Bank's Risk Management function constantly monitors the quality and adequacy of the procedures for assessing collateral to provide central oversight over the assessment and monitoring of collateral for the Banca IFIS Group's loan portfolio. For greater operational effectiveness, these processes are carried out by a dedicated organisational unit, called "Collateral Monitoring", which reports directly to the Bank's Chief Risk Officer.

Non-performing credit exposures

Management strategies and policies

The Group adopts a business model that presents specific elements with respect to the majority of national banking institutions that operate in the market mainly as generalist banks.

This peculiarity of the business is reflected in the processes and management structures, generating flows and stock dynamics that are reflected in assets and related indicators.

Nevertheless, the Parent company believes that the reference to "system" management and structural ratios and the maintenance of its indicators at levels of excellence represents an element of quality and value to be pursued as a specific objective, both for the strengthening of company structures and for the improvement of internal processes.

Among these, the quality of assets is a top priority that must be expressed both in the ability to provide credit, minimizing the risks of deterioration of exposures, and in the ability to manage non-performing exposures, optimising recovery performance in terms of amount and timing of recovery.

In this sense, the Group's action is oriented in two directions:

- constant efforts to improve not only the processes for selecting and granting loans, but also the processes for managing performing loans, referring, where appropriate, to the commercial and/or selection policies of individual transactions, in order to contain the generation of non-performing loans in the best possible way;
- the definition of quantitative objectives (such as maximum limits) in terms of non-performing exposures as well as pre-established actions to be implemented according to appropriate application criteria and priorities, in order to ensure compliance with the established limits over time.

In managing these aspects, the Group must, however, necessarily take into account the different segments of business and related types of credit, classifying solutions and actions consistent with the specificities of the individual segments, in order to ensure the best result in terms of value protection and speed of solution.

In view of the above, the Bank has maintained the following two indicators as performance indicators and explicit objectives to be pursued with careful and proactive management when updating its annual operating plan for the management of short and medium/long-term NPLs, presented to the Supervisory Authority in March 2019:

- "gross npe ratio", consisting of the ratio of "gross non-performing exposures" to "total loans to customers";
- "net npe ratio", consisting of the ratio of "non-performing exposures net of related adjustments" to "total loans to customers".

With reference to on-balance-sheet credit exposures to customers outstanding at 30 June 2019, excluding positions resulting from the purchase and management of non-performing loans from third-party originators managed by the subsidiaries IFIS NPL S.p.A. and FBS S.p.A., as well as retail loan portfolios, the npe ratio levels are in line with the reduction targets set for the period in question. The pursuit of the objective of a general reduction in the stock of medium/long-term non-performing loans is expected to take place through a differentiated strategy in relation to the specificity of the individual portfolios concerned (taking into account the type of counterparty and the specificity of the individual products). In general terms, the actions to be taken are essentially based on the following guidelines, which have long been pursued:

- containment of the default rate in order to reduce the inflow of non-performing positions by extending and strengthening the monitoring of lending aimed at anticipating, and possibly preventing, deterioration of positions;
- improvement of the "performing" rates of return through a more significant use of granting measures in relation to counterparties that show signs of financial difficulty;
- exploitation of the expertise currently present in the Banca IFIS Group and of the existing virtuous recovery processes to maximise recovery rates;
- reduction of the stock of non-performing loans through the evaluation of selective sales of individual significant positions, as well as through the application of current write-off policies.

The positions that have deteriorated or present significant problems are handled directly by specific organisational units established at each company of the Banking Group, which:

- assess the counterparty's willingness and ability to repay the debt in order to establish the most appropriate recovery strategy;
- manage judicial and non-judicial proceedings concerning debt collection operations;
- define potential modifications to the administrative status as well as the quantification of "doubtful individual outcomes" for the positions assigned to it, submitting them to the competent decision maker;
- monitor the amount of exposures classified as bad loans and the relevant debt collection operations.

Write off

As specified by IFRS 9, write-off is an event that results in derecognition when there is no longer a reasonable expectation that the financial asset will be recovered. It may occur before the legal actions for recovery of the financial asset are terminated and does not necessarily imply a waiver of the legal right of the bank to recover the debt.

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

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

The derecognition of bad debts is a good management practice. It allows structures to concentrate on receivables that are still recoverable, guarantees an adequate representation of the ratio between anomalous receivables and total receivables and ensures a correct representation of balance sheet assets.

At an organisational level, the operating methods used by the various Group structures to eliminate credit exposures and to report to Top Management are described in detail in the company's credit monitoring and recovery policies.

In the first half of 2019, the Bank derecognised 54,2 million Euro (nominal amount) worth of exposures entirely written off without forfeiting the right to collect the receivable.

Purchased or originated credit impaired financial assets

Organisational aspects

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

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

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

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

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

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

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

Non-performing exposures include receivables acquired from the subsidiaries IFIS NPL S.p.A. and FBS S.p.A. acquired at values significantly lower than their nominal amount, as well as non-performing exposures deriving mainly from the business combination with the former GE Capital Interbanca Group at the time of acquisition as envisaged by the new IFRS 9 standard.

Quantitative information

With regard to the proprietary portfolio of IFIS NPL S.p.A. at the reference date, the residual nominal amount is approximately 15,1 billion Euro. At the time of purchase, the historical nominal amount of these receivables was 15,5 billion Euro, and they were acquired for approximately 0,9 billion Euro, i.e. an average price equal to 5,67% of the historical nominal amount. In the first half of 2019, 525 million Euro were acquired for approximately 68 million Euro, i.e. an average price equal to 12,98%. The overall portfolio of non-performing exposures purchased and not yet collected has an overall weighted average life of around 32 months compared to their acquisition date.

Positions managed "non-judicial" (which mainly consists of the activation of the credit through the subscription by the debtor of bills of exchange or voluntary settlement plans) are valued at amortised cost calculated as the net present value of expected cash flows determined on the basis of a proprietary statistical model developed on the basis of internal historical data, referred to as the "curve model"; this model provides estimates of the transformation of homogeneous credit clusters on the basis of the historical recovery profile, in addition to prudential adjustments. It incorporates, already in the forecasting phase, the counterparty default risk; historically, the collections recorded are lower than the forecasts made as a result of the failure to repay the debt on the part of customers. With regard to the management of positions for which a settlement plan has been formalised, regardless of the type, the method of determining future cash flows is "deterministic", represented by cash flows based on the future instalments of the agreed settlement plan, net of the historically observed default rate.

With regard to positions managed in a "judicial" way (which instead consists in the transformation through legal action aimed at obtaining from the court the order of assignment - garnishment order - of one-fifth of the pension or salary, the existence of which is the prerequisite for the start of this form of transformation), a statistical model is being developed on proprietary data for estimating the cash flows of positions under judicial processing that have not yet reached the garnishment order ("pre-garnishment order bulk model"); more specifically, cash flows are valued for all positions that have obtained or will obtain a writ from 1 January 2018. Only for positions that have obtained a garnishment order, the estimate of the cash flows is based on the data obtained from the legal deeds and practices are valued at amortised cost calculated as the net present value of the expected cash flows on the individual position, taking into account the debtor's age restriction. In addition to the above, the judicial processing is completed with recovery activities understood as real estate enforcement action, also characterised by different phases and applied to portfolios originating in corporate, banking or real estate sectors.

With reference to secured loans, the estimate of expected cash flows from secured positions on which there is a first mortgage was refined; more specifically, the recovery values are valued on the basis of expert opinions and CTU. The estimated collection dates are instead calculated on the basis of the average timing of the Courts relating to the real estate enforcement procedures.

Finally, it should be noted that the company IFIS NPL, in seizing market opportunities and in accordance with the business model, may consider transfers of portfolios to third parties. In the first half of 2019, 5 sales of portfolios were completed to leading players whose business is purchasing NPLs. Overall, receivables were sold for a residual nominal amount of about 1 billion Euro, corresponding to about 9.125 thousand positions, against a total sale price of about 21 million Euro. These values include a price of 10,8 million Euro relating to sales completed in January 2019 but whose acceptance of the binding offer took place at the end of 2018.

In addition, this item includes non-performing exposures acquired through business combinations, in particular with the former GE Capital Interbanca Group. These receivables are managed on an individual basis in line with the previously described credit risk management strategies and policies.

The residual nominal amount of the proprietary portfolio of FBS S.p.A. at the reference date is approximately 1,2 billion Euro, divided into 434 million Euro of secured portfolio and 812 million Euro of unsecured portfolio. During the year, there were also no market sales transactions. In the first half of 2019, the company carried out an unwinding of the securitised loans for about 6 million Euro.

Financial assets subject to business renegotiations and forborne exposures

Throughout the life of the financial assets, and specifically of receivables, the parties to the agreement subsequently agree to modify the original contractual terms. When, during the life of an instrument, the contractual terms are modified, the Group shall assess whether the original asset must continue to be recognised (modification without derecognition) or, conversely, the original instrument must be derecognised and a new financial instrument recognised in its place.

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

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

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

the former, intended to "retain" the customer, involve a borrower that is not in financial distress. This case includes all renegotiations aimed at adjusting the cost of debt to market conditions. These transactions result in changes to the original contractual terms, usually at the request of the borrower, that concern aspects associated with the cost of debt, giving rise to an economic benefit for the borrower.

Generally, the Bank believes that, whenever it enters into a renegotiation in order to avoid losing the client, this renegotiation shall be considered as substantial, since, in its absence, the customer could obtain financing from another intermediary and the bank would see estimated future revenue decline;

the latter, offered for "credit risk reasons" (forbearance measures), are part of the Bank's attempt to maximise the recovery of the cash flows of the original receivable. Following the modifications, usually the underlying risks and rewards have not been substantially transferred: therefore, the accounting presentation that provides the most relevant information to users of the financial statements (expect for the following discussion about objective factors) is the one made through "modification accounting" - whereby the difference between the carrying amount and the present value of modified cash flows discounted at the original interest rate is recognised through profit or loss - rather than derecognition;

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

The modifications due to credit risk reasons amounted to 263,5 million Euro at 30 June 2019, including 32,6 million Euro referring to non-performing exposures. Collections on these positions in the first half of 2019 amounted to 27,6 million Euro.

Prudential consolidation - distribution of financial assets by past due buckets

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	130.360	1.320	1.581	8.352	70.690	220.462	9.498	16.565	1.359.214
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 30.06.2019	**130.360**	**1.320**	**1.581**	**8.352**	**70.690**	**220.462**	**9.498**	**16.565**	**1.359.214**
Total 31.12.2018	**272.719**	**1.950**	**3.560**	**8.593**	**81.007**	**191.284**	**158.550**	**21.581**	**1.252.008**

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

Portfolios/risk stages	Gross exposure		Overall impairment losses/reversals and overall allocations	Net exposure	Overall partial write-offs
	Non-performing	Performing			
A. On-balance-sheet credit exposures					
a) Bad loans	1.109.665	X	158.351	951.314	1.447
- of which forborne exposures	*101.720*	X	*10.314*	*91.406*	*225*
b) Unlikely to pay	619.737	X	104.796	514.941	-
- of which forborne exposures	*142.876*	X	*5.589*	*137.287*	-
c) Non-performing past due exposures	113.175	X	7.089	106.086	13
- of which forborne exposures	*2.441*	X	*436*	*2.005*	-
d) Performing past due exposures	X	324.979	1.951	323.028	-
- of which forborne exposures	X	*3.538*	*193*	*3.345*	-
e) Other performing exposures	X	6.074.891	30.553	6.044.338	48.402
- of which forborne exposures	X	*29.851*	*577*	*29.274*	-
Total (A)	**1.842.577**	**6.399.870**	**302.740**	**7.939.707**	**49.862**
B. Off-balance-sheet credit exposures					
a) Non-performing	104.455	X	932	103.523	-
b) Performing	X	1.369.838	1.881	1.367.957	-
Total (B)	**104.455**	**1.369.838**	**2.813**	**1.471.480**	**-**
Total (A+B)	**1.947.032**	**7.769.708**	**305.553**	**9.411.187**	**49.862**

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

Concentration and distribution of credit exposures

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

Exposures/counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	1.718	4.955	1.561	9.125	-	-	181.729	129.112	766.306	15.159
- of which forborne exposures	-	-	*430*	*5.734*	-	-	*4.816*	*4.568*	*86.160*	*12*
A.2 Unlikely to pay	766	393	41.490	2.097	-	-	169.130	94.092	303.555	8.214
- of which forborne exposures	-	-	*38.277*	*7*	-	-	*35.001*	*3.330*	*64.009*	*2.252*
A.3 Non-performing past due exposures	55.450	2.951	53	12	-	-	41.729	2.878	8.854	1.248
- of which forborne exposures	-	-	*10*	*2*	-	-	*1.072*	*103*	*923*	*331*
A.4 Performing exposures	1.425.143	1.598	259.077	1.727	-	-	4.151.842	24.004	531.304	5.175
- of which forborne exposures	*1.607*	*34*	*4.167*	*1*	-	-	*15.836*	*165*	*11.009*	*570*
Total (A)	**1.483.077**	**9.897**	**302.181**	**12.961**	**-**	**-**	**4.544.430**	**250.086**	**1.610.019**	**29.796**
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	1.583	-	-	-	-	-	85.912	879	16.028	53
B.2 Performing exposures	90	-	824.798	418	-	-	529.064	1.401	14.005	62
Total (B)	**1.673**	**-**	**824.798**	**418**	**-**	**-**	**614.976**	**2.280**	**30.033**	**115**
Total at 30.06.2019 (A+B)	**1.484.750**	**9.897**	**1.126.979**	**13.379**	**-**	**-**	**5.159.406**	**252.366**	**1.640.052**	**29.911**
Total at 31.12.2018 (A+B)	**1.168.035**	**9.706**	**522.240**	**12.328**	**-**	**-**	**5.317.048**	**262.710**	**1.872.574**	**30.183**

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

Exposures/counterparties	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	951.048	158.262	221	89	34	-	4	-	7	-
A.2 Unlikely to pay	513.411	102.347	1.522	2.449	4	-	-	-	4	-
A.3 Non-performing past due exposures	104.872	7.036	1.166	51	19	1	-	-	29	1
A.4 Performing exposures	6.013.415	29.669	227.742	1.640	108.411	1.054	17.591	139	207	2
Total (A)	**7.582.746**	**297.314**	**230.651**	**4.229**	**108.468**	**1.055**	**17.595**	**139**	**247**	**3**
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	103.522	932	1	-	-	-	-	-	-	-
B.2 Performing exposures	1.285.187	1.716	82.577	165	-	-	168	-	25	-
Total (B)	**1.388.709**	**2.648**	**82.578**	**165**	**-**	**-**	**168**	**-**	**25**	**-**
Total at 30.06.2019 (A+B)	**8.971.455**	**299.962**	**313.229**	**4.394**	**108.468**	**1.055**	**17.763**	**139**	**272**	**3**
Total at 31.12.2018 (A+B)	**8.504.208**	**309.556**	**261.491**	**4.238**	**97.647**	**1.003**	**16.293**	**129**	**258**	**1**

Major exposures

		30.06.2019	31.12.2018
a)	Carrying amount	1.925.626	1.573.611
b)	Weighted amount	433.533	602.111
c)	Number	3	4

The overall weighted amount of major exposures at 30 June 2019 consisted of 220 million Euro in tax assets and 213 million Euro in exposures to equity investments not included in the prudential scope of consolidation.

Disclosure regarding Sovereign Debt

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

Pursuant to said communication, please note that at 30 June 2019 the exposures to sovereign debt entirely consisted of Italian government bonds; their carrying amount - recognised under "Financial assets measured at fair value through other comprehensive income" - totalled about 673 million Euro, net of the positive 2,2 million Euro valuation reserve.

These securities, with a nominal amount of 683 million Euro, are included within the banking book and have a weighted residual average life of approximately 37 months.

The fair values used to measure the exposures to sovereign debt securities at 30 June 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 30 June 2019 totalled 810 million Euro, including 145 million Euro relating to tax receivables.

Securitisation transactions

Securitisations in which the Bank is the originator and for which all the liabilities issued by the special purpose vehicles were subscribed by the Bank at the time of issue shall not be recorded in this Part.

Qualitative information

Objectives, strategies and processes

The Group has exposures to securitisations originated by third parties, acquired for investment purposes with the aim of generating a profit margin and achieving an appreciable medium/long-term return on capital.

These transactions may originate from the various Business Units of the Group, in relation to the characteristics of the underlying portfolio, both performing and non-performing, or as part of the investment of liquidity.

The acquisition activities are carried out in accordance with the policies and procedures relating to credit risk, and in particular with the "Policy for the management of securitisation transactions", and in compliance with the propensity to risk established within the Risk Appetite Framework. The Group invests in securitisations of which it is able to value, on the basis of its experience, the relevant underlying assets.

In particular, the proposing unit, having identified the investment opportunity, carries out due diligence activities in order to assess future cash flows and the fairness of the price, coordinating, for this purpose, the competent organisational units from time to time and formalising the relative results to be submitted to the competent decision-making body.

Subsequent to the acquisition, the investment is monitored on an ongoing basis with reference to the performance indicators of the underlying exposures and the adherence of cash flows to the valuations made at the time of acquisition.

Internal systems for measuring and controlling the risks associated with securitisation transactions

The Group has not entered into securitisation transactions with risk transfer to third parties.

Hedging policies adopted to mitigate related risks

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

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

IFIS ABCP Programme securitisation

On 7 October 2016, Banca IFIS launched a three-year revolving securitisation of trade receivables due from account debtors. After Banca IFIS (originator) initially reassigned the receivables for 1.254,3 million Euro, in the second quarter of 2018, the vehicle named IFIS ABCP Programme S.r.l. issued 850 million Euro, increased to 1.000 million Euro, worth of senior notes subscribed for by the investment vehicles owned by the banks that co-arranged the transaction, simultaneously with the two-year extension of the revolving period. An additional tranche of senior notes, with a maximum nominal amount of 150 million Euro, initially issued for 19,2 million Euro, and that was subsequently adjusted based on the composition of the assigned portfolio, was subscribed for by Banca IFIS. At 31 December 2018, the amount subscribed for by the Bank had reached the maximum limit of 150 million Euro. During the first half of 2019, this portion was first partially repaid by the vehicle, then sold to a third-party bank for a total residual value of 98,9 million Euro. The difference between the value of the receivables portfolios and the senior notes issued represents the credit granted to the notes' bearers, which consists in a deferred purchase price.

Banca IFIS acts as servicer, performing the following tasks:

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

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

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

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

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

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

At 30 June 2019, the interest on the senior notes recognised in profit or loss amounted to 3,9 million Euro.

Third-party securitisation transactions

At 30 June 2019, the Group held a portfolio of securities deriving from third-party securitisations for a total of 120,5 million Euro: in particular, it held senior securities for 118,8 million Euro and junior securities for 1,7 million Euro.

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

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

- "San Marco" securitisation: this is a securitisation of a non-performing secured portfolio of mortgage loans with an overall nominal amount of approximately 160 million Euro and maturity in September 2022. The Parent company participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior tranches (totalling 18,8 million Euro at 30 June 2019) and 5% of the junior tranches (0,7 million Euro), which were issued by the special purpose vehicle Tiberio SPV S.r.l.;
- "Project Firenze" securitisation: this is a securitisation of a non-performing portfolio consisting of secured bank positions mainly with SMEs with a total nominal amount of approximately 264 million Euro and maturing in 2023. In this transaction, the notes were issued by the vehicle Orione SPE S.r.l. and the Parent company participated as Senior Noteholder and Sponsor, subscribing 100% of the senior tranches for a value of 29,9 million Euro at 30 June 2019 and 5% of the junior tranches for 1,0 million Euro;
- "Cinque V" securitisation: launched in late November 2017, this securitisation through the special purpose vehicle Ballade SPV S.r.l. only has a mutuo fondiario classified as bad loan as the underlying asset, with a nominal amount of 20 million Euro and maturity in October 2020. Also in this case, the Parent company participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior notes (2,1 million Euro) and 5% of the junior notes; the transaction was substantially closed following the sale of the underlying asset to the mortgage credit;
- "Elite Basket Bond (EBB)" securitisation: the special purpose vehicle EBB S.r.l. issued Asset Backed Securities (ABS) at a price equal to the nominal amount, amounting to 122 million Euro, in a single tranche with maturity in December 2027 and a Basket of minibonds issued by 11 Italian listed companies as the underlying asset. These notes are unsecured senior bonds but carry a Credit Enhancement equal to 15% of the transaction's overall amount (24 million Euro), to be used in the event the issuers default on interest and/or principal payments on the minibonds. The Parent company participates in this transaction only as underwriter, subscribing for 6,0 million Euro worth of notes of the above tranche;
- "FINO 1" securitisation: this is an investment as a senior Noteholder in a securitisation transaction whose tranches issued are supported by a state guarantee "GACS" (Guarantee on the securitisation of bad loans) and with underlying bad loans with an original total nominal amount of about 5,4 billion Euro. The tranche originally subscribed for 92,5 million Euro by Banca IFIS (out of a total nominal amount of 650 million Euro) is the Senior Note Class A, with maturity in October 2045. Net of the repayments made during the first half of the year, at 30 June 2019, the subscribed portion of the tranche had a carrying amount of 64,0 million Euro.

For the sake of completeness, the Group participates, through the most extensive intervention carried out in 2017 by the Voluntary Scheme of the Interbank Deposit Protection Fund, in units of the mezzanine and junior notes of the "Berenice" securitisation for a total of 0,1 million Euro.

Disclosure on structured entities (other than securitisation vehicles)

There were no unconsolidated structured entities at 30 June 2019.

Disposals

Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised refer to securitised receivables.

Market risks

Currently, as the Banca IFIS Group does not usually trade in financial instruments, its financial risk profile refers mainly to the banking book. The activity of purchasing bonds, given that these are classified as assets measured at FVOCI, falls within the scope of the banking book and does not, therefore, constitute new market risks. During the first half of 2019, no transactions with trading purposes and an impact on market risks were carried out.

At 30 June 2019, some currency swaps were recognised with a mark-to-market positive for 1,0 million Euro and negative for 0,3 million Euro. The classification of these derivatives under financial assets or liabilities held for trading does not reflect the aim of the transaction, which is to mitigate the impact of potential movements in the reference exchange rates. It should be noted that the difference between the spot price and the forward price, although this was recognised in profit or loss under item 80 "Net profit (loss) from trading" as an exchange difference, includes also a component of interest.

The trading book consists of residual transactions from the Corporate operations, as part of which clients were offered derivative contracts hedging the financial risks they assumed. In order to remove market risk, all outstanding transactions are hedged with "back to back" trades, in which the Bank assumes a position opposite to the one sold to corporate clients with independent market counterparties.

Interest rate risk and price risk – supervisory trading book

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

The trading book is managed to mitigate the risk position, as no transactions with speculative purposes were carried out.

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

Interest rate risk and price risk – banking book

As a general principle, the Group does not assume significant interest rate risks. The main funding source is still the online savings account "Rendimax". Customer deposits on the "Rendimax" and "Contomax" products are at a fixed rate for the fixed-term part, while on-demand and call deposits are at a non-indexed floating rate the Bank can unilaterally revise without prejudice to legal and contractual provisions. The other main components of funding concern mainly fixed-rate bond funding, a variable-rate self-securitisation operation and loans with the Eurosystem (TLTRO).

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

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

At 30 June 2019, the bond portfolio mainly consisted of inflation-indexed bonds (excluding the repurchases of notes from self-securitisation transactions). The average duration of this portfolio is approximately 3,8 years.

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

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

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

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

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

With regard to price risk, the Group does not normally assume any risk of price fluctuations on financial instruments.

The classification of the bonds held as Financial assets measured at fair value through other comprehensive income introduces the risk that the Group's capital reserves may fluctuate as a result of the change in their fair value. However, this risk is considered moderate given the relatively small size of the portfolio in proportion to total assets and its composition, as it mostly consists of government bonds.

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

Currency risk

Qualitative information

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

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

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

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

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

Currency risk related to the Bank's business is assumed and managed according to the risk policies and limits set by the Parent company's Board of Directors, with precise delegations of power limiting the autonomy of those authorised to operate, as well as especially strict limits on the daily net currency position.

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

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

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

Furthermore, Banca IFIS owns a 5,57% interest in India Factoring and Finance Solutions Private Limited, worth 20 million Indian rupees and with a market value of 3.044 thousand Euro at the historical exchange rate. In 2015 the Bank tested said interest for impairment, recognising a 2,4 million Euro charge in profit or loss. Starting from 2016, the fair value was revalued through equity, bringing the value of the equity interest to 1.104,5 thousand Euro.

B. Hedging of currency risk

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

Derivative financial instruments

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

Banca IFIS often uses financial derivatives to hedge currency exposures. Reference should be made to paragraph 1.2 Market risks.

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

Banking group – Liquidity risk

Qualitative information

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

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

In 2019, the composition of the Group's funding remained substantially unchanged compared to the end of 2018.

At 30 June 2019, the main funding sources were equity, online retail funding - consisting of on-demand and term deposits - medium/long-term bonds issued as part of the EMTN programme, funding from the Eurosystem (TLTRO), medium/long-term securitisation transactions from the Abaco channel at the Bank of Italy.

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

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

The successful diversification strategy that was launched in 2017, which focused mainly on institutional investors, and the rating the Group received from Fitch were key for reducing funding risk.

During the first half of 2019, there was a significant increase in available liquidity reserves compared to the values at the end of 2018; the amount of these high-quality liquidity reserves (mainly held by the Group in its account with the Bank of Italy and short-term government bonds forming part of the intra-day reserve) makes it possible to meet regulatory requirements (LCR and NSFR) and internal requirements relating to prudent management of liquidity risk.

The Group is constantly engaged in the harmonious development of its financial resources, both in terms of size and costs, in order to have available liquidity reserves adequate to the current and prospective volumes of activity.

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

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

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

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

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

Self-securitisation transactions

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

The transaction was rated by Moody's and DBRS. The same agencies will carry out annual monitoring throughout the operation.

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

In the third quarter of 2017, the parent company Banca IFIS S.p.A. repurchased all the senior notes issued by the vehicle. Therefore, at 30 June 2019 the Banca IFIS Group had subscribed for all the notes issued by the vehicle.

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

Securitisation transactions

As for the securitisations outstanding at 30 June 2019 and their purpose, see the comments in the section on credit risks.

Operational risks

Qualitative information

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

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

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

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

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

In the first half of 2019, the periodic Risk Self Assessment campaign was completed. It was launched in the final quarter of 2018 and included the scope at the end of 2018. Following this campaign, the main operational issues were identified and specific mitigation measures to bolster operational risk controls were subsequently defined and launched.

In addition, according to its operational risk management framework, the Group defines a set of risk measures that can promptly identify the presence of vulnerabilities in the exposure of the Bank and its subsidiaries to operational risks. These indicators are continuously monitored and illustrated in periodic reports shared with the relevant structures and bodies: when certain thresholds are exceeded or in the event of anomalous trends, specific escalation processes are activated to define and implement appropriate mitigation measures.

In order to prevent and manage operational risk, the Parent company's Risk Management department, in collaboration with the other corporate functions, is involved in assessing the outsourcing of operational functions and in assessing the risks associated with the introduction of new products and services. Finally, it contributes to monitoring the evolution of cyber risk and the effectiveness of measures to protect ICT resources.

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

In addition, it should be noted that, as regards the subsidiary FBS, the process of integrating the overall operational risk management framework aimed at defining a single methodological approach at Group level was planned. In particular, specific training will be organised and provided on the subject of operational risks and on the use of the application dedicated to the collection of loss data. In addition, with regard to the monitoring of risk indicators, roll-out of the indicators defined by the Parent company will also be initiated for the subsidiary FBS.

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

It should be noted that, in parallel with the management of operational risk, there is a process of reputational risk management.

Reputational risk represents the current or prospective risk of a decrease in profits or capital deriving from a negative perception of the Group's image by customers, counterparties, shareholders, investors or the Supervisory Authorities.

Reputational risk is considered a second-level risk, as it is generated by the manifestation of other types of risk, such as the risk of non-compliance, strategic risk and in particular operational risks.

As in the case of operational risk, reputational risk management is ensured by the Parent company's Risk Management, which defines the Group's overall framework - in line with specific regulatory requirements and segment best practices - for managing reputational risk aimed at identifying, assessing and monitoring reputational risks assumed or to be assumed by the various Group companies and organisational units. The framework provides for the collection of the reputational risk events that occur, the prospective self-assessment of the exposure to reputational risk (Risk Self Assessment) and a set of risk indicators monitored continuously.

In the first half of 2019, the periodic Risk Self Assessment campaign was completed. It was launched in the final quarter of 2018 and included the scope at the end of 2018. Following the campaign, together with the work carried out in the area of operational risk, the areas most exposed to reputational risk were identified and, as a result, specific mitigation measures were defined and started in order to further strengthen the existing controls.

Risks of the other entities

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

04.4. Business Combinations

Transactions carried out during the period

Business combinations

On 7 January 2019, the Group completed the acquisition of control of the FBS Group through the acquisition of 90% of the capital of the FBS Group for a total value of 58,5 million Euro. At the same time as the sale and purchase agreement, contracts were defined for the purpose of regulating the put and call option agreements with the minority shareholders of the FBS Group and concerning the remaining shares of the latter.

The combination of the contractual put and call options makes these agreements similar to a deferred purchase in which, at the date of the business combination, the Banca IFIS Group has in fact acquired 100% of the capital of the FBS Group through the recognition of a fixed deferred amount and, only in part, an earn-out to be determined on the basis of the performance of the subsidiary's results.

The estimate of the fair value of the liability, equal to the sum of this fixed amount and the earn-out at the business combination date, is 9,2 million Euro. The total cost of the business combination was therefore provisionally determined at 67,7 million Euro and the first-time consolidation process showed a difference to be allocated between the acquisition cost and the equity of the FBS Group of 40,7 million Euro, recognised under "Intangible assets".

Company Name	Transaction date	(1)	(2)	(3)	(4)
FBS Group	7 January 2019	67.743	90%	7.101	4.047

Key:

(1) = Operation cost, provisionally determined

(2) = Percentage interest acquired carrying voting rights in the annual general meeting

(3) = Net result from financial activities.

(4) = Group net profit/loss

IFRS 3 requires that at the reference date of the business combination, the cost of the combination is identified and allocated subsequently to the assets, liabilities and contingent liabilities of the acquired party that can be identified at the purchase date and measured at their respective fair values.

The main balance sheet details relating to the FBS Group at the date of aggregation are given below:

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	07.01.2019
Group equity	**26.998**
Financial assets measured at fair value through profit or loss	2.969
Financial assets measured at amortised cost	34.487
Property, plant and equipment and intangible assets	4.984
Other assets	987
Net tax assets and liabilities	(2.158)
Financial liabilities measured at amortised cost	(9.736)
Other liabilities	(2.460)
Post-employment benefits	(1.609)
Provisions for risks and charges	(466)

Under IFRS 3, the allocation of the cost of the business combination must be quantified within twelve months of the acquisition date. In this regard, it should be noted that, as at the reference date of these condensed consolidated half-year financial statements, the Purchase Price Allocation (hereinafter also referred to as PPA) process is to be considered provisional with reference to both the determination of the cost of the business combination and the valuation of the assets acquired and liabilities assumed.

Transactions carried out after the end of the period

Business combinations

The Banca IFIS Group did not carry out any business combination between the end of the period and the date of preparation of these Condensed Consolidated Half-Year Financial Statements.

Retrospective adjustments

In the first half of 2019, the Group did not make any retrospective adjustment to business combinations carried out in previous periods.

04.5. Related-party transactions

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

During the first half of 2019, no significant related-party transactions were undertaken.

At 30 June 2019, the Banca IFIS Group was owned by La Scogliera S.p.A. and consisted of the parent company Banca IFIS S.p.A., the wholly-owned subsidiary IFIS Finance Sp. Z o. o., IFIS Rental Services S.r.l., IFIS NPL S.p.A. and Cap.Ital.Fin. S.p.A., by the 70% subsidiary Credifarma S.p.A. and, following the acquisition of the FBS Group completed on 7 January 2019, by the companies FBS S.p.A. 90% controlled, FBS Real Estate S.p.A. 99,28% controlled and by the company Elipso Finance S.r.l. 50% jointly controlled. It should also be noted that the 100% stake in the company Two Solar Park 2008 S.r.l. was sold to third parties on 26 June 2019.

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

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

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

Information on the remuneration of key management personnel

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

In compliance with the provisions of the Bank of Italy's Circular no. 262 of 22 December 2005 (6th update of 30 November 2018), key management personnel also include the members of the Board of Statutory Auditors.

Key management personnel

Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
2.412	-	99	45	217

The above information includes fees paid to Directors (1,7 million Euro, gross amount) and Statutory Auditors (150 thousand Euro, gross amount).

Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 30 June 2019, broken down by type of related party pursuant to IAS 24.

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Financial assets measured at fair value through other comprehensive income	-	-	6.918	**6.918**	1,0%
Loans to customers measured at amortised cost	-	251	8.001	**8.252**	0,1%
Other assets	117.229	-	-	**117.229**	35,4%
Total assets	**117.229**	**251**	**14.919**	**132.399**	**1,3%**
Due to customers measured at amortised cost	-	62	341	**403**	0,0%
Other liabilities	33.786	-		**33.786**	10,2%
Reserves	-	-	325	**325**	0,0%
Total liabilities	**33.786**	**62**	**666**	**34.514**	**0,3%**
Commitments and guarantees granted	-	56	-	**56**	n.a.

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	-	131	**131**	0,1%
Interest expense	-	(1)	(1)	**(2)**	0,0%

The transactions with the **parent company** concern the application of Group taxation (tax consolidation) in accordance with arts. 117 and following of Presidential Decree 917/86. Relations between these companies are regulated by private agreements signed between the parties. All adhering entities have an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company. Under this tax regime, the taxable income and tax losses are transferred to the consolidating company La Scogliera S.p.A., which is responsible for calculating the overall Group income. Following the exercise of the option, Banca IFIS recorded a net receivable at 30 June 2019 from the parent company of 109,4 million Euro (of which 54,7 million Euro requested as reimbursement), IFIS Rental Services of 7,4 million Euro and Cap.Ital.Fin. of 0,4 million Euro, while IFIS NPL recorded a net payable at 30 June 2019 to the parent company of 33,8 million Euro.

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

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

During the period, the Bank continued its factoring operations in favour of one company headed by close relatives of executive members of the Board of Directors: the Banca IFIS Group's exposure at 30 June 2019 amounted to 0,5 million Euro.

There were also transactions with two entities in which Banca IFIS owns an equity interest of more than 20% and recognised as financial assets measured at fair value through other comprehensive income amounting to 6,9 million Euro.

These transactions are related to 7,5 million Euro worth of loans.

Venice - Mestre, 2 August 2019

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Luciano Colombini

04.6. Declaration of Manager charged with preparing the Company's financial reports

Certification of the consolidated half year simplified financial statements at June 30th, 2019 pursuant to the provisions of art. 154-bis, paragraph 5, of the legislative decree 58 of February 24, 1998 and art. 81 ter of Consob Regulation no. 11971 of 14 May 1999 as amended

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

   of the administrative and accounting procedures for the preparation of Banca IFIS's consolidated half year simplified financial statements, over the course of the period from January 1st, 2019 to June 30th, 2019.

2. The adequacy of the administrative and accounting procedures in place for preparing the consolidated half year simplified financial statements at June 30th, 2019 has been assessed through a process established by Banca IFIS S.p.A. on the basis of the guidelines set out in the *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (CoSO), an internationally accepted reference framework.

3. The undersigned further confirm that:

   3.1 the consolidated half year simplified financial statements as at June 30th, 2019:
   a) are prepared in compliance with International Accounting Standards, endorsed by the European Commission as for European regulation no. 1606/2002 of the European Parliament and Council of July 19th, 2002;
   b) correspond to the related books and accounting records;
   c) provide a true and correct representation of the financial position of the issuer and the group of companies included in the scope of consolidation.

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

   The Group consolidated interim management report also includes a reliable analysis of the disclosure on significant related party transactions.

Venice, August 2nd, 2019

CEO	Manager charged with preparing the Company's financial reports
Luciano Colombini	Mariacristina Taormina

04.7. Report of the Independent Auditors limited to the Condensed Consolidated Half-Year Financial Statements

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

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Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

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

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet as of June 30, 2019, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows for the period then ended and the related explanatory notes of Banca IFIS S.p.A. and its subsidiaries (the "Banca IFIS Group"). The Directors of Banca IFIS S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca IFIS Group as of June 30, 2019 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Verona, August 2, 2019

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

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

EY S.p.A.
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