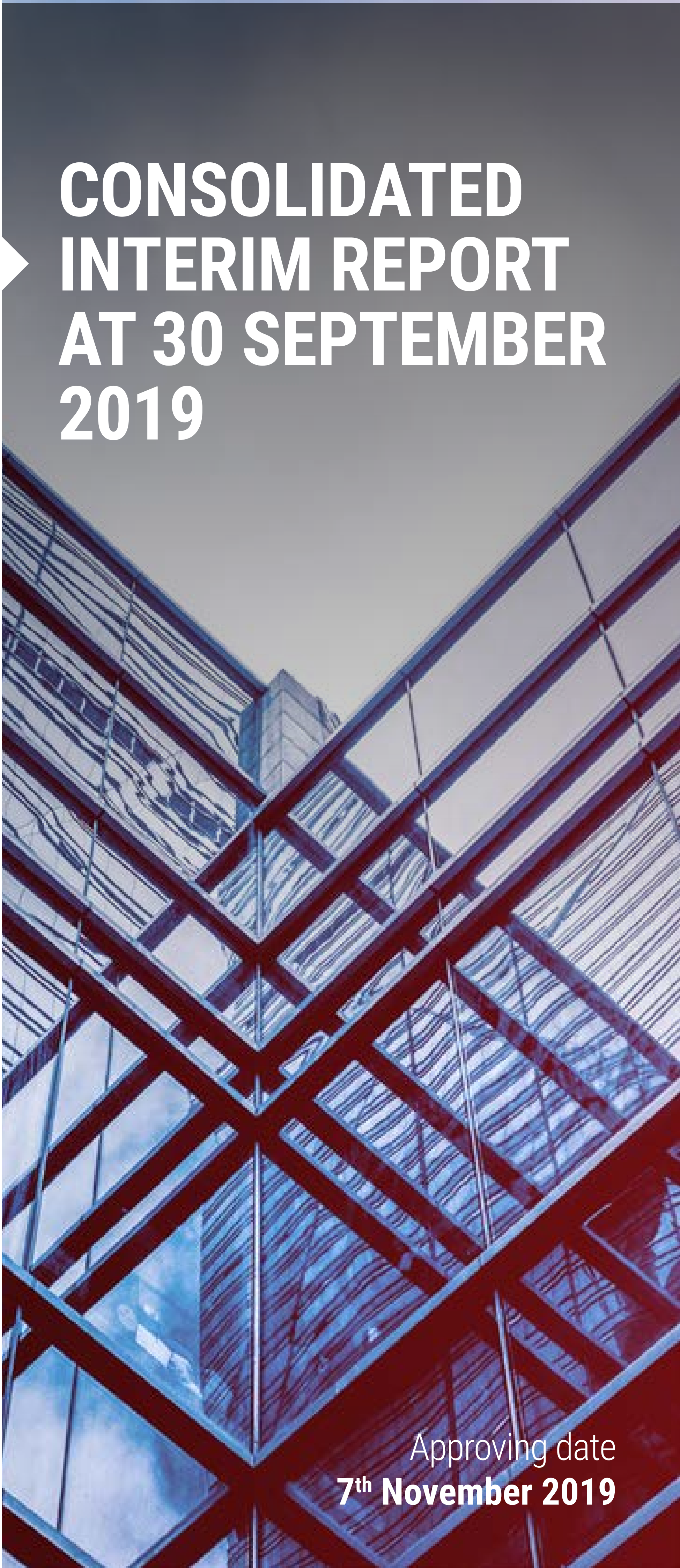
BANCA IFIS

CONSOLIDATED INTERIM REPORT AT 30 SEPTEMBER 2019



2019

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.

Approving date
7th November 2019

www.bancaifis.it

Contents

01
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.
Manager charged with preparing the Company's financial reports	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 aspects 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 period of nine months ended 30 September 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. At 30 September 2019, the total cost of the business combination was provisionally determined at 67,7 million Euro and the first-time consolidation process showed a difference of 40,7 million Euro to be allocated between the acquisition cost and the equity of the FBS Group, recorded as intangible assets.

02.2. Results and Strategy

02.2.1. Comment by the CEO

The net profit from financial activities reported in these first nine months of 2019 is a reflection of the Bank's well balanced business model: the Non-Performing Loans business accounted for 49%, with the other core business areas (trade receivables at 28%, corporate banking at 12% and leasing at 10%) accounting for the remaining 51%.

Profit for the first nine months was down slightly on the same period of 2018, mainly due to the natural, expected decrease in the PPA reversal, offset by a significant reduction in the cost of credit.

In the fourth quarter we expect robust volume growth in the Non-Performing Loans business. We are competitive and we provide excellent solutions to our customers, the market and the entire financial system.

We are finalising our Business Plan, which will be focused on three growth pillars. First: further consolidate Banca IFIS' position as privileged partner of small and medium enterprises with increasingly deep dedicated services and a wide range of products created ad hoc. Second: in an increasingly challenging and competitive market scenario, strengthen the Group's leadership in the purchase and management of Non-Performing Loans, accelerating the integration and synergies with FBS S.p.A., following the recent acquisition of the remaining 10% interest, as announced on 30 October, to expand the recovery system to cover all categories of non-performing loans.

The third pillar of the Business Plan concerns the strengthening of capital, optimising its allocation to the different business components.

We reached a CET1 ratio of 11,10% at 30 September 2019 (+80 basis points on 31 December 2018), not including the profit for the third quarter, and driven by organic growth only.

Finally, in the ongoing process of developing the real-estate assets in Milan, the binding offers received to date indicate potential capital gains. We expect to complete this process at the end of this year or in the first quarter of 2020.

02.2.2. Highlights - reclassified data

Highlights from the Banca IFIS Group's income statements for the first nine months of 2019 are set out below.

Net banking income

Consolidated net banking income amounted to 391,2 million Euro, down 3% compared to the same period of 2018: this figure was mainly affected by the expected decrease owing to the "PPA reversal"[1]. In detail, the NPL Segment totalled 168,9 million Euro (168,2 million Euro at 30 September 2018, +0,4%) while the margin of the Enterprises Segment was 225,6 million Euro (241,6 million Euro at 30 September 2018, -6,6%), as the growing results of the Trade Receivables Business Area (+2,5% compared to 30 September 2018) and the Leasing Business Area (+8,9% compared to 30 September 2018) were offset by the 33,4% decrease in the Corporate Banking Area, mainly as a result of the normal lower contribution of the "PPA reversal"[1] compared to the same period of the previous year.

Net impairment losses[2]

Net impairment losses due to credit risk, almost entirely related to the Enterprises Segment, amounted to 49 million Euro in the first nine months of 2019 (68,9 million Euro for the period ended 30 September 2018, -28.9%). Of these provisions, 32,1 million Euro is attributable to the Trade Receivables Area (54,5 million Euro for the period ended 30 September 2018). As previously reported, the figure at 30 September 2018 was significantly affected by value adjustments to several non-performing positions in the construction sector.

1 The term "PPA reversal" refers to the reversal over time of the difference between the fair value as measured in the business combination and the carrying amount of the receivables of the former GE Capital Interbanca Group, acquired on 30 November 2016.

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

Operating costs

Operating costs were 212,4 million Euro (208,9 million Euro at 30 September 2018, +1,7%). The cost/income ratio[1] stood at 54,3%, compared to 51,8% at 30 September 2018.

Personnel expenses rose by 14,9% to 95,7 million Euro (83,3 million Euro for the period ended 30 September 2018). The Group's employees numbered 1.759 at 30 September 2019, up 8,4% compared to 30 September 2018 (1.622). This increase includes 100 employees acquired deriving from the inclusion of the subsidiaries FBS S.p.A. and FBS Real Estate S.p.A. in the Group's scope.

Other administrative expenses, amounting to 158,1 million Euro compared to 133,8 million Euro at 30 September 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 net operating income amounted to 65,4 million Euro (22,6 million Euro at 30 September 2018) includes the effects of the activation of guarantees in place in view of the closure of certain tax disputes for 42,4 million Euro at 30 September 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.

Group net profit for the period

The net profit for the period ended 30 September 2019 attributable to the Group amounted to 84 million Euro, compared to 89 million Euro for the period ended 30 September 2018, a decrease of 5,6%.

Focus on individual segments

Highlights of the contributions of the various segments to the operating and financial results for the period ended 30 September 2019 are provided below:

The net banking income of the **Enterprises Segment**, which accounted for 57,7% of the total, amounted to 225,6 million Euro, down 6,6% from 241,6 million Euro in the corresponding period of 2018; the good growth results of the Trade Receivables and Leasing Business Areas were offset by the lower contribution of the "PPA reversal"[3] of the Corporate Banking Business Area. Receivables of the Enterprises Segment totalled 5.629 million Euro at 30 September 2019, down 4,9% compared to 31 December 2018.

- More specifically, the **Trade Receivables Area** reported net banking income of 126,7 million Euro (123,6 million Euro for the period ended 30 September 2018, +2,5%); turnover in 2019 amounted to 10,3 billion Euro, up by 0,7 billion Euro (+7,8%) compared to the same period of the previous year. Outstanding loans in the Trade Receivables Area amounted to 3,3 billion Euro, -8,3% from 31 December 2018. The latter reduction was influenced by various seasonal factors, which are normal for the Trade Receivables Area, in addition to various management actions aimed at maximising the profitability of the positions.
- In the first nine months, the **Leasing Area** recorded net banking income of 41,8 million Euro, up 8,9% compared to the same period in 2018, thanks to the improvement in net interest income following an increase in average positions outstanding. New disbursements in the first nine months of 2019 amounted to 486 million Euro, down slightly (-3,4%) on the first nine months of 2018, and mainly refer to the auto lease sector. Loans to customers amounted to 1.425 million Euro, +1,8% on 31 December 2018.
- The **Corporate Banking Area** reported net banking income of 46,9 million Euro, a decrease of 33,4%, mainly due to the lower measurement of assets at fair value for 14,1 million Euro. However, it is significantly impacted by the expected lower

3 The term "PPA reversal" refers to the reversal over time of the difference between the fair value as measured in the business combination and the carrying amount of the receivables of the former GE Capital Interbanca Group, acquired on 30 November 2016.

contribution of the "PPA reversal"[4] (38,5 million Euro compared to 50,1 million at 30 September 2018). This decrease is normal as it is related to the progressive repayment of the underlying loans. Outstanding loans of the Corporate Banking Segment amounted to 733,1 million Euro, down 8,2% compared to the end of 2018.

The net banking income of the **NPL Segment**[5] amounted to 168,9 million Euro, up by 0.4%% from 168,2 million Euro for the period ended 30 September 2018, and may be broken down as follows.

"Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, was up 32,5% from 72,3 million Euro to 95,7 million Euro, largely thanks to the increase in receivables at amortised cost, the highest amount of which is related for 47,6 million Euro to writs, attachments of property, and garnishment orders, and for 17,4 million Euro to settlement plans. This item includes 5,7 million Euro attributable to the newly acquired FBS.

The item "Other components of net interest income" 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 96,2 million Euro to 74,2 million Euro, with a decrease of 22,9%; this item includes the contribution of non-judicial operations for approximately 19,7 million Euro and the contribution of writs, attachments of property and garnishment orders for approximately 35,1 million Euro and the secured and corporate basin for approximately 19,4 million Euro. This item includes 5,8 million Euro attributable to the newly acquired FBS.

The increase in net commission income 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 7,7 billion Euro.

Profits from the sale of receivables, earned solely in the first half of the year, are substantially in line with the first nine months of 2018. Disposals relate to processing queues of portfolios with an amortised cost value of 3 million Euro.

At 30 September 2019, the nominal amount of the receivables managed totalled 16,6 billion Euro, whereas their net carrying value was 1.187,6 million Euro. Collections improved by 45% from 125,7 million Euro in the first nine months of 2018 to 182,6 million Euro in the same period of 2019, confirming the Bank's recovery expertise.

Expected gross cash flows (Estimated Remaining Collections or ERCs) amount to approximately 2,4 billion Euro.

Loans to customers measured at amortised cost

Total **loans to customers measured at amortised cost** amounted to 7.118,2 million Euro, down by 2,7% on 31 December 2018. Against the 8,8% growth in the NPL Segment, due in part to the contribution of the FBS Group, there was a decrease in the Enterprises Segment (-4,9% compared to the balance at 31 December 2018) and the Governance & Services Segment (-0,9% compared to the balance at 31 December 2018).

The **net non-performing exposures of the Enterprises Segment** amounted to 320,1 million Euro and were broken down as follows at 30 September 2019:

- net bad loans amounted to 68,5 million Euro, a slight increase of on 67,9 million Euro at 31 December 2018, with a substantially stable ratio of net bad loans to net loans (1,2% compared to 1,1% at 31 December 2018). The coverage ratio stood at 70,3% compared to 73% at 31 December 2018, a change also driven by the write-offs of several fully impaired exposures during the period;
- the balance of net unlikely to pay was 126,1 million Euro, down by 14,5% from 147,5 million Euro at 31 December 2018, due in part to the increase in the average coverage ratio to 46% at 30 September 2019 from 36,9% at 31 December 2018;
- net non-performing past due exposures amounted to 125,4 million Euro compared to 95 million Euro at 31 December 2018 (+32,1%) with a coverage ratio of 7,6% 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.

4 The term "PPA reversal" refers to the reversal over time of the difference between the fair value as measured in the business combination and the carrying amount of the receivables of the former GE Capital Interbanca Group, acquired on 30 November 2016.

5 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.

Overall, the Enterprises Segment reported a Gross NPE Ratio of 10,1% (9,5% at 31 December 2018) and a Net NPE Ratio of 5,7% (5,2% at 31 December 2018).

Funding

At 30 September 2019, the Group's funding structure was as follows:

- 63,9% customers deposit;
- 13,2% ABS;
- 11,8% debt securities;
- 8,4% TLTRO;
- 2,7% other.

In the nine months to 30 September 2019, direct funding through Rendimax and Contomax increased by 11,9% on 31 December 2018 to 4.949 million Euro, confirming the Group's solidity requirements.

Equity and ratios[6]

The Group's consolidated equity was strengthened to 1.501,4 million Euro at 30 September 2019, up 2,9% 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 September 2019, amounted to 11,10%(compared to 10,30% at 31 December 2018), while the consolidated Total Own Funds Ratio amounted to 14,84% (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 at 30 September 2019, amounted to 14,66% (compared to 13,74% at 31 December 2018) while the consolidated Total Own Funds Ratio amounted to 19,25% (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 Banking 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%.

6 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.

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	
	30.09.2019	31.12.2018	ABSOLUTE	%
Financial assets measured at fair value through other comprehensive income	996.048	432.094	563.954	130,5%
Due from banks measured at amortised cost	1.041.312	590.595	450.717	76,3%
Loans to customers measured at amortised cost	7.118.150	7.313.972	(195.822)	(2,7)%
Total assets	10.249.131	9.382.261	866.870	9,2%
Due to banks measured at amortised cost	913.855	785.393	128.462	16,4%
Due to customers measured at amortised cost	5.257.047	4.673.299	583.748	12,5%
Debt securities issued	2.061.600	1.979.002	82.598	4,2%
Group equity	1.501.444	1.459.000	42.444	2,9%

RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net banking income	**391.243**	**403.550**	**(12.307)**	**(3,0)%**
Net credit risk losses/reversals	(49.014)	(68.915)	19.901	(28,9)%
Net profit (loss) from financial activities	**342.229**	**334.635**	**7.594**	**2,3%**
Operating costs	(212.354)	(208.865)	(3.489)	1,7%
Gains (Losses) on disposal of investments	(1.294)	-	(1.294)	n.a.
Pre-tax profit for the period from continuing operations	128.581	125.770	2.811	2,2%
Net profit for the period attributable to the Parent company	**83.996**	**88.994**	**(4.998)**	**(5,6)%**

QUARTERLY RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	3RD QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net banking income	**112.046**	**125.433**	**(13.387)**	**(10,7)%**
Net credit risk losses/reversals	(13.968)	(28.879)	14.911	(51,6)%
Net profit (loss) from financial activities	**98.078**	**96.554**	**1.524**	**1,6%**
Operating costs	(73.990)	(64.689)	(9.301)	14,4%
Pre-tax profit for the period from continuing operations	24.088	31.865	(7.777)	(24,4)%
Net profit for the period attributable to the Parent company	**15.730**	**22.785**	**(7.055)**	**(31,0)%**

CONSOLIDATED COMPREHENSIVE INCOME (in thousands of Euro)	30.09.2019	30.09.2018
Profit for the period	**84.053**	**89.049**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	(892)	2.018
Other comprehensive income, net of taxes, to be reclassified to profit or loss	15.114	(17.813)
Comprehensive Income	**98.275**	**73.254**
Total consolidated comprehensive income attributable to non-controlling interests	61	55
Total consolidated comprehensive income attributable to the Parent company	**98.214**	**73.199**

GROUP KPIs	30.09.2019	31.12.2018
Ratio - Total Own Funds	14,84%	14,01%
Ratio - Common Equity Tier 1	11,10%	10,30%
Number of company shares (in thousands)	53.811	53.811
Number of shares outstanding at period end(1) (in thousands)	53.452	53.441
Book value per share	28.09	27.30
EPS	1.57	2.75

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

02.4. Results by operating 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 30.09.2019	-	-	28.375	**28.375**
Amounts at 31.12.2018	*-*	*-*	*29.809*	***29.809***
% Change	*-*	*-*	*(4,8)%*	***(4,8)%***
Financial assets mandatorily measured at fair value through profit or loss				
Amounts at 30.09.2019	145.323	2.468	144	**147.935**
Amounts at 31.12.2018	*114.619*	*-*	*49.226*	***163.845***
% Change	*26,8%*	*n.a.*	*(99,7)%*	***(9,7)%***
Financial assets measured at fair value through other comprehensive income				
Amounts at 30.09.2019	11.067	-	984.981	**996.048**
Amounts at 31.12.2018	*12.188*	*-*	*419.906*	***432.094***
% Change	*(9,2)%*	*-*	*134,6%*	***130,5%***
Due from banks measured at amortised cost				
Amounts at 30.09.2019	-	-	1.041.312	**1.041.312**
Amounts at 31.12.2018	*-*	*-*	*590.595*	***590.595***
% Change	*-*	*-*	*76,3%*	***76,3%***
Loans to customers measured at amortised cost				
Amounts at 30.09.2019	5.629.184	1.189.113	299.853	**7.118.150**
Amounts at 31.12.2018	*5.918.496*	*1.092.799*	*302.677*	***7.313.972***
% Change	*(4,9)%*	*8,8%*	*(0,9)%*	***(2,7)%***
Due to banks				
Amounts at 30.09.2019	-	-	913.855	**913.855**
Amounts at 31.12.2018	*-*	*-*	*785.393*	***785.393***
% Change	*-*	*-*	*16,4%*	***16,4%***
Due to customers				
Amounts at 30.09.2019	-	-	5.257.047	**5.257.047**
Amounts at 31.12.2018	*-*	*-*	*4.673.299*	***4.673.299***
% Change	*-*	*-*	*12,5%*	***12,5%***
Debt securities issued				
Amounts at 30.09.2019	-	-	2.061.600	**2.061.600**
Amounts at 31.12.2018	*-*	*-*	*1.979.002*	***1.979.002***
% Change	*-*	*-*	*4,2%*	***4,2%***

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 30.09.2019	225.561	168.857	(3.175)	**391.243**
Amounts at 30.09.2018	*241.555*	*168.243*	*(6.248)*	***403.550***
% Change	*(6,6)%*	*0,4%*	*(49,2)%*	***(3,0)%***
Net profit (loss) from financial activities				
Amounts at 30.09.2019	179.391	168.857	(6.019)	**342.229**
Amounts at 30.09.2018	*173.112*	*168.243*	*(6.720)*	***334.635***
% Change	*3,6%*	*0,4%*	*(10,4)%*	***2,3%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Third quarter 2019	73.055	41.166	(2.175)	**112.046**
Third quarter 2018	*76.483*	*48.953*	*(3)*	***125.433***
% Change	*(4,5)%*	*(15,9)%*	*n.s.*	***(10,7)%***
Net profit (loss) from financial activities				
Third quarter 2019	61.467	41.166	(4.555)	**98.078**
Third quarter 2018	47.006	48.953	595	**96.554**
% Change	*30,8%*	*(15,9)%*	*n.s.*	***1,6%***

SEGMENT KPI (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality			
Amounts at 30.09.2019	1,01%	-	-
Amounts at 31.12.2018	*1,70%*	*-*	*-*
% Change	*(0,69)%*	*-*	*-*
Net bad loans/Loans to customers			
Amounts at 30.09.2019	1,2%	74,2%	4,2%
Amounts at 31.12.2018	*1,1%*	*71,5%*	*4,0%*
% Change	*0,1%*	*2,7%*	*0,2%*
Coverage ratio on gross bad loans			
Amounts at 30.09.2019	70,3%	-	21,9%
Amounts at 31.12.2018	*73,0%*	*-*	*15,4%*
% Change	*(2,7)%*	*-*	*6,5%*
Net non-performing exposures/Net loans to customers			
Amounts at 30.09.2019	5,7%	99,4%	9,5%
Amounts at 31.12.2018	*5,2%*	*99,6%*	*11,8%*
% Change	*0,5%*	*(0,2)%*	*(2,3)%*
Gross non-performing exposures/Gross loans to customers			
Amounts at 30.09.2019	10,1%	99,4%	12,8%
Amounts at 31.12.2018	*9,5%*	*99,6%*	*13,8%*
% Change	*0,6%*	*(0,2)%*	*(1,0)%*
RWAs(1)(2)			
Amounts at 30.09.2019	4.587.529	1.639.366	428.231
Amounts at 31.12.2018	*4.793.273*	*1.584.420*	*657.733*
% Change	*(4,3)%*	*3,5%*	*(34,9)%*

(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			
	30.09	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	147.935	182.094	174.508	163.845	133.665	130.520	115.597
Financial assets measured at fair value through other comprehensive income	996.048	693.533	432.901	432.094	428.253	433.827	453.847
Due from banks measured at amortised cost	1.041.312	726.052	996.333	590.595	1.452.011	1.568.042	1.565.449
Loans to customers measured at amortised cost	7.118.150	7.343.892	7.322.130	7.313.972	6.919.486	6.710.457	6.457.208
Property, plant and equipment	128.827	128.809	145.869	130.650	131.247	130.399	127.005
Intangible assets	64.026	65.282	65.855	23.277	25.500	24.815	25.250
Tax assets	388.624	390.503	396.280	395.084	409.324	400.773	408.270
Other assets	364.209	357.877	329.756	332.744	343.443	333.910	368.176
Total assets	**10.249.131**	**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			
	30.09	30.06	31.03	31.12	30.09	30.06	31.03
LIABILITIES AND EQUITY							
Due to banks measured at amortised cost	913.855	781.199	844.790	785.393	837.565	882.324	820.190
Due to customers measured at amortised cost	5.257.047	5.069.334	5.021.481	4.673.299	4.985.206	4.840.864	5.022.110
Debt securities issued	2.061.600	2.102.076	1.955.400	1.979.002	2.094.785	2.095.844	1.774.973
Tax liabilities	70.806	65.913	63.066	52.722	51.116	50.519	48.140
Other liabilities	444.379	397.263	489.594	432.845	476.827	490.109	442.400
Group equity:	1.501.444	1.472.257	1.489.301	1.459.000	1.397.430	1.373.083	1.412.989
- Share capital, share premiums and reserves	*1.417.448*	*1.403.991*	*1.459.381*	*1.312.237*	*1.308.436*	*1.306.874*	*1.375.135*
- Net profit attributable to the Parent company	*83.996*	*68.266*	*29.920*	*146.763*	*88.994*	*66.209*	*37.854*
Total liabilities and equity	**10.249.131**	**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			
	3rd Q.	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	**91.081**	**118.293**	**115.264**	**140.014**	**99.670**	**110.097**	**119.480**
Net commission income	**22.190**	**22.711**	**23.828**	**24.525**	**20.206**	**19.954**	**19.820**
Other components of net banking income	(1.225)	8.084	(8.983)	8.414	5.557	8.688	78
Net banking income	**112.046**	**149.088**	**130.109**	**172.953**	**125.433**	**138.739**	**139.378**
Net credit risk losses/reversals	(13.968)	(21.958)	(13.088)	(31.179)	(28.879)	(29.079)	(10.957)
Net profit (loss) from financial activities	**98.078**	**127.130**	**117.021**	**141.774**	**96.554**	**109.660**	**128.421**
Personnel expenses	(31.534)	(32.716)	(31.447)	(28.303)	(27.830)	(28.624)	(26.827)
Other administrative expenses	(43.740)	(71.034)	(43.321)	(42.707)	(38.734)	(48.460)	(46.625)
Net allocations to provisions for risks and charges	(5.653)	(2.974)	(2.512)	3.207	(6.254)	3.754	(2.806)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(4.517)	(4.214)	(4.062)	(3.685)	(3.148)	(3.116)	(2.809)
Other operating income/expenses	11.454	46.938	6.978	6.922	11.277	5.691	5.646
Operating costs	**(73.990)**	**(64.000)**	**(74.364)**	**(64.566)**	**(64.689)**	**(70.755)**	**(73.421)**
Gains (Losses) on disposal of investments	-	(1.294)	-	-	-	-	-
Pre-tax profit from continuing operations	**24.088**	**61.836**	**42.657**	**77.208**	**31.865**	**38.905**	**55.000**
Income taxes for the period relating to continuing operations	(8.343)	(23.469)	(12.716)	(19.447)	(9.025)	(10.550)	(17.146)
Profit for the period	**15.745**	**38.367**	**29.941**	**57.761**	**22.840**	**28.355**	**37.854**
Profit (Loss) for the period attributable to non-controlling interests	15	21	21	(8)	55	-	-
Profit for the period attributable to the Parent company	**15.730**	**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			
	3rd Q.	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**112.046**	**149.088**	**130.109**	**172.953**	**125.433**	**138.739**	**139.378**
Enterprises	*73.055*	*85.862*	*66.644*	*93.957*	*76.483*	*86.435*	*78.637*
NPL	*41.166*	*65.111*	*62.579*	*75.991*	*48.953*	*54.231*	*65.059*
Governance & Services	*(2.175)*	*(1.885)*	*886*	*3.005*	*(3)*	*(1.927)*	*(4.318)*
Net profit (loss) from financial activities	**98.078**	**127.130**	**117.021**	**141.774**	**96.554**	**109.660**	**128.421**
Enterprises	*61.467*	*64.465*	*53.459*	*64.963*	*47.006*	*58.471*	*67.634*
NPL	*41.166*	*65.111*	*62.579*	*75.991*	*48.953*	*54.231*	*65.059*
Governance & Services	*(4.555)*	*(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)	30.09.2019	30.09.2018	30.09.2017	30.09.2016	30.09.2015
Financial assets measured at fair value through other comprehensive income (IFRS 9)	996.048	428.253	475.528	n.a.	n.a.
Available for sale financial assets (IAS 39)	n.a.	n.a.	n.a.	1.026.744	3.677.850
Loans to customers measured at amortised cost	7.118.150	6.919.486	5.922.069	3.303.322	3.176.172
Due to banks measured at amortised cost	913.855	837.565	965.194	56.788	537.898
Due to customers measured at amortised cost	5.257.047	4.985.206	5.337.597	4.138.865	5.900.458
Debt securities issued	2.061.600	2.094.785	1.223.979	-	-
Equity	1.501.444	1.397.430	1.338.733	586.648	557.012
Net banking income	391.243	403.550	375.308	237.689	328.137
Net profit (loss) from financial activities	342.229	334.635	386.277	218.197	305.005
Profit for the period attributable to the Parent company	83.996	88.994	149.123	66.269	148.805
Cost/Income ratio	54,3%	51,8%	50,1%	49,9%	24,6%
Ratio - Total Own Funds	14,84%	14,70%	16,49%	14,50%	16,00%
Ratio - Common Equity Tier 1	11,10%	10,70%	15,65%	13,50%	15,30%

(1) For comparison purposes, the data for 2017 and 2018 has been restated to ensure accounting consistency with the amounts at 30 September 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.

03

Contribution of operating segments to Group results

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

03.1. The organisational structure

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's 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. The Segment's results from 7 January 2019 also include the contribution of the FBS Group, which is mainly specialised in servicing and the management of non-performing secured loans.
- 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; Special Situations, which supports the financial recovery of businesses that managed to overcome financial distress; and 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)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	168.248	172.693	(4.445)	(2,6)%
Net commission income	64.829	61.040	3.789	6,2%
Other components of net banking income	(7.516)	7.822	(15.338)	(196,1)%
Net banking income	**225.561**	**241.555**	**(15.994)**	**(6,6)%**
Net credit risk losses/reversals	(46.170)	(68.443)	22.273	(32,5)%
Net profit (loss) from financial activities	**179.391**	**173.112**	**6.279**	**3,6%**

INCOME STATEMENT DATA (in thousands of Euro)	3RD QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	53.137	57.019	(3.882)	(6,8)%
Net commission income	20.995	20.251	744	3,7%
Other components of net banking income	(1.077)	(787)	(290)	36,9%
Net banking income	**73.055**	**76.483**	**(3.428)**	**(4,5)%**
Net credit risk losses/reversals	(11.588)	(29.477)	17.889	(60,7)%
Net profit (loss) from financial activities	**61.467**	**47.006**	**14.461**	**30,8%**

The contribution to net banking income for the first nine months 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 126,7 million Euro (+3,1 million Euro compared to the same period of 2018), Corporate Banking 46,9 million Euro (-23,5 million Euro), Leasing 41,8 million Euro (+3,4 million Euro) and Tax receivables 10,2 million Euro (+1,0 million Euro).

Trade receivables contributed to the growth in net banking income, up 2,5% compared to the same period of 2018. This trend is favoured by the growth in turnover, up by 7,8% compared to 30 September 2018, and in the number of corporate clients, which rose by 2,1% compared to the same period of the previous year.

With regard to Corporate Banking, the decrease in net banking income is due for 14,1 million Euro to the change in the fair value measurement of financial instruments recognised in the first nine months of 2019 compared to the one recognised in the first nine months of 2018 and for 11,5 million Euro to the physiological lower contribution of the "reversal PPA"[7], which went from 50,1 million Euro in the first nine months of 2018 to 38,6 million Euro in the first nine months of 2019 (-23,0%).

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 143,7 million Euro at 30 September 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 8,9% compared to the same period of the previous year, mainly due to an increase in average lending.

In 2019, the Enterprises Segment recorded credit risk losses for a total of 46,2 million Euro (-22,3 million Euro compared to the same period of 2018, -32,5%), of which 32,1 million Euro relating to exposures of the Trade Receivables unit (-41,2%), 5,6 million Euro to Corporate Banking (-7,6%) and 8,3 million Euro to Leasing (+8,3%). It should be noted that the figure at 30 September 2018 was significantly affected by certain adjustments to non-performing positions in the construction sector.

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

The financial assets of the Enterprises Segment relate to loans to customers for 5.629,2 million Euro (-4,9% compared to 31 December 2018), Other financial assets mandatorily measured at fair value through profit or loss of 145,3 million Euro (+26,8%) and Financial assets measured at fair value through other comprehensive income of 11,1 million Euro (-9,2%); 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. The change in loans to customers is influenced by certain seasonal factors, which are normal for the Trade Receivables Area, as well as by certain management measures aimed at maximising the profitability of loans.

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)	30.09.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net bad loans	68.526	67.947	579	0,9%
Net unlikely to pay	126.107	147.458	(21.351)	(14,5)%
Net non-performing past due exposures	125.418	94.953	30.465	32,1%
Total net non-performing exposures to customers (stage 3)	**320.051**	**310.358**	**9.693**	**3,1%**
Net performing loans (stages 1 and 2)	5.309.133	5.608.138	(299.005)	(5,3)%
Total on-balance-sheet loans to customers	**5.629.184**	**5.918.496**	**(289.312)**	**(4,9)%**

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:

- 50,8 million Euro at 30 September 2019 (66,7 million Euro at 31 December 2018) classified as gross non-performing exposures;
- 25,9 million Euro at 30 September 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 of loans to customers.

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 30.09.2019						
Nominal amount	230.359	233.344	135.739	**599.442**	5.337.841	**5.937.283**
Impairment losses	(161.833)	(107.237)	(10.321)	**(279.391)**	(28.708)	**(308.099)**
Carrying amount	68.526	126.107	125.418	**320.051**	5.309.133	**5.629.184**
Coverage ratio	*70,3%*	*46,0%*	*7,6%*	***46,6%***	*0,54%*	***5,2%***
Gross ratio	*3,9%*	*3,9%*	*2,3%*	***10,1%***	*89,9%*	***100,0%***
Net ratio	*1,2%*	*2,2%*	*2,2%*	***5,7%***	*94,3%*	***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%***	*0,53%*	***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 non-performing exposures in the Enterprises Segment stood at 320,0 million Euro at 30 September 2019, up by 9,7 million Euro compared to the value at 31 December 2018 (310,4 million Euro, +3,1%): bad loans increased by 0,6 million Euro (+0,9%), 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 21,4 million Euro (-14,5%) also as a result of the increase in average coverage and, lastly, past due exposures increased by 30,5 million Euro (+32,1%) 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 46,6% at 30 September 2019. This effect is also influenced by write-offs made in the period on fully written-down exposures.

KPI	30.09.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Cost of credit quality	1,01%	1,70%	n.a.	(0,69)%
Net NPE ratio	5,7%	5,2%	n.a.	0,5%
Gross NPE ratio	10,1%	9,5%	n.a.	0,6%
Total RWA per Segment	4.587.529	4.793.273	(205.744)	(4,3)%

The cost of credit quality was 101 bps, compared to 170 bps at 31 December 2018 and 160 bps in the first nine months of 2018.

To ensure a better understanding of the results for the first nine 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)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	75.790	77.798	(2.008)	(2,6)%
Net commission income	50.898	45.824	5.074	11,1%
Net banking income	**126.688**	**123.622**	**3.066**	**2,5%**
Net credit risk losses/reversals	(32.069)	(54.531)	22.462	(41,2)%
Net profit (loss) from financial activities	**94.619**	**69.091**	**25.528**	**36,9%**

INCOME STATEMENT DATA (in thousands of Euro)	3RD QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	27.121	27.013	108	0,4%
Net commission income	16.275	16.302	(27)	(0,2)%
Net banking income	**43.396**	**43.315**	**81**	**0,2%**
Net credit risk losses/reversals	(4.721)	(25.916)	21.195	(81,8)%
Net profit (loss) from financial activities	**38.675**	**17.399**	**21.276**	**122,3%**

In the first nine months of 2019, the Trade Receivables Area contributed 126,7 million Euro to the Enterprises Segment's net banking income, up 2,5% compared to the same period of the previous year.

Despite the increase in interest income, net interest income decreased by 2,6% (-2,0 million Euro) compared to the same period last year. This effect is mainly related to the higher interest expense attributed by the Governance & Services Segment to both the higher average volumes traded and the increase in the internal transfer rate.

Net commission income, on the other hand, increased by 11,1% (+5,1 million Euro), driven by management commissions linked to the increase in turnover in the area dedicated to supporting the trade credit of SMEs operating in the domestic market.

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 2019, turnover totalled 10,3 billion Euro, up 0,7 billion Euro (+7,8%) compared to the related period of the previous year. The nominal amount of the loans managed (total outstandind) at the end of September 2019 was 3,8 billion Euro, a decrease of approximately 0,3 billion Euro (-8,5%) compared to September 2018.

Net credit risk losses/reversals amounted to 32,1 million Euro (compared to 54,5 million Euro in the first nine months of 2018, -41,2%); it is noted that at 30 September 2018, the figure was significantly affected by some adjustments to non-performing positions belonging to the construction sector.

Therefore, net profit from financial activities amounted to 94,6 million Euro, up 25,5 million Euro (+36,9%).

At 30 September 2019, the Area's total net loans amounted to 3,3 billion Euro, down 8,3% 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 of loans to customers.

TRADE RECEIVABLES AREA (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 30.09.2019						
Nominal amount	187.621	175.499	117.634	**480.754**	3.061.094	**3.541.848**
Impairment losses	(149.213)	(88.258)	(5.004)	**(242.475)**	(13.038)	**(255.513)**
Carrying amount	38.408	87.241	112.630	**238.279**	3.048.056	**3.286.335**
Coverage ratio	*79,5%*	*50,3%*	*4,3%*	***50,4%***	*0,4%*	***7,2%***
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)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	32.995	29.725	3.270	11,0%
Net commission income	8.854	8.704	150	1,7%
Net banking income	**41.849**	**38.429**	**3.420**	**8,9%**
Net credit risk losses/reversals	(8.328)	(7.693)	(635)	8,3%
Net profit (loss) from financial activities	**33.521**	**30.736**	**2.785**	**9,1%**

INCOME STATEMENT DATA (in thousands of Euro)	3RD QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	11.254	10.566	688	6,5%
Net commission income	2.430	1.695	735	43,4%
Net banking income	**13.684**	**12.261**	**1.423**	**11,6%**
Net credit risk losses/reversals	(3.635)	(2.741)	(894)	32,6%
Net profit (loss) from financial activities	**10.049**	**9.520**	**529**	**5,6%**

The Leasing Segment's net banking income totalled 41,8 million Euro, up 8,9% (+3,4 million Euro in absolute terms) compared to 30 September 2018. This positive change is mainly due to the higher net interest income following an increase in average loans (approximately +110 million Euro compared to the first nine months of 2018).

However, new disbursements in the first nine months of 2019, amounting to 486 million Euro decreased slightly (-3,4%) compared to the first nine months of 2018 and mainly refer to the auto lease sector.

Net impairment losses on receivables amounted to 8,3 million Euro, up 0,6 million Euro compared to the corresponding period of 2018. The increase is mainly due to higher provisions for non-performing positions.

At 30 September 2019, total net loans in the area amounted to 1.425 million Euro compared to 1.400 million Euro at 31 December 2018, with a positive change of 1,8%.

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

LEASING AREA (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 30.09.2019						
Nominal amount	14.227	24.068	16.354	**54.649**	1.409.408	**1.464.057**
Impairment losses	(11.515)	(15.436)	(5.259)	**(32.210)**	(6.923)	**(39.133)**
Carrying amount	2.712	8.632	11.095	**22.439**	1.402.485	**1.424.924**
Coverage ratio	*80,9%*	*64,1%*	*32,2%*	***58,9%***	*0,5%*	***2,7%***
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)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	49.381	56.039	(6.658)	(11,9)%
Net commission income	5.007	6.512	(1.505)	(23,1)%
Other components of net banking income	(7.516)	7.822	(15.338)	(196,1)%
Net banking income	**46.872**	**70.373**	**(23.500)**	**(33,4)%**
Net credit risk losses/reversals	(5.640)	(6.102)	461	(7,6)%
Net profit (loss) from financial activities	**41.232**	**64.271**	**(23.039)**	**(35,8)%**

INCOME STATEMENT DATA (in thousands of Euro)	3RD QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	11.186	16.446	(5.260)	(32,0)%
Net commission income	2.263	2.252	11	0,5%
Other components of net banking income	(1.077)	(786)	(291)	37,0%
Net banking income	**12.372**	**17.912**	**(5.540)**	**(30,9)%**
Net credit risk losses/reversals	(3.181)	(824)	(2.357)	286,1%
Net profit (loss) from financial activities	**9.191**	**17.088**	**(7.897)**	**(46,2)%**

With regard to Corporate Banking, the decrease in net banking income is due for 14,1 million Euro to the change in the fair value measurement of financial instruments recognised in the first nine months of 2019 compared to the one recognised in the first nine months of 2018 (-7,9 million Euro at 30 September 2019 compared to +6,2 million Euro at 30 September 2018) and for 11,5 million Euro to the physiological lower contribution of the "reversal PPA"[8], which went from 50,1 million Euro in the first nine months of 2018 to 38,6 million Euro in the first nine months of 2019 (-23,0%).

[8] "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.

Net impairment losses on receivables amounted to 5,6 million Euro, a decrease of 0,5 million Euro compared to the same period of the previous year, which recorded net impairment losses on receivables of 6,1 million Euro mainly for non-performing positions in run-off.

The contribution of the Corporate Banking Area to the net profit from financial activities of the Enterprises Segment therefore amounted to 41,2 million Euro, down 35,8% compared to the same period of the previous year.

At 30 September 2019, total net loans to customers in the Area amounted to 733,1 million Euro compared to 798,2 million Euro at 31 December 2018, with a negative change of 8,2%.

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

CORPORATE BANKING AREA (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 30.09.2019						
Nominal amount	28.508	33.503	1.751	**63.762**	682.576	**746.338**
Impairment losses	(1.105)	(3.543)	(58)	**(4.706)**	(8.547)	**(13.253)**
Carrying amount	27.403	29.960	1.693	**59.056**	674.029	**733.085**
Coverage ratio	*3,9%*	*10,6%*	*3,3%*	***7,4%***	*1,3%*	***1,8%***
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)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	10.082	9.131	951	10,4%
Net commission income	70	-	70	n.a.
Net banking income	**10.152**	**9.131**	**1.020**	**11,2%**
Net credit risk losses/reversals	(133)	(117)	(16)	13,6%
Net profit (loss) from financial activities	**10.019**	**9.014**	**1.005**	**11,1%**

INCOME STATEMENT DATA (in thousands of Euro)	3RD QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	3.576	2.993	583	19,5%
Net commission income	27	2	25	n.s.
Net banking income	**3.603**	**2.995**	**608**	**20,3%**
Net credit risk losses/reversals	(51)	4	(55)	n.s.
Net profit (loss) from financial activities	**3.552**	**2.999**	**553**	**18,4%**

The Tax Receivables Area contributed 10,1 million Euro to the Enterprises Segment's net banking income, up 11,2% from 30 September 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 44,9 million Euro in the first nine months of 2018 to a nominal 94,5 million Euro in the first nine months of 2019.

At 30 September 2019, the Area's total net loans amounted to 184,8 million Euro, up 35,8% from 136,2 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 of loans to customers.

TAX RECEIVABLES AREA (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 30.09.2019						
Nominal amount	3	274	-	**277**	184.763	**185.040**
Impairment losses	-	-	-	**-**	(200)	**(200)**
Carrying amount	3	274	-	**277**	184.563	**184.840**
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 Segment dedicated to non-recourse acquisition and managing distressed retail loans. The Segment's results from 7 January 2019 also include the contribution of the FBS Group, which is mainly specialised in servicing and the management of non-performing secured loans.

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

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

The following table shows the breakdown of the NPL Segment's receivables portfolio by conversion and accounting methods; the impact recognised through profit or loss, totalling 169,9 million Euro, is the result of 95,7 million Euro in interest income from amortised cost and for 74,2 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	Carr. amount /Out. nom. amount	Impact through profit or loss	ERC	Main method of accounting
Cost	1.782.670	160.418	9,0%	-	368.628	Acquisition cost
Non-judicial	9.574.226	307.631	3,2%	56.750	560.525	
of which: Collective (curves)	*9.194.404*	*153.691*	*1,7%*	*(6.683)*	*263.807*	*Cost = NPV of flows from model*
of which: Plans	*379.822*	*153.940*	*40,5%*	*63.432*	*296.718*	*Cost = NPV of flows from model*
Judicial	5.225.845	719.560	13,8%	113.189	1.487.539	
of which: Other positions undergoing judicial processing	*2.192.129*	*214.597*	*9,8%*	*-*	*483.006*	*Acquisition cost*
of which: Writs, Property Attachments, Garnishment Orders	*1.122.670*	*362.616*	*32,3%*	*82.646*	*803.969*	*Cost = NPV of flows from model*
of which: Secured and Corporate	*1.911.046*	*142.347*	*7,4%*	*30.543*	*200.564*	*Cost = NPV of flows from model*
Total	**16.582.741**	**1.187.609**	**7,2%**	**169.938**	**2.416.692**	

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 (160,4 million Euro at 30 September 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 (153,9 million Euro at 30 September 2019, compared to 153,4 million Euro at 31 December 2018), calculated as the net present value of expected 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 (153,9 million Euro at 30 September 2019, compared to 137,9 million Euro at 31 December 2018), calculated as the net present value of expected 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 collective 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 garnishment order phase was 362,6 million Euro at 30 September 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 214,6 million Euro at 30 September 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 142,3 million Euro at 30 September 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)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Interest income from amortised cost	95.727	72.264	23.463	32,5%
Interest income notes	940	-	940	n.a.
Other components of net interest income	74.212	96.208	(21.996)	(22,9)%
Funding costs	(13.394)	(7.747)	(5.647)	72,9%
Net interest income	**157.485**	**160.725**	**(3.240)**	**(2,0)%**
Net commission income	3.993	(13)	4.006	n.s.
Other components of net banking income	(526)	-	(526)	n.a.
Gain on sale of receivables	7.905	7.531	374	5,0%
Net banking income	**168.857**	**168.243**	**614**	**0,4%**
Net profit (loss) from financial activities	**168.857**	**168.243**	**614**	**0,4%**

INCOME STATEMENT DATA (in thousands of Euro)	3RD QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Interest income from amortised cost	32.727	26.479	6.248	23,6%
Interest income notes	467	-	467	n.a.
Other components of net interest income	11.550	19.387	(7.837)	(40,4)%
Funding costs	(4.480)	(2.749)	(1.731)	63,0%
Net interest income	**40.264**	**43.117**	**(2.853)**	**(6,6)%**
Net commission income	1.197	263	934	355,3%
Other components of net banking income	(299)	-	(299)	n.a.
Gain on sale of receivables	4	5.573	(5.569)	(99,9)%
Net banking income	**41.166**	**48.953**	**(7.787)**	**(15,9)%**
Net profit (loss) from financial activities	**41.166**	**48.953**	**(7.787)**	**(15,9)%**

"Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, was up 32,5% from 72,3 million Euro to 95,7 million Euro, largely thanks to the increase in receivables at amortised cost, the highest amount of which is related for 47,6 million Euro to writs, attachments of property, and garnishment orders, and for 17,4 million Euro to settlement plans. This item also includes 5,7 million Euro to the newly acquired FBS.

The item "**Other components of net interest income**" 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 96,2 million Euro to 74,2 million Euro, with a decrease of 22,9%; this item includes the contribution of non-judicial operations for approximately 19,7 million Euro and the contribution of writs, attachments of property and garnishment orders for approximately 35,1 million Euro and the secured and corporate basin for approximately 19,4 million Euro. This item includes 5,8 million Euro to the newly acquired FBS.

The increase in the funding costs 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 commission income 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 7,7 billion Euro.

Finally, gain on sale of receivables are substantially in line with the first nine months 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 168,9 million Euro (168,2 million Euro at 30 September 2018, +0,4%). Collections went from 125,7 million Euro in the first nine months of 2018 to 182,6 million Euro in the first nine months of 2019 (+45%).

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

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	30.09.2019(1)	31.12.2018	CHANGE	
			ABSOLUTE	%
Net bad loans	882.798	781.572	101.226	13,0%
Net unlikely to pay	298.819	306.348	(7.529)	(2,5)%
Net non-performing past due exposures	246	131	115	87,8%
Total net non-performing exposures to customers (stage 3)	**1.181.863**	**1.088.051**	**93.812**	**8,6%**
Net performing loans (stages 1 and 2)	7.250	4.748	2.502	52,7%
Total on-balance-sheet loans to customers	**1.189.113**	**1.092.799**	**96.314**	**8,8%**

(1) At 30 September 2019, this item included 1.504 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.

KPI	30.09.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	16.582.741	15.756.372	826.369	5,2%
Total RWA per Segment	1.639.366	1.584.420	54.946	3,5%

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

NPL SEGMENT LOAN PORTFOLIO PERFORMANCE	30.09.2019	YEAR 2018
Opening loan portfolio	**1.092.799**	**799.436**
Business combinations	16.043	-
Purchases	97.947	240.863
Sales	(14.460)	(21.214)
Gains on sales	7.905	17.100
Interest income from amortised cost	95.727	99.801
Other components of interest from change in cash flow	74.216	138.150
Collections	(182.568)	(181.337)
Closing loan portfolio	**1.187.609**	**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 nine months of 2019 amounted to 97,9 million Euro, a slight decrease from the same period in 2018 when 102,8 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 from the first nine months of 2018, reaching 231,6 million Euro at 30 September 2019 compared to 219,3 million Euro in the corresponding period of the previous year.

At the end of the period, the portfolio managed by the NPL Segment included 1.716.797 positions, for a nominal amount of 16,6 billion Euro.

GOVERNANCE & SERVICES

The Segment comprises, among other things, the resources required for the performance of the services of the Audit, Administration-Accounting, Financial, 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)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	(1.095)	(4.174)	3.079	(73,8)%
Net commission income	(93)	(1.046)	953	(91,1)%
Other components of net banking income	(1.987)	(1.028)	(959)	93,3%
Net banking income	**(3.175)**	**(6.248)**	**3.073**	**(49,2)%**
Net credit risk losses/reversals	(2.841)	(472)	(2.369)	501,9%
Net profit (loss) from financial activities	**(6.019)**	**(6.720)**	**701**	**(10,4)%**

INCOME STATEMENT DATA (in thousands of Euro)	3RD QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	(2.320)	(469)	(1.851)	394,7%
Net commission income	(2)	(308)	306	(99,4)%
Other components of net banking income	147	774	(627)	(81,0)%
Net banking income	**(2.175)**	**(3)**	**(2.172)**	**n.s.**
Net credit risk losses/reversals	(2.380)	598	(2.978)	(498,0)%
Net profit (loss) from financial activities	**(4.555)**	**595**	**(5.150)**	**n.s.**

The net banking income of the Segment was negative for 3,2 million Euro in the first 9 months of 2019, an improvement compared to 30 September 2018. The change is attributable to the increase in net interest income of 3 million Euro, due to various factors, of which the main ones are highlighted:

- An increase of approximately 9,2 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" of the Governance & Services Segment, related to the retail mortgage portfolio (formerly Leasing), with a positive contribution from 5 million Euro in the first 9 months of 2018 to 6 million Euro in the first nine months of 2019. The total residual amount of the PPA reversal for the Governance & Services Segment was 38,6 million Euro at 30 September 2019.
- Reduction in interest income on securities in the portfolio, consisting mainly of short-term government securities, of 3,1 million Euro. This reduction is due to the lower profitability of the inflation linked component, for which the capital and coupon revaluation was lower in 2019 due to the persistently low Italian inflation.
- 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 nine months of 51 million Euro, up on the corresponding period of last year (44,2 million Euro) mainly due to assets under management up to 4.949 million Euro (4.667 million Euro at 30 September 2018, +6,1% and 4.424 million Euro at 31 December 2018, +11,9%). 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 September 2019, the value of the total amortised cost of bond issues amounted to 971,3 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 195 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, with a negative contribution of 2 million Euro compared with 4,4 million Euro in the same period of 2018, consistent with the lower liquidity deposited there. As of the end of the first half of 2019, 696 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.

With regard to the cost of credit, there was an increase in the impairment losses of retail portfolios due to the deterioration in credit quality.

At 30 September 2019, total net financial assets at amortised cost of the Segment amounted to 300 million Euro, substantially in line with the figure at 31 December 2018 (302,7 million Euro, -0,9%). In detail, there was a growth of 8,1% regarding the receivables of the subsidiary Cap.Ital.Fin. S.p.A., which at 30 September stood at 35 million Euro compared to 32,4 million Euro at 31 December 2018, and a 7,5% reduction in receivables relating to other retail portfolios, which stood at 118,7 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 of loans to customers.

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 30.09.2019						
Nominal amount	16.197	20.765	3.267	**40.229**	274.105	**314.334**
Impairment losses	(3.549)	(7.443)	(754)	**(11.746)**	(2.735)	**(14.481)**
Carrying amount	12.647	13.322	2.514	**28.483**	271.370	**299.853**
Coverage ratio	*21,9%*	*35,8%*	*23,1%*	***29,2%***	*1,0%*	***4,6%***
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%***

The coverage of non-performing exposures in the segment is affected by receivables belonging to the so-called "POCI" category, whose gross values already take into account the estimate of expected losses.

04

Reclassified Financial Statements

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

04.1. Reclassified Consolidated Statement of Financial Position

ASSETS (in thousands of Euro)	**AMOUNTS AT**	
	30.09.2019	**31.12.2018**
Cash and cash equivalents	62	48
Financial assets held for trading through profit or loss	28.375	29.809
Financial assets mandatorily measured at fair value through profit or loss	147.935	163.845
Financial assets measured at fair value through other comprehensive income	996.048	432.094
Due from banks measured at amortised cost	1.041.312	590.595
Loans to customers measured at amortised cost	7.118.150	7.313.972
Equity investments	6	-
Property, plant and equipment	128.827	130.650
Intangible assets	64.026	23.277
of which:		
- goodwill	*42.252*	*1.515*
Tax assets:	388.624	395.084
a) current	48.319	46.820
b) deferred	340.305	348.264
Other assets	335.766	302.887
Total assets	**10.249.131**	**9.382.261**

LIABILITIES AND EQUITY (in thousands of Euro)	AMOUNTS AT	
	30.09.2019	31.12.2018
Due to banks	913.855	785.393
Due to customers	5.257.047	4.673.299
Debt securities issued	2.061.600	1.979.002
Financial liabilities held for trading	26.798	31.155
Tax liabilities:	70.806	52.722
a) current	24.795	13.367
b) deferred	46.011	39.355
Other liabilities	373.954	367.872
Post-employment benefits	10.298	8.039
Provisions for risks and charges	33.329	25.779
Valuation reserves	(950)	(14.606)
Reserves	1.259.773	1.168.543
Share premiums	102.285	102.116
Share capital	53.811	53.811
Treasury shares (-)	(3.012)	(3.103)
Equity attributable to non-controlling interests (+/-)	5.541	5.476
Profit (loss) for the period attributable to the Parent company (+/-)	83.996	146.763
Total liabilities and equity	**10.249.131**	**9.382.261**

04.2. Reclassified Consolidated Income Statement

ITEMS (in thousands of Euro)	30.09.2019	30.09.2018
Net interest income	**324.638**	**329.247**
Net commission income	**68.729**	**59.980**
Other components of net banking income	(2.124)	14.323
Net banking income	**391.243**	**403.550**
Net credit risk losses/reversals	(49.014)	(68.915)
Net profit (loss) from financial activities	**342.229**	**334.635**
Administrative expenses:	(253.792)	(217.100)
a) personnel expenses	(95.697)	(83.281)
b) other administrative expenses	(158.095)	(133.819)
Net allocations to provisions for risks and charges	(11.139)	(5.306)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(12.793)	(9.073)
Other operating income/expenses	65.370	22.614
Operating costs	**(212.354)**	**(208.865)**
Gains (Losses) on disposal of investments	(1.294)	-
Pre-tax profit (loss) for the period from continuing operations	**128.581**	**125.770**
Income taxes for the period relating to continuing operations	(44.528)	(36.721)
Profit (loss) for the period	**84.053**	**89.049**
Profit (Loss) for the period attributable to non-controlling interests	57	55
Profit (loss) for the period attributable to the Parent company	**83.996**	**88.994**

04.3. Reclassified Consolidated Statement of Comprehensive Income

ITEMS (in thousands of Euro)	30.09.2019	30.09.2018
Profit (loss) for the period	**84.053**	**89.049**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**(892)**	**2.018**
Equity securities measured at fair value through other comprehensive income	(270)	1.931
Defined benefit plans	(622)	87
Other comprehensive income, net of taxes, to be reclassified to profit or loss	**15.114**	**(17.813)**
Exchange differences	(643)	(830)
Financial assets (other than equity securities) measured at fair value through other comprehensive income	15.757	(16.983)
Total other comprehensive income, net of taxes	**14.222**	**(15.795)**
Comprehensive Income	**98.275**	**73.254**
Total consolidated comprehensive income attributable to non-controlling interests	61	55
Total consolidated comprehensive income attributable to the Parent company	**98.214**	**73.199**

05 Notes

05.1. Accounting Policies

05.1.1 Basis of preparation

This Consolidated Interim Report at 30 September 2019 of the Banca IFIS Group was prepared in accordance with Borsa Italiana's Rules for companies listed on the STAR segment (article 2.2.3 paragraph 3), which require publishing an interim report within 45 days of the end of each quarter, and considering Borsa Italiana's notice no. 7587 of 21 April 2016. Therefore, in accordance with said notice, concerning the contents of the Consolidated Interim Report, the Group made reference to the pre-existing paragraph 5 of article 154-ter of Italian Legislative Decree no. 58, dated 24 February 1998.

The Consolidated Interim Report at 30 September 2019 does not include all the information required for the preparation of the annual consolidated financial statements in accordance with IFRS accounting standards. For this reason, it is necessary to read the Consolidated Interim Report together with the consolidated financial statements at 31 December 2018. The preparation criteria, the valuation and consolidation criteria and the accounting standards adopted in the preparation of this Consolidated Interim Report are in accordance with the accounting standards adopted in the preparation of the consolidated financial statements at 31 December 2018, to which reference should be made for further details, with the exception of the effects relating to the introduction of the new accounting standard IFRS 16 - Leases. For more details, please see the paragraph "Impact of the first-time adoption of IFRS 16" below.

IFRS refer to international accounting standards 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.

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

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

05.1.2 Scope and methods of consolidation

The Consolidated Interim Report of the Banca IFIS Group has been drawn up on the basis of the accounts at 30 September 2019 prepared by the directors of the companies included in the consolidation scope.

At 30 September 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 by FBS S.p.A. and by the company Elipso Finance S.r.l. 50% jointly controlled, also through FBS S.p.A. 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 amount 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 disposed operation 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: 804 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..

In addition, with regard to the acquisition of control of the FBS Group, it should be noted that at 30 September 2019, the process of allocating the cost of the investment had not yet been completed, which must be definitively quantified within a maximum period of twelve months from the date of acquisition. In this regard, it should be noted that, as at the reference date of this Consolidated Interim Report, 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.

The total cost of the business combination was therefore provisionally determined at 67,7 million Euro and the consolidation process showed a difference of 40,7 million Euro to be allocated between the cost and the equity of the FBS Group, recorded as intangible assets.

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

Investments in exclusively controlled companies

Company Name	Head office	Registered office	Type (1)	Investment		Voting rights % (2)
				Investing company	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 pursuant to article 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 period 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 interests, even if this implies that the minority interests 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.

05.1.3 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.

05.1.4 Risks and uncertainties related to estimates

Using accounting standards often requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. In making the assumptions underlying the estimates, management considers all available information at the reporting date as well as any other factor deemed reasonable for this purpose. Specifically, it made estimates concerning the carrying amounts of some items in the Consolidated Interim Report at 30 September 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 September 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 combinations.

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.

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 at amortised cost and Financial assets 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 non-performing 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.

05.2. Group financial and income results

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

05.2.1. Reclassified Statement of financial positions items

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.09.2019	31.12.2018	ABSOLUTE	%
Financial assets mandatorily measured at fair value through profit or loss	147.935	163.845	(15.910)	(9,7)%
Financial assets measured at fair value through other comprehensive income	996.048	432.094	563.954	130,5%
Due from banks measured at amortised cost	1.041.312	590.595	450.717	76,3%
Loans to customers measured at amortised cost	7.118.150	7.313.972	(196.146)	(2,7)%
Property, plant and equipment and intangible assets	192.853	153.927	38.926	25,3%
Tax assets	388.624	395.084	(6.460)	(1,6)%
Other assets	364.209	332.744	31.465	9,5%
Total assets	**10.249.131**	**9.382.261**	**866.546**	**9,2%**
Due to banks	913.855	785.393	128.138	16,3%
Due to customers	5.257.047	4.673.299	583.748	12,5%
Debt securities issued	2.061.600	1.979.002	82.598	4,2%
Tax liabilities	70.806	52.722	18.084	34,3%
Provisions for risks and charges	33.329	25.779	7.550	29,3%
Other liabilities	411.050	407.066	3.984	1,0%
Group equity	1.501.444	1.459.000	42.444	2,9%
Total liabilities and equity	**10.249.131**	**9.382.261**	**866.546**	**9,2%**

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 decrease in this item is related to the sale of UCITS units (held as liquidity investment) for about 50,0 million Euro as no longer consistent with the Group's investment policies, only partially offset by net subscriptions of UCITS units for 24,2 million Euro, by the subscription of new loans measured at fair value for 13,3 million Euro, by 3,5 million Euro in interest accrued on these financial assets and by the increase in debt securities for 2,5 million Euro deriving from the acquisition of the FBS Group.

Below is the breakdown of this line item.

FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.09.2019	31.12.2018	ABSOLUTE	%
Debt securities	2.612	1.935	677	35,0%
Equity securities	6.589	11.266	(4.677)	(41,5)%
UCITS units	72.957	99.349	(26.392)	(26,6)%
Loans	65.777	51.295	14.482	28,2%
Total	**147.935**	**163.845**	**(15.910)**	**(9,7)%**

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income amounted to 996,0 million Euro at 30 September 2019, up 130,5% from 31 December 2018. The item includes debt securities that have passed the SPPI test and equity securities for which the Bank has exercised the OCI Option without subsequent transfer to the income statement as required by the new IFRS 9.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.09.2019	31.12.2018	ABSOLUTE	%
Debt securities	964.437	418.709	545.728	130,3%
Equity securities	31.611	13.385	18.226	136,2%
Total	**996.048**	**432.094**	**563.954**	**130,5%**

Debt securities held in portfolio at 30 September 2019 amounted to 964,4 million Euro. The increase of 130,3% compared to 31 December 2018 is mainly driven by the purchase of Italian government securities with concentrated maturities mostly of two years, aimed at using the excess liquidity in stock at the Bank of Italy.

Specifically, the item includes 948,3 million Euro Italian government securities (nominal amount 941,5 million Euro), whose relative net positive fair value reserve amounts to 5,3 million Euro compared to a net negative reserve of 8,4 million Euro in the previous year.

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

Issuer/Maturity	1 year	2 years	3 years	5 years	over 5 years	Total
Government bonds	110.392	515.555	-	264.505	57.842	948.294
% of total	*11,4%*	*53,5%*	-	*27,4%*	*6,0%*	*98,3%*
Banks	-	-	-	7.230	5.733	12.963
% of total	-	-	-	*0,8%*	*0,6%*	*1,4%*
Other issuers	-	-	-	-	3.181	3.181
% of total	-	-	-	-	*0,3%*	*0,3%*
Total	**110.392**	**515.555**	**-**	**271.735**	**66.755**	**964.437**
% of total	***11,4%***	***53,5%***	**-**	***28,2%***	***6,9%***	***100,0%***

This item includes also equity securities relating to non-controlling interests, amounting to 31,6 million Euro (+136,2% compared to 31 December 2018). The change is closely linked to the creation, during the third quarter, of a portfolio of securities owned by listed companies, aimed at developing a proprietary portfolio functional to generating income over time. The net positive fair value reserve for these securities amounts to 0,8 million Euro.

Due from banks measured at amortised cost

Total Due from banks measured at amortised cost at 30 September 2019 amounted to 1.041,3 million Euro, compared to 590,6 million Euro at 31 December 2018. This item mainly refers to Receivables from central banks (804,3 million Euro at 30 September 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 7.118,2 million Euro, down compared to 31 December 2018 (-2,7%). While the NPL Segment grew by 8,8%, thanks in part to the contribution of the FBS Group, the Enterprises Segment declined by 289,3 million Euro (or -4,9%). The latter change is influenced by certain seasonal factors, which are normal for the Trade Receivables Area, as well as by certain management actions aimed at maximising the profitability of loans. Finally, loans in the Governance & Services Segment portfolio decreased by 0,9%, or 2,8 million Euro compared to 302,7 million Euro at 31 December 2018.

It should be noted that the item "Loans to customers measured at amortised cost" includes an exposure classifiable as "large exposure", which in total exceeds 10% of own funds.

LOANS TO CUSTOMERS BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.09.2019	31.12.2018	ABSOLUTE	%
Enterprises Segment	5.629.184	5.918.496	(289.312)	*(4,9)%*
- of which non-performing	*320.051*	*310.358*	*9.693*	*3,1%*
NPL Segment	1.189.113	1.092.799	96.314	*8,8%*
- of which non-performing	*1.181.863*	*1.088.051*	*93.812*	*8,6%*
Governance & Services Segment	299.853	302.677	(2.824)	*(0,9)%*
- of which non-performing	*28.483*	*35.632*	*(7.149)*	*(20,1)%*
Total loans to customers	**7.118.150**	**7.313.972**	**(195.822)**	**(2,7)%**
- of which non-performing	***1.530.397***	***1.434.041***	***96.356***	***6,7%***

Total net non-performing exposures, which are significantly affected by the receivables of the NPL Segment, amounted to 1.530,4 million Euro at 30 September 2019, compared to 1.434,0 million Euro at 31 December 2018 (+6,7%).

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 64,0 million Euro, compared to 23,3 million Euro at 31 December 2018 (+175,1%). The increase was largely attributable to the recognition of the difference to be allocated from application of IFRS 3, provisionally estimated at 40,7 million Euro related to the acquisition of the FBS Group on 7 January 2019.

The item also included 21,8 million Euro worth of software, 0,8 million Euro in goodwill arising from the consolidation of the investment in IFIS Finance Sp.Z o.o., and 0,7 million Euro in the 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 2008 S.r.l. that contributed to this item for 16,1 million Euro (substantially related to photovoltaic plants), offset by the effect of the recognition of 12,0 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 September 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 388,6 million Euro, substantially in line with the figure at 31 December 2018 (-1,6%).

Current tax assets amounted to 48,3 million Euro compared with 46,8 million Euro at 31 December 2018. Deferred tax assets amounted to 340,3 million Euro, compared with 348,3 million Euro at 31 December 2018, of which 83,4 million Euro for previous tax losses and ACE benefits (102 million Euro at 31 December 2018) and 218,4 million Euro, unchanged compared to 31 December 2018, in value adjustments on receivables that can be deducted in the following years.

Tax liabilities amounted to 70,8 million Euro, up 34,3% from 31 December 2018.

Current tax liabilities, amounting to 24,8 million Euro, represent the tax burden for the period (13,4 million Euro at 31 December 2018).

Deferred tax liabilities, amounting to 46,0 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.

With reference to prudential consolidation, 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 no. 286.

Here below is the breakdown of the different treatments by type and the relevant impact on CET1 and risk-weighted assets at 30 September 2019:

- the "deferred tax assets that rely on future profitability and do not arise from temporary differences" are deducted from CET1; at 30 September 2019, the 100% deduction amounted to 83,4 million Euro, in addition to 28,8 million Euro referring to the Holding of the Banking Group: in this regard, please note that this deduction will be gradually absorbed by the future use of such deferred tax assets;
- the "deferred tax assets that rely on future profitability and arise from temporary differences" are not deducted from CET1 and receive instead a 250% risk weight: at 30 September 2019, these assets, which amounted to 32,6 million Euro, were essentially offset by the corresponding deferred tax liabilities;
- the "deferred tax assets pursuant to Italian Law 214/2011", concerning impairment losses on receivables that can be converted into tax credits, receive a 100% risk weight; at 30 September 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 September 2019 and 100% deducted from Own Funds resulted in an expense amounting to 1,28% (1,63% at 31 December 2018) as a proportion of CET1, which will decline in the future as said assets are utilised against taxable income.

Other assets and liabilities

Other assets, amounting to 364,2 million Euro compared to a balance of 332,7 million Euro at 31 December 2018, include financial assets held for trading of 28,4 million Euro (29,8 million Euro at 31 December 2018), and other assets of 335,8 million Euro (302,9 million Euro at 31 December 2018).

Other assets included 101,5 million Euro in receivables due from the parent company La Scogliera S.p.A., of which 46,3 million Euro as a result of the tax consolidation regime and 55,2 million Euro in tax credits claimed by the latter for excess tax payments from prior years; 9,7 million Euro in net receivables due from tax authorities for payments on account (stamp duty); and 36,8 million Euro in VAT credits claimed (in particular from Leasing). Finally, the item included 29,2 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 at 31 December 2018).

Other liabilities amounted to 411,1 million Euro compared to 407,1 million Euro at 31 December 2018 and included 26,8 million Euro in derivatives held for trading (31,2 million Euro at 31 December 2018), 10,3 million Euro in liabilities for post-employment benefits (8,0 million Euro at 31 December 2018), and 374,0 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 18,3 million Euro payable to the parent company La Scogliera deriving from the tax consolidation regime.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.09.2019	31.12.2018	ABSOLUTE	%
Due to banks	**913.855**	**785.393**	**128.462**	**16,4%**
- Eurosystem	*693.981*	*695.075*	*(1.094)*	*(0,2)%*
- Other payables	*219.874*	*90.318*	*129.556*	*143,4%*
Due to customers	**5.257.047**	**4.673.299**	**583.748**	**12,5%**
- Rendimax and Contomax	*4.949.448*	*4.424.467*	*524.981*	*11,9%*
- Other term deposits	*55.475*	*37.669*	*17.806*	*47,3%*
- Other payables	*252.124*	*211.163*	*40.961*	*19,4%*
Debt securities issued	**2.061.600**	**1.979.002**	**82.598**	**4,2%**
Total funding	**8.232.502**	**7.437.694**	**794.808**	**10,7%**

Total **funding**, which amounted to 8.232,5 million Euro at 30 September 2019 (+10,7% compared to 31 December 2018), is represented for 63,9% by Payables due to customers (compared to 62,8% at 31 December 2018), for 11,1% by Payables due to banks (compared to 10,6% at 31 December 2018), and for 25,0% by Debt securities issued (26,6% at 31 December 2018).

Payable due to customers at 30 September 2019 amounted to 5.257,0 million Euro (+12,5% 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 4.949,4 million Euro at 30 September 2019 and that is composed of 4.037,9 million Euro short-term, of which 1.466,8 million on the like product (restricted to 33 days) and 911,5 million medium/long-term.

Payables due to banks amounted to 913,8 million Euro (+16,4% compared to 31 December 2018). This item mainly refers to the TLTRO tranche of 693,9 million Euro subscribed in 2017, deposits with other banks of 170,2 million Euro and 49,7 million Euro related to other accounts and loans.

Debt securities issued amounted to 2.061,6 million Euro. The item included 1.089,8 million Euro (+9,0% 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 496,5 million Euro (including interest) in senior bonds issued by Banca IFIS, as well as the 415,3 million Euro (including interest) Tier 2 bond. The rest of debt securities issued at 30 September 2019 included 59,5 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	
	30.09.2019	31.12.2018	ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	2.495	3.896	(1.401)	(36,0)%
Legal and tax disputes	21.006	14.566	6.440	44,2%
Other provisions	9.828	7.317	2.511	34,3%
Total provisions for risks and charges	**33.329**	**25.779**	**7.550**	**29,3%**

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 September 2019, this item amounted to 2,5 million Euro and reflected the impairment losses on commitments and financial guarantees granted by the Group recognised in accordance with the 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 September 2019, the Group had set aside 21,0 million Euro in provisions. This amount breaks down as follows:

- 13,1 million Euro for 34 disputes concerning the Trade Receivables Area (the plaintiffs seek 33 million Euro in damages);
- 3,5 million Euro (the plaintiffs seek 50,6 million Euro in damages) for 9 disputes concerning the former Interbanca;
- 2,2 million Euro (the plaintiffs seek 4,3 million Euro in damages) for 52 disputes concerning the Leasing Area;
- 0,7 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;
- 294 thousand Euro (the plaintiffs seek 2.684 thousand Euro in damages) for 22 disputes with customers and agents relating to Cap.Ital.Fin. S.p.A.;
- 249 thousand Euro (the plaintiffs seek 499 thousand Euro in damages) for 34 disputes concerning receivables of the subsidiary IFIS NPL;
- 106 thousand Euro for 8 disputes relating to the newly acquired FBS, and the plaintiffs seek a total of 1,9 million Euro in damages.

Other provisions for risks and charges

At 30 September 2019, there were Other provisions of 9,8 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, 3,7 million Euro related to the estimated contribution to Italy's Interbank Deposit Protection Fund, 0,6 million Euro for staff-related charges (1,0 million Euro at 31 December 2018) and 0,2 million Euro for the provision for complaints. The increase of 2,5 million Euro in the item Other provisions compared to the balance at 31 December 2018 is mainly due to the allocation in the period of the contribution to Italy's Interbank Deposit Protection Fund and the release of a risk provision of 0,9 million Euro connected with probable costs of formal adaptation of plants of the former subsidiary Two Solar Park 2008 S.r.l. sold in June 2019.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 30 September 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 2014 to losses on receivables - without any actual evidence.

Overall, the Agency assessed 882 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 were submitted 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, whose terms expired on 31 May 2019.

The settlement was completed with the incurrence of a total charge of 30,9 million Euro, recorded as Other administrative expenses, fully covered by a contractual indemnity to the extent such as not to have impacts on the net result from the closure of the dispute.

Consolidated equity

At 30 September 2019, consolidated Equity totalled 1.501,4 million Euro, up +2,9% 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	
	30.09.2019	31.12.2018	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	102.285	102.116	169	0,2%
Valuation reserves:	(950)	(14.606)	13.656	(93,5)%
- Securities	*6.229*	*(8.692)*	*14.921*	*(171,7)%*
- Post-employment benefits	*(504)*	*118*	*(622)*	*(527,1)%*
- exchange differences	*(6.675)*	*(6.032)*	*(643)*	*10,7%*
Reserves	1.259.773	1.168.543	91.230	7,8%
Treasury shares	(3.012)	(3.103)	91	(2,9)%
Equity attributable to non-controlling interests	5.541	5.476	65	1,2%
Net profit attributable to the Parent company	83.996	146.763	(62.767)	(42,8)%
Group equity	**1.501.444**	**1.459.000**	**42.444**	**2,9%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2018	**1.459.000**
Increases:	**99.834**
Profit for the period	83.996
Change in valuation reserve:	14.921
- Securities	*14.921*
Other changes	852
Equity attributable to non-controlling interests	65
Decreases:	**57.390**
Dividends distributed	56.125
Change in valuation reserve:	1.265
- Post-employment benefits	*622*
- exchange differences	*643*
Equity at 30.09.2019	**1.501.444**

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	
	30.09.2019	31.12.2018
Common equity Tier 1 Capital (CET1)	970.603	924.285
Tier 1 capital (T1)	1.023.724	980.463
Total own funds	**1.297.921**	**1.257.711**
Total RWA	**8.743.161**	**8.974.645**
Common Equity Tier 1 Ratio	11,10%	10,30%
Tier 1 Capital Ratio	11,71%	10,92%
Ratio - Total Own Funds	**14,84%**	**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 September 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.

Pursuant to the aforementioned transitional arrangements for mitigating the impact of the introduction of IFRS 9 on Own Funds, during the transitional period the Banca IFIS Banking Group must disclose the Own Funds and the relevant capital ratios it would report without applying the transitional arrangements. At 30 September 2019, the absence of provisions for expected credit losses in application of IFRS 9 did not give rise to differences in the results as calculated with and without these transitional arrangements.

The 40,2 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;
- 17,8 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 112,2 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 decrease in risk-weighted assets, equal to about 231 million Euro, combined with the growth in Own Funds for 40,2 million Euro, caused the Total capital ratio to amount to 14,84% at 30 September 2019, up from the results achieved at 31 December 2018 of 14,01%; this trend was also reported for the CET1 ratio now 11,10%, compared to the previous figure of 10,30%.

Here below is the breakdown by sector of risk-weighted assets.

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Total RWAs per segment	4.587.529	1.639.366	428.231	6.655.126
Off-balance sheet exposures: payable, guarantees granted				492.244
Other assets: sundry receivables, suspense accounts				357.897
Tax assets				222.016
Market risk				65.726
Operational risk (basic indicator approach)				936.684
Credit valuation adjustment risk on derivatives				13.468
Total RWAs				**8.743.161**

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 September 2019, the Banca IFIS Group met the above prudential requirements.

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

OWN FUNDS AND CAPITAL ADEQUACY RATIOS: BANCA IFIS BANKING GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	30.09.2019	31.12.2018
Common equity Tier 1 Capital (CET1)	1.280.549	1.231.537
Tier 1 capital (T1)	1.280.549	1.231.537
Total own funds	**1.680.962**	**1.631.858**
Total RWA	**8.734.039**	**8.966.099**
Common Equity Tier 1 Ratio	14,66%	13,74%
Tier 1 Capital Ratio	14,66%	13,74%
Ratio - Total Own Funds	**19,25%**	**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.

Major exposures

		30.09.2019	31.12.2018
a)	Carrying amount	2.854.461	1.573.611
b)	Weighted amount	570.661	602.111
c)	Number	5	4

The overall weighted amount of major exposures at 30 September 2019 consisted of 219 million Euro in tax assets and 202 million Euro in exposures to equity investments not included in the prudential scope of consolidation and 150 million Euro in exposures to credit entities.

Disclosure regarding Sovereign Debt

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

Pursuant to said communication, please note that at 30 September 2019 the exposures to sovereign debt entirely consisted of Italian government bonds; their carrying amount totalled 1.018,5 million Euro, net of the positive 6,0 million Euro valuation reserve.

These securities, with a nominal value of 1.011,5 million Euro and a weighted average residual life of approximately 32 months, are included in the banking book and are classified both under Financial assets measured at fair value through other comprehensive income and under Financial assets measured at amortised cost.

The fair values used to measure the exposures to sovereign debt securities at 30 September 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 September 2019 totalled 759 million Euro, including 150 million Euro relating to tax receivables.

05.2.2. Income statements items

Formation of net banking income

Net banking income totalled 391,2 million Euro, down 3,0% from 403,6 million Euro in the prior-year period.

This change was mainly due to the decrease in net banking income in the Enterprises segment, down 6,6% compared to 30 September 2018, where the positive results of the Trade receivables (+2,5%) and Leasing (+8,9%) business areas were offset by the physiological lower contribution of the "reversal PPA" in the Corporate Banking area compared to the previous year (38,5 million Euro at 30 September 2019 compared to 50,1 million Euro at 30 September 2018) and the recognition of negative changes in the fair value of financial assets held in portfolio. Net banking income of the NPL Segment amounted to 168,9 million Euro, substantially in line with the same period of the previous year (+0,4%). Net banking income for the Governance & Services segment also improved (a negative 3,2 million Euro compared to a negative 6,2 million Euro at 30 September 2018) also due to higher interest income deriving from the internal transfer rates system due to the higher average volumes traded by the Business Areas.

NET BANKING INCOME (in thousands of Euro)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net interest income	324.638	329.247	(4.609)	(1,4)%
Net commission income	68.729	59.980	8.749	14,6%
Other components of net banking income	(2.124)	14.323	(16.447)	(114,8)%
Net banking income	**391.243**	**403.550**	**(12.307)**	**(3,0)%**

Net interest income went from 329,2 million Euro at 30 September 2018 to 324,6 million Euro at 30 September 2019 (-1,4%) because of the reasons previously discussed with reference to net banking income.

Net commission income amounted to 68,7 million Euro, up 14,6% compared to 30 September 2018, also benefiting from the positive contribution of 4,7 million Euro resulting from the acquisition of the FBS Group.

Commission income, totalling 77,1 million Euro compared to 69,9 million Euro at 30 September 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 8,4 million Euro compared to 10,0 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:

- 0,6 million Euro from dividends (0,3 million Euro at 30 September 2018);
- 3,1 million Euro in the negative result from trading activities (positive result of 0,2 million Euro in the first nine months 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 (7,5 million Euro at 30 September 2018);
- 7,5 million Euro in the negative net result of other financial assets and liabilities measured at fair value through profit or loss (5,9 million Euro positive at 30 September 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 2,1 million Euro and the negative change in the fair value of other financial assets for 2,8 million Euro.

Formation of net profit from financial activities

The Group's **net profit from financial activities** totalled 342,2 million Euro, compared to 334,6 million Euro at 30 September 2018 (+2,3%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net banking income	**391.243**	**403.550**	**(12.307)**	**(3,0)%**
Net credit risk losses/reversals	(49.014)	(68.915)	19.901	(28,9)%
Net profit (loss) from financial activities	**342.229**	**334.635**	**7.594**	**2,3%**

Net credit risk losses amounted to 49,0 million Euro at 30 September 2019 compared to 68,9 million Euro at 30 September 2018 (-28,9%) and were largely related to the Enterprises segment equal to 46,2 million Euro.

Formation of net profit for the period

FORMATION OF NET PROFIT (in thousands of Euro)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Net profit (loss) from financial activities	**342.229**	**334.635**	**7.594**	**2,3%**
Operating costs	(212.354)	(208.865)	(3.489)	1,7%
Gains (Losses) on disposal of investments	(1.294)	-	(1.294)	n.a.
Pre-tax profit (loss) from continuing operations	**128.581**	**125.770**	**2.811**	**2,2%**
Income taxes for the period relating to continuing operations	(44.528)	(36.721)	(7.807)	21,3%
Profit (Loss) for the period attributable to non-controlling interests	57	55	2	2,7%
Profit (loss) for the period attributable to the Parent company	**83.996**	**88.994**	**(4.997)**	**(5,6)%**

Operating costs totalled 212,4 million Euro (208,9 million Euro at 30 September 2018, +1,7%).

OPERATING COSTS (in thousands of Euro)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Administrative expenses:	253.792	217.100	36.692	16,9%
a) personnel expenses	95.697	83.281	12.416	14,9%
b) other administrative expenses	158.095	133.819	24.276	18,1%
Net allocations to provisions for risks and charges	11.139	5.306	5.833	109,9%
Net impairment losses/reversals on property, plant and equipment and intangible assets	12.793	9.073	3.720	41,0%
Other operating income/expenses	(65.370)	(22.614)	(42.756)	189,1%
Operating costs	**212.354**	**208.865**	**3.489**	**1,7%**

Personnel expenses totalled 95,7 million Euro, up 14,9% (83,3 million Euro at 30 September 2018), in line with the growth in the number of the Group's employees that at 30 September 2019 was 1.759, up 8,4% compared to 30 September 2018 (1.622 resources). This increase includes 100 employees acquired following the inclusion of the subsidiaries FBS S.p.A. and FBS Real Estate S.p.A. in the Group's scope.

Other administrative expenses, amounting to 158,1 million Euro compared to 133,8 million Euro at 30 September 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)	FIRST NINE MONTHS		CHANGE	
	2019	2018	ABSOLUTE	%
Expenses for professional services	**50.165**	**47.545**	**2.620**	**5,5%**
Legal and consulting services	35.502	33.128	2.374	7,2%
Auditing	591	548	43	7,8%
Outsourced services	14.072	13.869	203	1,5%
Direct and indirect taxes	**62.610**	**34.825**	**27.785**	**79,8%**
Expenses for purchasing goods and other services	**45.319**	**51.449**	**(6.130)**	**(11,9)%**
Customer information	12.682	11.897	785	6,6%
Software assistance and hire	11.053	11.830	(777)	(6,6)%
Property expenses	4.449	5.128	(679)	(13,2)%
Postage and archiving of documents	4.424	5.904	(1.480)	(25,1)%
FITD and Resolution fund	2.636	2.267	369	16,3%
Telephone and data transmission expenses	2.302	2.584	(282)	(10,9)%
Advertising and inserts	2.015	2.446	(431)	(17,6)%
Business trips and transfers	1.884	2.404	(520)	(21,6)%
Car fleet management and maintenance	1.852	2.979	(1.127)	(37,8)%
Securitisation costs	990	1.109	(119)	(10,7)%
Other sundry expenses	1.032	2.901	(1.869)	(64,4)%
Total administrative expenses	**158.095**	**133.819**	**24.275**	**18,1%**

The sub-item "**Legal and consulting services**" amounted to 35,5 million Euro in the first nine months of 2019, an increase of 7,2% compared to 33,1 million Euro in the same period of the previous year and includes costs linked to recovery of judicial operations in particular for receivables belonging to the NPL Segment (16,9 million Euro at 30 September 2019, an increase of 15,8% compared to 14,6 million Euro at 30 September 2018).

"**Outsourced services**", amounting to 14,1 million Euro at 30 September 2019, substantially in line compared with the 13,9 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 62,6 million Euro compared to 34,8 million Euro at 30 September 2018, is significantly influenced by the charge of approximately 30,9 million Euro related to the requests for facilitated settlement of tax disputes presented until 30 September 2019. Net of this effect, the item mainly refers to the registration tax incurred for the judicial recovery of receivables for a total of 21,4 million Euro at 30 September 2019 compared to 24,8 million Euro at 30 September 2018. The item also includes stamp duty of 8,8 million Euro, the charge of which to customers is included in the item "other net operating income".

Expenses for purchasing goods and other services amounted to 45,3 million Euro, down 11,9% from 51,4 million Euro in the same period of the previous year. 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 11,9 million Euro to 12,7 million Euro, +6,6%: the increase refers mainly to the NPL Segment and is namely related to the valuation of assets to guarantee the portfolios managed;
- FITD and Resolution fund amounted to 2,6 million Euro, up +16,3% compared to 2,3 million Euro at 30 September 2018.
- Postage and archiving of documents went instead from 5,9 million Euro to 4,4 million Euro, -25,1%; 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.
- Property and car fleet management, which decreased by a total of 1,8 million Euro, essentially due to the application from 1 January 2019 of the new IFRS 16 standard.

Cost efficiency measures have a positive impact on the remaining expense items detailed in the previous table, which totalled 19,3 million Euro, down 17,2% compared with 23,3 million Euro at 30 September 2018.

Net allocations to provisions for risks and charges amounted to 11,1 million Euro compared with net allocations of 5,3 million Euro at 30 September 2018. Net allocations for the period include 6,4 million Euro for disputes relating to trade receivables, 3,7 million Euro related to the estimated contribution to Italy's Interbank Deposit Protection Fund, 1,0 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 2008 S.r.l. sold at the end of the second quarter of 2019.

Other net operating income amounted to 65,4 million Euro (22,6 million Euro at 30 September 2018) and included the effects of the aforementioned activation of guarantees in place in view of the closure of certain tax disputes for 42,4 million Euro at 30 September 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 first half of 2019.

Pre-tax profit from continuing operations amounted to 128,6 million Euro (+2,2% compared to 30 September 2018).

Income taxes amounted to 44,5 million Euro (+21,3% compared to 30 September 2018). The tax rate for the first nine months of 2019 was 34,63%, compared with 29,2% in the same period of the previous year. The tax rate used in the first nine months 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 57 thousand Euro in profit attributable to non-controlling interests, the **net profit attributable to the Parent company** amounted to 84,0 million Euro (-5,6% compared to the prior-year period).

05.3. Significant events occurred in the period

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

Here below is a summary of the most significant events in the period.

05.3.1 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..

05.3.2 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.

05.3.3 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.

05.3.4 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.

05.4. Significant subsequent events

05.4.1 Negotiations between Banca IFIS and Credito Fondiario ended

With reference to as was disclosed in a press release dated 2 August 2019, concerning the subscription between Banca IFIS S.p.A. and the Group Credito Fondiario S.p.A. of a non-binding letter of intent aimed at studying the implementation of an industrial partnership in the debt servicing and debt purchasing sectors, on 30 October 2019, the Board of Directors of Banca IFIS resolved to permanently abandon negotiations with Credito Fondiario and therefore to not go to the due diligence phase, due to the difficulties encountered in defining a negotiating agreement satisfactory to both parties in terms of governance structures.

05.4.2 Banca IFIS acquires full ownership of FBS S.p.A.

On 30 October 2019, Banca IFIS completed the purchase of 10% of the share capital of FBS S.p.A., held by minority shareholders, for a total amount of 12,2 million Euro. By making Banca IFIS the sole shareholder of FBS S.p.A., this deal will allow the integration of FBS into the Banca IFIS Group to be completed in the short term and permit even more effective development of the Italian non-performing loans market, with coverage of all segments of non-performing loans, through flexible investment and management structures.

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

Venice - Mestre, 7 November 2019

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Luciano Colombini

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

The undersigned Mariacristina Taormina, Manager charged with preparing the financial reports of Banca IFIS S.p.A., pursuant to the provisions of Art. 154-bis, paragraph 2 of the "Consolidated Law on Financial Intermediation", declares that the financial information included into the Consolidated Interim Report as at 30 September 2019 corresponds to the related books and accounting records.

Venice - Mestre, November 7th, 2019

Manager charged with preparing the Company's financial reports

Mariacristina Taormina