BANCA IFIS

Public disclosure

31 December 2019

Pillar 3

Banca IFIS SpA - Registered office in Via Terraglio 63, 30174 Venice - Mestre - Venice Business Register and Tax Code 02505630109 - VAT no. 02992620274 - REA (Economic and Administrative Index) no: VE - 0247118 - Share capital Euros 53,811,095 fully paid-up - Enrolled in the Register of Banks at no. 5508 Parent Bank of the Banca IFIS Banking Group, enrolled in the Register of Banking Groups - Member of the Interbank Deposit Protection Fund, the Italian Banking Association, of the Italian Factoring Association, of Factors Chain International. Member of the National Compensation Fund.

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Introduction

Objectives of the document

As of 1 January 2014, reforms of the Basel Committee's ('Basel III') agreements were transposed into European Union law to strengthen banks' ability to absorb shocks resulting from financial and economic tensions, regardless of their origin, to improve risk management and governance, and to strengthen transparency and disclosure. The Basel Committee has maintained the three-pillar approach on which the previous agreement on capital ('Basel 2') was based. It integrated and strengthened it in order to increase, in qualitative and quantitative terms, the capital position of intermediaries by introducing countercyclical supervisory instruments, regulations on liquidity risk management and leverage limits.

In particular, the Third Pillar (hereinafter also "Pillar 3") is based on the assumption that the Market Discipline may contribute to strengthen capital regulations and therefore promote the stability and soundness of banks and the financial sector.

Therefore, the purpose of Pillar 3 is to combine the minimum capital requirements (Pillar 1) and the process of prudential monitoring (Pillar 2) through the identification of a set of disclosure transparency requirements which allow the market operators to be provided with relevant, comprehensive and reliable information about capital adequacy, exposure to risks and general characteristics of the systems intended to identify, measure and manage said risks.

Within the European Union, 'Basel 3' measures have been transposed into two legislative acts:

- Directive 2013/36/EU of 26 June 2013 (hereinafter 'CRD IV') endorsed by the Bank of Italy through Circular 285 of 17 December 2013 'Supervisory provisions for banks'.

  These EU provisions govern, inter alia, the conditions for accessing banking activities, the freedom of establishment and the freedom to provide services, the supervisory review and additional capital buffers;
- EU Regulation no. 575/2013 of 26 June 2013 (hereinafter 'CRR') which governs the prudential supervisory institutions set by Pillar 1 and the rules on public disclosure (Pillar 3).

The European Union legislation is supplemented by the provisions issued by the Bank of Italy, in particular with Circular no. 285 of 17 December 2013 (hereinafter 'Circular No. 285/2013'), which contains the prudential supervisory provisions applicable to Italian banks and banking groups, revised and updated in order to adapt internal regulations to the changes in the international regulatory framework, with particular regard to the new regulatory and institutional framework for EU banking supervision, as well as to take into account the needs identified to ensure supervision of banks and other intermediaries.

The aforementioned Circular does not set out specific rules for the preparation and publication of Pillar 3, but merely reports the list of provisions for the purpose envisaged by the CRR. The matter, therefore, is directly regulated by:

- the CRR itself, Part 8 'Disclosure by institutions' (Art. 431 - 455) and Part 10, Title I, Chapter 3 'Transitional provisions on disclosure of own funds' (Art. 492);

- Regulations of the European Commission, whose preparation is entrusted to the EBA (European Banking Authority), containing the Regulatory Technical Standard (RTS) and Implementing Technical Standard (ITS) to create standard models for the publication of different types of information.

Further indications were then provided by the EBA with a specific document concerning guidelines on materiality, proprietary and confidentiality and on the frequency of information to be provided in the Third Pillar (EBA/GL/2014/14 - Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432 (1), 432 (2) and 433 of Regulation No (EU) 575/2013) which regulates further relevant aspects in the preparation of the disclosure:
(i) the application by institutions of the relevance of the disclosure criterion; (ii) the application by institutions of the exclusivity and confidentiality of the disclosure ; (iii) the need to publish the information more frequently than annually. Based on Art. 433 CRR, the information to the public which is required by Community legislation must be published by the banks at least once a year, together with the financial statements. The CRR does not explicitly require the publication of an interim report, leaving the banks the right to publish some or all of the information more frequently. Banca IFIS has decided to maintain an annual public disclosure frequency, and not using internal systems for calculating the capital requirements on credit or operational risks.

The Pillar 3 Public Disclosure was also analysed by the Basel Committee in its January 2015 document 'Revised Pillar 3 disclosure requirements'. This document provides indications to the supervisory bodies, who should have them incorporated into national legislation (in our case, EU) in order to enter into force. In this context, the EBA, in December 2016, published the final version of the 'EBA/GL/2016/11 - Guidelines on disclosure requirements under Part Eight of Regulation No (EU) 575/2013' providing guidelines aimed at increasing and improving coherence and the comparability of the information to be provided in the Third Pillar. These guidelines were incorporated in the proposed draft amendment to the CRR published in November 2016. At the end of March 2017, the Basel Committee published the document 'Pillar 3 disclosure requirements - consolidated and enhanced framework', which constitutes the second review phase of the reference legislative framework of the Public Disclosure, initiated with the above-mentioned document of January 2015. This revision aims to further promote market discipline by consolidating all the requirements already introduced and by providing a selection of the more representative indicators of the main prudential dimensions in order to support the market in data analysis, by making them more comparable. These guidelines are applicable, from 31 December 2017, only to 'Globally and Other Systemically Important Institutions' (G-SII and O-SII), while the competent authorities may enforce other institutions to implement some or all of the guidelines contained therein. In April 2018, the Bank of Italy, taking into account the principle of proportionality, decided for Italy's less significant banks (LSI) to only request the publication of specific information on Governance together with the publication of the Annual Report on the financial year ending on 31 December 2018.

In May 2018, the consultation phase of the 'Pillar 3 disclosure requirements - updated framework' document, published as a draft in February 2018 by the Basel Committee, was completed. This document represents the third revision phase of the disclosure requirements issued in 2004 and, in continuity with the previous revision phases, it aims to establish a single reference framework in terms of disclosure, for the purpose of harmonising market discipline. The final version of the document was published in December 2018; the deadline for implementing the new disclosure requirements is 1 January 2022. Lastly, in the same month, the Basel Committee put out for consultation a document on proposals to change the leverage ratio and the public disclosure requirements. The consultation phase will end on 13 March 2019 with the aim of establishing the implementation of the new disclosure obligations, by 1 January 2022

The EBA has also integrated the provisions of the aforementioned guidelines, issuing in June 2017 the 'Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013' (EBA/GL/2017/01) with additional information requirements on liquidity risk measured through the liquidity coverage ratio. The guidelines require only 'Globally and Other Systemically Important Institutions' (G-SII and O-SII) to publish detailed quantitative information on the Liquidity Coverage Ratio (LCR); the other Banks are required to just publish the average values of a reduced number of aggregates. In this regard, Banca IFIS has included this quantitative disclosure in a simplified manner in § 1.4.3.2 of this document.

Then, in January 2018 the EBA issued the 'Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds' (EBA/GL/2018/01), which define the formats suitable for publishing information on the impacts on own funds as a result of the introduction of Regulation (EU) 2017/2395 containing 'Transitional provisions aimed at mitigating the impact of the introduction of IFRS 9 on own funds'. Considering that the Banca IFIS Group opted for the transitional treatment with the so-called 'static' approach to mitigate this impact, it is also required to provide the market with information relating to the amounts of own funds, Common Equity Tier 1 capital, Tier 1 capital, CET1 ratio, Tier 1 ratio, Total ratio and fully loaded leverage ratio, as if it had not applied this transitional treatment. In this regard, Banca IFIS has included this information in § 18 of this document.

On 27 April 2018 the EBA submitted for public consultation up to 27 July 2018 the document 'Draft Guidelines on disclosure of non-performing and forborne exposures' (EBA/CP/2018/06), which contains guidelines on the disclosure to be provided on impaired loans and exposures subject to renegotiation. Subsequently, on 17 December 2018, EBA published the final guidelines; in application of the principle of proportionality, applying the standard content and the formats of the disclosure, with effect from 31 December 2019, to significant credit institutions ('SI').

Following the publication in the Official Journal of the European Union on 7 June 2019 of Regulation (EU) 2019/876 - also known as CRR II (Capital Requirements Regulation) - which forms part of the broader package of regulatory reforms that also includes CRD V (Capital Requirements Directive), BRRD II (Banking Recovery and Resolution Directive) and SRMR II (Single Resolution Mechanism Regulation) - concerning EBA disclosure requirements, in Q4 2019, it developed draft regulatory and implementing technical standards to streamline and standardise, in line with the regulatory changes introduced by CRR II, which will apply from 2021, the disclosures to be provided to the market periodically. Specifically, EBA submitted for public consultation:

- on 16 October 2019, the document 'Draft Implementing Technical Standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013' (EBA-CP-2019-09) aiming to establish a single reference framework with a view to harmonising the Market Regulations pursuant to Article 434 bis 'Models for disclosure' of CRR II;
- on 22 November 2019, the document 'Draft Implementing Technical Standards on disclosure and reporting of MREL and TLAC', which specifies the standard formats and templates and related methodological instructions for the use of the templates concerning the amount and composition of the Total Loss Absorbing Capacity (TLAC) instrument introduced by CRR II and the Minimum Requirement for own funds and Eligible Liabilities (MREL) as amended by BRRD II.

With reference to the public disclosure document, Banca IFIS provides that:

- given its relevance to the public, its shall be approved by the Board of Directors before it is distributed;
- it shall be published at least once a year together with the financial statements (Art. 433 of CRR);
- it shall be subject to certification by the Chief Financial Officer pursuant to Art. 154-bis Decree. 58/1998 (Consolidated Law on Financial Intermediation).

This document has been prepared by the Bank at consolidated level and refers to its regulatory consolidation scope, which includes the holding company La Scogliera SpA, in application of the relevant regulations, with the consequent inclusion of minority interests in consolidated own funds.

Further information on the risk profile of the Banking Group, based on Art. 434 of the CRR, is also published in the consolidated financial statements at 31 December 2019. In the light of the above, if similar information is already disclosed by two or more means, the reference is inserted in each of them and therefore the Banking Group makes use of this opportunity to complete the information by indicating the reference accordingly. Further information relating to the various risk categories to which the Banking Group is exposed is indicated in part E of the Notes to the consolidated financial statements.

With particular reference to information regarding financial leverage, it should be noted that in February 2016, the Commission Implementing Regulation 2016/200 was published in the EU Official Journal, which establishes the technical implementing standards for disclosure on the Leverage ratio, pursuant to EU Regulation 575/2013.

As of 31 December 2016 disclosure requirements regarding countercyclical capital buffer were also implemented; the disclosure therefore includes - in addition to the amount of the countercyclical capital buffer -

the detail of the geographical distribution of the credit exposures relevant for the purposes of calculating the countercyclical capital buffer according to the prescribed detail. In this regard, Banca IFIS, due to the fact that it does not have significant risk exposures to countries to which a specific minimal countercyclical coefficient is assigned, with reference to the date of 31 December 2019, it is not required to make allocations to this type of capital reserve.

More information on the internal control system, on the statutory audit of the accounts and on the attestation of correspondence of accounting documents to the results of the accounting books and records by the Chief Financial Officer are present in the Report on corporate governance and on the ownership structure.

Instead, this document contains analytical information on the remuneration policies in place.

Unless otherwise specified, the data contained in the sections dedicated to quantitative information is expressed in thousands of Euros. Reports without information, as they are not applicable to the Banking Group, are not published; there is also no information regarding the internal template methodologies, currently not used by the Banking Group.

The Banca IFIS Group will publish this public disclosure document and any subsequent updates on its website at the address www.bancaifis.it, in the Institutional Investor Relations - Risk management section

The Risk Management process dedicated to the preparation of this document is constantly evolving to ensure compliance with the regulatory requirements and the best practices developed by banking intermediaries, in compliance with the **principle of proportionality** on which large parts of the prudential supervisory regulations are based, considering the level and complexity of the activities performed by each intermediary, as well as the business models and risk management systems specifically used.

1. RISK MANAGEMENT OBJECTIVES AND POLICIES (ART. 435 CRR)

1.1 Introduction

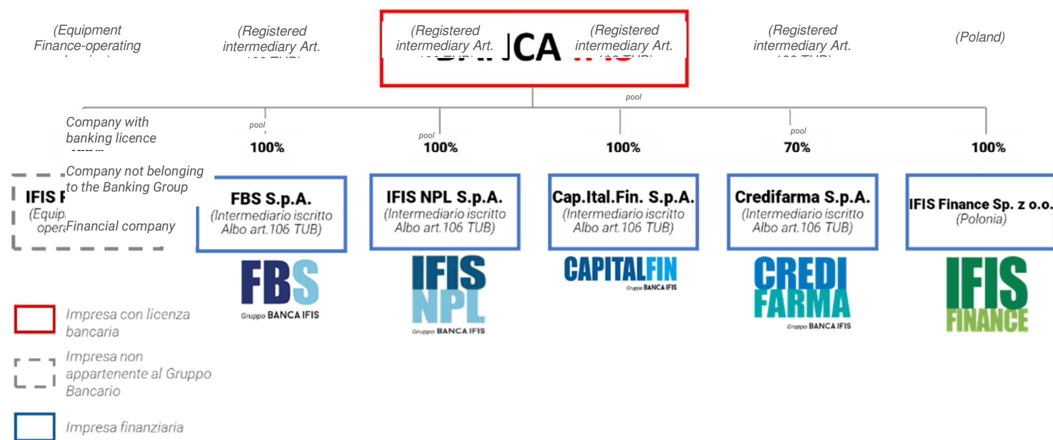
The supervisory activity is based on a system of rules and incentives allowing to pursue more effectively the objectives of a more accurate measurement of the potential risks related to banking and financial activities, and to maintain a capital base that is more closely commensurate with the actual degree of risk exposure of each intermediary.

The Banca IFIS Banking Group

As at 31 December 2019 the Banca IFIS Banking Group, controlled by La Scogliera SpA, consisted of the Parent Company Banca IFIS SpA and the subsidiaries IFIS Finance SPZOO, IFIS NPL SpA, FBS SpA, Cap. Ital.Fin. SpA and Credifarma SpA

For a complete assessment of the Group's risks, the subsidiary IFIS Rental Services Srl excluded from the scope of the banking group and that of the prudential consolidation, was also taken into account, as it is a non-financial company operating in the market for long-term rental of capital goods.

The Banca IFIS Group, at the reporting date of 31/12/2019:was composed as follows:



Mission and corporate responsibility

The organisational structure is divided into the following sectors:

- Business sector
- NPL sector
- Governance & Services Sector.

Business sector

The Business Sector represents the Group's commercial offer dedicated to businesses and is made up of the Business Areas Trade Receivables, Leasing, Corporate Banking and Tax Credits shown below:

It includes the following business areas:

- **Trade receivables**: Area dedicated to support the trade credit of SMEs operating in the domestic market, which develop abroad or from abroad target Italian customers; the Area includes the Group's medium/long-term operations, geared towards supporting the company's operating cycle with interventions ranging from the optimisation of sources of financing to the support of working capital and support for production investments. It also includes an organisational unit designed to support the trade credit of Local Health Authority suppliers and an organisational unit specialising in pharmacy credit, which is also carried out through the subsidiary company Credifarma.
- **Leasing**: This area targets the segment of small economic operators and SMEs through financial leasing and operating leases,excepting real estate leasing not covered by the Group.
- **Corporate Banking** Business area that includes several units: The Structured Finance area, which supports companies and private equity funds in arranging bilateral or syndicated loans; the Special Situation area, which supports the financial recovery of businesses that have managed to overcome financial distress; and the Equity Investment area, 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 offers to buy 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 corollary to the core business, commercial loans are also occasionally acquired from insolvency procedures.

NPL sector

This sector is represented by the NPL Area, which specialises in the acquisition, management and collection of receivables that are difficult to collect; this activity is carried out by the subsidiary IFIS NPL, with reference to unsecured NPL receivables mainly due from individuals, and by the subsidiary FBS, with reference to mortgage and corporate NPL receivables.

Governance and services sector

This sector includes the remaining activities carried out by the Group and concerning the centralised management of services related to the governance of the Parent Company and its subsidiaries (direct funding, treasury, and operations in debt securities issued by third parties). With regard to this latter activity, Banca IFIS offers two funding products to retail customers: the contomax current account and the rendimax deposit account. The unit also provides all the wholesale banking activities and the activities carried out by the subsidiary Cap.Ital.Fin. SpA in salary- and pension-backed loan operations.

Strategic governance, management and control bodies

The overall risk management and control process involves, with different roles, the administrative and control bodies of the Group's companies and subsidiaries as well as the Parent Company's Management and the operational units of the entire Group.

In the model adopted by the Parent Company Banca IFIS SpA:

- strategic supervision is performed by the Board of Directors;
- management is performed by the CEO, assisted by the General Manager;
- control is performed by the Board of Statutory Auditors.

The Parent Company's **Board of Directors** plays a crucial role in the corporate organization as it is the body responsible for determining the company guidelines and strategic objectives and for verifying their implementation, complying with industrial plans and implement strategic transactions, also by setting the principles of the direction and coordination activity of the Banca IFIS Group's companies, in the interest of the Shareholders.
It carries out a supervisory function with regards to the achievement of the strategic objectives of the Bank and of the Group as a whole.
In particular, concerning governance and risk controls, it is responsible for:

- defining strategic guidelines and risk assumption, management and control with their periodic review, thanks also to an accurate, comprehensive and timely information flow system;
- approving and periodically reviewing organisational, disclosure and risk control procedures;
- defining and updating the roles and the responsibilities of organisational functions entrusted with the performance of company processes related to risk management;
- guaranteeing the implementation, efficiency and effectiveness of the risk management and control system through periodical reviews and by deciding the measures to be taken to remove any deficiencies and dysfunctions that may have emerged during the risk management process.

Within the Board of Directors are:

- the **Control and Risks Committee**, providing consulting services and support to the resolutions issued by the Board of Directors, in particular on the internal control and risk management system, as well as to the approval of the periodic financial reporting documents;
- the **Appointments**Committee, which provides support in appointing and co-opting Directors, as well as in the self-assessment of Corporate Bodies (Board of Directors and Chief Executive Officer). It also provides support in verifying the continued existence of the professionalism, integrity and independence requirements of company officers and in the preparation of succession plans for senior management positions;
- the **Remuneration Committee**, submitting proposals and providing consulting and monitoring services in the area of remuneration and incentive policies in compliance with the relevant supervisory provisions.

The management function is performed by the **Chief Executive** Officer; the **General Manager** participates in this function. The CEO is responsible for implementing the strategies and guidelines defined by the Board of Directors, to which they directly report in that regard, as well as the adoption of all the interventions necessary to ensure the adherence of the organisation and the internal control system to the principles and requirements established by the supervisory provisions, by continuously monitoring their compliance with them. For this purpose, the CEO defines the risk management, control and mitigation processes.

The following Management Committees have recently been set up:

- the **Management Committee**, which supports the Chief Executive Officer in the implementation and performance of the business guidelines approved by the Board of Directors by constantly monitoring economic performance, the development of programmes, plans and initiatives relevant to the Group;
- the **Business Committee** which is responsible for passing resolutions on the assumption of credit risk, within the limits and in the manner defined by the Board of Directors in the System of Delegations and provides advice on the assumption of credit risk exceeding the limits of autonomy delegated to it;

- the **Finance Committee**, with deliberative tasks, within the limits and in the manner defined by the Board of Directors in the System of Delegations for the assumption of financial risks and the support of asset & liability management and liquidity and portfolio management issues, overseen respectively by the ALM Technical Committee and liquidity and the Technical Committee for Proprietary Finance;
- the **Products Committee**, whose task is to manage the product catalogue through the preliminary screening of new business ideas for the development of new products or the significant modification of existing ones;
- the **Brand Committee**, which has a consultative role in the definition of guidelines for business activities in terms of brand identity.

The **Board of Statutory Auditors** oversees compliance with the law, regulations and articles of association, correct administration, the adequacy of the Bank's accounting and organisational structure, and the functionality of the overall internal control system. Considering the plurality of functions and corporate structures having control tasks and responsibilities, this body is required to check the effectiveness of all the structures and functions involved in the internal control system and their adequate coordination, promoting the corrective actions for any deficiencies and irregularities detected. Due to the importance of these tasks for supervisory purposes, the Board of Statutory Auditors must immediately inform the Bank of Italy of all the facts and actions of which it becomes aware that could constitute an irregularity in the management of the Bank or a violation of the rules governing banking activity.

Internal Control System

The Internal Control System (hereinafter also referred to 'ICS') of the Banca IFIS Group plays a central role in the corporate organisation, and has the objective of ensuring proper disclosure to the corporate bodies, and suitable supervision of all activities and, in particular, in the areas featuring greater corporate risk.

The Internal Control System consists of the set of regulations, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with a sound and prudent management, the achievement of the following objectives:

- executing business strategies and policies;
- the identification of tasks and responsibilities such as to ensure the separation between operating and control functions;
- risk containment within the limits set forth by the Risk Appetite Framework (RAF) for determining the Bank's risk appetite;
- the safeguard of the value of assets and protection against losses; the effectiveness and efficiency of business processes; the reliability and security of company information and IT procedures;
- the prevention of the risk that the Group is involved, even unintentionally, in illegal activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- ensuring operations comply with the law and supervisory regulations as well as internal policies, rules and procedures.

The Parent Company, Banca IFIS, formalises and informs its subsidiaries of the criteria governing the different stages that constitute the risk management process. It also validates the risk management processes within the group. As regards credit risk in particular, the Parent Company sets the assessment criteria for the positions, and creates a common information base that allows the subsidiaries to know the customers' exposure to the group as well as the assessments related to the positions of the borrowers. The Parent Company decides on the adoption of the internal systems to be used for measuring risks, and determines its main characteristics, thus taking on the responsibility of carrying out the project as well as supervising the correct implementation of these systems and their constant adjustment from a methodological, organisational and procedural point of view.

The Parent Company also provides the subsidiaries with directives for creating their internal control systems. The subsidiaries must adopt an internal control system that is consistent with the strategy and the policies of the Group, in terms of controls, without prejudice to compliance with regulations applicable on an individual basis. It is, however, necessary that the Parent Company, while respecting local constraints, adopts all initiatives intended to ensure standards of control and protective measures that are comparable to those provided for by

Italian supervisory regulations, including in cases where foreign legislation does not provide for similar levels of attention.

In order to verify that the Group companies conduct is in compliance with Parent Company guidelines, as well as the effectiveness of the internal control system, the Parent Company takes action so that, within the regulations' scope of application, the consolidated internal audit function periodically performs on-site checks on the Group components, taking into account the importance of the different types of risk taken on by different entities.

The internal control system is designed in compliance with the applicable regulations and the peculiarities of the business carried out by both Banca IFIS and its subsidiaries. At the date of this document, the control functions of IFIS NPL and FBS are centralised at the Parent Company, whereas for IFIS Rental Services, FBS Real Estate and IFIS Finance, with regard to the operating characteristics as well as the limited level of risk of the same for the Group, the control functions have not been established. However, IFIS Finance, in compliance with local legislation and regulatory requirements, has appointed a member of its Board as head of its anti-money laundering operations.

Regarding Cap.Ital.Fin. and Credifarma, the Internal Audit department has been centralised within the Parent Company, while an organisational structure has been established that includes the risk control unit, the unit that manages the risk of non-compliance with legislation and regulatory requirements and the anti-money laundering unit, with a view to strengthening the safeguards of sound and prudent management of the intermediary.

Audits involve, with different roles, the Corporate Bodies of the Group's companies and subsidiaries, the Parent Company's Management and the Group's personnel.

Some types of audits are highlighted below:

- Line audits aim to ensure operations are carried out correctly. These audits are carried out by the operational structures themselves, incorporated in procedures, or performed as part of back office operations. The operating structures are the first responsible for the risk management process: during day-to-day operations these structures must identify, measure or evaluate, monitor, mitigate and report the risks deriving from the ordinary business activity in accordance with the risk management process; they must comply with the operating limits assigned to them in line with the risk objectives and with the procedures in which the risk management process is structured;
- risk and compliance controls (so-called) “second line of defence") are intended to ensure the risk management process is correctly implemented in accordance with the operational limits assigned to the various functions, and that business operations comply with regulations—including corporate governance rules;
- internal auditing (so-called “third line of defence") is aimed at identifying breaches of procedures and regulations as well as regularly assessing the comprehensiveness, adequacy, functionality (in terms of both efficiency and effectiveness), and reliability of the internal control and IT systems on a regular basis based on the nature and extent of the risks.asses

The corporate bodies promote a company culture that values the control function: all personnel, at all levels within the organisation, must be aware of the role assigned to them within the internal control system, and must be fully involved.

The roles of the various players in the internal control system (Board of Directors, Control and Risk Committee, Executive Director in charge of the internal control system, Supervisory Body pursuant to Italian Legislative Decree 231/2001, Internal Audit, Chief Financial Officer, Risk Management, Compliance, Anti-Money Laundering and Coordination function for Controlling Subsidiary Companies) are described in detail in the Report on Corporate Governance and Ownership Structures prepared in accordance with the third paragraph of Art. 123 bis of Italian Legislative Decree 24 February 1998 no. 58 (TUF) and subsequent updates, the latest version of which was approved by the Board of Directors on 12 March 2020 and published on the Bank's website in the Corporate Governance section.

Briefly, in addition to that already stated in the previous paragraph in terms of the roles and tasks performed by the administrative bodies, the roles and tasks assigned to the remaining players of the internal control system are summarised below, in particular:

- **Executive director in charge of the internal control and risk management** system: the Parent Company's Board of Directors has identified the CEO as the executive director in charge of overseeing the functioning of the internal control and risk management system. The CEO, availing himself in particular of the General Manager and of the Head of the Internal Audit Department, ensures effective management of operations and associated risks; he constantly verifies the overall functionality, effectiveness and efficiency of the Internal Control System, adjusting it if necessary; he identifies and assesses risk factors, and defines the tasks of the control units and the relevant information flows;
- **Supervisory Body pursuant to Italian Legislative Decree 231/2001**: Banca IFIS, sensitive to the need to ensure conditions of transparency and fairness in conducting its business, in order to safeguard its institutional role and image, the expectations of shareholders and of those who work for and with the Bank, has deemed it consistent with its corporate policies to implement the Organisational and Management Model provided for by Italian Legislative Decree 231/2001. The Bank has thus set up the Supervisory Body, consisting of members of the Board of Directors and of the Head of the Internal Audit Department;
- **The Financial Reporting Officer**: the Board of Directors of the Parent Bank has identified the Chief Financial Officer as the person responsible for preparing the financial reports, in accordance with the provisions of Art. 154 bis of the Consolidated Finance Act, to ensure the reliability of the balance sheet, income statement and financial position of the Bank and the Group, contributing to the overall assessment of the adequacy of the internal control system on financial reporting;
- **Internal Audit Department**: the Internal Audit Department carries out its audit activity on both the Parent Company and the Subsidiaries, so that the main risks pertaining to said organisations are properly identified, as well as suitably measured, managed and monitored for the purpose of sound and efficient Group management.
  The Internal Audit Department's activity is aimed, on the one hand, at checking as part of the third line of defence, including with on-the-spot audits, the proper trend of operations and the evolution of risks and, on the other, at evaluating the completeness, adequacy, functionality and reliability of the organizational structure and of the other components of the internal control system, bringing any possible improvements to the attention of the corporate bodies of the Parent Company and of the Subsidiaries;
- **Risk Management function**: The mission of the Parent Company's Risk Management function is to: (i) identify the relevant risks to which the Parent Company and Group companies are exposed; (ii) assess, measure and monitor the Group's significant risks, and (iii) guarantee a holistic and integrated view of the risks to which the group as a whole and the companies that make it up are exposed, ensuring adequate information to the governing bodies;
- **Compliance Department**: the mission of the Parent company's Compliance department is to oversee, according to a risk-based approach, the management of non-compliance risk in connection with the entire company activity.
  This is done by assessing the adequacy of internal procedures to prevent the violation of external rules (laws and regulations) and self-regulation (eg. codes of conduct and ethical codes) applicable to both the Bank and its subsidiaries;
- **Anti-Money Laundering Department**: the Parent Company's Anti-Money Laundering department is called upon to continuously verify that the company procedures are consistent with the objective of preventing and combating the violation of external rules (laws and regulations) and self-regulation rules regarding money laundering and terrorist financing.

1.2 Organisation of the Risk Management organisational unit (Art. 435 par. 1, b)

Mission of the Parent Company's Risk Management department

The mission of the Parent Company's Risk Management department is to:

- guarantee a holistic and integrated vision of the risks to which the Group and the Companies that are part of it are exposed while ensuring adequate reporting to the Corporate Bodies;
- identify, measure, evaluate and monitor risks that are relevant to the Group;
- ensure adequate reporting on the assumed risks to the Corporate Bodies and Committees, to the Control Functions and to the Managers of the areas subject to the risk management process;
- monitor the governance and risk management processes in accordance with the strategies and policies defined by the corporate bodies;
- guarantee an on-going development and improvement of methodologies, models, metrics and risk measurement and integration instruments;
- facilitate the transposition of supervisory regulations and directives;
- assist the Corporate Bodies in carrying out their respective tasks within the internal control system, facilitating (i) the timely and coordinated interception of relevant information for the purpose of quantifying and managing risks; (ii) a condensed description of the corporate risks and main issues identified by the risk management system; (iii) the adoption of appropriate and timely corrective measures addressing any identified issues and priorities.

The Parent Company's Risk Management carries out its functions for Banca IFIS and, within its own management and coordination activities, it expands its scope of competence to all the companies of the Group.

Organisational positioning of the Parent Company's Risk Management Department

Within the internal control system, the risk control function is part of the Risk Management Department, which reports hierarchically to the CEO.
The Head of Risk Management (also Chief Risk Officer or CRO has direct access to the Board of Directors and the Board of Statutory Auditors and communicates with them without restrictions or intermediaries.

Risk Management:

- has the authority, resources and expertise necessary for carrying out its tasks;
- has access to corporate data and to external data in order to appropriately manage its tasks;
- has access to all the activities of the Parent Company and of the Group companies, carried out at the head offices and at the branches, as well as to all information that is relevant for carrying out the assigned tasks, also through individual meetings with the personnel;
- has access to resources that are qualitatively and quantitatively adequate in terms of number, technical and professional skills, continuous updating, also through participation in on-going training programmes.

The Risk Management Department is separate from the Internal Audit Department and from the Compliance and Anti-Money Laundering Departments from an organisational standpoint. Moreover, it is not involved in risk assumption processes. The structures which are deemed to be involved in risk assumption, have the following characteristics (even not collectively):

- authorise the taking of a risk;
- are remunerated in proportion to business results;
- have goals that involve risk taking.

Main activities

The Parent Company's Risk Management Department, in fulfilling its own mission, plays a central role in governing and managing risks.

The Chief Risk Officer is the Head of this department, and, through the Chief Executive Officer, supports the Parent Company’s Board of Directors in defining the Group RAF, the general lines of the ICAAP and ILAAP processes, the Contingency Funding Plan, the Group policies for the governance and management of risks and the various phases that make up the risk management process.

This department identifies the risks to which the Parent Company and Group companies are exposed and provides for the measurement and periodic monitoring of the same through specific risk indicators, planning any mitigation actions for significant risks. In this context, it ensures adequate information to the governing bodies.

The Risk Management activities are subject to periodic reporting to the corporate bodies and to the Committees through the Tableau de Bord, and, where required, also to the Bank of Italy, Consob and the Market. In particular, the Department guarantees the preparation, for that within its responsibility, of the group disclosures on the various regulatory (Risk Map, RAF, ICAAP and ILAAP reports, Group Contingency Funding Plan and Recovery Plan) and market (this Pillar 3, disclosure, sections E of the notes to the consolidated and individual financial statements) risk profiles.

The CRO, at the beginning of each management cycle, defines the Program of activities of the organisational units that supervises, taking into account both any deficiencies that have emerged in the checks, and any new risks. The program includes the activities to be carried out both for the Bank on an individual basis and for the Group as a whole. This document is shared with the CEO, submitted to the Control and Risk Committee and to the Board of Statutory Auditors, and approved by the Board of Directors.

At the end of each management cycle, the CRO prepares, at least annually, a Report that shows the checks performed, the results that have emerged, the weaknesses that have been detected and the proposals for actions to be taken for their removal. This report is shared with the Chief Executive Officer and subsequently sent to the Control and Risk Committee and the Board of Statutory Auditors, as well as to the Board of Directors.

The CRO reports to the Chief Executive Officer, for issues falling within their responsibility, as regards completeness, adequacy, functionality and reliability of the Group’s internal control system. They also support the CEO in the implementation of the Group RAF.

The CRO ensures the development and maintenance of methodologies, models, metrics and tools for integrated risk measurement and management. Furthermore, he oversees the process of validating the internal management models used for measuring Group risks.

The CRO supports the Parent Company’s Board of Directors in defining the criteria and processes for identifying significant transactions (OMRs) and, through the organisational units that report to him, formulates preventive opinions on OMRs’ consistency with the RAF; these significant transactions are subject to his assessment, during which the CRO acquires, based on the nature of the transaction, the opinion of other departments involved in the risk management process.

Furthermore, through the organisational units that report to him, the CRO:

- guarantees the monitoring of the risks arising from new products and services and those arising from entry into new business and market segments;
- guarantees the monitoring of risks arising from transactions with related parties and associated persons;
- participates in the definition of remuneration and incentive policies;
- participates in the strategic planning process with reference to aspects relating to capital requirements, prospective funding requirements and prospective assessment of Group risks;
- supports the Finance department, for the activities within his remit, in preparing the Group’s periodic financial information;
- guarantees the performance of second-level controls on credit activity and, in general, to the extent applicable, on the Group’s risks;

- guarantees the risk awareness process also through specific training provided to the various Group structures;
- prepares analyses and disclosures in response to specific requests from the Supervisory Authority within the scope of his responsibility.

The Risk Management unit, at the reporting date, includes three second-level units, specialised in relation to individual risk profiles ('Credit Risks', 'Operational and Reputational Risks', and 'Financial Risks'). In addition to these, there are four additional second-level organisational units: i) 'Risk Data Governance', aiming to develop and ensure the adequacy of data quality standards in all risk areas; ii) 'Model Development', aiming to continuously develop and improve risk measurement methodologies, models and metrics; iii) 'Collateral Monitoring', aiming to oversee the process of evaluating and monitoring the value of collateral acquired; iv) 'Anti-Fraud', aiming to monitor the risk of fraudulent actions that may be perpetrated against the Group in the course of its operations.

The Risk Management structure is completed by the presence of two additional organisational units that work for the Chief Risk Officer, i) “Risk Governance”, with the task of supporting the CRO in the decision-making processes and ensuring an overall view of the various risks and their mutual interaction; ii) “Validation”, which is responsible for the validation of internal risk measurement systems for management purposes.

The main objective of the aforementioned organisational units, within the scope of their activities, is:

- to provide support to the CRO in defining the Group's processes and instruments for the identification, assessment, monitoring, mitigation and reporting, linking up with the other Companies’ Risk Management structures;
- to control, monitor and evaluate risk profiles, carrying out the checks and analyses defined in the relevant group policies for managing credit, financial, operational and reputational risks;
- to guarantee the development and improvement of risk measurement methodologies and models, by continuously assessing the reliability and consistency of the results;
- to collaborate in the preparation and updating of the reports and of directional and regulatory information pertaining to the Risk Management Function.

The Parent Company's Risk Management Regulation, in compliance with the Supervisory Provisions for banks pursuant to Circular no. 285/2013 of the Bank of Italy, describes in detail the scope and the mission of the same, also with reference to the management and coordination activity carried out by the Parent Company on the subsidiaries, the related organisational structure, the tasks of the staff, second-level and third-level organisational units that comprise it, the relationships that the Function maintains with the Corporate Bodies and the other organisational units of Banca IFIS as well as with the Group subsidiaries involved in the process of risk management and finally the main information flows implemented.

Group companies, where a risk control function exists, carry out independently, through dedicated organisational units, the protection and management of certain risks, in accordance with the guidelines defined by the Parent Company with regards to management and coordination activities of the subsidiaries. Specifically, the management activities relating to credit, operational, reputational, market and counterparty risk, where present, are carried out independently by the individual group companies through their Risk Management structures. This organisational solution was adopted for the subsidiaries Credifarma SpA and Cap.Ital.Fin. SpA, whereas the risk management and control activities of the subsidiary IFIS NPL SpA were centralised within the Parent Company's Risk Management function, following the results of the assessments carried out by the Parent Company on the convenience of centralising risk control activities within the same.

1.3 Risk profile and risk measurement and management systems (Art. 435 paragraph 1, e, f)

The **Risk Appetite Framework** is the reference framework which governs, in line with the business model and strategic plan, the risk appetite, the thresholds of tolerance, the risk limits, and provides a single summary view of risk management policies and the reference processes that are necessary to define and implement them.

For the Banca IFIS Group, the following two categories of indicators have been defined:

- **strategic indicators**: defined by the Strategic Supervisory Body (hereinafter also OFSS from the Italian Organismo con Funzione di Supervisione Strategica) and necessary for the monitoring of the strategic-financial objectives of the Group, as described in the Risk Appetite Framework;
- **risk indicators**: approved by the Strategic Supervisory Body, they include a set of operating limits for individual types of risks, seeking to take the process of controls over risks to a more granular level. They are defined in the various corporate risk management policies.

The categories of indicators described above are subject to regular monitoring by the Risk Management Function and are notified to both Corporate Bodies and the other business structures, based on the relevant types.

With reference to strategic indicators, they are divided into strategic indicators with regulatory restrictions, measured according to consolidated logics, and strategic indicators for which no regulatory restriction has been defined and are measured at the single BU or Entity level, where necessary.

For each strategic indicator relevant concepts for the purposes of RAF were defined:

- **Risk Profile** (actual risk): the actual risk assumed, measured at a particular instant in time.
- **Risk Appetite** (risk objective): the level of risk, overall and by type, which the Group intends to assume to fulfil its strategic objectives;
- **Risk Tolerance** (tolerance threshold): the maximum allowed deviation from Risk Appetite; the tolerance threshold is fixed in such a manner as to provide the Group with sufficient margins to operate in every case, even under stress, within the maximum risk that can be assumed;
- **Warning**: a threshold defined only for strategic indicators, free of regulatory restrictions, it is the maximum level of risk that the Group intends to assume in order to reach its strategic objectives;
- **Risk Capacity** (maximum assumable risk): a threshold defined only for the strategic indicators involving regulatory restrictions, it represents the maximum risk level that the Group is technically capable of assuming without breaching the regulatory requirements or other restrictions set by the Supervisory Authority (also taking into account any additional specific capital requirements imposed as a result of the SREP Process).

Strategic indicators	Profile	Risk appetite	Tolerance	Alarm	Capacity
With regulatory constraints	√	√	√	√	√
Without regulatory constraints	√	√	√	√	√

The strategic indicators are mainly attributable to:

- capital and capital adequacy
- liquidity;
- profitability;
- asset quality;
- market

Following a breach of the above-mentioned thresholds, an escalation process is activated which requires the timely definition of the management procedures and interventions to be activated in order to reach the tolerance threshold, after an analysis of the reasons that led to the threshold being exceeded.

1.4 Strategies and processes for risk management

1.4.1 Risk taxonomy and mapping

Banca IFIS has defined a **Risk Taxonomy** which describes the logic followed in identifying the current and/or potential risks to which the Group could be exposed in reaching its strategic objectives and, for each type, the planned prevention and mitigation instruments.

The Parent Company carries out a first identification of the risks starting with the list of minimum risks identified by the current supervisory regulations and expanding it with further significant risks which emerged from the analysis of the business model and the reference markets in which the various Group companies operate, of the strategic prospects, the operating methods and the characteristics of loans and sources of financing. In order to ensure greater adherence with the specific business models of the Group, the risks have been grouped into macro-areas.

The identification of risks and the periodic updating of the risk taxonomy are the result of a joint effort of the second-level control functions (Risk Management, Compliance, Anti-Money Laundering, Chief Financial Officer) and third-level control functions (Internal Audit), which annually meet and examine, based on the results of the previous year's risk management, the possible introduction of new risk events and/or a change in the assessment of potential risks.

The process of assessing the potential relevance of risks (so-called 'inherent risk') does not take into account the possible checks or other mitigation factors that the Group has put in place.

The potential relevance of individual risks is summarised on a three-value scale (High, Medium, Low) on the basis of a joint subjective assessment of the Parent Company's control functions (so-called judgemental approach).

The Parent Company, for the purposes of the group processes adopted for the assessment of capital adequacy (ICAAP) and of the liquidity management and governance system (ILAAP), considers as **significant risks** the types of risk to which it has assigned the relevance levels 'High' and 'Medium' at the conclusion of the above risk assessment process.

The following types of risk fall within the relevant risks:

Credit Risk Area - within this area, the following risks are considered to be significant:

- Credit risk;
- Concentration risk

Financial Risk Area - within this areas, the following risks are considered to be significant:

- Interest rate risk;

- Liquidity Risk;
- Risk related to the amount of encumbered assets.

Operational and Reputational Risk Area, - within this area, the following risks are considered to be significant:

- Operational Risk;
- Reputational Risk;
- Model risk.

Other types of Risk Area:

- Strategic Risk.

A description of the above-mentioned individual risk categories, in terms of objectives and risk management policies, is provided in the following paragraphs.

The Parent Company's Risk Management function focuses on the remaining risks, which are considered to be of **low relevance**. Please refer to the internal company regulations for the description of the risk management and control processes adopted for some of them.

The following types of risk fall into this 'low significance' category:

Credit Risk Area:

- Counterparty Risk;
- Country and Transfer Risk;
- Italy's Sovereign Risk;
- Residual Risk;
- Settlement and Delivery Risk;
- Risk arising from Securitisation Transactions;
- Equity risk.

Financial Risks Area:

- Market risk
- The credit valuation adjustment risk.

Other types of Risk Area:

- Risk of excessive leverage.

1.4.2 Credit Risk Area

1.4.2.1 Credit risk

Credit risk is the risk of loss due to the insolvency or credit rating deterioration of the Group's counterparties and consists of the:

- *of the counterparty risk dimension. It isthe risk of insolvency or credit rating deterioration of the Group's counterparties to which it is exposed;*
- *the size of the transaction risk. It concerns both the losses that the Group sustains due to the non-recovery of receivables from defaulting counterparties and the increase in exposure towards parties that, following a worsening of their economic-financial situation, tend (in all those cases of technical forms of credit facilities to so-called 'uncertain value) to make greater use of the credit limit granted to them, thereby reducing the residual margin available.*

Objectives and credit risk management policies

Objectives

Under the guidelines approved by the Administrative Body of the Parent Company and in line with the evolution of the regulatory supervision framework, the Group pursues the objective of strengthening its competitive position in the market in relation to small-medium sized enterprises. In this context, the Group aims to expand its market share in the trade receivables areas, also in relation to subjects with specialised needs such as pharmacies, leasing, tax credit and that of doubtful loans, by providing high quality financial services, a high level of customisation, profitability and credit risk control consistent with the quality offered.

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

Organisational aspects

Within the Banca IFIS Group, the Corporate Bodies of the Bank and of the financial subsidiaries play a fundamental role in the management and control of credit risk: according to their respective responsibilities, they ensure the adequate monitoring of credit risk by identifying the strategic guidelines, risk management and control policies, by continuously verifying their efficiency and effectiveness and by defining the tasks and responsibilities of the company functions involved in the related processes.

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

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

The organisational structure is therefore divided into the following business units broken down by type of activity:

- **Trade Receivables (Italy)**, the organisational unit that provides financing services for Italian companies;
- **Pharma**, organisational unit dedicated to the acquisition of credits claimed against local health authorities and hospitals;
- **Pharmacies**, organisational unit that provides financing to domestic pharmacies, both developed internally and reported by the sales network of the subsidiary Credifarma;

- **International**, the organisational unit that provides financing services for Italian exporters as well as foreign companies;
- **Tax receivables**, an organisational unit dedicated to acquiring tax receivables, mostly from companies in bankruptcy or in liquidation;
- **Corporate Finance**, organisational unit dedicated to providing structured finance or investment transactions in solvent non-financial businesses or in intermediate bodies;
- **Special Situations**, the organisational unit responsible for identifying and assessing new opportunities for lending to Italian companies that, despite reporting positive operating profits, have gone through or are recovering from financial distress;
- **Leasing**, organisational unit dedicated to the provision and management of leasing products.

In addition, at the reporting date the lending process included the lending operations of the subsidiaries:

- **IFIS NPL SpA**, company dedicated to the acquisition, management and sale of nonperforming loans, mainly originating from financial institutions and banks, resulting from the transfer of the Banca IFIS business unit dedicated to the NPL business completed on 1 July 2018;
- **FBS SpA**, a company specialising in the management of mortgage and corporate NPLs and in servicing and recovery activities on behalf of third parties;
- **Cap.Ital.Fin. SpA**., company operating in the field of salary-backed loans and pension- backed loans, salary deductions and in the distribution of financial products such as mortgages and personal loans;
- **Credifarma SpA**, the reference for pharmacies when it comes to advances, medium- and long-term loans, equipment leases, and financial services;
- **IFIS Finance SPZOO.**, a factoring company operating in Poland;
- **IFIS Rental Service S.r.l**., an unregulated entity specialising in operating leases.

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

With regard to the credit **granting** process, each business unit identifies the possibility of new transactions in compliance with the current credit policies and on the basis of the defined risk appetite; in this context it carries out the preliminary examination of the applications for new lending contracts and proceeds with formalising a proposal for submission to the competent decision-makers, ensuring the application of the credit policies and the established checks, and by carrying out a creditworthiness analysis as required by the internal legislation in force.

Proposals for assignment and/or acquisition of credits are presented to the competent decision-makers who, on the basis of their respective delegated powers, express their decision with regard to the granting of the loan requested; the credit decision always refers to the total exposure granted to the counterparty (or any related groups).

The branches of Banca IFIS SpA do not have decision-making power in assuming credit risk; the management of the ordinary operations of customer relationships are assigned to them under the constant monitoring of the central structures and within the limits and the procedures established by the relevant Managers.

The operations of the subsidiaries provide for local decision-making limits defined within the operational and organisational scope defined by the Parent Bank Banca IFIS.

This is followed by the credit **finalisation** phase which is reflected in the stipulation of the contract, in the activities relating to the acquisition of any guarantees, in the provision of the loan granted. In these stages, the business units are aided by specific supporting units responsible for preparing the agreement in accordance with the terms of the approval as well ensuring all activities leading to the granting of the credit facility are properly carried out.

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

- origination, with the identification of the counterparties with which to carry out the purchase transactions and the evaluation of the commercial interest in the execution of such transactions;

- due diligence, as part of which highly-skilled analysts assess the quality of the portfolio being transferred and the relevant organisational impact. Once the due diligence is completed, the Group sets the terms and conditions for offering/acquiring the receivables portfolio and how to manage it (individual or collective method), assessing the relevant impact on operating structures;
- resolutions, with the activities necessary for the preparation of the appraisal file, the assumption, adoption and implementation of the resolution by the competent decisionmaker;
- finalisation: the parties prepare and finalise the purchase agreement, and the relevant consideration is paid.

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

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

Collection operations for receivables deriving from purchases of distressed retail loans are the responsibility of resources within the subsidiary IFIS NPL SpA as well as of a broad and proven network of debt collection companies and financial agents operating across Italy. Out-of-court management consists mainly in the activation of the loan by the debtor subscribing to promissory notes or voluntary recovery plans; the activity of judicial management consists, on the other hand, in the transformation through legal action aimed at obtaining from the court the order of assignment (ODA) of a fifth of the pension or salary (the existence of which is a prerequisite for the start of this form of transformation) or the sale on the market of the asset to guarantee the loan (secured management). Specific disclosure of these operations is given below.

Finally, it assesses the expediency of selling non-performing loan portfolios, mainly represented by processing queues, submitting any proposals for approval to the competent decision-making bodies, consistently with the BU's profitability targets and after analysing the relevant accounting, reporting, legal, and operational impacts. To do so, it relies on the in-depth inquiries conducted by the Parent company's competent business functions within their area of expertise.

A similar operational management of the recovery of receivables acquired and managed is followed, albeit with the specifics related to the type of receivable, by the newly-established subsidiary FBS SpA, which uses legal professionals (asset managers) who take care of out-of-court and judicial credit recovery activities, also availing of the contribution of FBS RE, a subsidiary company specialised in the valuation of real estate assets.

Management, measurement, control and reporting systems

Credit risk is continuously monitored with the help of procedures and tools that allow for the timely identification of positions that present particular anomalies.

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

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

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

Credit risk exposures to Italian companies are assigned an internal rating based on a model developed in-house for the trade receivables portfolio. A project is currently underway to revise the estimate of the extended rating models, in addition to trade receivables, also for other businesses (i.e. leasing). Development activity was concentrated in 2019; in 2020 the risk parameters associated with the new model will be defined, also in line with the new definition of default that will come into force from 31/12/2020; on a continuous basis, through periodic simulations, the impact of the use of the new rating model on the system for determining collective adjustments will be analysed.

Starting from January 2018, the new classification and valuation rules for financial instruments were applied for the entire Group under the new IFRS9 accounting standard.

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

Concerning credit risks, the Risk Management function:

- oversees, monitors and assesses credit risks, carrying out audits and analysis in accordance with the relevant guidelines; (i) evaluates the quality of credit, ensuring compliance with lending guidelines and strategies through the continuous monitoring of credit risk indicators; (ii) constantly monitors the exposure to credit risk and compliance with the operating limits assigned to the operating structures in relation to the assumption of credit risk; (iii) verifies, through second-level controls, the correct performance of monitoring on the individual exposures, in particular the impaired ones, and assesses the consistency of the classifications and the adequacy of the provisions; (iv) monitors the exposure to concentration risk and the performance of exposures classified as Large Exposures;
- performs quantitative analyses to support the business units in using risk measures;
- oversees the supervision of the value of collateral as well as personal and financial guarantees.

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

Within the framework of the Basel 3 principles, Banca IFIS has chosen to use the standardised method in order to determine the capital requirement against first pillar credit risks.

In order to assess its vulnerabilities when it comes to managing capital and liquidity, the Parent Banca IFIS has developed quantitative and qualitative techniques to assess its exposure to exceptional but plausible events. These analyses, known as stress tests, measure the impact in terms of risk deriving from a combination of changes in economic-financial variables under adverse scenarios on the Banks and its subsidiaries. These analyses significantly concern credit risk.

Stress tests enable to verify the resilience of the Group, by simulating and estimating the impacts of adverse situations, and they provide important indications regarding its exposure to risks and instruments, the adequacy of the relative mitigation and control systems and the capacity to cope with unexpected losses also from a long-term planning perspective.

For regulatory purposes, the Parent Banca IFIS conducts stress tests when defining the Risk Appetite Framework and preparing the Recovery Plan as well as the ICAAP and ILAAP report at least on an annual basis, as required by applicable prudential supervisory regulations. In this context, it assesses, among other things, the sustainability of lending strategies under adverse market conditions.

Credit risk mitigation techniques

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

In general, as part of the credit granting and management process, for certain types of credit lines, customers are encouraged to provide suitable guarantees in order to reduce their risk. They can be represented by secured guarantees on assets, such as for example pledges on financial assets, mortgages on real estate (residential /

non-residential) and/or collateral securities (typically bonds) that affect a third party where the person (natural or legal) is guarantor of the debtor position of the customer in the event of insolvency.

In particular:

- Within the factoring activity, when the type and/or quality of factored receivables do not fully satisfy requirements or, more generally, the invoice seller is not sufficiently creditworthy, the Bank's established practice is to hedge the credit risk assumed by the Group by obtaining additional surety bonds from the shareholders or directors of the invoice seller. As for the account debtors in factoring relationships, wherever the Bank believes that the elements available to assess the account debtor do not allow to properly measure/assume the related credit risk, or the proposed amount of risk exceeds the limits identified during the debtor's assessment,, the Bank adequately hedges the risk of default of the account debtor. Guarantees issued by correspondent factors and/or insurance policies underwritten with specialised operators are the main hedge against non-domestic account debtors in non-recourse operations;
- as for the Lending sector, based on the peculiarities of its products, it demands adequate collateral according to the counterparty's standing as well as the term and type of the facility. These guarantees include mortgage guarantees, liens on plant and machinery, pledges, sureties, credit insurance and collateral deposits;
- as regards financial leases, it should be noted that the credit risk is mitigated by the presence of the leased asset. The Lessor maintains the ownership until the final purchase option becomes available, thus ensuring for itself a greater recovery rate in case of a default by the customer;
- in relation to transactions involving non-performing loans and the purchase of tax receivables arising from bankruptcy procedures, and the related business model, there are usually no actions taken to obtain coverage for credit risks;
- salary-backed loans is undoubtedly a low-risk technical form, in consideration of the peculiarities of this product which provides for compulsory insurance coverage for the risk of death and/or unemployment of the customer and the constraint, as a greater guarantee of financing, of severance indemnities accrued by the customer;
- the operation of financing to pharmacies involves an advance payment combined with a transfer or a mandate for the collection of receivables with the possibility of using the subsequent advances to reduce existing loans.

As part of the acquisition of NPL portfolios by the IFIS NPL subsidiary, there may be positions guaranteed by first-degree mortgages that present lower risk with respect to the overall portfolio acquired.

When calculating the overall credit limit for an individual customer and/or legal and economic group, the Bank considers specific criteria when weighing the different categories of risks and guarantees. Specifically, when measuring collateral, it applies prudential 'spreads' differentiated by type of guarantee.

Further information is given in § 17of this document.

Impaired financial assets

Non-performing loans are classified according to the Bank of Italy's criteria.

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

- assess the counterparty's willingness and ability to repay the debt in order to establish the most appropriate recovery strategy;
- manage judicial and non-judicial proceedings concerning debt collection operations;
- define and propose to the competent person, the possible amendment of the administrative status and the quantification of the 'doubtful analytical results' on the assigned positions;
- monitor the amount of exposures classified as bad loans and the relevant debt collection operations.

Impaired assets include loans acquired by the subsidiary IFIS NPL which were purchased at significantly lower values than their nominal value; collections, usually higher than the price paid, minimise the risk of loss.

The Group, in the management of non-performing loans, defines quantitative objectives (such as maximum limits) in terms of impaired exposures as well as predefined interventions to be implemented in accordance with suitable application criteria and priorities, in order to ensure compliance with established limits over time. In managing these aspects, the Group must also necessarily account for the different business segments and the associated types of receivables, identifying solutions and actions that are consistent with the peculiarities of each segment in order to deliver the best possible result in terms of value protection and timely resolution.

That said, when preparing its operational plan for managing NPLs in the short, medium, and long term, approved by the Board of Directors on 28 March 2019 and subsequently submitted to the Bank of Italy, the Bank identified the two following ratios as performance indicators and explicit goals to be pursued in a careful and proactive manner:

- 'gross npe ratio', consisting of the ratio between 'gross impaired exposures' and 'total loans granted to customers';
- 'net npe ratio', consisting of the ratio between 'impaired exposures net of the related adjustments' and the 'total loans granted to customers'.

With reference to the cash credit exposures to customers existing at 31 December 2019 (excluding the positions deriving from the purchase and management of third party originators' impaired loans managed by the subsidiaries IFIS NPL SpA and FBS SpA, as well as retail credit portfolios), the NPE ratio levels are in line with the reduction targets set for the period in question.

The pursuit of the objective to reduce the stock of medium/long-term non-performing loans, as set out in the plan, is expected to take place through a differentiated strategy in relation to the specific nature of the individual portfolios concerned (taking into account the type of counterparty and the specificity of individual products). In general, the Group will take actions towards the following goals, which it has been pursuing for some time now:

- curbing the default rate in order to reduce the number of positions that become non-performing, extending and strengthening loan monitoring operations in order to anticipate, and potentially prevent, the impairment of exposures;
- improving 'performing' settlement rates by granting more forbearance measures to counterparties that show signs of financial distress;
- leveraging the expertise within the Banca IFIS Group and the virtuous collection processes currently in place to maximise collection rates;
- reducing the stock of non-performing loans by considering selective sales of individual significant positions as well as applying existing write-off policies.

exploitation of the expertise currently present in Banca IFIS and of the existing virtuous recovery processes in order to maximise recovery rates;

Further information is given in § 7of this document.

1.4.2.2 Credit Concentration Risk

Risk arising from exposures to counterparties, including central counterparties, groups of connected counterparties, and counterparties operating in the same economic sector, in the same geographic region or that perform the same activity or deal with the same merchandise, as well as from the application of credit risk mitigation techniques, including, in particular, risks related to indirect exposures, such as, for example, to individual providers of guarantees.

Concentration risk management objectives and policies

The Banca IFIS Group pays particular attention to the concentration of credit risk with reference to all the Group's companies, both at an individual and consolidated level. Banca IFIS's Board of Directors has delegated the Top Management to take action to contain major risks. In line with the directives of the Board, those positions that are at risk and engage the Group to a considerable extent are subject to systematic monitoring.

In line with the supervisory requirements in the credit process, for the purposes of managing and controlling the concentration risk, two different phases can be distinguished: the first represented by the assignment, in particular when 'large exposures' are taken on and the second is identifiable in the continuous monitoring of the quality of existing exposures, especially of higher amounts.

The Banca IFIS Group, with methods related to the nature of the products/customers handled, has adopted internal procedures consistent with the taking on and monitoring of 'large exposures', to be applied as a precautionary measure also to loans which, although not identified as 'large exposures', have dimensions such as to have significant effects on the financial soundness of the lending company in the event of a crisis of the entrusted subject/group. In particular, the Banking Group companies, relying first of all on the information provided by the Bank's database which identifies existing relationships and any legal and economic ties for all Banking Group customers, acquire during the preliminary investigation for the granting of a new loan or the monitoring of the position, all the data and information deemed necessary to evaluate the individual transaction in the overall amount of the exposure with the group to which the counterpart belongs, the composition of which is kept updated over time.

The Risk Management function periodically monitors the composition of customers and the relative degree of concentration, with particular focus on highly significant borrowers, in order to maintain, as far as possible, a satisfactory spread of credit risk and to limit potential losses in the event of insolvency of counterparties with significant debt exposures. With regard to retail portfolios, the monitoring activity on the subject of concentration is based on portfolio logics and through differentiated cases in relation to the type of product and management.

The Bank ensures constant compliance with the regulatory limits on risk concentration both on an individual and consolidated basis, as well as compliance with the most stringent regulatory limits referring to related parties. The results of the checks are reported on a quarterly basis to Top Management within the Tableau de Bord.

A quantitative representation of the 'Large exposures' in place on 31 December 2019 is shown in section E of the notes to the consolidated financial statements of the Banca IFIS Banking Group. The total amount of large exposures at the weighted value on 31 December 2019 is made up of 219 million Euros in tax assets, 216 million Euros in exposures to equity investments not included within the prudential consolidation scope and 139 million Euros in exposures to corporate customers.

In order to perform a complete measurement of the risks to which the Group is exposed, in the second pillar Banca IFIS calculates the capital add-on against the single-name and geosectorial concentration risk.

As is known, the single-name concentration risk aims at 'correcting' and integrating the quantification of credit risk, measured with a standardised method, by defining a capital addon that aims to cover the risk resulting from excessive concentration towards connected groups of companies. The Group measures the concentration risk relating to the 'banking portfolio', using the simplified method prescribed by Circular 285/2013 - Part One - Title III 'Prudential Control Process' - Chapter 1 - Annex B, for the purpose of calculating the relative regulatory capital requirement.

A specific process is used to calculate the internal capital against geo-sectorial concentration risk in accordance with the recently revised ABI methodological proposal, which aims to provide a simplified method for determining the possible internal capital add-on based on the difference between the concentration of the corporate portfolio and that of the reference geo-sectorial benchmark portfolio. In applying the methodology, the Group uses the portfolio on a national basis as a reference as it does not have a geographical area of prevalence.

A non-negligible exposure to concentration risk can be generated by the loans granted by the Bank to counterparties classifiable as medium and large companies mainly for corporate lending and Structured Finance activities. Receivables due to the Group from counterparties belonging to retail classes and medium-sized companies - which generally refer to factoring, leasing, pharmacy, family loans, as well as to risk positions arising from the acquisition of non-performing loans - have less influence on the concentration risk given the granularity and type of exposures at risk.

1.4.2.3 Counterparty Risk

It is the risk that the counterparty to a transaction involving financial instruments defaults before the final settlement of the cash flows of the relevant transaction.

Counterparty risk currently relates to derivative products generated by Proprietary Finance activities and ancillary to the management of the overall proprietary portfolio; there is also a residual portfolio of derivative products, mainly on interest rates, deriving from Corporate activities in which derivative contracts were offered to customers to cover the financial risks assumed by the latter; all outstanding transactions are covered, for the purpose of cancelling market risk, with back-to-back transactions, in which external market counterparties have assumed an opposite position to that sold to corporate customers.

Prospectively speaking, the impact on this risk is not expected to be significant in relation to the type of transactions, the nature of the counterparties and the margining systems envisaged.

Organisationally, the Capital Markets Department is responsible for managing operations in financial instruments in accordance with the policies defined and the guidelines assigned according to operational and risk limits and profitability targets.

With regard to counterparty risk connected to repos, its monitoring consists in a precise and constant verification of the structure and quality of the securities portfolio as the underlying risk is directly connected to the creditworthiness of the counterparties with which the collateralised financing operations are carried out (generally central counterparties such as Cassa di Compensazione e Garanzia and the European Central Bank) and is proportional to the price volatility of portfolio securities provided as a guarantee.

In relation to both the low level of exposure of the derivative product portfolio and the low incidence of absorbed internal capital connected to counterparty risk (CCR) on the total absorbed internal capital on risks, it is considered that the potential relevance of the aforementioned risk at Group level is 'low'.

For the measurement of the counterparty risk, the Bank follows the method prescribed by Regulation (EU) no. 575/2013 of 26 June 2013 - Part Three, Title II, Chapter 6 (CCR) and for its application in Italy by Circular 285/2013, for the purpose of calculating the relevant regulatory capital requirements. In particular, for transactions involving derivatives, for the purpose of measuring counterparty risk, it applies the 'market value method' (Article 274 CRR).

Further information is given in § 5of this document.

1.4.2.4 Country Risk

It is the risk of losses caused by events that occur in a country other than Italy. The concept of country risk is broader than that of sovereign risk in that it refers to all exposures regardless of the nature of the counterparties, be they natural persons, businesses, banks or public administrations.

Country risk represents an additional component of the risk of insolvency of individual borrowers, measured in the context of the Group's credit risk control systems.

In general, country risk derives from the possibility of loss due to events that do not depend on the solvency of the debtor, but due to the country, understood in a broad sense, in which the subject is resident. Any international loan presents a country risk, due to the fact that the debtor's repayment ability and/or possibilities can be conditioned by economic, political and social factors that transcend the micro-economic dimension of the credit relationship. In the event that the debtor is a private operator, this risk takes the form of a series of political, economic and/or technical impediments for which the public authority is ultimately responsible; if, on the other hand, the debtor identifies with the government of a country or with any other public or publicly guaranteed entity (so-called 'sovereign' debtor), this risk is manifested by direct incapacity (technical, economic, financial) or refusal of these individuals to fulfil their commitments.

Most of the Banking Group's risk exposures are concentrated in Italy; the remaining exposures to non-domestic customers mainly refer to counterparties resident in the European Union. Specifically, the business units with significant credit exposures to foreign customers are BU International and the Polish subsidiary IFIS Finance Sp.the Italy Commercial Area, the International Area, the Polish subsidiary IFIS Finance SPZOO, and the Corporate Finance Area. The Italy Commercial Area operates abroad through factoring operations with final

sales with a debtor counterparty with registered office abroad. The target customers which BU International serves concern financing services to domestic companies that carry out export activities as well as to foreign companies, operating directly or with the collaboration of foreign correspondents. The development of relations with foreign correspondents (foreign banks or non-bank factoring intermediaries) takes place in the import and export market mainly within the worldwide network of factoring companies 'Factors Chain International' (FCI). IFIS NPL IFIS Finance SPZOO., a financial company governed by Polish law, specialising in factoring (import/export) services in the Polish market; There are also exposures to corporate customers based abroad related to operations managed by the Structured Finance and Workout & Recovery Services.

The evaluation of the incidence of country risk within the different operating units is of a qualitative nature and the following drivers are considered:

- the level of overall exposures for each foreign country;
- the risk that a potential event may affect the entire country, leading to the default of a large group of debtors.

In particular, in evaluating country risk for non-EU countries, information and statistics are made available by third-party institutions, such as SACE SpA

With reference to exposures to 'sovereign' foreign borrowers, the Group does not present risk exposures at the date.

A quantitative representation of the geographical distribution of cash and off-balance credit exposures to customers is shown in section E of the notes to the consolidated financial statements of the Banca IFIS Banking Group. The majority of net credit exposures refer to domestic customers. In light of the above, it is considered that the potential relevance of the aforementioned risk at Group level is 'low'.

1.4.2.5 Italy's Sovereign Risk

It is the risk that the Italian government will not respect its financial obligations due to economic, financial and political factors.

In 2019, the Group increased its exposure to the Italian state for investments in government securities.

In the event of an increase in country risk, the risk control system provides for hedging management actions to avoid exceeding the established internal limits and to have a modest negative impact on capital in the event of certain levels of reduction in the value of government securities in the portfolio.

Specific information on the Sovereign Debt is reported in section E of the notes to the consolidated financial statements of the Banca IFIS Banking Group. At 31 December 2019, the book value of debt securities issued by the Italian Republic amounted to 1,310 million Euros, net of the negative valuation reserve of 1.7 million Euros.

Pursuant to the CONSOB Communication, besides the exposure to sovereign debt, it is also necessary to consider receivables due from the Italian government, which at 31 December 2019 totalled 738 million, including 125 million Euros relating to tax receivables.

The evaluation of the incidence of Italy's sovereign risk is of a qualitative nature; it is considered that the potential relevance of Italy's sovereign risk at Group level is 'low'.

1.4.2.6 Transfer risk

It is the risk that the Group, as assignor of a party that receives its main sources of income in a currency other than that of the loan, realises losses due to the debtor's difficulty in converting its currency into the currency in which the exposure is denominated.

The transfer risk may impact on the operations generated by the Group, in particular in relation to import/export factoring, or foreign factoring abroad.

The evaluation of the incidence of transfer risk is qualitative, the driver considered is the number of counterparties that are financed with a different currency than the one in which they receive the main sources of income. As part of the lending process, in order to identify potential future losses due to the difficulty of the counterparty to convert its currency, particular attention is paid in the underwriting phase to risk factors such as the residence of the borrower, the currency of the transaction and the currency of the customer's main sources of income.

The potential relevance of the transfer risk at Group level is assessed as 'low'.

1.4.2.7 Residual Risk

It is the risk that recognised techniques for Credit Risk Mitigation used by the Group (so-called Credit Risk Mitigation) may be less effective than expected.

The residual risk is linked to the possibility that recognised techniques for credit risk mitigation used to reduce the capital requirement turn out to be less effective than expected. This generates, in the guaranteed exposures, losses greater than those covered by the corresponding capital requirements calculated by the Group in accordance with the standardised method for measuring the credit risk of the banking portfolio.

The strategies pursued by the Group require credit lines to be preferably backed by suitable guarantees and risk mitigation tools. In particular, the Bank, in relation to Corporate Finance operations, by mainly granting medium-term loans, favours transactions characterised by the acquisition of guarantees in relation to the counterparty's standing and the duration of the loan, for example mortgage guarantees, liens on plant and machinery, pledges, sureties, credit insurance and collateral deposits. In relation to subsidised finance, SMEs are financed with the support of the Guarantee Fund granted by the Ministry of Economic Development, with the dual objective of giving the company the possibility of obtaining loans without additional guarantees (and therefore without the costs of bonds or insurance policies) for the part guaranteed by the Fund, and the Bank the chance to mitigate the credit risk for the guaranteed exposure.

Similar criteria are followed by the Group's subsidiaries, based on the products they trade.

The residual risk is assessed qualitatively by formulating an opinion on the adequacy of the procedures for managing CRM instruments, bearing in mind the general and specific requirements of the regulations for their recognition for prudential purposes.

It should also be noted that, although with a non-direct impact on CRM techniques, the Group has begun to operate in the NPL sector by acquiring mortgages[1] of varying degrees on properties[2], whose market value has a direct impact on the presumable value of credit recovery. Valuations are generally carried out by surveyors outside the Group.

The potential relevance of the residual risk at Group level is assessed as 'low'.

Further information is given in § 17of this document.

1.4.2.8 Settlement and Delivery Risk

It is the risk that a counterparty will not fulfil its obligation to deliver or pay in the context of a financial instrument transaction.

Settlement and delivery risk is inherent in transactions in financial instruments, so this risk potentially affects the processes managed by the Capital Markets Department.

To evaluate the incidence of settlement and delivery risk, the bank considers the following drivers:

[1]subsidiaries IFIS NPL SpA and FBS SpA.

- the credit standing of the counterparties;
- the complexity of the financial instruments underlying the transactions;
- the percentage of significant transactions with central counterparties;
- the percentage of transactions managed through financial market infrastructures.

The potential relevance of the settlement and delivery risk at Group level is assessed as 'low'.

1.4.2.9 Risk arising from Securitisation Transactions;

It is the risk that the economic aspect of the securitisation transaction is not fully reflected in the risk assessment and management decisions.

At 31 December there are no securitisation transactions originating with the aim of achieving economic advantages with regard to the optimisation of the loan portfolio (the so- called 'effective transfer of risk'). However, there is a leasing self-securitisation transaction and a securitisation of trade receivables generated without the transfer of risks and benefits, which are part of the more general policy of strengthening the Group's liquidity position.

The Group also has exposures to third-party securitisation transactions for small amounts and with a low risk profile, acquired for investment purposes in order to generate profit margins and to realise an appreciable medium-long term return on capital. These transactions may originate from the various business units of the Group, in relation to the characteristics of the underlying portfolio, both performing and non-performing, or in the context of liquidity investment activity.

The monitoring and mitigation of the risk deriving from securitisation transactions are managed through the application of a specific internal policy for the management of securitisation transactions established at Group level, which governs the obligations placed on the Bank when it intervenes in securitisation both in the role of Investor and Promoter, to ensure, among other things, the verification of the minimum internal requirements by the competent structures involved in the transaction.

Acquisition activities are carried out in compliance with credit risk policies and procedures, and in particular with the 'Policy for the management of securitisation transactions', and in compliance with the risk appetite established within the Risk Appetite Framework. The Group invests in securitisations of which it is able to evaluate, on the basis of experience gained, the underlying related assets. In particular, the proposing unit, having identified the investment opportunity, carries out the due diligence activities in order to assess the future cash flows and the fairness of the price, coordinating, for this purpose, the relevant organisational units from time to time and formalising the related outcomes for submission to the competent decision-making body. After the acquisition, the investment is subject to continuous monitoring, with reference to the performance indicators of the underlying exposures and to the adherence of cash flows with respect to the valuations carried out at the time of acquisition.

The potential relevance of the risk arising from securitisation transactions at Group level is assessed as 'low'.

exploitation of the expertise currently present in Banca IFIS and of the existing virtuous recovery processes in order to maximise recovery rates;

Further information is given in § 14of this document.

1.4.2.10 Investment risk

It is the risk of a loss in value of the investment (in financial and non-financial companies) held by the Group arising from the possibility of incurring capital losses, of achieving a lower yield than expected and/or of having to sustain fixed assets for periods exceeding initial expectations. This risk includes potential conflicts of interest and inadequate organisational or corporate separation between the investment activity and the remaining banking activity.

The investment risk is generated by transactions of a different nature, including:

- equity investment activities of industrial, commercial or service companies under development or maturity;
- additional equity investment positions arising from restructuring transactions of customers in temporary difficulty in the context of which the conversion of the debt into capital or similar equity instruments was requested;
- new investment opportunities expected in accordance with the strategic guidelines defined by the Board of Directors of the Parent Company;
- the subsidiary IFIS Rental Services Srl excluded from the scope of the banking group and that of the prudential consolidation , as it is a non-financial company exercising an associated activity.

The monitoring activity of investment risk is exercised by the 'Corporate Finance' business unit, which is dedicated, among other activities, to the provision of investment transactions in solvent non-financial businesses or in intermediate bodies; In this context, it analyses the return prospects inherent in the investment and verifies the adequacy with respect to the overall risk profile, as well as evaluating whether it is worthwhile for the Bank to make the investment.

The Risk Management function oversees the monitoring or verification of compliance with regulatory limits in terms of holdings on equity investments.

The potential relevance of the risk from equity investments at Group level is assessed as 'low'.

Further information is given in § 12of this document.

1.4.3 Financial Risks Area:

1.4.3.1 Interest rate risk on the banking portfolio

It is the risk deriving from potential changes in interest rates with reference to activities other than trading. It is the risk that unexpected changes in interest rates may cause negative effects both in income terms, reducing the interest margin, and in equity terms, reducing the economic value of the Bank.

Interest rate risk management policies and objectives

The assumption of interest rate risk is a normal part of banking and can be an important source of income and asset value. However, adverse movements in market interest rates can have negative effects on both the level of profits and the value of the capital of the Bank and its subsidiaries: changes in interest rates affect in fact the current income level through variations in interest margins and at the same time also affect the value of the assets, liabilities and off-balance sheet items. Therefore, an effective risk management system that maintains exposure to interest rate risk within acceptable levels is essential for the safety and financial soundness of the Group.

The interest rate risk on the banking portfolio is a transversal risk that affects all the Group companies and whose management is centralised at the Parent Company. The assumption of significant interest rate risks is in principle unrelated to the management of the Bank and the Group.

Exposure to this risk is analysed through the sensitivity of the interest margin and the economic value to changes in interest rates. The analyses regarding the sensitivity of the interest margin are used at management level to verify the positioning of the Group in the short term, while the economic value approach is by its nature of medium to long term relevance.

Interest rate risk monitoring uses a series of risk indicators that are verified and reported quarterly in the group's periodic reporting addressed to top management. Mitigation actions are evaluated and activated where appropriate to cover the interest rate risk on exceeding the set thresholds.

The Central Capital Markets Directorate is the corporate function responsible for managing interest rate risk. In line with the established appetite for risk, it defines the actions necessary to pursue the risk. The Risk Management function is responsible for proposing the risk appetite, identifying the most appropriate risk indicators and monitoring the performance of assets and liabilities in relation to the set limits, Each year, the Top Management proposes to the Bank's Board of Directors its lending and funding policies and its interest rate risk management policies. It also suggests any appropriate action to ensure that it carries out its activities in accordance with the risk policies approved by the Bank.

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

For the purposes of the business assessment of capital adequacy, Class 2, banking groups, and therefore our Banca IFIS Group, are required to establish adequate measurement, control and mitigation systems to assess the interest rate risk on the banking portfolio, in terms of changes in economic value and the interest margin.

The Banking Group, for the measurement of interest rate risk relating to the 'banking portfolio' for the purposes of calculating the relevant regulatory capital requirement, has been guided by the simplified method prescribed by Circular 285/2013 - Part One - Title III 'Process of prudential control' - Chapter 1 - Annex C. (changes in economic value)

The Group procures mainly through retail funding, at a fixed rate for time deposits and at a non-indexed variable rate, unilaterally revisable by the Parent Company, for on-demand and on-call deposits. The Group's offer includes the option of tying up the sums for a maximum duration of up to five years. Other significant funding components are securitisation transactions mainly at a variable rate, collection from Eurosystem (TLTRO) and the issue of fixed-rate bonds (subordinated and non-subordinated) reserved for qualified investors.

The Group's assets regarding loans to customers are mainly made up of variable-rate transactions, relating to trade receivables, corporate lending and leasing. The main component of fixed-rate assets relates to the Non-Performing Loans segment and the owned securities portfolio.

During 2019, the Banca IFIS Group's exposure to interest rate risk remained at low levels and in line with the defined risk appetite values.

Further information is given in § 13of this document.

1.4.3.2 Liquidity risk

It arises when it is difficult or impossible for the company to fulfil its payment obligations in a timely manner due to its inability to raise funds on the market (funding liquidity risk) or to sell its assets (market liquidity risk).

Liquidity risk management policies and objectives

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

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

At 31 December 2019 the main funding sources were the Bank's equity, online retail funding-consisting of on-demand and term deposits— medium/long-term bonds issued as part of the EMTN programme, funding from the Eurosystem (TLTRO), medium/long-term securitisation transactions, and the Abaco channel with the Bank of Italy. The Group's activities are made up of factoring operations, consisting mainly of trade receivables and at the Public Administration with maturities within the year, of medium-long term receivables, mainly coming from leasing, corporate banking, structured finance and work-out and recovery operations.

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

During 2019 there was a significant increase in available liquidity reserves compared to the end of 2018. The amount of these high quality liquidity reserves (mainly held by the Group in its current account with the Bank of Italy and government securities forming part of the intra-day reserve) makes it possible to satisfy the regulatory and internal requirements relating to the prudent management of liquidity risk liquidity.

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

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

As part of the ongoing process of adapting liquidity risk procedures and policies and taking into account the evolution of the prudential supervisory provisions of reference, the Parent Company uses an internal framework for the governance, monitoring and management of liquidity risk at Group level.

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

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

With reference to the Polish subsidiary, the treasury activity is coordinated by the Parent Company.

More detailed information of a quantitative nature is provided in section E of the notes to the consolidated financial statements of the Banca IFIS Banking Group.

The following is the value of the LCR indicator calculated in accordance with the guidelines EBA/GL/2017/01 'on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013'. The figures shown refer to the simple average of the last 12 monthly observations starting from the LCR recorded at the end of 2019.

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Form EU LIQ1 - Liquidity Coverage Ratio (LCR)	31/12/2019 in millions of Euros
21 - Liquidity reserve	1,166.50
22 - Total net cash outflows	76.37
23 - Liquidity coverage ratio	1,523.8%

1.4.3.3 Risk related to the portion of encumbered assets

The risk associated with the portion of encumbered assets derives from the unavailability of assets that can be readily liquidated through sale, sale with a repurchase agreement, guarantee assignment or securitisation.

Objectives and management policies of the risk connected to the quota of encumbered assets

The risk connected to the quota of encumbered assets determines:

- the reduction in the share of assets available to creditors and unsecured depositors;
- the increase in funding and liquidity risk, as the share of assets involved reduces the possibility of obtaining new secured deposits and, in the case of high-quality assets, the amount of available liquidity reserves.

The operations for which the Group normally binds part of its financial assets fall within the following categories:

- deposit with the Bank of Italy as a minimum reserve;
- transactions in derivative contracts;
- term deposits given as a guarantee to banks in syndicated transactions (iblor deposit);
- debt securities given as a guarantee to the Bank of Italy related to intraday advances;
- debt securities given as a guarantee to the European Central Bank for TLTRO operations;
- eligible receivables for collateralisation with the Bank of Italy through the ABACO program;
- assets used for self-securitisation transactions.

To monitor the level of exposure to this risk the Group uses the so called 'asset encumbrance ratio'.

The operational management of the risk related to the portion of encumbered assets is held by the Capital Markets Directorate.

To cover this type of risk, no internal capital is allocated; however, dedicated control activities are defined by the Bank's Risk Management function. These controls take the form of weekly stress tests on the value of the assets

pledged as collateral for funding operations provided by the European Central Bank and are designed to verify the potential impact of their impairment in the context of liquidity risk.

Furthermore, within the strategic planning process and definition of the Funding Plan, the Risk Management unit measures the prospective share of encumbered assets and assesses its overall level and its sustainability with respect to the market benchmark, by subjecting them also to stress tests based on the defined scenarios.

On the basis of the final evidence, it is noted that the quota of encumbered assets remains in line with the current average values of the market.

Further information is given in § 8 of this document.

1.4.3.4 Market risk

Market risk represents the risk of loss due to adverse movements in market prices (share prices, interest rates, foreign exchange rates, commodity prices, volatility of risk factors, and so on) in connection with the trading book for Supervisory purposes (position, settlement and concentration risks) and with the Bank's entire budget (exchange rate and position risk on commodities).

During 2019, the process of managing the portfolio of financial instruments held for proprietary investment purposes through the established Central Capital Markets Directorate came into operation. The mission was implemented through the activation, during the year, of different strategies related to the Proprietary Portfolio.

The proposed investment strategy, set out in the 'the Portfolio Management Policy of Banca IFIS', is consistent with the risk appetite formulated in 2019 by the Board of Directors and set out in the 'Group Market Risks Management Policy' and with the system of objectives and limits.

In the overall architecture of the investment strategy,the intention was to focus on a conservative 'stance', consisting mainly of a low-risk portfolio characterised by high liquidity and a strategy of constant returns in the medium term.

In this context, the component relating to the 'trading portfolio' from which the market risk in question originates was marginal both in absolute terms of the risk values recorded and with respect to the established limits. The trading portfolio is mainly composed of optional components deriving from hedging and enhancement transactions ancillary to the investment strategy for the assets in the 'banking portfolio' and the 'discretionary trading' portfolio, which takes a short-term speculative approach.

Within the trading portfolio, there are also residual transactions deriving from Corporate activities in which derivative contracts were offered to customers to hedge the financial risks assumed by the latter; all outstanding transactions are hedged, for the purpose of eliminating market risk, with 'back to back' transactions, in which external market counterparties have assumed an opposite position to that sold to corporate customers.

The only activity that can generate market risks is attributable to foreign currency positions subject to exchange rate risk and derivative contracts.

In relation to exchange rate risk, currency transactions mainly consist of:

- transactions entered into with customers normally related to typical factoring and lending activity, for which the exchange risk is mitigated from the outset by resorting to funding with the same original currency;
- transactions that are part of the typical Treasury activity for the management of mismatching between use by customers and the related currency procurement carried out on the market.

For measuring market risks in the trading portfolio for supervisory purposes and for measuring exchange rate risk, the Bank follows the methods prescribed by Regulation (EU) no. 575/2013 of 26 June 2013 - Part Three, Title IV, and Circular 285/2013 for its application in Italy, for the calculation of the relevant regulatory capital requirement.

In particular, the standardised methodology makes it possible to calculate the total capital requirement, based on the so-called 'building-block approach', according to which the overall requirement is obtained as the sum of the capital requirements against the following risks:

- **position risk** which reflects the risk that arises from fluctuations in the price of securities due to market trends and the position of the issuing company. In this context, where present, the basic risk reflects the risk of losses caused by non-aligned changes in the values of opposite positions, which are similar but not identical;
- **settlement risk** which reflects the risk of loss resulting from the failure to settle transactions in debt securities, equity securities, derivative contracts, currencies and commodities;
- **concentration risk** which represents any additional capital cover required in the event of temporarily exceeding the individual credit limit as a result of risk positions relating to the trading portfolio;
- **exchange rate risk** is the risk of incurring losses due to adverse changes in the prices of foreign currencies on the positions held, regardless of the allocation portfolio (trading portfolio for supervisory purposes and trading portfolio).

At management level, the guidelines on the assumption and monitoring of market risk are set out at Group level in the 'Group Market Risk Management Policy', in which, for the purposes of a more rigorous and detailed representation of process activities, the metrics for measuring and monitoring the risk in question have also been indicated.

In particular, the measurement and evaluation of market risks is based on the different characteristics (in terms of time horizon, investment instruments, etc.) of the investment strategies of Banca IFIS's Proprietary Portfolio. Consistent with what is outlined in the document 'The Proprietary Portfolio Management Policy of Banca IFIS', which defines the strategies to be followed in terms of portfolio structure, instruments subject to operations and activities in detail.

In this context, the monitoring of the consistency of the risk profile of the Group's portfolios with the risk/return objectives is based on a system of limits (strategic and operational) that involves the combined use of various indicators. In particular, the following are defined:

- Maximum Acceptable Loss Limit;
- VaR limit;
- Limits of sensitivity and Greeks;
- Any limits on the type of financial instruments admitted;
- Any composition limits.

Compliance with the limits assigned to each portfolio is monitored daily.

The summary management indicator used to assess exposure to the risks in question is the Value at Risk (VaR), which is a statistical measure that makes it possible to estimate the loss that could occur as a result of adverse movements in risk factors.

VaR is measured using a 99% confidence interval and a 1 day holding period; it represents the daily loss 'threshold' which, based on probabilistic assumptions, could be exceeded in only 1% of cases. The methodology used to calculate VaR is that of historical simulation. With this approach, the portfolio is revalued by applying all the changes in risk factors recorded in the previous year (256 observations). The values thus obtained are compared with the current value of the portfolio, determining the relative series of hypothetical losses or gains. The VaR corresponds to the ninety-ninth worst result among those obtained.

The VaR is also allocated to the portfolio's risk factors for monitoring purposes.

In addition to the risk indications deriving from VaR, Expected Shortfall (ES), which represents the daily loss exceeding the VaR figure, is also used for monitoring purposes.

The forecasting capacity of the risk measurement model adopted is verified through a daily backtesting analysis that carries out a retrospective test, in which the VaR relating to the positions in the portfolio at time t-1 is compared with the P&L generated by these positions at time t.

The market risk positioning is periodically reported to the Board of Directors, within the quarterly Tableau de Bord prepared by Risk Management.

In light of the above, the potential relevance of market risks at Group level is considered to be 'low'.

Further information is given in § 10of this document.

1.4.3.5 Credit valuation adjustment risk

This risks refers to an interim market valuation adjustment of the portfolio of transactions with a counterparty, referring to OTC derivatives. This adjustment reflects the current market value of the entity's counterparty risk but it does not reflect the current market value of the entity's credit risk in relation to the counterparty.

The credit valuation adjustment risk (CVA) insists on the same portfolio exposed to the previous counterparty risk analysed (see § 1.4.2.3); it reflects the current market value of the risk itself.

For the measurement of credit valuation adjustment risks and its internal capital, the Bank follows the method prescribed by Regulation (EU) no. 575/2013 of 26 June 2013 - Part Three, Title VI and Circular 285/2013, for its application in Italy, for the purposes of calculating the relevant regulatory capital requirement. In particular, for transactions involving derivatives, it adopts the 'standardised method' (article 384 CRR) in order to measure the credit valuation adjustment risk.

In relation to both the low level of exposure of the derivative product portfolio and the low incidence of internal capital absorbed connected to the credit valuation adjustment risk (CVA) on the total internal capital absorbed on the risks, the potential relevance of the aforementioned risk at Group level is considered to be 'low'.

1.4.4 Reputational and Operational Risks

1.4.4.1 Operational Risk

Operational risk is the risk of losses arising from inadequate or dysfunctional procedures, human resources, internal systems or external events. The definition includes, among other things, fraud, human errors, business interruptions, unavailability of the systems, contractual defaults, and natural disaster. Different types of risks fall within the definition of operational risk and, based on their significance for the Group, are measured separately.

Objectives and management policies of operational risk

In line with legislative provisions and the best practices in the sector, the Banca IFIS Group has already defined the overall framework for the management of operational risks. This framework consists of a set of rules, procedures, human, technological and organisational resources and control activities aimed at identifying, measuring, monitoring, preventing or mitigating, as well as communicating to the appropriate hierarchical levels, the operational risks assumed or assumable in the various organisational units. The key processes for the correct management of operational risk also include loss data collection (LDC) and the forward-looking self-assessment of exposure to operational risk (Risk Self-Assessment - RSA). In addition, the adequate training of resources is another key element of the operational risk governance and management process. Indeed, the Banca IFIS Group is constantly committed to the professional training and growth of its human resources.

The operational risk monitoring aims at ensuring a continuous control of the exposure to this type of risk and is carried out through:

- The analysis of the evidence resulting from the Risk Self-Assessment and Loss Data Collection activities; in the event that the findings should reveal significant criticalities, the appropriate remediation actions are identified, shared and subsequently planned with the various responsible operating units that are affected;
- the definition and calculation of specific risk indicators and the periodic verification of compliance with the relative monitoring thresholds (these indicators are reported quarterly in the periodic reporting to the corporate bodies or in specific reports addressed to the structures concerned).

In particular, risk indicators are characterised by the following:

- the presence of alert/alarm thresholds;
- being comparable with historical time series.

Considering the development of the business and the internal and external operating context in which the Group operates, the indicators are subject to a periodical update/review in order to identify any changes in the risk scope.

In this regard, during the 2019, financial year, in relation to the acquisition, merger and demerger operations of the various subsidiary companies, the structured process of data collection of the losses arising from operational risk events was further consolidated through the Risk Management function's constant efforts to disseminate a culture among the business structures aimed at the proactive management of operational risks and therefore raising awareness of the related Loss Data Collection process. In terms of relevance, the methods for managing and monitoring operational risks have been standardised at Group level, also extending the tools developed and used at the Parent Company to the new corporate scope. In this context: (i) the tool used to collect loss events - RiskOp - was updated in order to make it usable by all Group companies; (ii) within the various operating units of the subsidiaries, the names of persons who perform the role of Risk Champion have been identified, as being responsible for the timely and complete reporting of operational (and reputational) risk events that occur during the performance of different business processes and for these figures; (iii) suitable training was provided; (iv) a monthly monitoring activity was started on a common set of Key Risk Indicators, to be carried out both at individual company level and at Group level, in order to be able to continuously detect any critical issues that may arise. Finally, in the fourth quarter of 2019, Risk Self-Assessment campaigns were launched for operational

(and reputational) risk, adopting the methods defined at Group level that enable a standardised assessment of future risks.

The operational risk mitigation phase takes place in the form of identification and implementation measures aimed at preventing and mitigating exposure to operational risk (through corrective initiatives or adaptation of processes, systems, etc.) or risk transfer interventions (through the stipulation of insurance policies). In particular, mitigation activities are carried out for the purpose of identifying specific areas of vulnerability based on an analysis of evidence resulting from the LDC and RSA activities, or following a breach of the pre-set thresholds for risk indicators; these phases can be summarised as follows:

- review and share the proposals for corrective actions applicable to corporate processes with a significant level of operational risk;
- define the implementation plan for the proposed interventions, identifying priorities, timing and resources involved;
- rationalise and optimise the mitigation actions in terms of costs/benefits;
- verify, on an on-going basis, the progress and efficacy of the undertaken actions.

Concerning the Companies of the Banca IFIS Group, please note that currently the management of operational risks is guaranteed by the strong involvement of the Parent Company, which makes decisions in terms of strategies and risk management. and the overall management framework for operational risk has been integrated, as previously reported, in the subsidiaries. The Organisational units are the functions primarily responsible for setting up adequate operational risk controls. They are responsible for defining and adjusting the organisational structures and company processes over time, as well as the ICT unit, which is responsible for corrective or evolutionary interventions on the applications used. The individual operational structures are responsible for the direct control of operational risk (line controls); further controls are entrusted to second level control functions and in particular to the Risk Management Department which includes professionals dedicated to monitoring operational risks.

Various types of risks fall within the scope of operational risks. In this regard, the following:

- the **risk of fraud** understood as the risk that in the performance of its activity as a financial intermediary the Business will commit unlawful acts such as alterations, counterfeiting, documentary forgery, misappropriation and/or non-delivery of goods, identity theft, carousel fraud and/or generated by collusion between parties involved in the contracts concluded for the financed products. The detection, study and analysis of the cases of fraud suffered, the evaluation of processes, the identification of weaknesses and the identification of fraud risk mitigation measures, are ordinary and daily activities that allow the Anti-Fraud function to refine existing measures to identify the so-called 'anti-fraud red flags' (fraud risk indicators) and to create new ones if necessary. This activity is supported by the use of databases (Cerved, Crif, Assilea) and dedicated IT tools (Scipafi, fraud detection systems for payment instruments) and by the people in the teams of the functions involved (eg. Payments and E-money and Account Products, etc.) to which information is given on any cases detected. The risk mitigation activity is completed through the provision of specific Anti-fraud training to the different operating and non-operating structures of the group that may be involved - daily - in the fraud prevention process.
- **IT risk**, that is. the risk of current or potential loss due to the inadequacy or failure of hardware and software of technical infrastructures that could compromise the availability, integrity, accessibility and security of such infrastructures and data. IT risk analysis is a tool to ensure the effectiveness and efficiency of measures to protect ICT resources, making it possible to scale mitigation measures in the various environments according to the Group's risk profile. The model implemented provides for the use of the following components: (i) the value of the IT Service, a qualitative evaluation of the value held by an IT Service for the Group's business, calculated according to the criticality that a loss of confidentiality, integrity, availability, legality and non-repudiation assumes for that Service; (ii) susceptibility to damage, a qualitative element that represents potential exposure to threats regardless of the value of the IT Services to which they are related.
- the **risk of non-compliance**, that is the risk of incurring legal or administrative sanctions, significant financial losses or reputational damage as a result of violations of mandatory rules (of law or regulations) or of self-regulation. In this regard, the Group has adopted a qualitative methodology for assessing this risk, which specifically includes: i) the performance of compliance checks, according to a risk-based approach, which enables to assess the completeness and adequacy of the processes as well as the functionality and reliability

of the safeguards put in place in order to guarantee the correct management of the risk of non-compliance; ii) the performance of continuous checks by which the effectiveness of the safeguards in place is tested; iii) updates to the continuous controls map, which are made in order to include additional controls aimed at examining the identified and/or requested controls as part of their own verifications. The Compliance function, in accordance with a risk-based approach, supervises the management of the risk of non-compliance with regard to the entire activity of the Group;

- the **risk of money laundering** and terrorist financing, i.e. the current or prospective risk of losses resulting from the repercussions, including reputational ones, of money laundering and terrorist financing activities. In this regard, the Group carries out a risk self-assessment exercise in line with the provisions of Article 15 of Italian Legislative Decree 231/2007 and with the *'Provisions on the organisation, procedures and internal controls aimed at preventing the use of intermediaries for money laundering and terrorist financing'* issued by the Bank of Italy on 27 March 2019. This self-assessment exercise is based on a qualitative-quantitative methodology aimed at identifying the potential level of risk exposure as well as measuring the vulnerability of the existing safeguard systems. The Anti-money laundering function is responsible for managing the risk of money laundering and terrorism financing on behalf of the Group;
- the **risk of incorrect financial** reporting, understood as a voluntary or involuntary action potentially generating errors in the Group's financial statements. The internally developed assessment process is inspired by the principles and guidelines defined by the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (known as CoSO) and by the Control Objectives for Information and related Technology (known like CobiT), considered as reference models accepted internationally. The analyses carried out seek to identify and mitigate the main risks to which the company is exposed in the execution of the relevant transactions which generate the information contained in the financial statements and in general in any other information of a financial nature. The Financial Reporting and Monitoring function is responsible for the setting up and monitoring of adequate safeguards.

Risks relating to IT, non-compliance, money-laundering and terrorism financing, incorrect financial reporting, are assessed and represented separately through dedicated qualitative assessments, defined by the respective competent units. Fraud risk is assessed within the broader operational risk management process. However, given the peculiarity of this risk as described above, dedicated prevention and detection activities are provided for within the Bank’s Risk Management function.

For the measurement of operational risk and of internal capital, the Banking Group, in consideration of the size and the limited operational complexity, has followed the 'basic method' governed by Regulation (EU) no. 575/2013 of 26 June 2013 - Part Three, Title III and Circular 285/2013 for its application in Italy, for the purpose of calculating the regulatory capital requirement. In particular, it calculates the mandatory minimum capital requirement for operational risks by using the Basic Indicator Approach (BIA). This method quantifies capital absorption to the amount of 15% of the average of the last three financial years of 'relevant indicator' values referred to in Art.316 Regulation (EU) no.575/2013 of 26 June 2013 which are representative of the company operating volumes.

Further information is given in § 11of this document.

1.4.4.2 Model Risk

It represents the possibility that there are economic and/or capital impacts resulting from the development and implementation of any model, proprietary or not, by the Group and by the improper or incorrect use of the results produced by the models used.

Objectives and model risk management policies

A model can be defined as 'a system, a quantitative methodology or an approach that applies statistical, economic, financial techniques or mathematical theories and assumptions in order to process input data and obtain quantitative estimates'[3].

A model consists of three components:

- starting information, which results in input data, hypotheses and assumptions;
- the process, through which the inputs are transformed into estimates;
- reporting, which converts the estimates into information useful for the business in question.

According to the Banca IFIS Group, the model risk involves the use of internal models even if used exclusively for management purposes. In particular, by order of relevance, we refer to the models that can be used by the Bank and/or the Group for the valuation of balance sheet items, the calculation of capital requirements and the parameters related to the quantification of the liquidity position for strategic plans and business plans.

During 2019, work on defining the process and methodology for managing this risk was completed. Also, the first model risk exposure assessment was carried out to perform a qualitative-quantitative analysis of the risk associated with the individual models in place within the Group.

To cover this type of risk, no internal capital is allocated, however dedicated controls are defined, carried out by the Validation function, for which the Chief Risk Officer is responsible.

1.4.4.3 Reputational Risk

This is the current or prospective risk of a decline in profits or capital as a result of a negative perception of the Bank's reputation by customers, counterparties, Bank shareholders, investors or Supervisory Authorities.

Objectives and reputational risk management policies

Reputational risk is a transversal risk that impacts all those entities of the Group which, due to their operations, have relations with external entities. Reputational risk is considered a second-level risk, as it is generated by the occurrence of other types of risk, such as the risk of non-compliance, strategic risk and in particular, operational risks.

To assess the incidence of reputational risk, both external and internal factors that could create reputational damage to the Group and the stakeholders impacted from time to time are considered.

The main endogenous factors include:

- operational risk events;
- the violation of external rules (laws and regulations) and self-regulation rules (codes of conduct, codes of ethics);
- the occurrence of other risks that are not adequately managed (e.g. market, liquidity, legal, strategic risks);
- ineffective or incorrect management of internal or external communication;
- behaviour of company representatives, employees or collaborators.

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

Various stakeholders may be affected:

[3] See 'Supervisory guidance on model risk management' published in 2011 by the Board of Governors of the Federal Reserve System and by the Office of the Controller of the Currencies.

- customers: the fiduciary component inherent in the relationship with the public due, for example, to inefficiencies in operating practices or commercial forcing is affected;
- employees and collaborators: decline or loss of trust in/respect for the company among employees and collaborators resulting, for example, from events relating to employment law;
- shareholders and investors: decline or loss of trust in/respect for the company among shareholders and market participants because of, for instance, perceived inability to deliver satisfactory results, conduct inconsistent with ethical standards, perceived lack of managerial integrity, etc.;
- local community and society: decline or loss of trust in/respect for the company among local communities and opinion makers;
- Supervisory Authorities: decline or loss of trust in/respect for the company among Supervisory Authorities due to omissions or negligence deriving from the failure to comply with legal and regulatory obligations;
- suppliers and counterparties: decline or loss of trust in/respect for the company among suppliers and counterparties.

The effects of the occurrence of reputational events can be:

- staff turnover and loss of personnel with a high level of know-how
- customer dissatisfaction and reduction in number;
- complaints and disputes;
- legal disputes;
- administrative/ civil/criminal penalties;
- change in the rating given by outside agencies;
- perception of rumours about the Group;
- negative articles in local, national or international media;
- posting of negative comments on social networks.

The Group has focused its reputation risk management and monitoring activities on the areas of operations that stakeholders may perceive as negative factors for assessment; specifically:

- Development dynamics and characteristics of online collection represent a high reputational risk in terms of retail customer deposits.
- The large number of borrowers related to operations in the Distressed Retail Loans segment and the involvement of parties outside the Group for recovery activities are potentially relevant factors in terms of reputation.
- In addition, the Leasing segment uses a network of external agents for business development, which may also harm the Group's reputation.
- Finally, this risk is also of particular importance in relation to banking counterparties as sources of financing, even if effectively mitigated by the development of direct operating relations and the professional nature of the counterparties in question, as well as by the Bank's growing diversification of sources of funding.

The Group has defined and adopted an overall framework for the governance and management of the reputational risk, divided into the following phases:

- identification of the threats to reputation which affect the operations carried out by the Group;
- assessment and monitoring of exposure to reputational risk by: (i) conducting a periodic risk self-assessment exercise; (ii) defining and calculating specific risk indicators as well as checking compliance with their monitoring thresholds; (iii) the audit, in the context of the Loss Data Collection activity of the operational risk management process, of any reputational effects resulting from operational risk events;
- reputational risk mitigation through the identification and execution of corrective interventions or adjustments aimed at preventing and mitigating exposure to reputational risk;
- implementation of periodical information flows aimed at collecting and reporting any evidence resulting from the activities provided for by the reputational risk management process.

In particular, the Risk Self-Assessment methodology in terms of reputational risk is based on the identification of the list of threats to reputation, starting from the operational risks present in the RSA; these threats are then evaluated at individual organisational unit level, in order to trace:

- the reputational impact, that is the reputational consequences that may occur;
- the frequency, intended in terms of number of probabilities that the potential threat to reputation actually occurs;
- current checks or the level of mitigation present.

The assessment process leads to a summary judgement related to reputational risk expressed on an ordinal scale. Internal capital is not allocated to cover this type of risk.

In terms of reputational risk, the Risk Management function is constantly and continuously carrying out activities such as disseminating a culture among the corporate structures aimed at the proactive management of risk and therefore raising awareness to promptly detect any critical issues that may arise in the various areas of the Group's operations. During 2019, similar activities were carried out at the subsidiaries to disseminate the above risk management framework, as took place for operational risk. Finally, in the fourth quarter of 2019, the Risk self-assessment campaign was launched for reputational risk, adopting the new methods defined at Group level which enable a homogeneous assessment of future risks.

1.4.5 Other risk areas

1.4.5.1 Strategic Risk

It is the current or future risk of a decline in profits or capital as a result of changes in the operating context or inappropriate management decisions, inadequate implementation of decisions or lack of responsiveness to changes in the competitive environment.

Objectives and strategic risk management policies

Strategic risk is of particular importance in the process of assessing the sustainability of the Group's business model; it is considered a significant risk.

As specified in the document 'Group Policy for Strategic Planning', the definition of the Group's overall business model and the identification of business strategies are the responsibility of the Board of Directors and the Chief Executive Officer of the Parent Company.

Following a process of sharing with the General Manager and the Heads of the various operating units, Strategic Planning prepares the Strategic Plan containing the strategic objectives defined by the Board of Directors, and assesses the risks and sustainability in terms of capital resources. In addition, the Board of Directors assesses the implementation risk, that is the degree of vulnerability of the corporate strategy and of the Group's capital position.

Strategic risk management is therefore the responsibility of the Management and Strategic Supervisory Bodies of the Parent Company. The Strategic Supervisory Body of each individual Group company, as part of the Group's strategic planning process, having made the appropriate assessments for the best protection of the company's interests and within the scope of the prescriptions received, implements the Group Strategic Plan and the Group business model, with particular reference to the component for which it is responsible.

The Parent Company's Risk Management function supports the corporate bodies in assessing the sustainability of business strategies and the impact of strategic risk through appropriate safeguards, such as:

- monitoring the objectives set out by the strategic plan, which regularly updates the development guidelines in relation to the progress of management;
- the ongoing verification of the capital sustainability of the strategic plan, through the monitoring of strategic indicators and the related thresholds for risk appetite, risk tolerance, alert thresholds and risk capacity;
- verification of the profitability at risk of the capital invested.

The verification and the quarterly reporting of the company positioning with reference to the identified indicators is integrated in the periodic reporting system for top management (Tableau de Bord).

This type of risk is difficult to quantify and, due to its qualitative nature, is one of the non-measurable risks.

1.4.5.2 Risk of excessive leverage

Risk that a particularly high level of indebtedness in relation to the Group's capital endowment will make it vulnerable, so that it needs to adopt corrective measures to its business plan, including the sale of assets with the recording of losses that could lead to adjustments to the value of the remaining assets.

The risk of excessive leverage has a cross-cutting impact on the Group and the assessment of the impact of this risk is purely qualitative.

Excessive financial leverage risk impacts the Group across the board and the assessment of the incidence of this risk is purely qualitative. Risk is monitored quarterly by calculating the leverage ratio in line with the regulatory indicator and calculated as the ratio between Tier 1 capital and a measure of overall exposure including on-balance sheet and off-balance sheet items not deducted.

The risk of financial leverage is included in the RAF and therefore is subject to the procedures and control mechanisms included therein. The Leverage Ratio is one of the Key Risk Indicators monitored within the RAF for the year 2019; during 2019 it was approximately three times higher than the minimum EBA value of 3% coinciding with the Risk Capacity defined in the RAF.

The potential relevance of the financial leverage risk at Group level is assessed as 'low'.

Further information is given in § 16of this document.

1.4.6 Monitoring and Reporting

Monitoring the risk objectives aims at identifying any criticality of the moments of corporate planning and management of the risks and is preparatory to the implementation of corrective and realignment actions, in compliance with the general principles of sound and prudent management.

This activity is managed by the Risk Management department that has the task of ensuring protection and the integrated management of risks by ensuring the development and improvement of measurement methods and models.

The Risk Management function, assisted by specialist organisational units and other organisational control units, produces periodic reports to the Bodies and business units in order to allow verification of the consistency between the implementation of the RAF, the strategic objectives and the approved thresholds (see the section on reporting flows).

Relevant update documents, among others, are drawn up annually: (i) to determine the Group's risk appetite (Risk Appetite Framework - RAF); (ii) to assess the capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP) and liquidity (Internal Liquidity Adequacy Assessment Process - ILAAP); (iii) for the emergency plan to deal with contingency funding and for promptly covering liquidity shortfalls (Contingency Funding and Recovery Plan - CFRP).

The Group Recovery Plan was also drafted in 2019, a document containing the preparatory measures aimed at preventing and promptly resolving any crisis situations; it describes the ways in which the Group intends to restore a condition of capital and financial balance in when it is near to default. In March, the Risk Management function helped with the annual update of the operational plan for the management of short, medium and long term NPLs, subsequently approved by the Board of Directors and sent to the Bank of Italy, which described the management strategies for reducing the stock of impaired loans and the actions to be taken to achieve the reduction targets set for the three years 2019-2021 for the main sectors in which the Group operates.

Subsequently, the Risk Management function also supported corporate bodies, when preparing the three-year Strategic Plan 2020-2022, in assessing the sustainability of business strategies and the impact of strategic risk.

In addition, on a quarterly basis, the Risk Management function prepares suitable reports for the Board of Directors (Tableau de Bord), which enables monitoring not only of strategic indicators but also of management risk indicators.
Lastly, a detailed periodic report is also prepared to support the Group's business structures.

1.5 System of Governance (Art. 435, paragraph 2)

The Articles of Association provide that the Company shall be administered by a Board of Directors consisting of a minimum of five to a maximum of fifteen members elected by the Shareholders' Meeting whose term of office shall not exceed three financial years, established at the time of appointment, and shall expire on the date of the Shareholders' Meeting called to approve the financial statements for the last financial year of their office. Directors are appointed based on the mechanism of voting lists by the shareholders' assembly, in compliance with the applicable legal and regulatory provisions and with the composition criteria that relate to the presence of minority and independent directors, and with respect for gender balance.

To encourage the nomination of the best candidates for the renewal of the Administrative Body, in support of members and in compliance with the Vigilance Provisions for banks in matters of Corporate Governance, the Board of Directors identifies in advance what it deems to be its optimal composition, in terms of numbers and quality, identifying and justifying the theoretical profile of candidates. The analyses carried out, reported in the document 'Optimal qualitative and quantitative composition of the Board of Directors of Banca Ifis', are published on the Bank's website.

At the Shareholders' Meeting held on 19 March 2019, the shareholders appointed the Board of Directors in office for the three years 2019-2021 electing 12 directors, respecting the qualitative-quantitative composition of the Board adequate in terms of gender diversity (the number of female directors increased from 3 to 4 compared to the previous term of office) and the role assigned to directors (the number of independent directors increased from 4 to 7); as well as adequate to the complexity and work of the Board and in line with current guidelines that prefer a excessively large composition of the Board and with a degree of diversity adequate to allow directors to make an effective contribution to the activities of the Board.

The Board, with the support of the Appointments Committee, in compliance with the Supervisory Instructions for Banks (Title II, Chapter 2, Sections I and II) on 9 May 2019, within thirty days of the appointment, verified that each of its members met the requirements of professionalism and good repute set out in articles 1, 3, 4 and 5 of Ministerial Decree 161/98, that there were no grounds for suspension as set out in Article 6 of the same Ministerial Decree. as well as the absence of appointments in competing companies or groups of companies. In accordance with the provisions of the Italian Stock Exchange's Corporate Governance Code, it also carried out the necessary checks regarding the possession of independence requirements.

The Board then verifies annually the suitability of its members to perform the functions assigned to the body in terms of professionalism, integrity and independence, as part of the self-assessment process provided for in Bank of Italy Circular no. 285/2013 (Title IV, Chapter 1) which aims to ensure a check on the correct and effective functioning of the body and its adequate composition, identifying the main weaknesses, promoting discussion within the Body and defining the corrective actions to be taken, as well as strengthening the relationships of cooperation and trust between the individual members.

Further information on the selection process of Board members, the self-assessment process, the number of directorships assigned to the members of the Management Board and further information on the knowledge, skills and experience of Board members is provided in the 'Report on Corporate Governance and Ownership Structure for 2019'.

In accordance with the provisions of Circular 285/2013 and the Corporate Governance Code, the Board of Directors set up its own Control and Risks Committee composed of four of the nine members of the Board of Directors chosen from among the non-executive directors, who are all independent.

During 2019, the Committee met 24 times, six of them jointly with the Board of Statutory Auditors, one jointly with the Appointments Committee, the Remuneration Committee and the Board of Statutory Auditors and one jointly with the Appointments Committee and Remuneration Committee only. From the beginning of 2020 until the date of approval of this document, the Committee met six times, two of which jointly with the Board of Statutory Auditors. The Control and Risks Committee supports the Board of Directors with regard to risk management and the internal control system, paying particular attention to the activities necessary for the Board to correctly and efficiently determine the Risk Appetite Framework and the risk management policies.

The information flow on risks for the Board of Directors, subject to the prior approval of the Control and Risks Committee, is identified by means of a specific internal regulation and mainly consists in documents prepared by the control functions concerning the planning of activities and the related reporting (annual reports and quarterly Tableaux de Bord, subsequently submitted to the Bank of Italy) as well as other verifications required by the legislation in force (reports on relevant risks undertaken by the Group, disclosure on checks concerning governance and management of liquidity risk, report on important operating functions outsourced, RAF, ICAAP and ILAAP reports, Recovery Plan, etc.).

In its capacity as the Parent Company, Banca IFIS is responsible for ensuring, through management and coordination activities, the overall consistency of the Group structures, and for verifying compliance by the subsidiaries with the provisions set out for the implementation of instructions of general and specific natures, issued by the Bank of Italy, in the interest of Group stability, specifically in relation to the supervisory reporting and regulation of corporate governance. In compliance with this principle, Banca IFIS Board of Directors expresses its opinion on remuneration and on the appointment of members of the corporate bodies of the subsidiaries. Based on the principle of corporate simplification pursued by the Bank, and in consideration of the fact that these bodies are required to operate within the management and coordination of the Parent Company, the Boards of Directors identified for the subsidiaries have limited scope both in terms of time and mandate, and most of the persons present within the bodies are a direct expression of the management and business of Banca IFIS; in this way, the immediate integration into the business segments in which the Group is involved is ensured as well as compliance with management instructions for the coordination of the Parent Company.

2. Scope of application (Art. 436 CRR)

The disclosure requirements set out in this document apply to Banca IFIS SpA, Parent company of the Banca IFIS Banking Group, enrolled in the Register of Banking Groups

The area of consolidation for the purposes of the budget is defined on the basis of the international accounting standards (IAS/IFRS) and more in particular by the IFRS 10, while the article 19 of the CRR provides for the inclusion for the purposes of prudential strengthening of the Holding Company of the banking group that is not consolidated in shareholders' equity.

For prudential purposes, consolidation policies provided for by the Bank of Italy's Circular no. 285 of 17 December 2013 (and subsequent updates) - 'Supervisory Provisions for Banks' were adopted. In particular, the line-by-line consolidation was adopted for the banking, financial and instrumental companies belonging to the banking group.

The structure of the Banca IFIS Group as at 31 December 2019 is as follows:

Table 1 - Main information about Group companies

Company name	Sector	Registered office	Participation report			Voting rights
			Type of relationship (*)	Held by Share	Share %	
La Scogliera SpA	Operating financial holding company	Mestre (Italy)	X	X	X	X
Banca IFIS SpA	Banking activity	Mestre (Italy)	-	-	-	-
IFIS FINANCE Sp. Z.o.o.	Financial company	Warsaw (Poland)	1	BANCA IFIS SpA	100%	100%
IFIS Rental Services Srl	Non-financial company	Milan (Italy)	1	BANCA IFIS SpA	100%	100%
IFIS NPL SpA	Financial company	Mestre (Italy)	1	BANCA IFIS SpA	100%	100%
Cap.Ital.Fin. SpA	Financial company	Naples	1	BANCA IFIS SpA	100%	100%
Credifarma SpA	Financial company	Rome	1	BANCA IFIS SpA	70%	70%
FBS SpA	Financial company	Milan (Italy)	1	BANCA IFIS SpA	100%	100%
FBS Real Estate SpA	Non-financial company	Milan (Italy)	1	FBS SpA	99.28%	99%
IFIS ABCP Programme Srl	Securitisation vehicle	Conegliano (Italy)	4	Other	0%	0%
Indigo Lease Srl	Securitisation vehicle	Conegliano (Italy)	4	Other	0%	0%
Elipso Finance Srl	Securitisation vehicle	Conegliano (Italy)	7	FBS SpA	50%	50%

(*) Type of relationship:

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

2 = dominant influence in the Annual Shareholders' Meeting

3 = agreements with other shareholders

4 = other forms of control

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

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

7 = joint control

The structure of the Group at 31 December 2019 is composed of the parent company Banca IFIS SpA, and the wholly owned subsidiaries IFIS Finance SP ZOO, IFIS Rental Services Srl, IFIS NPL SpA and Cap.Ital.Fin. SpA, by the 70%owned subsidiary Credifarma SpA and, following the acquisition of the FBS Group completed on 7 January 2019, by FBS SpA, a wholly-owned subsidiary, FBS Real Estate SpA, a wholly,owned subsidiary, and Elipso Finance Srl, a 99,28%owned subsidiary. Please also note that the 100% stake in Two Solar Park 2008 Srl 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 subsidiary Elipso Finance Srl which is consolidated using the shareholders' equity method.

Please note that there are no obstacles within the Group that might hinder the quick transfer of capital resources or funds.

The subsidiaries as at 31 December 2019 are included in prudential consolidation perimeter at the same date, with the exception of IFIS Rental Services Srl, FBS Real Estate SpA and Elipso Finance Srl, which is subject to joint control.

3. Own Funds (Articles 437 and 492 CRR)

Qualitative information

On 1 January 2014 the new harmonised regulations for banks and investment firms contained in Regulation (EU) no. 575/2013 (Capital Requirements Regulation, CRR) and Directive 2013/36/EU (Capital Requirements Directive, CRD IV) came into force. This regulatory framework, which constitutes the single discipline seeking to harmonise the prudential regulations of the Member States of the European Community, was transposed into national law with Circulars no. 285 'Supervisory Provisions for Banks' and no. 286 'Instructions for the Compilation of Prudential Reports for Banks and Securities Brokerage Companies'

The new regulatory framework introduced important innovations especially as regards the methods to calculate capital for regulatory purposes (so-called 'Own Funds'). 'Own funds'). To increase the capital quality of banks, preference was given to ordinary shares issued by the institution and profit reserves (so-called common equity), while stricter criteria for the eligibility of other capital instruments have been provided for and the eligibility of minority interests has been limited.

The transitional period (2018-2022) aimed at mitigating the equity impact of the introduction of the new accounting standard IFRS9 began on 1 January 2018; for specific information of a qualitative and quantitative nature, please refer to the § 18of this document.

As of 575/2013 January 1 the transitional arrangements introduced by Regulation no. 478 (CRR) for mitigating the deduction of 'Deferred tax assets that rely on future profitability and do not arise from temporary differences' from CET480 (Article 478 CRR) and the partial eligibility of non-controlling interests (Article 480 CRR) no longer apply.

The prudential consolidation perimeter differs from the Banking Group's perimeter in that the holding company La Scogliera SpA is included, in application of Art. 19 of the CRR, with the consequent inclusion of minority interests in the consolidated equity funds; in particular, the regulations on the computability of minority interests require that the capital required to meet the minimum regulatory requirement be the lower of the subsidiary's capital (minimum requirement % for RWA of the subsidiary) and the consolidated capital (minimum requirement % for RWA of the consolidated). The surplus between the total Own Funds and the minimum requirement can be recognised for the Group’s own share, attributing the remainder to minority interests.

Quantitative information

The disclosure on the Group’s own funds requirements was prepared on the basis of the formats required by the Implementing Regulation (EU) 1423/2013, in accordance with the provisions of Part Eight, Title II of Regulation (EU) 575/2013.

3.1 Main characteristics of the items constituting Own Funds

Own Funds consist of Tier 1 - T1, which in turn is made up of Common Equity Tier 1 - CET1, Additional Tier 1 - ATI, and Tier 2 - T2.

Common Equity Tier 1 - CET1 mainly includes:

- fully paid instruments and premium reserve;
- other reserves including retained earnings;
- minority interests allowed in CET1,

net of items to be deducted:

- goodwill and other intangible assets;
- deferred tax assets that are based on future profitability and do not derive from temporary differences net of the related tax liabilities.

Additional Tier 1 capital (Additional Tier 1 - AT1) includes minority interests allowed in AT1.

Total Tier 2 capital (Tier 2 - T2) includes:

- fully paid-up subordinated loans that can be recognised in Tier 2 capital;
- minority interests allowed in T2.

3.2 Composition of Own Funds at 31 December 2019

Common Equity Tier 1 - CET1 includes:

- 11,1 million Euros in fully paid-up capital instruments;
- 10.9 million Euros in share premium;
- CET1 instruments held directly for 1.4 million Euros (-);
- 781,9 million Euros in other reserves, including retained earnings.
- other cumulated income statement items, negative for 1.5 million Euros;
- minority interests allowed in CET1 for 408.1 million Euros.
- value adjustments for prudent valuation of 1,3 million Euros (-) (Regulation 2016/101).

The items to be deducted from CET1 include:

- 96,5 million Euros in goodwill and other intangible assets;
- deferred tax assets that are based on future profitability and do not derive from temporary differences net of the related tax liabilities, amounting to 103,8 million Euros.

The transitional provisions impacting on CET1 (+/-) include:

- positive adjustments to provisions for expected loan losses, in accordance with IFRS9, of 1.4 million Euros (+) (Regulation 2017/2395);

Additional Tier 1 capital (Additional Tier 1 - AT1) including the minority interests for 55.7 million Euros.

Total Tier 2 capital (Tier 2 - T2) includes:

- fully paid-up subordinated loans that can be recognised in Tier 2 capital for an amount of 203,0 million Euros;
- minority interests of 74,5 million Euros.

Table 2 - Quantification of Own Funds

A....Common Equity Tier 1 - CET1 prior to the application of prudential filters	1,209,026

- of which T1 instruments subject to transitional provisions	
B....Prudential filters of the CET1 (+/-)	-1,337
C. CET 1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	1,207,689
D. Deductions from CET1	200,273
E. Transitional regime - Impact on CET 1 (+/-), including non-controlling interests subject to transitional provisions	1,449
F. Total primary Tier 1 capital (TIER1 -CET1) (C-D +/-E)	1,008,865
G. Additional Tier 1 capital (Additional Tier 1 - AT1) gross of the elements to be deducted and the effects of the transitional arrangements	55,659
of which AT 1 instruments subject to transitional provisions	
H. Elements to be deducted from AT1	
I. Transitional Arrangements - Impact on AT1 (+/-), including the instruments issued by subsidiaries and included in the AT1 due to transitional provisions	
L. Total additional Tier 1 capital (Additional TIER1 - AT1) (G-H+/-I	55,659
M. Tier 2 capital (Tier2 - T2) gross of the elements to be deducted and the effects of the transitional arrangements	277,545
of which T2 instruments subject to transitional provisions	
N. Items to be deducted from T2	
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions	
P. Total Tier 2 capital (Tier2 - T2) (M-N +/-O	277,545
Q. Total own funds (F + L + P) (T)	**1,342,069**
Q. Total own funds (F + L + P) (T-1)	**1,257,711**

3.3 Balance sheet reconciliation methodology

The information required by the methodology to reconcile the balance sheet provided for by Annex I of Commission Implementing Regulation (EU) no. 1423/2013 Regulation the European 20 2013. December 2013.

Table 3 - Balance Sheet Reconciliation

ASSET ITEMS	Consolidated accounting perimeter	Regulatory Perimeter	Amounts relevant to the Own Funds	Ref. Table 'Transitional model for the publication of information on own funds'.
100. Intangible assets of which:	60,919	96,459	-96,459	8
Goodwill	39,542	75,171	-75,171	8
Other intangible assets	21,377	21,288	-21,288	8
110. Tax assets	391,185	430,722	-103,814	
a) current	56,869	45,755	0	
b) deferred	334,316	384,967	-103,814	10

LIABILITIES AND SHAREHOLDERS' EQUITY	Consolidated accounting perimeter	Regulatory Perimeter	Amounts relevant to the Own Funds	Ref. Table 'Transitional model for the publication of information on own funds'.

10. Financial liabilities measured at amortized cost - Issued securities	2,217,529	2,217,529	202,955	46
120. Valuation reserves, of which:	-3,037	-1,538	-1,538	3-9-26a
- foreign exchange differences	-5,650	-2,867	-2,867	3
- impact on overall profitability fair value measurement	2,737	1,389	1389	3-26a
- TFR discounting effect	-124	-60	-60	3-9
150. Reserves	1,260,238	755,817	755,929	2-3
160. Issue surcharges	102,285	10,894	10,894	1
170. Capital	53,811	11,085	11,085	1
180. Treasury shares (-)	-3,012	-1437	-1437	16
190. Equity attributable to non-controlling interests	5,571	760,933	538,317	5-34-48
220. Profit for the period	123,097	50,003	26,137	5a
TOTAL TRANSITIONAL OWN FUNDS			**1,342,069**	

3.4 Capital instruments' main features template

The information required by the capital instruments' main features template provided for by Annex II of the Commission Implementing Regulation (EU) no.1423/2013 dated 20 December 2013. is provided below.

The equity instruments reported are all of the CET1 type. The unique identification code is not available as the shares of La Scogliera SpA have no ISIN, the amount recognised in the regulatory capital and the par value of the instrument do not consider the share premium.

Table 4 - Capital instruments' main features template

1	Issuer:	LA SCOGLIERA SPA
2	Unique identification code	
3	Law applicable to the instrument	Entire instrument - Italian Law
	Regulatory treatment	
4	CRR transitional provisions	Common Equity Tier 1
5	CRR post-transitional provisions	Common Equity Tier 1
6	Admissible at the level of the individual entity /(sub-)consolidation/of the individual entity and (sub-)consolidation	Individual entity and consolidated
7	Type of instrument	Ordinary shares
8	Amount recognised in the regulatory capital (millions of Euros)	9.64812
9	Par value of the instrument (millions of Euros)	9.64812
9a	Issue price	5
9b	Redemption price	N/A
10	Accounting classification	Shareholders' Equity
11	Original issue date	N/A
12	Non-redeemable or at maturity	N/A
13	Original maturity date	N/A
14	Early redemption at the issuer's discretion subject to prior approval of the supervisory authority	N/A
15	Date of optional early redemption, date of possible early redemption and redemption amount	N/A
16	Subsequent dates for early redemption, if applicable	N/A
	Coupons and dividends	
17	Fixed or variable dividends/coupons	N/A
18	Coupon rate and any related index	N/A
19	Presence of a dividend stopper mechanism	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of time)	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Presence of 'step up' or other repayment incentive	N/A
22	Non-cumulative or cumulative	N/A

23	Convertible or non-convertible	N/A
24	If convertible, event(s) that determines/determine the conversion	N/A
25	If convertible, in whole or in part	N/A
26	If convertible, conversion rate	N/A
27	If convertible, compulsory or optional conversion	N/A
28	If convertible, specify the type of instrument in which the conversion is possible	N/A
29	If convertible, specify the issuer of the instrument in which it is converted	N/A
30	Write-down mechanisms	N/A
31	In case of a write-down mechanism, event(s) that determines/determine it	N/A
32	In the event of write-down, total or partial write-down	N/A
33	In the event of write-down, permanent or temporary write-down	N/A
34	In case of temporary write-down, a description of the revaluation mechanism	N/A
35	Position in the hierarchy of subordination in the event of liquidation (specify the type of instrument ranking immediately above (senior))	N/A
36	Non-compliant characteristics of the instruments that benefit from the transitional provisions	N/A
37	If so, specify the non-compliant characteristics	N/A

3.5 Own funds disclosure template

General own funds disclosure template provided for by Annex V of the Commission Implementing Regulation (EU) no. 1423/2013 dated 20 December 2013 is provided below.

Table5 - Own funds disclosure template

	Common Equity Tier 1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts		21,979
	of which: ordinary shares		21,979
2	Retained earnings		684,264
3	Accumulated other comprehensive income (and other reserves)		71,463
5	Minority interests (amounts allowed in consolidated CET1)		408,069
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26,137
6	**Common Equity Tier 1 (CET1) before regulatory adjustments**		**1,211,912**
	Common equity Tier 1 Capital (CET1): Regulatory adjustments		
7	Additional value adjustments (negative amount)	-	1.337
8	Intangible assets (net of related tax liabilities) (negative amount)	-	96.459
9	empty Set in EU		
10	Deferred tax assets dependent on future profitability, excluding those arising from temporary differences (net of related tax liabilities for which the conditions of Article 38,3) are met) (negative amount)	-	103.814
12	Negative amounts resulting from the calculation of expected loss amounts		
16	Common Equity Tier 1 instruments held directly or indirectly by the entity (negative amount)	-	1.437
28	**Total regulatory adjustments to the Common Equity Tier 1 (CET1)**	**-**	**203.047**
29	**Common equity Tier 1 Capital (CET1)**		**1,008,865**
	Additional Tier 1 (AT1) instruments		
34	Eligible Tier 1 included in the consolidated additional Tier 1 (including minority interests not included in line 5) issued by subsidiaries and held by third parties		55,659
35	of which: instruments issued by subsidiaries subject to progressive derecognition		-
36	**Additional Tier 1 (AT1) net of regulatory adjustments**		**55,659**
	Additional Tier 1 (AT1): regulatory adjustments		

43	**Total regulatory adjustments to Additional Tier 1 (AT1)**	
44	**Additional Tier 1 capital (AT1)**	**55,659**
45	**Tier 1 capital (T1= = CET1 + AT1)**	**1,064,524**
	Tier 2 (T2): instruments and provisions	
46	Capital instruments and the related share premium accounts	202,955
48	Eligible own funds instruments included in consolidated Tier 2 (including minority interests and additional Tier 1 instruments not included in line 5 or line 34) issued by subsidiaries and held by third parties	74,590
51	**Tier 2 (T2) capital before regulatory adjustments**	**277,545**
	Tier 2 (T2): regulatory adjustments	
57	**Tier 2 (T2): regulatory adjustments**	
58	**Tier 2 Capital (T2)**	**277,545**
59	**Total capital1 (TC= T1+T2)**	**1,342,069**
60	**Total risk-weighted assets**	**9,206,155**
	Ratios and capital buffers	
61	Common Equity Tier 1 (as a percentage of the total risk exposure amount)[1]	10.96%
62	Tier 1 capital (as a percentage of the total risk exposure amount)[1]	11.56%
63	Total capital (as a percentage of the total risk exposure amount)[1]	14.58%
64	Requirement of the institution's specific capital buffer (requirement for the Common Equity Tier 1 in accordance with article 92 (1) (a), requirements of capital conservation buffer, countercyclical capital buffer, systemic risk capital buffer and systemic entities capital buffer (as a percentage of the risk exposure amount)	644,431
65	of which: requirement of capital conservation buffer	230,154
68	Common Equity Tier 1 capital available for buffers (as a percentage of the risk exposure amount) (L)	3.96%
	Amounts below the deduction thresholds (before risk-weighting)	
72	Capital of financial sector entities held directly or indirectly, when the institution does not have a significant investment in those entities (amounts below the threshold of 10% and net of eligible short positions)	22
73	Capital of financial sector entities held directly or indirectly, when the institution has a significant investment in those entities (amounts below the threshold of 10% and net of eligible short positions)	5,500
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of the related tax liabilities where the conditions in Article 38, paragraph 3 are met)	-

3.6 Evolution of Own Funds

Below is the information related to the evolution of Own Funds from the beginning of the period (01.01.2019) to the end of the period (31.12.2019) and the changes that occurred during the period under review.

The 84.3 million Euros increase in Own Funds compared to 31 December 2018 was largely attributable to:

- the inclusion of the profit for the year ended 31 December 2019 attributable to the Group calculated for regulatory purposes, net of the estimated dividend, for a total of 26.1 million Euros;
- the deduction from CET1 for an amount of 38.0 million Euros, as a result of the 'Purchase Price Allocation' process, carried out in accordance with IFRS 3, for the acquisition of the FBS Group.
- greater inclusion of minority interests (Article 84 CRR), for an amount of 40,1 million Euros;
- the deduction from CET1 of 100% 'Deferred tax assets that are based on future profitability and do not derive from temporary differences', for an amount of 145,9 million Euros compared to 31 million Euros deducted at 31 December 2016/200. In this regard it should be noted that this deduction will however be progressively absorbed by the future use of these deferred tax assets;
- the remainder referred to the positive change in reserves, including the profits generated by the Companies not included in the Banking Group's scope and attributable to the Group.

Table 6 - Evolution of Own Funds	**01/01/2019 31/12/2019**
Common Equity Tier 1	
Beginning of the period	
Instruments and reserves (A)	
1. Equity (B)	-
2. Own emission reserves and surcharges	6,601
3. Accumulated other comprehensive income, of which: (C)	5,867
3.1. Revaluation reserves of net actuarial losses and exchange differences on goodwill	- 121
3.2 CRR: reserves of cash flow hedges, foreign exchange differences, unrealised profits/losses; etc.	5,988
4. Profit for the period (net of minority interests, charitable sums and Group foreseeable dividends) (D)	26,137
5. Eligible minority interests (E)	40,170
Regulatory adjustments	
11. Capital instruments held directly or indirectly, of which:	
12. Goodwill	- 38.027
13. Other intangible fixed assets	474
14. CRR: deferred tax assets based on future profitability excluding those arising from temporary differences	42,124
20. Other transitional adjustments, of which:	1,235
20.1 Transitional adjustment associated with IAS 19 (I)	
20.2 CRR: Regulatory adjustments relating to unrealized profits and losses (J)	
20.3 CRR: Transitional adjustment related to deferred tax assets based on future profitability, excluding those arising from temporary differences	
End of the period	
Additional Tier 1	
Beginning of the period	
Instruments	
22. Recognisable instruments, including instruments issued by subsidiaries (L)	- 519
Regulatory adjustments	
End of the period	
Tier 2 capital	
Beginning of the period	
25. Recognisable subordinated instruments and loans (M)	296

29.2 CRR: Transitional adjustment relating to unrealized profits on AFS securities subject to additional national filter (R)

End of the period	
Total Own Funds at the end of the period	

Own Funds 31/12/2018	1,257,711
Changes in	84,358
Total	1,342,069
Own Funds 31/12/2019	1,342,069

4. Capital requirements (Art. 438 CRR)

With the 'Supervisory Provisions for Banks' (Circular no. 285/13) the Supervisory Authority governs the self-assessment process on capital adequacy carried out by the banks (ICAAP - Internal Capital Adequacy Assessment Process). In particular, Pillar 2 governs the prudential control process, organizing it into two integrated phases.

With the first phase intermediaries are required to carry out an independent assessment of their capital adequacy, current and future, in relation to the risks to which they are exposed and their own strategic choices.

The second phase (SREP - Supervisory Review and Evaluation Process), carried out by the Supervisory Board, requires a review of this self-assessment process and the provision of an overall judgement on the intermediaries.

Please note that the Bank of Italy, following the Supervisory Review and Evaluation Process (SREP) concerning the capitalisation targets of the system's largest intermediaries, required the Banca IFIS Group to meet the following consolidated capital requirements in 2019 including a 2.5% capital conservation buffer:

- CET 1 capital ratio of 8.12% and binding to the extent of 5.62%
- tier 1 capital ratio of 10.0% and binding to the extent of 7.5%
- total capital ratio of 12.5%, binding to the extent of 10%.

In compliance with the principle of proportionality, and in consideration of the consolidated asset, the Group is in the category of Class 2 intermediaries. By virtue of the above and in line with its operational characteristics, the Banca IFIS Group determines the overall internal capital by adopting simplified methods on the quantification of the requirement for the risks of Pillar I and II and subsequent aggregation of the same (building block approach). Internal capital adequacy means the internal capital referred to all the relevant risks assumed and which the intermediary considers necessary to cover the losses exceeding an expected given level, including the possible requirements of internal capital due to considerations of a strategic nature.

Below is a summary table showing the methodology used to measure internal capital given the individual quantifiable Pillar I and Pillar II risks.

Table 7 - Methods used to measure internal capital

CATEGORY	TYPE OF RISK	METHODOLOGY
FIRST PILLAR RISKS	**Credit risk**	Standardised Approach
	Counterparty Risk	Mark to Market Method
	Market Risk	Standardised Approach
	Operational Risk	Basic Indicator Approach (*BIA*)
SECOND PILLAR RISKS	**Concentration risk**	GA - Granularity Adjustment approach (Annex B, Title III, Circ. 285/13) ABI method to estimate the Geo-sector Concentration Risk
	Interest Rate Risk	Simplified Method (Annex C, Title III, Circ. 285/13)

With regard to unquantifiable risks, on the other hand, the Banca IFIS Group has implemented appropriate internal control and mitigation measures, in compliance with the guidelines provided for by Bank of Italy in the above-mentioned legislation. As part of the measurement activities, stress tests are also defined and performed in terms of simplified sensitivity analysis on the main risks taken.

In the context of a progressive adaptation to international standards for liquidity risk measuring and monitoring (Basel 3), the short term indicator, the Liquidity Coverage Ratio (LCR), and the structural indicator, the Net Stable Funding Ratio (NSFR), were measured.

The prospective level is determined on an annual basis - during preparation of the ICAAP report - with reference to the end of the current period, taking into account the foreseeable development of the scope of application, the risks of the Group and operations. Any further assessments of the overall internal capital are also performed during the period in relation to any new or extraordinary events.

In order to prospectively assess the level of internal capital adequacy, the Banca IFIS Group:

- uses the industrial Plan, adequately detailing it with respect to the need for assessment of the risks;
- identifies the parameters that affect the incidence of risk, also anticipating its future evolution also in view of the expected trends of the relevant market;
- defines the estimates of evolution of the risk factors consistent with their economic and strategic scenarios;
- verifies the forecasts on the basis of multi-annual planning;
- carries out an estimate of the evolution of the accounting items that constitute the identified capital base;
- also considers any needs of a strategic nature.

In order to cover the current and prospective internal capital adequacy, the Banca IFIS Group uses a definition of capital adequacy that coincides with that of regulatory Own Funds, prospectively assessed within the context of the Group's strategic plans.

A brief overview of the measurements developed during the quantification of the internal capital absorbed by Pillar I follows:

Internal capital against credit risk at 31/12/2019 amounted to 656,183 thousand Euros, while internal capital against counterparty risk was 1.461 thousand Euros.

Table 8 - Credit and counterparty risk: capital requirement for each of the regulatory classes

Regulatory classes	CREDIT RISK		COUNTERPARTY RISK	
	Risk Weighted assets (*RWA*)	Capital requirement	Risk Weighted assets (*RWA*)	Capital requirement
Exposures to central governments or central banks	218,583	17,487		
Exposures to regional governments or local authorities	10,019	802		
Exposures to public sector bodies	194,547	15,564		
Exposures to institutions	73,239	5,859	7,548	604
Exposures to corporations	3,706,889	296,551	9,316	745
Retail exposures	911,255	72,900		
Exposures secured by mortgages on immovable property	61,042	4,883		
Exposures in default	2,244,095	179,528	1,402	112
Exposures associated with particularly high risk	139,244	11,140		
Exposures in the form of units or shares in collective investment undertakings (UCIs)	56,067	4,485		
Equity exposures	192,455	15,396		
Other items	383,356	30,668		
Securitisation programmes	11,502	920		
High risk	-	-		
CAPITAL REQUIREMENT IN RELATION TO CREDIT AND COUNTERPARTY RISK (T)	**8,202,293**	**656,183**	**18,266**	**1,461**
CAPITAL REQUIREMENT IN RELATION TO CREDIT AND COUNTERPARTY RISK (T-1)	**7,976,976**	**638,158**	**24,810**	**1,985**

The internal capital in relation to market risk at 31/12/2019 amounted to 6.887 thousand Euros.

Table 9 - Market risk: capital requirement for assets included in the trading book for supervisory purposes and for the entire financial statements

Risk type	Risk-weighted asset (RWA)	Capital requirement
Position risk (Trading Book)	27,545	2,204
Settlement risk (Trading Book)		
Commodities risk		
Currency risk	58,540	4,683
CAPITAL REQUIREMENT IN RELATION TO MARKET RISK	**86,085**	**6,887**
CAPITAL REQUIREMENT IN RELATION TO MARKET RISK (T-1)	**58,427**	**4,674**

The internal capital in relation to the credit valuation adjustment risk at 31/12/2019 amounted to 816 thousand Euros.

Table 10 - Capital requirement in relation to the credit valuation adjustment risk (CVA)

Risk type	*Risk-weighted asset (RWA)*	*Capital requirement*
CVA risk	*10,194*	*816*
CAPITAL REQUIREMENT IN RELATION TO CVA RISK (T)	**10,194**	**816**
CAPITAL REQUIREMENT IN RELATION TO CVA RISK (T-1)	**15,802**	**1,727**

The internal capital in relation to operational risk at 31/12/2019 amounted to 71.145 thousand Euros.

Table 11 - Capital requirement in relation to operational risk

Relevant Indicator December -2	560,986
Relevant Indicator December -1	422,108
Relevant Indicator December	439,815
Average relevant indicator of the last 3 years	474,303
OPERATIONAL RISK CAPITAL REQUIREMENT (T)	**71,145**
OPERATIONAL RISK CAPITAL REQUIREMENT (T-1)	**67,138**

The following table shows the capital ratios at 31 December 2019 in comparison with those at 31 December 2018.

Table 12 - Capital ratios	31/12/2019	31/12/2018
Common equity Tier 1 Capital (CET1)	1,008,865	924,285
Tier 1 capital	1,064,524	980,463
Total Equity Funds	1,342,069	1,257,711
Total risk-weighted assets	9,206,155	8,974,645
Common Equity Tier 1 Ratio	**10.96%**	**10.30%**
CET1 minimum requirement	8.12%	7.22%
CET1 minimum requirement surplus	261,325	275,867
RWA surplus	2,384,660	2,678,619
Tier 1 Capital Ratio	**11.56%**	**10.92%**
T1 minimum requirement	10.00%	9.02%
T1 minimum requirement surplus	143,909	170,501
RWA surplus	1,244,541	1,560,680
Total Own Funds Capital Ratio	**14.58%**	**14.01%**
Own Funds minimum requirement	12.50%	11.32%
Own Funds minimum requirement surplus	191,300	241,332
RWA surplus	1,312,253	1,722,075

As previously reported, on 28 January 2019 the Bank of Italy requested the Banking Group to meet the following consolidated capital requirements in 2019, including a 2.5% capital conservation buffer:

- CET 1 capital ratio of 8.12% and binding to the extent of 5.62%
- tier 1 capital ratio of 10.0% and binding to the extent of 7.5%
- total capital ratio of 12,5%, binding at 10%.

At 31 December 2019 the Banca IFIS Banking Group meets the aforementioned prudential requirements; the capital base is adequate regarding overall exposure to risks.

5. Counterparty risk exposure (Art. 439 CRR)

Qualitative disclosure

The counterparty risk is the risk that the counterparty to a transaction involving financial instruments defaults before the final settlement of the transaction cash flows.

Counterparty risk currently relates to derivative products generated by Proprietary Finance activities and ancillary to the management of the overall proprietary portfolio; there is also a residual portfolio of derivative products, mainly on interest rates, deriving from Corporate activities in which derivative contracts were offered to customers to cover the financial risks assumed by the latter; all outstanding transactions are covered, for the purpose of cancelling market risk, with back-to-back transactions, in which external market counterparties have assumed an opposite position to that sold to corporate customers.

Prospectively speaking, the impact on this risk is not expected to be significant in relation to the type of transactions, the nature of the counterparties and the margining systems envisaged.

With regard to counterparty risk connected to repos, its monitoring consists in a precise and constant verification of the structure and quality of the securities portfolio as the underlying risk is directly connected to the creditworthiness of the counterparties with which the collateralised financing operations are carried out (generally central counterparties such as Cassa di Compensazione e Garanzia and the European Central Bank) and is proportional to the price volatility of portfolio securities provided as a guarantee. There is only one repo transaction with central counterparty at the end of the fiscal year.

For further information on the management processes carried out by the Group, please refer to that shown in § 1.4.2.3 of this document.

Quantitative information

Table 13 - Counterparty risk - mark to market method

Regulatory asset classes	Exposure value	Weighted amount	Capital requirement
Exposures to institutions	19,378	7,548	604
Exposures to companies and other subjects	9,316	9,316	745
Exposures in default	951	1,402	112
Total	**29,645**	**18,266**	**1,461**

Table 14 - Financial derivatives

Type of underlying asset	Notional value	Positive gross fair value gross of compensation agreements	Positive fair value net of compensation agreements	Real guarantees received	Positive fair value net of compensation and guarantee agreements	Market value method Future exposure	Market value method EAD
Trading portfolio for supervisory purposes	**402,580**	**24,313**	**24,313**	**-**	**24,313**	**5,332**	**29,645**
- Derivative contracts on debt securities and interest rates	256,640	20,687	20,687	-	20,687	964	21,651
- Derivative contracts on equity instruments and equity indices	66,431	3,177	3,177	-	3,177	3,573	6,750
- Derivative contracts on exchange rates and gold	79,509	449	449	-	449	795	1,244
- Derivative contracts on other values	-	-	-	-	-	-	-
Banking book - Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Derivative contracts on debt securities and interest rates	-	-	-	-	-	-	-
- Derivative contracts on equity instruments and equity indices	-	-	-	-	-	-	-
- Derivative contracts on exchange rates and gold	-	-	-	-	-	-	-
- Derivative contracts on other values	-	-	-	-	-	-	-
Banking book - Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Derivative contracts on debt securities and interest rates	-	-	-	-	-	-	-
- Derivative contracts on equity instruments and equity indices	-	-	-	-	-	-	-
- Derivative contracts on exchange rates and gold	-	-	-	-	-	-	-
- Derivative contracts on other values	-	-	-	-	-	-	-
Total	**402,580**	**24,313**	**24,313**	**-**	**24,313**	**5,332**	**29,645**

6. Capital buffers (Art. 440 CRR)

Qualitative disclosure

As of 1 January 2016, banks are required to hold a countercyclical capital buffer (CCyB) in line with Article 136 of EU Directive 2013/36 (CR with IV) to accumulate Common Equity Tier 1 capital during periods of credit growth that can be used in times of market stress.

Unlike the capital conservation buffer, the countercyclical capital buffer is only imposed during periods of credit growth and is calculated according to the provisions of the CRD IV by the competent national authorities.

Quantitative information

As stipulated by article 140, paragraph 1 of EU directive 2013/36, the specific CCyB rate of the institution consists of the weighted average of the CCyB rates that are applied in the countries where the institution's significant credit exposures are located. The rate is subject to a quarterly review.

The European legislation was implemented in Italy with circular no. 285 of the Bank of Italy which contains specific CCyB rules. Based on the analysis of the reference indicators, the Bank of Italy decided to keep the countercyclical ratio (relating to exposures to Italian counterparties) at zero per cent for the whole of 2019 For other credit exposures, the Group uses the values of the CCyB rate established by the competent authorities of the counterparty State, in accordance with applicable regulations.

In this regard, the Banca IFIS Group, with reference to the date of 31 December 2019, in the absence of significant risk exposures to countries to which a specific non-zero CCyB rate is attributed, is not required to allocate provisions to this type of capital buffer.

The disclosure on the obligation to hold a countercyclical capital buffer pursuant to Article 440 of Regulation (EU) no. 575/2013, drawn up according to the implementing technical standards contained in EU Regulation no. 2015/1555. The information shown below, referring to 31.12.2019, is at a consolidated level.

Table 15 - Geographical distribution of credit exposures relevant to the calculation of the countercyclical capital buffer

Row	Breakdown by country	General credit exposures		Exposure in the trading portfolio		Exposure to securitisation		Own funds requirements				Weighting factors for own funds requirements	Ccyb rate
		Exposure value for the SA method	Exposure value for IRB method	Sum of long and short positions in the trading portfolio	Value of exposure in the trading portfolio for internal models	Exposure value for the SA method	Exposure value for IRB method	Of which: general credit exposures	Of which: exposures in the trading portfolio	Of which: securitisation exposures	Total		
		010	*020*	*030*	*040*	*050*	*060*	*070*	*080*	*090*	*100*	*110*	*120*
010	Italy	*8,566,389*		86,085		*6,104*		685,311	6887	488	**692,686**	94.05%	0.00%
	Poland	*169,144*						13,532			**13,532**	1.84%	0.00%
Row	Breakdown by country	General credit exposures		Exposure in the trading portfolio		Exposure to securitisation		Own funds requirements				Weighting factors for own funds requirement	Ccyb rate

	Exposure value for the SA method	Exposure value for IRB method	Sum of long and short positions in the trading portfolio	Value of exposure in the trading portfolio for internal models	Exposure value for the SA method	Exposure value for IRB method	Of which: general credit exposures	Of which: exposures in the trading portfolio	Of which: securitisation exposures	Total		
	010	020	030	040	050	060	070	080	090	100	110	120
United States of America	*67,573*						5,406			**5,406**	0.73%	0.00%
France	*67,233*						5,379			**5,379**	0.73%	0.50%
Switzerland	*20,698*						1,656			**1,656**	0.22%	0.00%
Panama	*20,385*						1,631			**1,631**	0.22%	0.00%
United Kingdom	*19,404*						1,552			**1,552**	0.21%	2.00%
Saudi Arabia	*19,282*						1,543			**1,543**	0.21%	0.00%
Romania	*18,804*						1,504			**1,504**	0.20%	0.00%
Portugal	*15,509*						1,241			**1,241**	0.17%	0.00%
BRD Germany.	*13,469*						1,078			**1,078**	0.15%	0.00%
Spain	*12,163*						973			**973**	0.13%	0.00%
Mexico	*10,840*						867			**867**	0.12%	0.00%
Peoples' Rep. Of China	*10,249*						820			**820**	0.11%	0.00%
Netherlands	*9,575*						766			**766**	0.10%	0.00%
Luxembourg	*9,222*						738			**738**	0.10%	0.50%
Slovenia	*8,821*						706			**706**	0.10%	0.00%
Ireland	*7,710*						617			**617**	0.08%	1.00%
Chile	*6,976*						558			**558**	0.08%	0.00%
Czech Republic	*5,680*						454			**454**	0.06%	2.00%
Israel	*4,939*						395			**395**	0.05%	0.00%
India	*3,681*						294			**294**	0.04%	0.00%
Austria	*3,656*						292			**292**	0.04%	0.00%
Lithuania	*2,980*						238			**238**	0.03%	1.00%
Turkey	*2,973*						238			**238**	0.03%	0.00%
Singapore	*2,706*						216			**216**	0.03%	0.00%
Croatia	*1,764*						141			**141**	0.02%	0.00%
South Korea	*1,527*						122			**122**	0.02%	0.00%
Finland	*1,402*						112			**112**	0.02%	0.00%
Canada	*1,319*						106			**106**	0.01%	0.00%
Hungary	*1,164*						93			**93**	0.01%	0.00%
Colombia	*1,164*						93			**93**	0.01%	0.00%
Belgium	*669*						54			**54**	0.01%	0.00%
Slovak Republic	*595*						48			**48**	0.01%	2.00%
San Marino	*549*						44			**44**	0.01%	0.00%
Thailand	*417*						33			**33**	0.00%	0.00%
Malta	*408*						33			**33**	0.00%	0.00%
3.3	*349*						28			**28**	0.00%	0.00%
Vietnam	*339*						27			**27**	0.00%	0.00%
Sweden	*283*						23			**23**	0.00%	2.50%
Belarus	*277*						22			**22**	0.00%	0.00%
Greece	*247*						20			**20**	0.00%	0.00%

Row	Breakdown by country	General credit exposures		Exposure in the trading portfolio		Exposure to securitisation		Own funds requirements				Weighting factors for own funds requirements	Ccyb rate
		Exposure value for the SA method	Exposure value for IRB method	Sum of long and short positions in the trading portfolio	Value of exposure in the trading portfolio for internal models	Exposure value for the SA method	Exposure value for IRB method	Of which: general credit exposures	Of which: exposures in the trading portfolio	Of which: securitisation exposures	Total		
		010	*020*	*030*	*040*	*050*	*060*	*070*	*080*	*090*	*100*	*110*	*120*
	Australia	*215*						17			**17**	0.00%	0.00%
	Bulgaria	*209*						17			**17**	0.00%	0.50%
	Bosnia	*199*						16			**16**	0.00%	0.00%
	French Polynesia	*138*						11			**11**	0.00%	0.00%
	Brazil	*133*						11			**11**	0.00%	0.00%
	Denmark	*95*						8			**8**	0.00%	1.00%
	Norway	*94*						8			**8**	0.00%	2.00%
	Tunisia	*70*						6			**6**	0.00%	0.00%
	Cyprus	*60*						5			**5**	0.00%	0.00%
	Albania	*59*						5			**5**	0.00%	0.00%
	Egypt	*54*						4			**4**	0.00%	0.00%
	Japan	*45*						4			**4**	0.00%	0.00%
	Rep. of South Africa	*34*						3			**3**	0.00%	0.00%
	Dubai	*23*						2			**2**	0.00%	0.00%
	Taiwan	*2*						0			**0**	0.00%	0.00%
	Costa Rica	*1*						0			**0**	0.00%	0.00%
	Cuba	*1*						0			**0**	0.00%	0.00%
	Afghanistan	-						-			**-**	0.00%	0.00%
	Bolivia	-						-			**-**	0.00%	0.00%
	Ecuador	-						-			**-**	0.00%	0.00%
	Jamaica	-						-			**-**	0.00%	0.00%
	Gibraltar	-						-			**-**	0.00%	0.00%
	Guernsey	-						-			**-**	0.00%	0.00%
	Hong Kong	-						-			**-**	0.00%	0.00%
	Libya	-						-			**-**	0.00%	0.00%
	Morocco	-						-			**-**	0.00%	0.00%
	Nigeria	-						-			**-**	0.00%	0.00%
	Senegal	-						-			**-**	0.00%	0.00%
	Serbia	-						-			**-**	0.00%	0.00%
020	**Total countries**	**9,113,966**	**-**	**86,085**	**-**	**6,104**	**-**	**729,117**	**6,887**	**488**	**736,492**	**100.00%**	

Table16 - Amount of the institution's specific countercyclical capital buffer

Row		**Column**
		010
010	Total as a percentage of the total risk exposure amount	9,206,155
020	Institution's specific CCyB rate	0.00%
030	**Institution's specific countercyclical capital buffer requirement**	**-**

7. Credit risk adjustments (Art. 442 CRR)

Qualitative disclosure

Definition of impaired loans used for accounting purposes.

The definition of 'impaired' loans adopted by the Banca IFIS Group for accounting purposes is the same as the one used for supervisory purposes. In particular, Circular 272 of 30 July 2008 as subsequently amended, 'Matrix of accounts', within the context of the definition of parameters relating to credit quality, establishes:

'Impaired' financial assets are defined as assets that fall into the 'Non-performing' category, unlikely to pay,and past due and/or overdue impaired exposures'.

Methodologies used to determine impairment losses

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

The quantification of Expected Credit Losses (ECL) is determined on the basis of whether or not there is a significant increase in the credit risk of the financial instrument with respect to that determined upon initial recognition.

The general impairment model requires allocating the financial instruments within the scope of IFRS 9 The three stages reflect the deteriorating credit quality model:

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

The existence of a significant increase in credit risk is identified for each individual relationship using both qualitative and quantitative criteria. The Banca IFIS Group applies the following transfer criteria differentially based on the scope of the outstanding loan portfolios:

- comparison between the one-year PD at initial recognition and the one-year PD at the reporting date; if the change in PD exceeds a given threshold, the exposure is allocated to Stage 2. The threshold is defined as factor X where: PDt=rep(t = rep) > X * PDt=0)(t = 0) = Threshold
- the threshold uses a PD at origination which allows to capture significant change in credit risk compared to original valuation.
- exposures that are more than 30 days past due or overdrawn;
- of which forbearance exposures
- 'Watchlist & Other Early Warnings (eg., balance sheet indicators)', exposures classified as watchlists in the context of Level 1 credit monitoring or exposures to companies with negative equity, substantial reductions in revenues and/or EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) compared to the previous year.

The stage allocation of the exposures in the Debt securities portfolio is managed at the level of the purchased tranche for each ISIN code held at the reporting date and requires using an external rating of the issue or, if this

is not available, the issuer; in short, they are allocated to the different stages based on the following transfer criteria:

- 'Low credit risk exemption': if the issue rating of the security (ISIN) at the reporting date is 'investment grade', the tranche is allocated to stage 1; otherwise, the Bank assesses the significant increase in credit risk between origination and reporting date;
- if the issue is 'speculative grade', for each individual tranche, the Bank assesses the difference between the issue rating at the reporting date and the origination date; if the resulting rating difference is of 2 or more grades, the tranche is allocated to stage 2, otherwise, it is allocated to stage 1;
- if the issue rating at the reporting date is 'speculative grade' and no issue rating at the origination date is available, the tranche is allocated to Stage 2;
- if there is no issue rating at the reporting date, but an issuer rating is available, the exposure shall be allocated by applying the previously described approach for the issue rating to the issuer rating.

Exposures are allocated to stage 3 if credit risk has increased to the point that the instrument is considered impaired, i.e. classified as nonperforming, including in the case of financial instruments in default.

If, at a given reporting date, an exposure is allocated to stage 2 for one or more of the above transfer conditions, but these conditions no longer exist at a subsequent measurement date, the exposure is reallocated to stage 1.

Therefore, for financial assets subject to impairment under IFRS 9, the expected credit loss represents an estimate of the weighted probability of credit losses over the expected lifetime of the financial instrument and is calculated based on the above stage allocation.

In particular:

- 12-month expected credit loss, for assets allocated to stage 1. 12 month expected credit losses are those that result from default events that are possible within 12 months after the reporting date (or a shorter period if the expected lifetime is less than 12 months), weighted by the probability that the default event will occur.
- 'Lifetime' expected credit loss, for assets allocated to stage 2 and stage 3. Lifetime expected credit losses are those that result from all possible default events over the expected life of the financial instruments, weighted by the probability that the default will occur.

If, at the reporting date, the credit risk on a financial instrument has not significantly increased since initial recognition, the entity shall adjust the loss allowance for the financial instrument to an amount equal to the 12-month expected credit losses.

The key inputs in the calculation of the ECL are:

- PD (Probability of Default) is an estimate of the likelihood of default over a given time horizon, using the first year of a multiperiod PD model. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. Multi-period PDs are adjusted according to short-term expectations to incorporate point-in-time effects (current stage of the Bank's risk factors compared to the long-term situation).
- EAD (Exposure at Default) is an estimate of the exposure at a future default date, taking into account potential expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise (eg. bullet), expected drawdowns on committed facilities and off-balance exposures (applying a proper Credit conversion factor), and accrued interest from missed payments.
- LGD (Loss Given Default) is an estimate of the loss arising in the event of a default occurring at a given time. It is estimated differently according to the loan's status (performing, past-due, unlikely-to-pay, bad loan), on a modelling of historic recovery cash flows and other important drives in determining the recovery process specific to business type and product.

Once the allocation of exposures to the various stages of credit risk has been defined, the expected losses (ECL) are determined at the level of individual transactions or tranches of securities, starting from models calibrated on internal Group data, and models calibrated on data from the External Credit Assessment Institution (so-called 'ECAI agencies') on portfolios for which no internal observations are available, based on the

parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), on which appropriate corrective action is taken to ensure compliance with the specific requirements of IFRS 9.

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

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

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

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

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

Quantitative information

Table 17 - Net credit exposure by type of exposure and counterparty (Art. 442 c)

Portfolio/quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Financial assets measured at amortised cost	1,047,661	458,419	98,266	405,405	6,268,365	**8,278,116**
2. Financial assets at fair value through other comprehensive income	-	-	-	-	1,124,635	**1,124,635**
3. Financial assets designated as at fair value	-	-	-	-	-	**-**
4. Other financial assets mandatorily measured at fair value	5,668	12,868	-	-	6,486	**25,022**
5. Financial assets under disposal	-	-	-	-	-	**-**
Total	**1,053,329**	**471,287**	**98,266**	**405,405**	**7,399,486**	**9,427,773**

The table does not show the average values as it is believed that the period-end figure represents the risk exposure during the year.

Table 18 - Geographical distribution of cash and 'off-balance sheet' exposures to customers (Art. 442 d)

Exposures/Geographic areas	ITALY	OTHER EUROPEAN COUNTRIES	AMERICA	ASIA	REST OF THE WORLD

	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet exposures										
A.1 Bad loans	1,052,858	166,807	212	197	20	-	3	-	4	-
A.2 Unlikely to pay	469,290	118,206	1,528	2,106	3	-	-	-	5	-
A.3 Non-performing past due exposures	96,296	6,420	1,016	57	-	-	-	-	-	-
A.4 Performing exposures	6,620,688	34,746	257,048	1,573	108,400	682	41,196	192	388	3
Total A	**8,239,132**	**326,179**	**259,804**	**3,933**	108,423	**682**	**41,199**	**192**	**397**	**3**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	81,725	2,099	97	-	-	-	-	-	-	-
B.2 Performing exposures	930,580	1,704	77,395	149	-	-	1,996	-	246	-
Total B	**1,012,305**	**3,803**	**77,492**	**149**	**-**	**-**	**1,996**	**-**	**246**	**-**
Total A+B	**9,251,437**	**329,982**	**337,296**	**4,082**	**108,423**	**682**	**43,195**	**192**	**643**	**3**

Table 19 - Geographical distribution of cash and 'off-balance sheet' exposures towards banks (Art. 442d)

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet exposures										
A.1 Bad loans	0	0	0	0	0	0	0	0	0	0
A.2 Unlikely to pay	0	0	0	0	0	0	0	0	0	0
A.3 Non-performing past due exposures	0	0	0	0	0	0	0	0	0	0
A.4 Performing exposures	594,663	747	29,329	110	10,223	38	0	0	0	0
Total A	**594,663**	**747**	**29,329**	**110**	**10,223**	**38**	**0**	**0**	**0**	**0**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	0	0	0	0	0	0	0	0	0	0
B.3 Performing exposures	66,193	0	773	0	11,301	0	0	0	0	0
Total B	**66,193**	**0**	**773**	**0**	**11,301**	**0**	**0**	**0**	**0**	**0**
Total A+B	**660,856**	**747**	**30,102**	**110**	**21,524**	**38**	**0**	**0**	**0**	**0**

Table 20 - Sector distribution of cash and 'off-balance sheet' exposures towards customers (Art. 442 e)

Exposures/Counterparties	Public Administrations	Finance companies	Other financial companies (of which: insurance companies)	Non-financial institutions	Families

	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet exposures										
A.1 Bad loans	2,320	6,439	1,794	9,108	0	0	203,596	133,978	845,387	17,479
- of which forborne exposures	-	-	469	5,730	-	-	7,953	4,480	96,422	63
A.2 Unlikely to pay	567	389	2,353	3,434	0	0	168,213	106,186	299,693	10,303
- of which forborne exposures	-	-	266	7	-	-	21,359	3,690	68,388	3,003
A.3 Non-performing past due exposures	46,545	691	120	90	0	0	44,056	3,892	6,591	1,804
- of which forborne exposures	-	-	6	-	-	-	742	86	988	378
A.4 Performing exposures	1,999,329	1,556	215,609	1,514	35	0	4,285,507	28,371	527,275	5,755
- of which forborne exposures	1596	46	3,697	-	-	-	14,237	169	10,192	512
Total A	**2,048,761**	**9,075**	**219,876**	**14,146**	**35**	**0**	**4,701,372**	**272,427**	**1,678,946**	**35,341**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	0	0	0	0	0	0	66975	1952	14847	147
B.2 Performing exposures	0	0	21114	165	0	0	713731	1565	275372	123
Total B	**0**	**0**	**21114**	**165**	**0**	**0**	**780706**	**3517**	**290219**	**270**
Total (A+B)	**2,048,761**	**9,075**	**240,990**	**14,311**	**35**	**0**	**5,482,078**	**275,944**	**1,969,165**	**35,611**

Table 21 shows the breakdown over time by residual contract duration of on and off-balance sheet transactions.

Table 21 - Breakdown over time by the residual contract duration of financial assets (Art 442 f)

Items/Time periods	On demand	From 1 to 7 days	From 7 to 15 days	over 15 days to 1 month	from 1 to 3 months	over 3 months to 6 months	over 6 months to 1 year	over 1 year to 5 years	Over 5 years	Undetermined	Total
On-balance-sheet assets											
Government securities	704	-	446	-	975	195,023	207,044	616,000	263,620	-	**1,283,812**
Other debt securities	10,183	176	-	22	542	5,402	8,240	74,911	111,049	-	**210,525**
OICR units	87,762	-	-	-	-	-	-	-	-	-	**87,762**
Responsible	1,173,629	84,749	233,422	547,146	1,275,891	583,418	652,384	2,403,063	638,630	392,320	**7,984,652**
- banks	76,446	25,525	11	136,149	882	138	275	891	-	373,784	**614,101**
- customers	1,097,183	59,224	233,411	410,997	1,275,009	583,280	652,109	2,402,172	638,630	18,536	**7,370,551**
Off-balance sheet transactions											
Financial derivatives with exchange of underlying assets											
- long positions	-	20,000	117,850	-	2,926	-	20,220	3,313	-	-	**164,309**
- short positions	-	20,067	117,260	-	2,513	-	-	14,071	7,810	-	**161,721**

Items/Time periods	On demand	From 1 to 7 days	From 7 to 15 days	over 15 days to 1 month	from 1 to 3 months	over 3 months to 6 months	over 6 months to 1 year	over 1 year to 5 years	Over 5 years	Undetermined	Total
- long positions	23,844	-	-	-	-	-	-	-	-	-	**23,844**
Deposits and loans to be received											
- long positions	-	3,524	-	-	-	-	-	-	-	-	**3,524**
- short positions	-	3,524	-	-	-	-	-	-	-	-	**3,524**
Irrevocable commitments to grant funds											
- long positions	16,261	-	7,200	8,860	636	2,036	1,610	17,497	68,196	-	**122,296**
- short positions	31,536	-	4,400	7,023	364	624	1,610	16,039	60,700	-	**122,296**
Financial guarantees granted	-	-	-	-	-	-	-	-	-	-	**-**

With regard to the description of the process of determination of the impairment losses or reversals, reference should be made to the qualitative section of this document.

Table 22 - On balance sheet exposures to customers: total value adjustment trend (Art. 442 i)

Type/Categories	Bad loans	Unlikely to pay	Past due loans	Total
A. Total initial adjustments	**181,750**	**87,241**	**9,189**	**278,180**
- of which: transferred and not derecognised	-	697	-	**697**
B. Increases	**110,071**	**68,335**	**2,381**	**180,787**
B.1 impairment losses from purchased or originated credit impaired financial assets	11	-	-	**11**
B.2. other value adjustments	77,341	66,818	1,926	**146,085**
B.3 Losses on disposal	-	-	-	**-**
B.4 transfers from other nonperforming exposure categories	20,606	1,517	25	**22,148**
B.5 contractual modifications without derecognition	-	-	-	**-**
B.6 other increases	12,113	-	430	**12,543**
C. Decreases	**124,817**	**35,264**	**5,093**	**165,174**
C.1 impairment reversals from measurement	40,072	10,213	28	**50,313**
C.2 impairment reversals from collection	4,824	6,958	8	**11,790**
C.3 gains on disposal	-	-	-	**-**
C.4 write-offs	79,640	178	13	**79,831**
C.5 transfers to other non-performing loan categories	240	17,792	4,992	**23,024**
C.6 contractual modifications without derecognition	-	-	-	**-**
C.7 other decreases	41	123	52	**216**
D. Total final adjustments	**167,004**	**120,312**	**6,477**	**293,793**

8. Unencumbered assets (Art. 443 CRR)

Qualitative disclosure

This chapter, in accordance with Article 443 of Regulation (EU) No 575/2013 (CRR), shows unencumbered and encumbered assets.

Encumbered asset means every asset that has been pledged or that is the subject of an agreement to provide guarantees (securities or collaterals) or credit support to on- or off- balance sheet operations from which the asset cannot be freely withdrawn.

The pledged assets whose withdrawal is subject to any type of restriction, such as a prior approval before being withdrawn or replaced by other assets, are deemed to be encumbered.

The operations for which the Group normally binds part of its financial assets fall within the following categories:

- deposit with the Bank of Italy as a minimum reserve;
- transactions in derivative contracts;
- term deposits given as a guarantee to banks in syndicated transactions (iblor deposit);
- debt securities given as a guarantee to the Bank of Italy related to intraday advances;
- debt securities given as a guarantee to the European Central Bank for TLTRO operations;
- eligible receivables for collateralisation with the Bank of Italy through the ABACO program;
- assets used for securitisation transactions.

For further information on the management processes carried out by the Group, please refer to that shown in § 1.4.3.3 of this document.

Quantitative information

The disclosure relating to the encumbered and unencumbered assets of the Group was prepared on the basis of the EBA/GL/2014/03 guidelines and the format required by the Implementing Regulation (EU) 2015/79, in accordance with the provisions of Part Eight, Title II of Regulation (EU) 575/2013.

The table below shows the amount of the encumbered and unencumbered assets by type of activity at 31 December 2019.

Table 23 - Quantitative information on unencumbered assets (443 (ART.443 and EBA/GL 2014/03)

ASSETS	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**1,380,782**		**8,198,381**	
Loans on demand			765,111	
Equity securities			125,205	123,491
Debt securities	460,595	460,595	521,137	518,825
- of which: issued by general governments	460,595	460,595	384,952	385,198
- of which: issued by financial intermediaries			125,538	122,843
Loans other than on demand	920,187	82,461	5,580,267	
Other assets			1,206,662	

Table 24 - Quantitative information on unencumbered assets (443 (ART.443 and EBA/GL 2014/03)

ENCUMBERED ASSETS AND ASSOCIATED LIABILITIES	Financial liabilities, contingent liabilities and securities lending	Assets, guarantees received and its issued debt securities foreclosed other than bank bonds guaranteed and ABS
Carrying amount of financial liabilities	**1,721,135**	**1,380,782**
Deposits		
Repurchase agreements	0	0
of which: with central banks		
Collateralised deposits other than repurchase agreements	1,721,135	1,380,782
of which: with central banks	694,183	596,417
Other		0

9. Use of ECAIs (Art. 444 CRR)

Qualitative disclosure

The Banca IFIS Group, for the purpose of calculating the capital requirement against credit and counterparty risk, avails itself of the services provided by external credit assessment institution (ECAI) 'Fitch Ratings' for the positions included in the class 'Exposures to central governments and central banks'; for the other asset classes, no external ratings are used.

The assessments of the ECAI selected apply to the following classes of activity:

Table 25 - Portfolios and official ratings

Regulatory classes	*ECA/ECAI*	*Rating characteristics*
Exposures towards central governments and central banks	Fitch Ratings	Solicited/Unsolicited
Exposures to regional governments or local authorities	-	-
Exposures to public sector bodies	-	-
Exposures to institutions	-	-
Exposures to corporations	-	-
Retail exposures	-	-
Exposures in default	-	-
Exposures associated with particularly high risk	-	-
Equity exposures	-	-

The following table shows the mapping published by the Bank of Italy of long-term ratings issued by 'Fitch Ratings'.

Classes of creditworthiness	Risk weighting coefficients				
	Central governments and central banks	Supervised intermediaries, public sector bodies, local and regional authorities*	Multilateral development banks	Companies and other bodies	Fitch Ratings
1	0%	20%	20%	20%	AAA to AA-
2	20%	50%	50%	50%	A+ to A-
3	50%	100%	50%	100%	BBB+ to BBB-
4	100%	100%	100%	100%	BB+ to BB-
5	100%	100%	100%	150%	B + to B-
6	150%	150%	150%	150%	CCC+ and below

*According to the 'New Prudential Supervision Provisions for Banks' for these categories, reference must be made to the class of merit in which exposures to the central government in which these entities have their head office are classified.

Quantitative information

The following table shows the breakdown of exposures subject to credit risk on the basis of weighting factors (classes of creditworthiness).

Table 26 - Exposures by asset regulatory class and by class of creditworthiness/weighting (in thousands of Euros)

Asset regulatory class/weighting	*0%*	*20%*	*35%*	*50%*	*75%*	*100%*	*150%*	*200%*	*250%*	*1250%*	*Deductions from Own Funds*	*Total*
Exposures to central governments or central banks	1,990,445					218,583					103,814	**2,312,842**
Exposures to institutions		227,371				35,313						**262,684**
Exposures to regional governments or local authorities		50,094										**50,094**
Exposures to public sector bodies		393,155				115,916						**509,071**
Multilateral development banks												**0**
International Organisations												**0**
Companies and other subjects						3,747,088						**3,747,088**
Retail exposures					1,476,445							**1,476,445**
Short-term exposures to companies												**0**
Exposures to OICR.						44,718	7,566					**52,284**
Exposures guaranteed by real estate			80,929	65,433								**146,362**
Exposures in default						495,923	1,166,383					**1,662,306**
Exposures associated with particularly high risk							92,829					**92,829**
Securitisation programmes	54,171					6,070	22	2,624				**62,887**
Equity exposures						192,455						**192,455**
Other items	9,089	105				383,335						**392,529**
Total credit risk	**2,053,705**	**670,725**	**80,929**	**65,433**	**1,476,445**	**5,239,401**	**1,266,800**	**2,624**	**0**	**0**	**103,814**	**10,959,876**

10. Market risk exposure (Art. 445 CRR)

Quantitative information

Exposure to market risk - as reported in § 1.4.3.4 for regulatory purposes, is calculated using the 'standardised method'.

The following table details the regulatory requirements measured on 31 December 2019 for the Banking Group. The overall exposure refers to positions included in the trading portfolio for supervisory purposes of the Bank; the Banking Group, in reference to the contained positions included in the trading portfolio for supervisory purposes, essentially measured the position risk.

The capital requirement for own funds required for exchange rate risk amounts to 4.683 thousand Euros as the Banking Group, at the reference date, recorded a 'total net open position in exchange rates' which exceeded 2% of the total of 'Own funds' for consolidated use.

Table 9 - Market risk: capital requirement for assets included in the trading book for supervisory purposes and for the entire financial statements

Risk type	Risk-weighted asset (RWA)	Capital requirement
Position risk (Trading Book)	27,545	2,204
Settlement risk (Trading Book)		
Commodities risk		
Currency risk	58,540	4,683
CAPITAL REQUIREMENT IN RELATION TO MARKET RISK	**86,085**	**6,887**
CAPITAL REQUIREMENT IN RELATION TO MARKET RISK (T-1)	**58,427**	**4,674**

11. Operational risk (Art. 446 CRR)

Qualitative disclosure

For the measurement of operational risk and of internal capital, the Banking Group, in consideration of the size and the limited operational complexity, has followed the 'basic method' governed by Regulation (EU) no. 575/2013 of 26 June 2013 - Part Three, Title III and Circular 285/2013 for its application in Italy, for the purpose of calculating the regulatory capital requirement. In particular, it calculates the mandatory minimum capital requirement for operational risks by using the Basic Indicator Approach (BIA). This method quantifies capital absorption to the amount of 15% of the average of the last three financial years of 'relevant indicator' values referred to in Art.316 Regulation (EU) no.575/2013 of 26 June 2013 which are representative of the company operating volumes.

For regulatory purposes, operational risk is measured through IT procedures dedicated to the periodic production of statistical reports and consolidated prudential supervision.

At management level, reference is made to the management processes described in § 1.4.4.1 of this document for the measurement of operational risk.

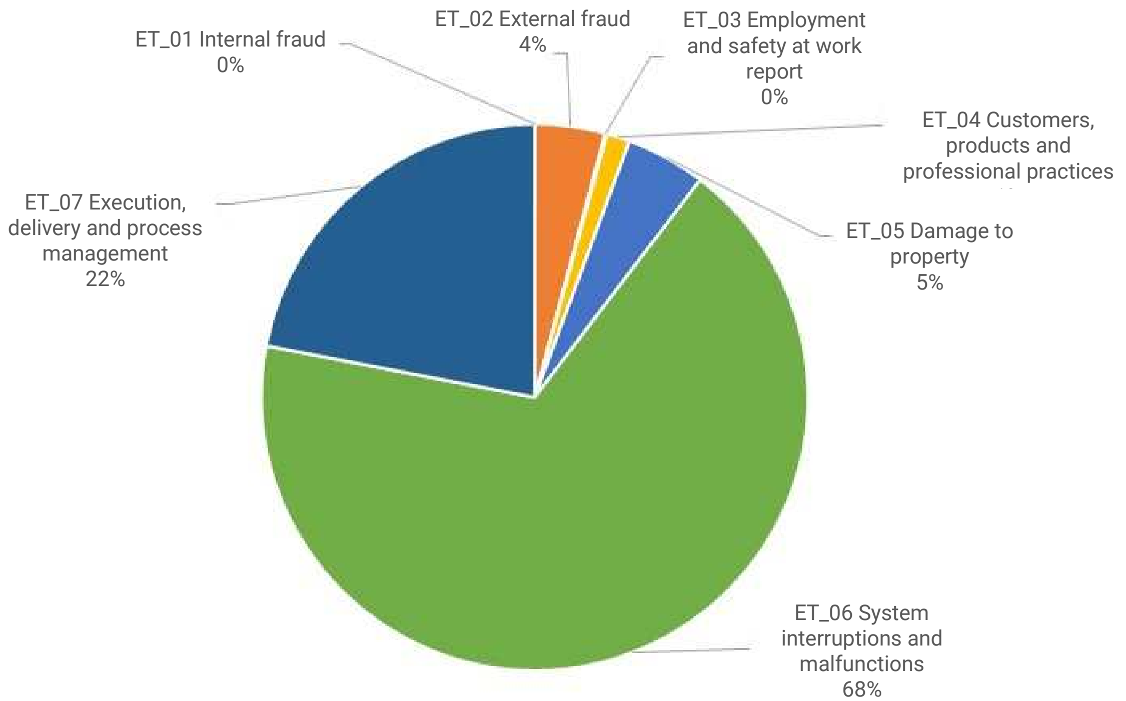
The Banca IFIS Group has for some time now defined - in line with the appropriate regulatory requirements and best practices in the sector - the overall framework for the management of operational risk, represented by a set of rules, procedures, resources (human, technological and organisational) and control activities aimed at identifying, assessing, monitoring, preventing or mitigating and communicating to the appropriate hierarchical levels all the operational risks assumed or that can be assumed in the various organisational units. The key processes for the correct management of operational risk also include loss data collection (LDC) and the forward-looking self-assessment of exposure to operational risk (Risk Self-Assessment - RSA). In addition, the adequate training of resources is another key element of the operational risk governance and management process. Indeed, the Banca IFIS Group is constantly committed to the professional training and growth of its human resources.

With regard to the Internal Loss Data Collection process in use, operating losses are classified according to the risk categories defined by the Supervisory regulations and listed below:

(a) internal fraud: losses due to unauthorised activity, fraud, embezzlement or violation of laws, regulations or company directives that involve at least one internal intermediary resource;
(b) external fraud: losses due to fraud, embezzlement, or violation of laws by subjects external to the intermediary;
(c) employment relationships and occupational safety: losses due to acts that are in noncompliance with the laws or agreements on employment, health and safety at work, the payment of compensation for personal injury or incidents of discrimination or diversity;
(d) customers, products and operating practices: losses resulting from non-fulfilment of professional obligations towards customers or from the nature or characteristics of the product or service provided;
(e) damage to tangible assets: losses resulting from external events, such as natural disasters, vandalism, terrorism, etc.;
(f) interruptions to operations and system malfunctions: losses due to interruptions to operations, malfunctions or unavailability of systems;
(g) execution, delivery and management of processes: losses due to shortcomings in the completion of transactions or in the management of processes, as well as losses due to relations with commercial counterparties, vendors, suppliers.

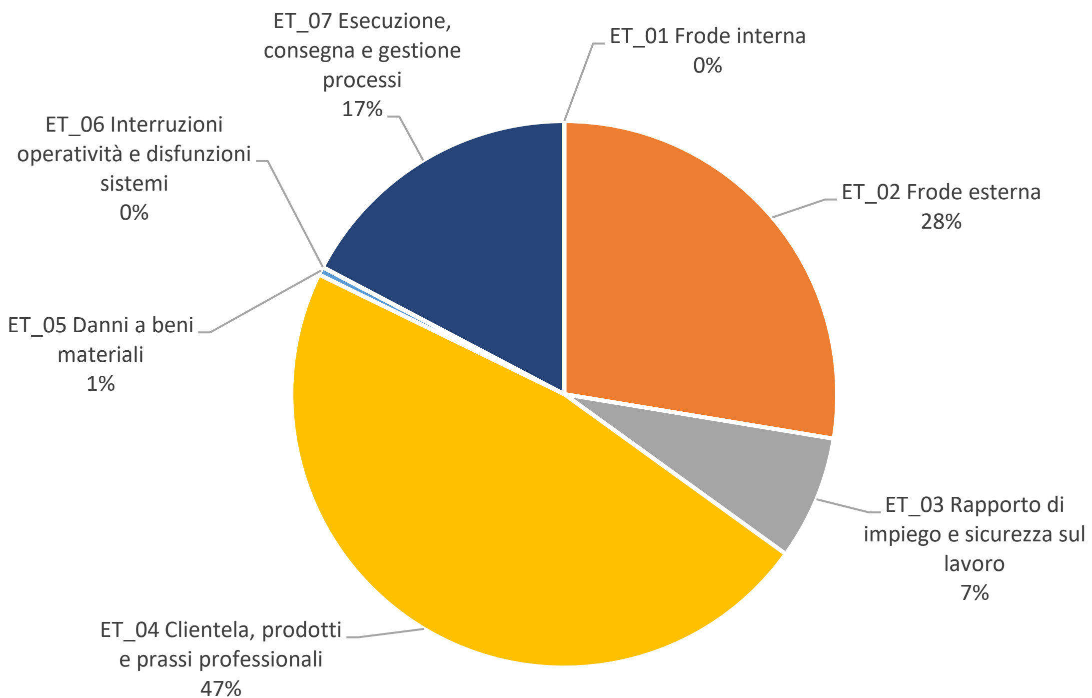
The results of the operational losses data collection of the Banking Group in 2019 are shown in the graph below, which shows the percentage distribution of the number of registered events divided into the risk classes listed above:

2019 - Number of operational risk events subdivided by 1st level ET



For completeness, the graph below shows the percentage distribution of the actual loss of the operational risk events recorded divided into the 7 regulatory risk classes.

2019 - Perdita effettiva degli eventi di rischio operativo suddivisi per ET di 1° livello



For completeness, the Risk Control Self-Assessment process carried out in 2019 highlighted the potential risks to which the Banking Group is exposed on a prospective basis based on the self-assessments carried out by the main company process owners. Appropriate information on the identified areas for improvement and on the actions agreed for mitigation of potential risks is provided to the competent corporate bodies.

Quantitative information

The adoption of the 'basic method' by the Bank resulted in a consolidated capital requirement on 31 December 2019 of approximately 71,145 million Euros, which was considered capable of coping with the unexpected financial impacts of potential risky events that could occur during 2020.

Table 11 - Capital requirement in relation to operational risk

Relevant Indicator December -2	560,986
Relevant Indicator December -1	422,108
Relevant Indicator December	439,815
Average relevant indicator of the last 3 years	474,303
OPERATIONAL RISK CAPITAL REQUIREMENT (T)	**71,145**
OPERATIONAL RISK CAPITAL REQUIREMENT (T-1)	67,138

12. Exposures in equity not included in the trading portfolio (Art. 447 CRR)

Qualitative information

As already reported in 1.4.2.10 of this document in relation to participation risk, at 2019, December 2018, the Group holds equity investment assets in its portfolio attributable to minority equity interests which are classified either among 'Financial assets at fair value with impact on the overall profitability' or among 'Financial assets mandatorily at fair value with impact on the income statement'. In addition, in the second half of the year ended 31 December 2019, a portfolio of listed securities was created to generate income over time.

In particular, the Group classifies among the 'Financial assets at fair value with impact on overall profitability', equity instruments not held for trading purposes, for which the option to designate at fair value is exercised at the time of initial recognition with impact on overall profitability (so called 'OCI Option'). On the other hand, the equity instruments for which the Group does not apply this option are classified under 'Financial assets mandatorily at fair value with impact on the income statement'.

Recognition criteria

Financial assets at fair value through other comprehensive income

The initial recognition of financial assets takes place on the settlement date. These assets are initially recognised at fair value, including transaction costs directly attributable to the instruments, if any.

Financial assets mandatory measured at fair value through profit or loss

The initial recognition of financial assets takes place on the settlement date. At initial recognition, financial assets held for trading are measured at cost, that is the instrument's fair value, excluding the expenses and income directly attributable to the instrument, which are recognised in profit or loss.

Measurement criteria

Financial assets at fair value through other comprehensive income

The equity instruments the Group elected to classify within this category are measured at fair value, and the amounts recognised through shareholders' equity (Statement of comprehensive income) are not to be subsequently reclassified to profit or loss—including in the event of their disposal. The relevant dividends represent the only component of the equity securities concerned that is recognised through profit or loss.

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

Financial assets mandatory measured at fair value through profit or loss

Even after initial recognition, financial assets are measured at fair value, and the impact of the application of this method is recognised through profit or loss. Fair value is determined on the basis of the criteria already illustrated for the financial assets measured at fair value with impact on overall profitability.

Quantitative information

Table27 - Exposures in equity - Banking Portfolio

	Carrying amount			Fair Value			Market Value	Profit/losses in the period	Plus/Minus suspended in equity	Plus/Minus suspended in shareholders' equity and booked to Own Funds
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1			
Equity securities										
Financial assets measured at fair value value			-			-		(9,222)		
Financial assets at fair value through other comprehensive income	34,809		14,364	34,809		14,364			3,153	1,600
Total	**34,809**	**-**	**14,364**	**34,809**	**-**	**14,364**	**-**	**(9,222)**	**3,153**	**1,600**

13. Exposure to interest rate risk on positions not included in the trading portfolio (Art. 448 CRR)

Qualitative information

The assumption of interest rate risk is a normal part of banking and can be an important source of income and asset value. However, adverse movements in market interest rates can have negative effects on both the level of profits and the value of the capital of the Bank and its subsidiaries: changes in interest rates affect in fact the current income level through variations in interest margins and at the same time also affect the value of the assets, liabilities and off-balance sheet items. Therefore, an effective risk management system that maintains exposure to interest rate risk within acceptable levels is essential for the safety and financial soundness of the Group.

The interest rate risk on the banking portfolio is a transversal risk that affects all the Group companies and whose management is centralised at the Parent Company.

The assumption of significant interest rate risks is in principle unrelated to the management of the Group. The prevailing source of funding continues to consist of the 'rendimax' online deposit account. Customer deposits on 'rendimax' and 'contomax' products are at a fixed rate for the term component, and at a non-indexed variable rate, which can be unilaterally reviewed by the Bank in compliance with the rules and contracts, for on-demand and on-call deposits. The other main funding components concern mainly fixed rate bond deposits, a variable rate self-securitisation transaction and loans with the Eurosystem (TLTRO).

With regard to assets, customer loans remain mainly at variable rates, both with regard to the commercial credit component and to corporate loans.

Within the sphere of non-performing loan transactions (carried out by the subsidiary IFIS NPL), characterised by a business model focused on the purchase of receivables at lower values than the nominal value, there is a potential interest rate risk connected to the uncertainty over collection times.

At 31 December 2019, the total bond portfolio consisted mainly of fixed-rate government securities indexed to the inflation rate. The average duration of this portfolio is approximately 2.9 years.

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

For further information on the management processes carried out by the Group, please refer to that shown in § 1.4.3.1 of this document.

Quantitative information

For the measurement of interest rate risk related to the 'banking portfolio', the Banking Group followed the simplified method prescribed by the Circular 285/2013 - Part One - Title III 'Prudential Control Process' - Chapter 1 - Annexes C and C bis.

Interest rate risk interest rate risk on the banking portfolio in terms of changes in economic value

The simplified methodology, set out in Annex C of Circular 285/2013, recently amended by the Bank of Italy in transposition of the EBA/GL/2018/02, guidelines, provides that all assets and liabilities are classified in 19 time bands based on their residual life if they are placed at a fixed rate and on the repricing date if they are placed at a floating rate. Within each time range, the net exposure, obtained from offsetting assets and liabilities, is calculated. The net exposures of each time range are then multiplied by the weighting factors obtained from the product, between the chosen hypothetical rate variation and the approximation of the modified duration related

to each range. The weighted exposures of the different bands are added together. The net weighted exposure obtained approximates the change in the present value of balance sheet items in the event of the assumed rate shock.

A brief overview of the measurements developed during the quantification of the internal capital absorbed by by interest rate risk, in terms of changes in economic value, at 31 December 2019, is shown in the table below. The capital requirement on own funds required for interest rate risk on the banking portfolio at the reporting date was 21.759 thousand Euros.

Table 28a - Interest rate risk on the banking portfolio in terms of changes in Economic Value

	ASSETS	LIABILITIES	Net Position	Weighting Factor	Weighted Exposure
On demand or revocation	1,319,821	-402,597	917,224	0.00%	-
Up to 1 month	2,519,059	-2,017,778	501,281	0.01%	29
from 1 to 3 months	1,077,118	-1,626,647	-549,529	0.02%	- 106
from 3 to 6 months	1,013,657	-480,905	532,752	0.04%	218
from 6 to 9 months	144,238	-178,921	-34,684	0.06%	- 22
from 9 months to 1 year	325,575	-189,446	136,129	0.09%	119
from 1 to 1.5 years	172,330	-1,246,273	-1,073,942	0.08%	- 848
from over 1.5 years to 2 years	533,592	-398,693	134,899	0.17%	223
from over 2 years to 3 years	503,444	-827,363	-323,919	0.49%	- 1.581
from over 3 years to 4 years	547,536	-513,129	34,406	1.01%	349
from over 4 years to 5 years	430,469	-577,507	-147,038	1.63%	- 2.393
from over 5 years to 6 years	142,341	-2,746	139,595	2.28%	3,185
from over 6 years to 7 years	250,672	-2,528	248,144	2.95%	7,326
from over 7 years to 8 years	91,740	-37	91,703	3.58%	3,286
from over 8 years to 9 years	29,857	0	29,857	4.20%	1,254
from over 9 years to 10 years	97,111	0	97,111	4.80%	4,663
from over 10 years to 15 years	69,470	0	69,470	6.72%	4,666
from over 15 years to 20 years	10,928	0	10,928	9.22%	1,007
over 20 years	3,238	0	3,238	11.83%	383

Change in Economic Value	21,759
Own funds	1,342,069
Risk profile indicator (warning threshold 20%)	1.62%

Interest rate risk on the banking portfolio in terms of changes in interest margin or expected profits

The simplified methodology, set out in Annex C of Circular 285/2013, recently amended by the Bank of Italy in transposition of the EBA/GL/2018/02 guidelines, provides that all assets and liabilities are classified in 9 time bands based on their residual life if they are placed at a fixed rate and on the repricing date if they are placed at a floating rate. Within each time range, the net exposure, obtained from offsetting assets and liabilities, is calculated. The net exposures of each time range are then multiplied by the weighting factors specified by the Regulator over a three-year time horizon. The overall exposure is determined by the sum of exposures by band. The value thus obtained represents the change in net interest income against the assumed interest rate scenario.

A summary of the measurements developed in terms of changes in net interest income at 31 December 2019 is given in the table below. At present, this measurement does not imply any obligation for the intermediary.

Banca IFIS is implementing a new interest rate risk management monitoring system in line with market best practices.

Table 28b -Interest rate risk on the banking portfolio in terms of changes in interest margin

	ASSETS	LIABILITIES	Net Position	Temporal weight	Positive shock	Negative shock	Upward shock	Downward shock
On demand or revocation	1,319,821	-402,597	917,224	3.00	2.00%	-2.00%	55,033	- 55.033
Up to 1 month	2,519,059	-2,017,778	501,281	2.96	2.00%	-2.00%	29,676	- 29.676
from 1 to 3 months	1,077,118	-1,626,647	-549,529	2.83	2.00%	-2.00%	- 31.103	31,103
from 3 to 6 months	1,013,657	-480,905	532,752	2.62	2.00%	-2.00%	27,916	- 27.916
from 6 to 9 months	144,238	-178,921	-34,684	2.37	2.00%	-2.00%	- 1.644	1,644
from 9 months to 1 year	325,575	-189,446	136,129	2.12	2.00%	-2.00%	5,772	- 5,772
from 1 to 1.5 years	172,330	-1,246,273	-1,073,942	1.75	2.00%	-2.00%	- 37.588	37,588
from over 1.5 years to 2 years	533,592	-398,693	134,899	1.25	2.00%	-2.00%	3,372	- 3,372
from over 2 years to 3 years	503,444	-827,363	-323,919	0.50	2.00%	-2.00%	- 3.239	3,239
Change in the Interest Margin							48,195	- 48.195

14. Exposure to securitisation positions (Art. 449 CRR)

Qualitative information

This section provides an illustration of the Group's exposures to securitisation transactions; in these operations the Group plays the role of originator, sponsor or investor, depending on the case.

The Bank has adopted a 'Policy for the management of securitisation transactions' with which it governs the process for managing securitisation transactions in the event that it intervenes in the role of 'investor' (i.e. subscriber of securities) or of 'sponsor' (i.e. that is, subject that structures the operation). For each potential case, the policy sets out the responsibilities of the organisational units and bodies with reference to both the due diligence process and the ongoing monitoring of the transaction.

IFIS ABCP Programme securitisation

On 7 October 2016, Banca IFIS launched a three-year revolving securitisation of trade receivables due from account debtors. Against the initial transfer of the loans by Banca IFIS (originator) for an amount of 1,254.3 million Euros, the vehicle called IFIS ABCP Programme Srl issued senior securities, subscribed by investment vehicles which refer to the co-arranger banks of the transaction, for an amount of 850 million Euros, increasing to 1,000 million Euros during the second quarter of 2018, together with the two-year extension of the revolving period. An additional tranche of senior notes, with a maximum par value of 150 million Euros-of which investors initially subscribed for 19.2 million Euros, and that was subsequently adjusted based on the composition of the assigned portfolio-was subscribed for by Banca IFIS. During the first half of 2019 this portion was sold to a third-party bank and was fully subscribed as at 31 December 2019. The difference between the value of the receivables portfolio and the senior securities issued represents the credit support for the holders of the same securities, which takes the form of a deferred purchase price.

The servicing activity is carried out by Banca IFIS itself which, with its own structure, is responsible for:

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

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

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

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

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

- non-recourse securitised receivables are recorded, as part of 'receivables due from customers', under the sub-item 'factoring';

- the financing obtained through the issue of senior securities subscribed by third parties was recorded under 'outstanding securities';
- interest income on receivables are recorded in the financial statements under the same item, 'interest income on receivables due from customers';
- interest expenses matured on securities are recorded under 'interest expenses and similar charges' in the sub-item 'outstanding securities';
- the arrangement fees were fully recognised in profit or loss in the year in which the programme was launched.

At 31 December 2019, the interest on the senior notes recognised in profit or loss amounted to 7,7 million Euros.

Third-party securitisation transactions

At 31 December 2019 the Group held 62,9 million Euros in notes deriving from third-party securitisation transactions: specifically, it held 60s2 million Euros worth of senior notes and 2.7 million Euros worth of mezzanine and junior notes.

These derive from four separate third-party securitisation transactions whose underlying assets were, respectively, two non-performing secured loan portfolios, a speculative mutuo fondiario (a type of mortgage loan), a portfolio of minibonds issued by Italian listed companies, and a portfolio of non-performing loans partially secured by mortgages, whose securitisation was backed by the Italian government's state- guarantee scheme.

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

- 'Five V' securitisation: the transaction, started at the end of November 2017, consists of a securitisation through the vehicle Ballade SPV Srl having only an underlying mortgage loan classified as non-performing, with a nominal value of 20 million Euros and a maturity in October 2020 in which the Parent Company participates, also in this case, as Senior Noteholder and Sponsor, becoming the holder of 100% of senior securities for 2.1 million Euros and 5% of junior securities; the transaction is substantially closed following the sale of the underlying asset to the mortgage credit;
- 'Elite Basket Bond (EBB)' securitisation, for which the vehicle EBB Srl issued at a price equal to the nominal value, for a total of 122 million Euros, of Asset Backed Securities (ABS) in a single tranche with a duration up to December 2027 and an underlying portfolio ('Basket') of minibonds issued by 11 Italian listed companies. The peculiarity of this operation consists in the fact that these securities are senior unsecured bonds but they benefit from a mutual Credit Enhancement equal to 15% of the total amount of the transaction (24 million Euros), to be used in the event of delays and/or insolvencies on the part of the issuing companies for the payment of interest and/or capital on the minibonds. The Parent participates in this transaction only as underwriter, subscribing for 6.0 million Euros worth of notes of the above tranche.
- 'FINO 1' securitisation: this consists of an investment as a Senior Noteholder in a securitisation transaction whose issued tranches are backed by the 'GACS' State guarantee (Non-performing Securitisation Guarantee) and with underlying non-performing positions with an original total nominal value of approximately 5.4 billion Euros. The tranche to be subscribed for originally 92.5 million Euros by Banca IFIS (on a total nominal value of 650 million Euros) is the Class A Senior Note, characterised by maturity in October 2045. At 31 December 2019 the portion of the tranche subscribed, net of repayments during the year, had a book value of 54.2 million Euros.
- Elipso Finance' securitisation: this is an investment as Mezzanine and Junior Noteholder in a securitisation transaction and with underlying non-performing positions with an original total par value of approximately 2.6 billion Euros. The tranches originally subscribed for 74 million Euros by the company now controlled by FBS SPA (out of a total nominal value of 470 million Euros) are the Mezzanine Note Class B and the Junior Note Class C, maturing in January 2025. There were no capital repayments during the year and, at 31 December 2019 the subscribed portion of tranches had a book value of 2.6 million Euros.

For the sake of completeness, it should be noted that the Group holds, through the broader intervention carried out in 2017 by the Voluntary Scheme of the Interbank Deposit Protection Fund, shares of mezzanine and junior notes of the 'Berenice' securitisation for a total of 0.1 million Euros.

Self-securitisation transactions

During December 2016, the Banca IFIS Group, through the now merged company IFIS Leasing SpA (originator), finalised a securitisation that involved selling a portfolio of performing loans totalling 489 million Euros to the special purpose vehicle Indigo Lease Srl.

The transaction was assigned a rating by Moody's and by DBRS. The same agencies will look after the annual monitoring for the entire duration of the operation.

The spot price of the loan portfolio sold, amounting to 489 million Euros, was paid by the vehicle to the merged company IFIS Leasing SpA using the funds arising from the issue of senior securities for the amount of 366 million Euros, which was assigned a rating of Aa3 (sf) (Moody's) and AA (sf) (DBRS), whose repayment is linked to collections made on the loan portfolio. In addition, junior securities purchased by IFIS Leasing SpA were issued by the vehicle. (now incorporated into Banca IFIS SpA), for which a rating was not assigned, were issued by the vehicle for a value of 138 million Euros. In addition, the latter received a specific servicing mandate to collect and manage the receivables.

During the 2017 quarter, following the restructuring of the operation, a revolving system was launched which provides for monthly recoveries of new receivables to the vehicle until July 2021. At the same time, the maximum par value of senior and junior notes was increased to 609.5 and 169.7 million Euros respectively. During the same period, Banca IFIS SpA had subscribed for all the notes issued by the vehicle. Following the merger of IFIS Leasing SpA in May 2018, Banca IFIS also became a subscriber for junior notes.

Therefore, at 31 December 2019 the Bank had subscribed for all the notes issued by the Banca IFIS Group.

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

Quantitative information

Please refer to the tables in section E of the Notes to the Consolidated Financial Statements of the Banca IFIS Group 2019.

15. Remuneration policy (Art. 450 CRR)

The Report on remuneration policy and remuneration paid has been prepared for the Banca IFIS Group in accordance with the provisions of the Bank's remuneration policy:

- Article 123 ter of the TUF, rubric 'Report on remuneration policy and remuneration paid';
- Article 114-bis of CFA/TUF, entitled 'Disclosure of information to the market on awards of financial instruments to corporate officers, employees or contractors';
- of Consob Regulation no. 11971/1999 (so-called (Issuer Regulations), with particular reference to Articles 84quater, entitled 'Remuneration Report', and 3bis, entitled 'Information on awards of financial instruments to corporate officers, employees or contractors', as well as to Appendix 7A, Template no. 7 bis 'Report on Remuneration' of the Issuer Regulation and Template no. 7 'Information Document which is the subject of a management body explanatory report to the Shareholders' Meeting convened to approve compensation plans based on financial instruments';
- the provisions relating to 'Remuneration and incentive policies and practices' issued by the Bank of Italy and contained in Circular no. 285 of 17 December 2013, implementing Directive 2013/36/EU (so-called CRD IV).

The Report also takes into account the relevant European legislation in particular:

- delegated Regulation (EU) of 4th March 2014, no. 604, that establishes the regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on the risk profile of an institution's risk profile (Key Personnel or Risk Takers);
- Regulation (EU) no. 575 of 26 June 2013, with reference to the provisions concerning remuneration policies set forth in Article 450;
- Directive 2013/36/EU of 26 June 2013 (CRD IV), on remuneration and incentive policies and practices in banks and banking groups.

The provisions of the 'Corporate Governance Code' and the format of Borsa Italiana SpA were also considered for the Report on Corporate Governance and Shareholding Structure in accordance with Art. 123 b of CFA/TUF.

Information on the Remuneration Policy is provided in the 'Report on Remuneration Policy and Remuneration Paid' to which express reference is made.

The Report can be found on the bank's website at www.bancaifis.it

16. Leverage (Art. 451 CRR)

Qualitative disclosure

As part of the Basel 3 regulatory framework, the leverage ratio was introduced, starting from 1 January 2015, as an additional requirement with respect to the risk-based capital requirements.

The inclusion of the leverage index in the regulatory framework meets the following objectives:

- restricting the expansion of overall exposures to the availability of an adequate capital base and containing, in the expansive phases of the economic cycle, the level of bank indebtedness, thus helping to reduce the risk of deleveraging processes in crisis situations;
- introducing an additional safeguard against model risk - through a simple non risk-based measure - with a backstop function for the risk-based capital requirement.

For the measurement of the leverage ratio, the Bank follows the method prescribed by the CRR Regulation - Part Seven and Circular no. 285/2013. for its application in Italy by Circular no. 285/2013. Briefly, the indicator derives from the ratio of own funds for the component represented by the elements and instruments of Tier 1 capital and the size of the assets at risk of the Banking Group, on and off balance sheet, appropriately calibrated in application of specific conversion factors. For regulatory purposes, the measurement of the leverage ratio is carried out using IT procedures dedicated to the periodic production of statistical reports and consolidated prudential supervision. The leverage ratio is produced on a quarterly basis. The indicator is subject to monitoring both at individual and Banking Group level.

At regulatory level, the risk of financial leverage does not contribute to the definition of the total internal capital adequacy assessment process (ICAAP) performed annually by the Banking Group.

The risk of financial leverage is included in the RAF and therefore is subject to the procedures and control mechanisms included therein. The Leverage Ratio is one of the Key Risk Indicators monitored within the RAF for the year 2018; during 2018 it was approximately three times higher than the minimum EBA value of 3% coinciding with the Risk Capacity defined in the RAF.

For further information on the management processes carried out by the Group, please refer to that shown in § 1.4.5.2 of this document.

Quantitative information

The leverage ratio is calculated according to the rules established by the 'Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) no.575/2013 of the European Parliament and of the Council as regards the leverage ratio'.

This disclosure is also made in accordance with the provisions of the Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 which establishes technical implementation rules regarding disclosure on the leverage ratio of entities pursuant to Regulation (EU) no. 575/2013 of the European Parliament and Council.
'

The tables below show the financial leverage indicator at 31 December 2019 and the opening of the total exposure in the main categories, according to the provisions of articles 451(1)(a), 451(1) (b) and 451(1)(c) of the CRR. The amounts shown are related to the calculation of the leverage ratio in accordance with the current transitional provisions for reporting purposes.

The LRCom template below provides the opening of the exposures for the various reporting aggregates, the measurement of the Tier 1 Capital and the percentage value of the leverage ratio.

Table 29 - LRCom Template - Harmonised disclosure on the leverage ratio

		Leverage ratio exposure (CRR)
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral guarantees)	10,533,944
2	(Asset amounts deducted in determining Tier 1 capital)	-200,273
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) 16/2/2016 L 39/9 Official Journal of the European Union IT**	**10,333,670**
	Exposures on derivatives	
4	Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	23,864
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	4,536
EU-5a	Exposure calculated under Original Exposure Method	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of trading exposures cleared on behalf of the client)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivatives exposures (sum of lines 4 to 10)**	**28,400**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	449
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of EU Regulation no. 575/2013	30,309
15	Exposures on operations carried out as an agent	
EU-15a	Exempted CCP leg of SFT exposures cleared on behalf of the client)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**30,759**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount 16/2/2016 L 39/10 Official Journal of the European Union IT	1,122,342
18	(Adjustments for conversion to credit equivalent amounts)	-572,718
19	**Total other off-balance sheet exposures (sum of lines 17 and 18)**	**549,624**
	(Exposures exempted under Article 429,7 and 14, of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429,7, of Regulation (EU) No. 575/2013 (on and off-balance sheet)))	
EU-19b	(Exposures exempted under Article 429, and 14, of Regulation (EU) No 575/2013 (on and off balance sheet)	
	Capital and total exposure measure	
20	**Tier 1 capital**	**1,064,524**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**10,942,453**
	Leverage ratio	
22	**Leverage ratio**	**9.73%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU -23	Choice on transitional arrangements for the definition of the capital measure	
EU -24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	

The LRSum template below provides a reconciliation of the total exposure (indicator denominator) and the financial statements values.

Table 30 - LRSum template - Summary of reconciliation of accounting assets and leverage ratio exposures

		Applicable amounts
1	Total assets as per published financial statements	10,526,024
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	32,233
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429, paragraph 13, of Regulation (EU) no 575/2013)	
4	Adjustments for derivative financial instruments	34,845
5	Adjustment for securities financing transactions (SFTs)	
6	Adjustment for off-balance sheet items (conversion to credit equivalent amounts of off-balance sheet exposures)	549,624
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429, paragraph 7, of Regulation (EU) no 575/2013)	
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429, paragraph 14, of Regulation (EU) no 575/2013)	
7	Other adjustments	-200,273
8	**Measurement of the total exposure of the leverage ratio**	**10,942,453**

The LRSpl templates provides the breakdown of exposures other than derivatives and SFTs by counterparty.

Table 31 - LRSpl template - Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		Leverage ratio exposure (CRR)
UE-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	10,533,944
UE-2	Exposure in the trading portfolio	
UE-3	Banking book exposures, of which:	10,533,944
UE-4	Covered bonds	
UE-5	Exposures treated as sovereigns	2,312,842
UE-6	Exposures to regional governments, multilateral development banks, international organisations and public sector bodies not treated as sovereign issuers	559,164
UE-7	with	243,307
UE-8	secured by mortgages on immovable property	146,362
UE-9	Retail exposures	1,440,926
UE-10	Enterprises	3,364,262
UE-11	Exposures in default	1,616,341
UE-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	850,741

17. Use of credit risk mitigation techniques (Art. 453 CRR)

Qualitative information

The strategies pursued by the Banking Group require credit lines to be preferably backed by suitable guarantees and risk mitigation instruments.

The guarantees for their ability to split the credit risk, if managed in an integrated manner with the knowledge of the customer, become the main and most effective instrument for the effective mitigation of the risk.

The Banca IFIS Group has implemented the requirements of Regulation (EU) 575/2013 for the purpose of recognising the effects of credit risk mitigation produced by the presence of collateral and personal guarantees for the protection of credit.

The process of controlling the acquisition of guarantees and the use of credit risk mitigation techniques focuses on the definition of suitable controls, instruments and processes aimed at guaranteeing firstly the verification of alignment with Supervisory requirements, distinguishing between:

- 'general requirements', such as legal certainty, the speed of implementation and organisational requirements;
- 'specific requirements', with particular attention to the revaluation and monitoring of the value of the guarantees and the verification of the absence of a significant correlation between the debtor's ability to repay/creditworthiness and the guarantee.

The continuous verification of the quality and adequacy of the guarantees assessment procedures is carried out by the Bank's Risk Management function, with the aim of supervising, on a centralised basis, the process for assessing and monitoring the guarantees acquired on the receivables portfolio of the Banca Group IFIS. For greater operational efficiency, these processes are carried out by a dedicated organisational unit, recently established, called 'Collateral Monitoring', which reports directly to the Bank's Chief Risk Officer.

For further information on the management processes carried out by the Group, please refer to that shown in § 1.4.2.7 of this document.

Compensation policies and processes

The Bank does not apply processes for offsetting credit risk exposures with counter entries in the balance sheet or 'off-balance sheet'.

Main types of guarantors and counterparties in credit derivative transactions and their creditworthiness

The Banking Group has no credit derivative transactions.

Information on concentrations of market or credit risk within the credit risk mitigation instruments adopted

There are no concentration levels of significant risks within the credit risk mitigation instruments adopted.

Quantitative information

In this Section the guaranteed exposure amounts are shown according to the provisions of articles 453(f) and 453(g) of the CRR, with reference to the situation as of 31 December 2019.

Table 32 - Breakdown of exposures by regulatory class

Portfolios	Collateral guarantees	Personal guarantees	Total
Central governments and central banks	54,171	0	54,171
Regional governments or local authorities	0	0	0
Public sector bodies	0	0	0
Supervised intermediaries	0	0	0
Companies and other bodies	8,403	0	8,403
Retail exposures	0	0	0
Exposures guaranteed by real estate	146,362	0	146,362
Exposures in default	0	0	0
Exposures to collective saving investment entities (O.I.C.R.)	0	0	0
Equity exposures	0	0	0
Other exposures	0	0	0
Total	**154,765**	**-**	**154,765**

18. Introduction of IFRS 9 (Art. 473 bis CRR)

Qualitative information

Starting from 1 January 2018 the Group has adopted the new accounting standard 'IFRS 9 Financial Instruments' (so-called IFRS 9).

With reference to the introduction of IFRS 9, on 12 December 2017, the European Parliament issued Regulation (EU) 2017/2395, which updates the CRR, inserting the new article 473 bis, 'Introduction of IFRS 9', which offers the option for banks to mitigate the impacts on own funds resulting from the introduction of the new accounting standard; in particular, the transitional provisions define the option for institutions of including in their Tier 1 capital a portion of the accrued provisions for expected credit losses, in application of IFRS 9 and up to the end of the transitional period (1 January 2018 / 31 December 2022).

In this regard, Banca IFIS has informed the Bank of Italy of their decision to apply the transitional provisions for the entire period. Said portion will be included in CET1 gradually and by applying the following factors:

- 95% from 1 January 2018 to 31 December 2018;
- 85% from 1 January 2019 to 31 December 2019;
- 70% from 1 January 2020 to 31 December 2020;
- 50% from 1 January 2021 to 31 December 2021;
- 25% from 1 January 2022 to 31 December 2022.

Regulation (EU) 2017/2395 also governs the disclosure obligations that institutions are required to publish, providing to the EBA the issuance of specific guidelines on the subject. Upon implementation of the regulations, on 12 January 2018 the EBA issued specific guidelines which stipulate that banks that adopt a transitional treatment with reference to the IFRS9 impact are required to provide a comparison of own funds and capital and leverage ratios with and without the application of the related transitional provisions.

Quantitative information

The First-time Adoption (FTA) of IFRS 9 at 1 January 2018 did not cause the expected credit loss provisions to increase; therefore, the transitional arrangements—'static approach'—are not applicable.

At 31 September 2019, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 3,4 thousand Euros, net of the tax effect. Therefore, in accordance with the transitional arrangements— 'dynamic approach'— 1 thousand Euros were included in the Common Equity Tier 1 (CET1,5 capital attributable to the Group.

Table 33 - Comparison of own funds, capital ratios and leverage with and without the application of transitional provisions for IFRS 9

	Available capital (amounts)	
1	Common equity Tier 1 Capital (CET1)	1,008,865
2	Common Equity Tier 1 capital (CET1) as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	1,007,416
3	Tier 1 capital	1,064,524
4	Tier 1 capital (CET1) as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	1,063,075
5	Total capital	1,342,069
6	Total capital as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	1,340,620
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	9,206,155

8	Total risk-weighted assets as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	9,207,122
	Capital ratios	
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	10.96%
10	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	10.94%
11	Tier 1 capital (as a percentage of the risk exposure amount)	11.56%
12	Tier 1 capital (as a percentage of the risk exposure amount) as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	11.55%
13	Total capital (as a percentage of the risk exposure amount)	14.58%
14	Total capital (as a percentage of the risk exposure amount) as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	14.56%
	Leverage ratio	
15	Measurement of the total exposure of the leverage ratio	10,941,508
16	Leverage ratio	9.73%
17	Leverage ratio as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	9.72%

19. Adequacy of risk management measures and reconciliation between overall risk profile and corporate strategy (Art. 435 e) and f))

With reference to the requirements of Article 435 - paragraph 1, letters e) and f) of Regulation (EU) no. 575/2013, a summary disclosure on the adequacy of the risk management measures and the reconciliation between the overall risk profile and the corporate strategy is provided below. Please refer to paragraphs 1.2 'Risk profile and risk management and measurement systems' and 1.3 'Strategies and processes for risk management' for more detailed discussion.

Risk management measures adequacy

The Banca IFIS Group carries out continuous updating activities in relation to the systems and processes used in order to improve its risk management system.

The Risk Management function has the task of ensuring protection and the integrated management of risks by ensuring the development and improvement of measurement methods and models.

For appropriate risk management, the Group's internal control system plays a key role to ensure proper disclosure and suitable audit coverage of all activities and, in particular, in the areas featuring greater corporate risk. Audits involve, with different roles, the Corporate Bodies of the Group companies, the Parent Company's Management and the Group's personnel. One of the main players of the internal control system is the Control and Risks Committee whose task is to support the assessments and decisions taken by the Board of Directors.

Reconciliation between the overall risk profile and the corporate strategy

The Group ensures full compliance with and a precise reconciliation among: the business model, the strategic plan, the Risk Appetite Framework (RAF), the capital adequacy assessment process (ICAAP), the liquidity management process (ILAAP), the budgets, the company's organisation and the internal control system. The RAF is the reference framework governing the risk appetite, the tolerances thresholds and the risk limits, in line with the business model and the strategic plan.

The processes of RAF definition and strategic planning are highly interrelated, since both are based on assumptions of correct profitability for risk, capital strength and solidity in terms of liquidity.

The RAF definition criteria take account of the business model and reference markets in which the Group operates, the strategic objectives, and an integrated view of the risks measured in accordance with the procedure adopted for ICAAP and ILAAP purposes.

Risk appetite is measured at Group level and is expressed through indicators representing the strategic and financial objectives of the Group and the regulatory constraints consistently with verification of the adequacy of capital and liquidity with the risk management processes. Such indicators are defined based on specific significant risks for the bank and specific business units and are mainly attributable to the capital amount and adequacy, liquidity, profitability and asset quality. These indicators are regularly monitored by the Risk Management function and the relevant disclosure is provided to the bodies responsible for management and strategic supervision. Due to the specific business model adopted, the main risk to which the Group is exposed is credit risk.

Operational risk, being a cross-sectional risk that can potentially involve all structures and business of the Bank, is considered as a significant risk for the Group.

The model risk is also of importance, due to the significant incidence and number of valuation models operating in the non-performing loans segment acquired from third parties (IFIS NPL and FBS subsidiaries). Finally, with regard to liquidity risk, this potentially affects a large part of the Bank's operating units and is significant for all credit institutions and the Supervisory Authority.

As regards liquidity risk, this potentially affects most of the banking group's operating units and is important for all credit institutions and the supervisory authority. To ensure proper management of liquidity risk, a set of indicators such as LCR, NSFR, Maturity Ladder and the business units that can generate inflows and outflows and the duration of assets and liabilities are regularly monitored.

The types of risks of medium significance, which relate to the Banking Group, refer to concentration risk, reputational risk, the risk associated with the portion of encumbered assets, strategic risk and interest rate risk.

Other types of risk are also marginal, such as market risk, counterparty and credit valuation adjustment risk, country and transfer risk, Italy sovereign risk, residual risk, settlement and delivery risk, risk arising from securitisation transactions, risk arising from investments and excessive leverage risk.

20. CEO's declaration pursuant to Art. 435, letters e) and f) of Regulation (EU) no. 575/2013

The Chief Executive Officer, Luciano Colombini, acting on behalf of the Board of Directors, declares, pursuant to Art. 435, paragraph 1, letters e) and f) of Regulation 575/2013 (CRR) that

- the risk management systems implemented by the Banca IFIS Group and described in the document 'Public Disclosure at 31 December 2019 - Pillar 3', are in line with the Group's profile and strategy;
- the above-mentioned document, approved by the Board of Directors of the Parent Company, represents the Group's overall risk profiles and is consistent with and linked to the corporate strategy.

Venice, 12 March 2020

The Chief Executive Officer

Luciano Colombini

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

Pursuant to Article 154 bis, Paragraph 2 of Italy's 'Consolidated Law on Financial Intermediation', the Corporate Chief Financial Officer of Banca IFIS SpA, Mariacristina Taormina, declares that the accounting information contained in this 'Public Disclosure at 31 December 20189 - Pillar 3' corresponds to the company's accounting records, books and entries.

Venice, 12 March 2020

The Manager charged with preparing
the Company's financial reports

Mariacristina Taormina