BANCA IFIS

Draft Consolidated reports

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2019

Banca IFIS S.p.A - Registered office in Via Terraglio 63
30174 Venice - Mestre - Venice Companies Register Number and Tax Code 02505630109
VAT No. 04570150278 - Economic and Administrative Index (REA) number: VE – 0247118
Fully paid-up share capital: 53.811.095 Euro - Registered with the Official List of banks under no. 5508 Parent Company of the Banca IFIS S.p.A. banking group - Member of the National Guarantee Fund, the National Deposit Protection Fund, the Italian Factoring Association and Factors Chain International.

Letter from the Chairman to Shareholders

Sebastien Egon Fürstenberg

Chairman of Banca Ifis

Dear Shareholders,

2019 was a year of change and important decisions, which we made with a due sense of responsibility. A managerial change has taken place with a view to strengthening the growth enjoyed in recent years. The new management team will have the task of implementing the new Business Plan and growth strategy outlined for the next three years: a challenging entrepreneurial design that will need to go hand-in-hand with a suitable, appropriate monitoring of regulatory capital.

In the last 25 years, Banca IFIS's equity has grown by approximately 1,5 billion Euro and the Bank has paid approximately 0,4 billion Euro in dividends. At current stock market prices, the Bank offers one of the highest returns offered by the Italian banking system. In the last ten years, Banca IFIS stands fourth amongst the listed Italian banks in terms of profit generated and has not applied any capital increases.

The scenario uncertainties deriving from the spread of the Covid-19, which is striking our country and the whole world so severely, lead us to be cautious and pay careful attention, even if the history of Banca IFIS and the results always achieved put us in a position where we are aware that we will overcome this phase.

The majority shareholder maintains a long-term vision of creating value over time, thanks to a strategy focussed on the continuous production of sustainable profits and self-financing, thereby assuring its shareholders a suitable return.

This year we are again offering a larger dividend, confirming our strong track record of solidity, which once again makes it possible to reward those who have decided to invest in Banca IFIS.

I would like to thank everyone who has helped make Banca IFIS what it has become today: shareholders, collaborators, the management, customers and suppliers.

Sebastien Egon Fürstenberg, Banca IFIS Chairman

Letter from the CEO to Shareholders

Luciano Colombini

CEO of Banca Ifis

Dear Shareholders,

In 2019 we laid the foundation and groundwork for the next three years.

The Business Plan, presented last 14 January, outlines the Bank's strategy and the objectives to be reached by 2022, calling for, thanks to the significant growth of the core businesses, a net profit of 147 million Euro, a return on tangible equity of 8,9%, 60 million Euro in new investments and 190 new employees.

We analysed our competitive positioning and capital and cost allocation to the various business units as part of the process of preparing the Business Plan to define the Group's strategy and offer increasing transparency to the market. These assets highlighted that all business units remain profitable and represent a leadership position in their markets of reference.

The activities and projects described in the Business Plan are already being implemented and will be pursued and monitored carefully in the next few quarters. One early step included the sale of the Milan property, which generated a pre-tax capital gain of approximately 25 million Euro that will be recorded in the 2020 financial statements, with annual savings, when fully organised, of around 1,5 million Euro in operating costs.

The 2020-22 Business Plan envisages a greater diversification of the funding mix, with the issue of 1,7 billion Euro in bonds over 3 years. In this context, on 18 February, a 400 million Euro senior bond was issued, which enjoyed high demand with final orders, more than 60% of which came from foreign investors, more than three times the amount allocated.

In 2019, in the NPL business, the acquisition was completed of the entire share capital of the servicer FBS, in order to speed up the synergies deriving from the complementary nature of the know-how of Banca IFIS (unsecured retail) and FBS (secured & corporate). The purchase objectives in terms of NPL have been achieved, thereby confirming our dynamic operation on the market and the excellent capacity for execution. In the coming years, the business should also expand into the secured segment through the acquisition of specialised small servicer teams.

In Commercial Banking, we continued to finance the real economy, confirming our role as a bank devoted to serving SMEs, while reaching our targets in terms of revenues and achieving a gradual decline in the loss rate, which in previous years reached extraordinary peak levels due to the crisis in the construction sector. In the near future we will further increase our presence in the small and medium enterprises segment and focus on constantly developing our distribution and operation model to include a wider range of products and investments in digital innovation that will allow us to further expand our customer base.

With the rebranding activity envisaged for this year, we aim to make the Bank's brand more recognisable and increase awareness of such on the reference market.

We will invest in sustainability both through the use in all Group offices of energy obtained 100% from renewable sources and the implementation of a "plastic free" corporate culture, as well as by introducing specific "green" financing programmes and products, focussed on supporting activities and investments for the environmental sustainability of the corporate business.

Finally, we must mention the rather specific events involving the country presently with the Coronavirus emergency. The scope of this major health issue, which is impacting both the economy and the everyday lives of the Italians, cannot currently be forecast, even if clearly we will suffer the slow-down, which we hope will be as brief as possible, of all public and private production activities.

Moreover, the equity and economic structure of Banca IFIS is without doubt well able to overcome the effects of this crisis, without any major issues in terms of its solidity and capacity to generate profit over time. We are certain that with the collaboration enjoyed as always, we will overcome these complicated times, with the enthusiasm and capacity that has always been the hallmark of the Bank.

Luciano Colombini, Chief Executive Officer of Banca Ifis

Contents

1.

Governance and risk management

Board of Directors

Chairman	Sebastien Egon Fürstenberg
Deputy Chairman	Ernesto Fürstenberg Fassio
CEO	Luciano Colombini [1]
Directors	Simona Arduini
	Monica Billio
	Beatrice Colleoni
	Alessandro Csillaghy De Pacser
	Roberto Diacetti
	Divo Gronchi
	Luca Lo Giudice
	Antonella Malinconico
	Daniele Umberto Santosuosso

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

General Manager	Alberto Staccione

Board of Statutory Auditors

Chairman	Giacomo Bugna
Standing Auditors	Marinella Monterumisi
	Franco Olivetti
Alternate Auditors	Alessandro Carducci Artenisio
	Giuseppina Manzo

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

BANCA IFIS

Fully paid-up share capital: 53.811.095 Euro
ABI 3205.2
Tax Code and
Venice Companies Register Number: 02505630109
VAT No.: 04570150278
Enrolment in the Register of Banks No.: 5508
Registered and administrative office
Via Terraglio, 63 – 30174 Mestre – Venice
Website: www.bancaifis.it

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2.

Directors’ report

2.1 Introductory notes on how to read the data

Here are the events that should be considered when comparing the data to previous years:

- First-time application of IFRS 16: as from 1 January 2019, the Group adopted the new accounting standard IFRS 16 Leases. As permitted under the transitional provisions of IFRS 16, the Group elected not to restate the comparative information in the year of initial application of IFRS 16; therefore, the amounts for 2018, calculated under IAS 17, are not fully comparable. In particular, the modified retrospective approach B (paragraph C5 letter b, C7 and C8 letter b.ii of appendix C to IFRS 16) has been applied, which provides for the possibility of recognising the asset consisting of the right of use at the date of initial application for an amount equal to the liability of the lease; according to this approach, at the date of first application, no difference emerges in the opening consolidated equity of the Banca Ifis Group. The right of use, and consequently the related financial liability, amounted to 12,8 million Euro at 1 January 2019.

  With regard to the economic data for the year, based on the provisions of IFRS 16, it should be noted that:
  - net interest income includes, among interest expense, the interest accrued on financial liabilities for leases;
  - net impairment losses/reversals on property, plant and equipment include the amortisation of rights to use assets under lease contracts;
  - other administrative expenses no longer include lease payments relating to contracts falling within the scope of application of IFRS 16.

  In view of the above, the economic data for the comparison periods is not fully comparable.
- Acquisition of control over the FBS Group: on 7 January 2019, the Group completed the acquisition of control of the FBS Group through the acquisition of 90% of the capital of the FBS Group for a total value of 58,5 million Euro. At the same time as the sale and purchase agreement, contracts were defined for the purpose of regulating the put and call option agreements with the minority shareholders of the FBS Group and concerning the remaining shares of the latter. Thereafter, on 30 October 2019, the Group closed the purchase of the 10% interest in FBS S.p.A. from minority shareholders for a price of 12,2 million Euro.

  On the basis of the consolidation process of the subsidiary FBS S.p.A., goodwill has emerged of 38,0 million Euro.

2.2 Highlights

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2019	31.12.2018	ABSOLUTE	%
Financial assets measured at fair value through other comprehensive income	1.173.808	432.094	741.714	171,7%
Due from banks measured at amortised cost	626.890	590.595	36.295	6,1%
Receivables due from customers measured at amortised cost	7.651.226	7.313.972	337.254	4,6%
Total assets	10.526.024	9.382.261	1.143.763	12,2%
Payables due to banks measured at amortised cost	959.477	785.393	174.084	22,2%
Payables due to customers measured at amortised cost	5.286.239	4.673.299	612.940	13,1%
Debt securities issued	2.217.529	1.979.002	238.527	12,1%
Equity	1.538.953	1.459.000	79.953	5,5%

CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	YEAR		CHANGE	
	2019	2018	ABSOLUTE	%
Net banking income	558.333	576.503	(18.170)	(3,2)%
Net credit risk losses/reversals	(87.183)	(100.094)	12.911	(12,9)%
Net profit (loss) from financial activities	471.150	476.409	(5.259)	(1,1)%
Operating costs	(294.921)	(273.431)	(21.490)	7,9%
Gains (Losses) on disposal of investments	(408)	-	(408)	n.a.
Pre-tax profit from continuing operations	175.821	202.978	(27.157)	(13,4)%
Profit (loss) for the year attributable to the Parent company	123.097	146.763	(23.666)	(16,1)%

QUARTERLY CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	4th QUARTER		CHANGE	
	2019	2018	ABSOLUTE	%
Net banking income	167.090	172.953	(5.863)	(3,4)%
Net credit risk losses/reversals	(38.169)	(31.179)	(6.990)	22,4%
Net profit (loss) from financial activities	128.921	141.774	(12.853)	(9,1)%
Operating costs	(81.681)	(64.566)	(17.115)	26,5%
Pre-tax profit from continuing operations	47.240	77.208	(29.968)	(38,8)%
Profit (loss) for the year attributable to the Parent company	39.101	57.769	(18.668)	(32,3)%

2.3 Group KPIs

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

GROUP KPIs	2019	2018	CHANGE
ROE	8,2%	10,5%	(2,3)%
ROA	1,7%	2,2%	(0,5)%
Cost/Income ratio	52,8%	47,4%	5,4%
Ratio - Total Own Funds	14,58%	14,01%	0,57%
Ratio - Common Equity Tier 1	10,96%	10,30%	0,66%
Number of company shares (in thousands)	53.811	53.811	0,0%
Number of shares outstanding at year end (1) (in thousands)	53.452	53.441	0,0%
Book value per share	28,79	27,30	5,5%
EPS	2,30	2,75	(16,4)%
Dividend per share (2)	1,10	1,05	4,8%
Payout ratio	47,8%	38,2%	9,6%

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

(2) Dividend proposed by Banca Ifis's Board of Directors.

2.4 Context

An analysis of the Italian economic scenario must include an assessment of global trends in an increasingly inter-connected context.

In general terms, 2019 saw the economy record constant growth, albeit fairly moderate, with an average development rate of +1,2% in the Eurozone and +3,1% in the rest of the world (Winter Forecast by the European Commission). In both cases, GDP growth slowed clearly on 2018.

Starting last autumn, some positive developments reduced global risks - see, amongst others, the "Phase One" agreement on trade between the USA and China - whilst other negative evolutions - such as the heightened geopolitical tension in the Middle East and the difficulties seen in Latin American countries in achieving a recovery and above all the dissemination of the Covid-19 - have revealed new critical issues.

More specifically, it is presently difficult to forecast the economic impact in the medium/long-term of the new Coronavirus, as this depends on how extensively it effectively spreads, as well as on the tax and monetary policies the national and supranational authorities will implement, able to restore market trust.

According to an initial assessment by the OECD, there may well be a downturn to global growth in the first half of 2020, as a consequence of the impact on the procurement chains and raw materials, but also following the decline in tourist flows and, above all, the worsening of economic operators' expectations.

The performance of world trade will be key to the Italian economy, which is, and will remain, very much dependent on exports. Indeed, export demands for Italy rose by 1,3% in 2019, down from the 3,6% of the previous three years. In 2020, it is expected to grow by 1,7%, thereby making it basically in line with 2019, before afterwards speeding up to an average of +2,6% in the two-year period (Bank of Italy estimates in the January 2020 Economic Bulletin).

The forecasts for the next two years show an intrinsic weakness in the Italian economy: estimates regarding the change to the national GDP oscillate, according to the forecasting institute, within a range of +0,3/+0,5% for 2020 and between +0,6% and +0,9% in 2021. More specifically, the 2020 forecast is impacted by a slow start to the first part of the year.

Confirming the weakness of the forecasts in this start to 2020, is the level assumed by the PMI Manufacturing index (Sales Managers' forecasts) that, even before the latest events, had gone in swings and roundabouts during the month but unfortunately always below the critical level of 50 (47,9 is the value of January 2020), indicating a downturn to the manufacturing industry.

In a context of general uncertainty, however, it is important to also consider that the forecast may be positively impacted by the public finance manoeuvre approved late December 2019 and the specific interventions to be implemented to support the segments experiencing the greatest crisis. The Government's plans include a major increase to public investments, equal to approximately a cumulative 20 percentage points in the approach to the three-year period. Even if, at least at present, the issues remain unsolved - infrastructural modernisation, justice and bureaucracy - and limit the competitiveness of the Italy system: at present, the OECD Global Competitiveness Index has Italy classed 30th (in 2019).

Reference markets

Enterprises

After having successfully embarked on the route of internalisation - exports grew by 2,5% even in a year as difficult as was 2019 - Italian businesses have now focussed on innovation, with significant growth rates seen in investments (gross fixed investments have increased by more than 3% per year in 2017 and 2018 and by 2,2% in 2019 too).

Italian SMEs, in particular, left the three-year period 2016-2018 stronger, with growing revenues, increasing profitability and a progressive improvement in financial sustainability. The analyses of the Banca IFIS Studies Offices (published in February 2020 with the new edition of the SME Market Watch) confirm this positive trend, highlighting, out of 9 key sectors of "Made in Italy", an average annual growth of 4,3% in revenues and an average ROE of 8%.

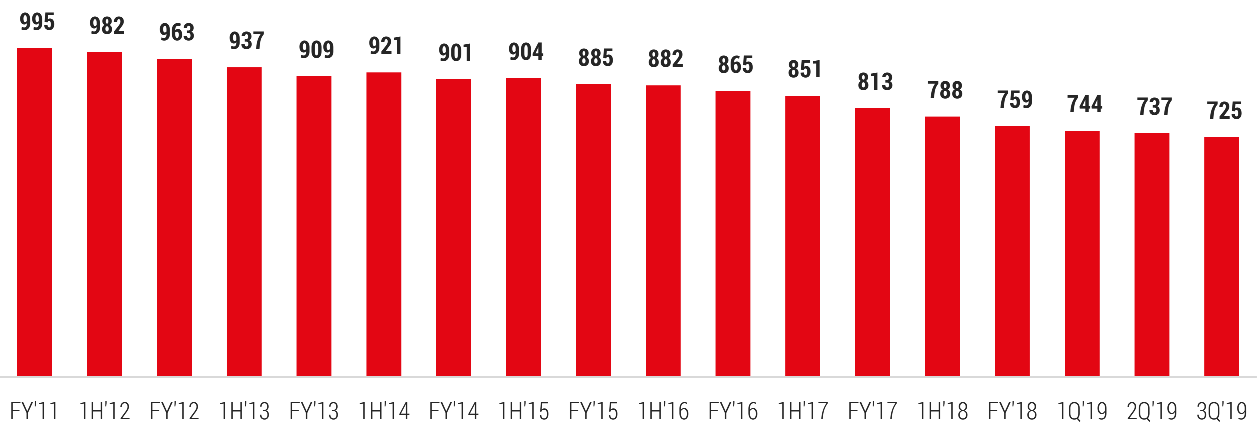
Development of investments to pursue the route of innovation constituted the distinctive trait in the approach taken by the SMEs: the average annual increase in assets available for production comes in at +3,4% in the last three years. Without doubt, public incentives for investments have proven key to sparking this virtuous cycle: 50% of the SMEs interviewed had used them and of these, 70% declared that they were essential to the choice made. For the future, 44% of enterprises have declared that they wish to continue investing, even without new incentives (2019 research carried out by Banca IFIS, in collaboration with Ca' Foscari University of Venice and Padua).

This investment development has not only increased production capacity, rather, indeed first and foremost, it has given rise to a different way of producing. This research has returned a scene whereby technologies play a role as enabler to compete in terms of flexibility (87% of enterprises), customisation of the supply (76%) and production efficiency (65%).

The analysis of the Banca IFIS observatory on SMEs also confirmed the tendency to assure solid financial stability, which has become concrete in the form of an average financial leverage (NFP/EBITDA) of 1,31 in the last three years of financial statements.

The balances of bank loans to enterprises (financial companies and manufacturing families), at the end of the third quarter of 2019, were down 4,4% on the 2018 closing figure and by more than 27%, if compared with December 2011.

Loans (amounts) - Non-financial companies and producer households (billions of Euro)



This major decline in bank loans to the production system is hinged on both the greater liquidity of enterprises as a consequence of the increased capacity to self-finance and the lesser tendency of banks to disburse new credit - reduced margins and counterparty risk levels being the main factors - above all in regard to small and micro enterprises.

The reduction in the balances of the traditional bank loan also lies in the increased awareness of enterprises and, once again, particularly for SMEs, in the higher added value that can be achieved through specialised credit. Indeed, annual volumes of leases stipulated on instrumental assets, typically linked to the corporate business, in 2019 reached 9,4 billion Euro. Even more relevant is the capacity of factoring to support the liquidity of businesses: 255,5 billion Euro in turnover in 2019.

Non-Performing Exposures

The non-performing exposure scenario in the Italian banking system shows the improvement in the gross stock of NPEs, which has halved with respect to the peak seen in 2015. The Banca Ifis Studies Office estimates a 2019 closure at around 145 billion Euro, corresponding to a ratio of NPE over total loans of 7,7%.

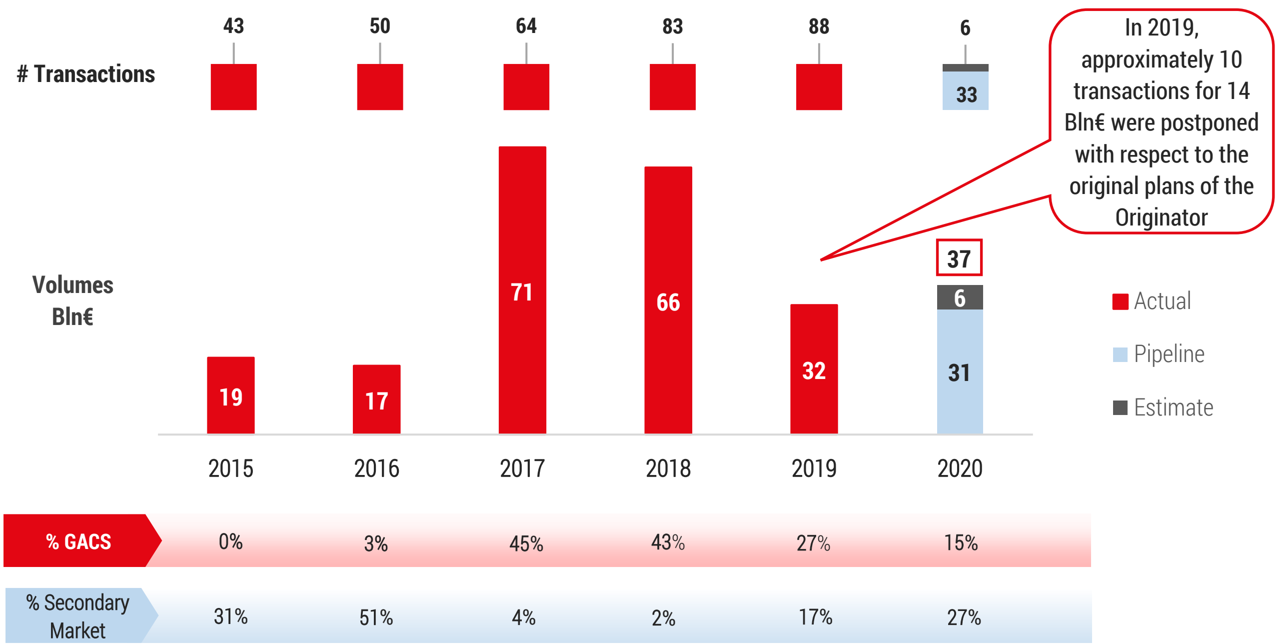
This latter figure shows, however, that there is still a long way to go: amongst all European countries, Italy has booked one of the sharpest reduction trends, but still has one of the highest ratios of NPE/loans (8% vs 3% for the European average and vs 5%, which is the target requested by the ECB, EBA data at the second quarter of 2019).

In trend terms, the performance of new flows of non-performing positions remains uncertain: the rate of deterioration of performing loans is lower than it was prior to the crisis (taking 2007 as reference) but the move from unlikely to pay to non-performing remains higher than that recorded in 2007, due to the negative trend of the Constructions segment.

The non-performing loan portfolio transactions market has continued to work intensely in 2019 too, reaching an amount of 32 billion Euro (in terms of GBV) of portfolios sold, in addition to 6 billion Euro in transactions on unlikely to pay portfolios. The portion of transactions on the secondary market is up (17% of the 2019 total), as a consequence of the disposals made by the previous investors seeking greater specialisation by portfolio type.

In 2020, portfolio sales will continue to support achievement of the ECB objective of reducing the stock of non-performing positions in the bank accounts: 37 billion Euro are expected in new NPL transactions, with a rising portion of secondary market and another 7 billion Euro in sales transactions on UTP (Banca Ifis NPL Market Watch, January 2020 edition).

NPL Transactions - Millions of Euro



"GACS" (guarantee on the securitisation of bad loans) are playing a key role, driving NPL market volumes: since 2016, GACS have involved 24 transactions for a total of 70 billion Euro. Additionally, in 2020, prudent estimates are for another 6 billion Euro in transactions backed by GACS.

Moving onto an overview, we can estimate total bad loans to be managed in the Italy system at the end of 2019 totalled about 325 billion Euro (Banca Ifis, January 2020 edition's Market Watch NPL). It is a significant stock that makes the management aspect key. To make collection effective, investments are required in human resources and technology. The financial data of servicing companies confirm this take: from 2014 to 2018, the main operators recorded a constant average annual increase of +4% in employed staff and, at the same time, technological investments grew at an annual rate of 21%.

2.5 Results by business segments

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

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONSOLIDATED GROUP TOTAL
Financial assets held for trading through profit or loss				
Amounts at 31.12.2019	-	-	24.313	**24.313**
Amounts at 31.12.2018	*-*	*-*	*29.809*	***29.809***
% Change	*-*	*-*	*(18,4)%*	***(18,4)%***
Other financial assets mandatorily measured at fair value through profit or loss				
Amounts at 31.12.2019	97.445	10.190	5.150	**112.785**
Amounts at 31.12.2018	*114.619*	*-*	*49.226*	***163.845***
% Change	*(15,0)%*	*n.a.*	*(89,5)%*	***(31,2)%***
Financial assets measured at fair value through other comprehensive income				
Amounts at 31.12.2019	13.320	-	1.160.488	**1.173.808**
Amounts at 31.12.2018	*12.188*	*-*	*419.906*	***432.094***
% Change	*9,3%*	*-*	*176,4%*	***171,7%***
Receivables due from banks				
Amounts at 31.12.2019	-	-	626.890	**626.890**
Amounts at 31.12.2018	*-*	*-*	*590.595*	***590.595***
% Change	*-*	*-*	*6,1%*	***6,1%***
Receivables due from customers				
Amounts at 31.12.2019	5.923.633	1.280.332	447.261	**7.651.226**
Amounts at 31.12.2018	*5.918.496*	*1.092.799*	*302.677*	***7.313.972***
% Change	*0,1%*	*17,2%*	*47,8%*	***4,6%***
Due to banks				
Amounts at 31.12.2019	-	-	959.477	**959.477**
Amounts at 31.12.2018	*-*	*-*	*785.393*	***785.393***
% Change	*-*	*-*	*22,2%*	***22,2%***
Payables due to customers				
Amounts at 31.12.2019	-	-	5.286.239	**5.286.239**
Amounts at 31.12.2018	*-*	*-*	*4.673.299*	***4.673.299***
% Change	*-*	*-*	*13,1%*	***13,1%***
Debt securities issued				
Amounts at 31.12.2019	-	-	2.217.529	**2.217.529**
Amounts at 31.12.2018	*-*	*-*	*1.979.002*	***1.979.002***
% Change	*-*	*-*	*12,1%*	***12,1%***

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONSOLIDATED GROUP TOTAL
Net banking income				
Amounts at 31.12.2019	311.482	252.425	(5.574)	558.333
Amounts at 31.12.2018	*335.513*	*244.234*	*(3.244)*	*576.503*
% Change	*(7,2)%*	*3,4%*	*71,8%*	*(3,2)%*
Net profit (loss) from financial activities				
Amounts at 31.12.2019	227.950	252.425	(9.225)	471.150
Amounts at 31.12.2018	*238.075*	*244.234*	*(5.900)*	*476.409*
% Change	*(4,3)%*	*3,4%*	*56,4%*	*(1,1)%*

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONSOLIDATED GROUP TOTAL
Net banking income				
Fourth quarter 2019	85.921	83.569	(2.400)	167.090
Fourth quarter 2018	*93.957*	*75.991*	*3.005*	*172.953*
% Change	*(8,6)%*	*10,0%*	*n.s.*	*(3,4)%*
Net profit (loss) from financial activities				
Fourth quarter 2019	48.559	83.569	(3.207)	128.921
Fourth quarter 2018	*64.963*	*75.991*	*820*	*141.774*
% Change	*(25,3)%*	*10,0%*	*n.s.*	*(9,1)%*

SEGMENT KPI (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality			
Amounts at 31.12.2019	1,37%	-	-
Amounts at 31.12.2018	*1,70%*	-	-
% Change	*(0,33)%*	-	-
Net bad loans/Receivables due from customers			
Amounts at 31.12.2019	1,2%	75,3%	3,2%
Amounts at 31.12.2018	*1,1%*	*71,5%*	*4,0%*
% Change	*0,1%*	*3,8%*	*(0,8)%*
Coverage ratio on gross bad loans			
Amounts at 31.12.2019	70,5%	-	29,6%
Amounts at 31.12.2018	*73,0%*	-	*15,4%*
% Change	*(2,5)%*	-	*14,2%*
Net non-performing exposures/Net receivables due from customers			
Amounts at 31.12.2019	5,1%	99,3%	6,6%
Amounts at 31.12.2018	*5,2%*	*99,6%*	*11,8%*
% Change	*(0,1)%*	*(0,3)%*	*(5,2)%*
Gross non-performing exposures/Gross receivables due from customers			
Amounts at 31.12.2019	9,5%	99,3%	9,2%
Amounts at 31.12.2018	*9,5%*	*99,6%*	*13,8%*
% Change	*0,0%*	*(0,3)%*	*(4,6)%*
RWAs(1)(2)			
Amounts at 31.12.2019	4.888.659	1.753.888	476.571
Amounts at 31.12.2018	*4.793.273*	*1.584.420*	*657.733*
% Change	*2,0%*	*10,7%*	*(27,5)%*

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

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

2.6 Reclassified Quarterly Evolution

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2019				YEAR 2018			
	31.12	30.09	30.06	31.03	31.12	30.09	30.06	31.03
ASSETS								
Other financial assets mandatorily measured at fair value through profit or loss	112.785	147.935	182.094	174.508	163.845	133.665	130.520	115.597
Financial assets measured at fair value through other comprehensive income	1.173.808	996.048	693.533	432.901	432.094	428.253	433.827	453.847
Due from banks measured at amortised cost	626.890	1.041.312	726.052	996.333	590.595	1.452.011	1.568.042	1.565.449
Receivables due from customers measured at amortised cost	7.651.226	7.118.150	7.343.892	7.322.130	7.313.972	6.919.486	6.710.457	6.457.208
Property, plant and equipment	106.301	128.827	128.809	145.869	130.650	131.247	130.399	127.005
Intangible assets	60.919	64.026	65.282	65.855	23.277	25.500	24.815	25.250
Tax assets	391.185	388.624	390.503	396.280	395.084	409.324	400.773	408.270
Other assets	402.910	364.209	357.877	329.756	332.744	343.443	333.910	368.176
Total assets	10.526.024	10.249.131	9.888.042	9.863.632	9.382.261	9.842.929	9.732.743	9.520.802

CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2019				YEAR 2018			
	31.12	30.09	30.06	31.03	31.12	30.09	30.06	31.03
LIABILITIES AND EQUITY								
Payables due to banks measured at amortised cost	959.477	913.855	781.199	844.790	785.393	837.565	882.324	820.190
Payables due to customers measured at amortised cost	5.286.239	5.257.047	5.069.334	5.021.481	4.673.299	4.985.206	4.840.864	5.022.110
Debt securities issued	2.217.529	2.061.600	2.102.076	1.955.400	1.979.002	2.094.785	2.095.844	1.774.973
Tax liabilities	69.018	70.806	65.913	63.066	52.722	51.116	50.519	48.140
Other liabilities	454.808	444.379	397.263	489.594	432.845	476.827	490.109	442.400
Equity:	1.538.953	1.501.444	1.472.257	1.489.301	1.459.000	1.397.430	1.373.083	1.412.989
- Share capital, share premiums and reserves	1.415.856	1.417.448	1.403.991	1.459.381	1.312.237	1.308.436	1.306.874	1.375.135
- Net profit attributable to the Parent company	123.097	83.996	68.266	29.920	146.763	88.994	66.209	37.854
Total liabilities and equity	10.526.024	10.249.131	9.888.042	9.863.632	9.382.261	9.842.929	9.732.743	9.520.802

CONSOLIDATED INCOME STATEMENT: RECLASSIFIED QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2019				YEAR 2018			
	4th Q.	3rd Q.	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	134.230	91.081	118.293	115.264	140.014	99.670	110.097	119.480
Net commission income	25.349	22.190	22.711	23.828	24.525	20.206	19.954	19.820
Other components of net banking income	7.511	(1.225)	8.084	(8.983)	8.414	5.557	8.688	78
Net banking income	167.090	112.046	149.088	130.109	172.953	125.433	138.739	139.378
Net credit risk losses/reversals	(38.169)	(13.968)	(21.958)	(13.088)	(31.179)	(28.879)	(29.079)	(10.957)
Net profit (loss) from financial activities	128.921	98.078	127.130	117.021	141.774	96.554	109.660	128.421
Personnel expenses	(34.262)	(31.534)	(32.716)	(31.447)	(28.303)	(27.830)	(28.624)	(26.827)
Other administrative expenses	(56.183)	(43.740)	(71.034)	(43.321)	(42.707)	(38.734)	(48.460)	(46.625)
Net allocations to provisions for risks and charges	(351)	(5.653)	(3.860)	(2.512)	3.207	(6.254)	3.754	(2.806)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(3.046)	(4.517)	(4.214)	(4.062)	(3.685)	(3.148)	(3.116)	(2.809)
Other operating income/expenses	12.161	11.454	46.938	6.978	6.922	11.277	5.691	5.646
Operating costs	(81.681)	(73.990)	(64.886)	(74.364)	(64.566)	(64.689)	(70.755)	(73.421)
Gains (Losses) on disposal of investments	-	-	(408)	-	-	-	-	-
Pre-tax profit (loss) from continuing operations	47.240	24.088	61.836	42.657	77.208	31.865	38.905	55.000
Income taxes for the year relating to current operations	(8.105)	(8.343)	(23.469)	(12.716)	(19.447)	(9.025)	(10.550)	(17.146)
Profit (Loss) for the year	39.135	15.745	38.367	29.941	57.761	22.840	28.355	37.854
Profit (loss) for the year attributable to non-controlling interests	34	15	21	21	(8)	55	-	-
Profit (loss) for the year attributable to the Parent company	39.101	15.730	38.346	29.920	57.769	22.785	28.355	37.854

INCOME STATEMENT DATA BY SEGMENT: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2019				YEAR 2018			
	4th Q.	3rd Q.	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	167.090	112.046	149.088	130.109	172.953	125.433	138.739	139.378
Enterprises	*85.921*	*73.055*	*85.862*	*66.644*	*93.957*	*76.483*	*86.435*	*78.637*
NPL	*83.569*	*41.166*	*65.111*	*62.579*	*75.991*	*48.953*	*54.231*	*65.059*
Governance & Services	*(2.400)*	*(2.175)*	*(1.885)*	*886*	*3.005*	*(3)*	*(1.927)*	*(4.318)*
Net profit (loss) from financial activities	128.921	98.078	127.130	117.021	141.774	96.554	109.660	128.421
Enterprises	*48.559*	*61.467*	*64.465*	*53.459*	*64.963*	*47.006*	*58.471*	*67.634*
NPL	*83.569*	*41.166*	*65.111*	*62.579*	*75.991*	*48.953*	*54.231*	*65.059*
Governance & Services	*(3.207)*	*(4.555)*	*(2.446)*	*983*	*821*	*595*	*(3.042)*	*(4.273)*

2.7 Group historical data

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

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

HISTORICAL DATA (1) (in thousands of Euro)	**31.12.2019**	**31.12.2018**	**31.12.2017**	**31.12.2016**	**31.12.2015**
Financial assets measured at fair value through other comprehensive income (IFRS 9)	1.173.808	432.094	-	-	-
Available for sale financial assets (IAS 39)	-	-	456.549	374.229	3.221.533
Receivables due from customers measured at amortised cost	7.651.226	7.313.972	6.435.806	5.928.212	3.437.136
Payables due to banks measured at amortised cost	959.477	785.393	791.977	503.964	662.985
Payables due to customers measured at amortised cost	5.286.239	4.673.299	5.293.188	5.045.136	5.487.476
Debt securities issued	2.217.529	1.979.002	1.639.994	1.488.556	-
Equity	1.538.953	1.459.000	1.368.719	1.218.783	573.467
Net banking income	558.333	576.503	519.643	325.971	407.958
Net profit (loss) from financial activities	471.150	476.409	504.827	299.366	373.708
Profit (loss) attributable to the Parent company	123.097	146.763	180.767	697.754	161.966
KPI:					
ROE	8,2%	10,5%	13,9%	99,6%	30,4%
ROA	1,7%	2,2%	2,6%	8,4%	3,5%
Ratio - Total Own Funds	14,58%	14,01%	16,15%	15,39%	14,91%
Ratio - Common Equity Tier 1	10,96%	10,30%	11,66%	14,80%	14,22%
Number of shares outstanding (2) (in thousands)	53.452	53.441	53.433	53.431	53.072
Book per share	28,79	27,30	25,62	22,99	10,81
EPS	2,30	2,75	3,38	13,13	3,05
Dividend per share	1,10(3)	1,05	1,00	0,82	0,76
Payout ratio	47,8%	38,2%	29,6%	6,3%	24,9%

(1) The data for years prior to 01.01.2018 are those originally published.

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

(3) Dividend proposed by Banca Ifis's Board of Directors.

2.8 APM - Alternative Performance Measures

The Banca Ifis Group has defined a number of indicators, listed in the tables of the Group's KPIs, that provide Alternative Performance Measures (APM) to help investors identify significant operational trends and financial ratios.

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

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

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

ROE - Return on equity (in thousands of Euro)	YEAR	
	2019	2018
A. Group net profit	123.097	146.763
B. Average consolidated equity	1.492.191	1.402.244
ROE (A/B)	8,2%	10,5%

Average consolidated equity is calculated as the average for the periods presented below:

Consolidated Equity (in thousands of Euro)	31.12.2018	31.03.2019	30.06.2019	30.09.2019	31.12.2019	AVERAGE 2019
Consolidated Equity	1.459.000	1.489.301	1.472.257	1.501.444	1.538.953	**1.492.191**

Consolidated Equity (in thousands of Euro)	31.12.2017	31.03.2018	30.06.2018	30.09.2018	31.12.2018	AVERAGE 2018
Consolidated Equity	1.368.719	1.412.989	1.373.083	1.397.430	1.459.000	**1.402.244**

ROA - Return on Assets (in thousands of Euro)	YEAR	
	2019	2018
A. Pre-tax profit from continuing operations	175.821	202.978
B. Total assets	10.526.024	9.382.261
ROA (A/B)	1,7%	2,2%

Reclassified cost/income ratio (1) (in thousands of Euro)	YEAR	
	2019	2018
A. Operating costs	294.921	273.431
B. Net banking income (1)	558.333	576.503
Reclassified cost/income ratio (A/B)	52,8%	47,4%

(1) Net credit risk losses/reversals of the NPL Segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business for which net impairment losses represent an integral part of the return on the investment.

Book value per share (in thousands of Euro)	YEAR	
	2019	2018
A. Number of shares outstanding	53.452	53.441
B. Consolidated Equity	1.538.953	1.459.000
Book value per share (B/A) Euro	28,79	27,30

Payout ratio (in thousands of Euro)	YEAR	
	2019	2018
A. Consolidated net profit	123.097	146.763
B. Parent company dividends (1)	58.797	56.125
Payout Ratio (B/A)	47,8%	38,2%

(1) The data for FY 2019 refers to the dividend proposed by the Board of Directors of Banca Ifis.

The Parent company's dividends are calculated as follows:

Parent company dividends	YEAR	
	2019	2018
A. Unitary dividend Euro (1)	1,10	1,05
B. Number of shares outstanding	53.451.951	53.440.983
Parent company dividends (AxB)	58.797.146	56.113.032

(1) The data for FY 2019 refers to the dividend proposed by the Board of Directors of Banca Ifis.

2.9 Impact of regulatory changes

Starting 1 January 2019, the following changes have been made both in regard to international accounting standards and to tax matters and, more specifically:

- Accounting standard IFRS 16 Leases, endorsed by the European Commission with Regulation no. 1986/2017, which annulled and replaced IAS 17, IFRIC 4, SIC 15 and SIC 27; please refer to the paragraph "Impact of the first-time adoption of IFRS 16";
- Reintroduction of the 30% depreciation increase for new capital goods (super depreciation) from 1 April 2019 until 31 December 2019, with a maximum ceiling for eligible investments of 2,5 million Euro (Growth Decree - Italian Law no. 58 of 28/06/2019 converting Italian Decree Law no. 34 of 30/04/2019);
- Reintroduction of the regulations on aid for economic growth (ACE) with a national return on new capital of 1.3% (2020 Budget Law, Italian Law no. 160 of 27/12/2019);
- Introduction of the facilitated definition (Tax peace) of tax disputes in which the Italian Revenue Agency is a party, concerning tax acts, pending in every state and level of justice, in which the first instance appeal was notified to the counterparty by the date of entry into force of the same decree, i.e. by 24 October 2018 (Italian Law no. 136 of 17/12/2018 converting Italian Decree Law no. 119 of 23/10/2018);
- Introduction of amnesty to settle incorrect formal obligations (Formal Irregularities) that are not relevant for the purposes of determining the tax base and taxes paid (income tax, VAT and IRAP). In particular, it is provided that violations committed up to 24 October 2018 can be settled by paying 200 Euro for each tax year;
- Reopening of the terms for the Tax realignment of the book values of certain corporate assets (2020 Budget Law, Italian Law no. 160 of 27/12/2019);
- Deferral to subsequent tax periods of the IRES and IRAP deductible portion of the impairment losses on receivables due from customers pursuant to Italian Decree Law no. 83/2015 (Italian Law no. 160 of 27/12/2019).

2.10 Contribution of operating segments to Group results

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

The organisational structure

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

- Enterprises Segment, represents the commercial offer of the Group dedicated to companies and consists of the Business Areas Trade Receivables, Corporate Banking, Leasing and Tax Receivables. The Segment's results include the investee company Credifarma S.p.A. as from the second half of 2018.
- NPL Segment, dedicated to non-recourse acquisition and managing distressed retail loans. The Segment's results from 7 January 2019 also include the contribution of the FBS Group, which is mainly specialised in servicing and the management of non-performing secured loans.
- Governance & Services Segment, which provides the segments operating in the Group's core businesses with the financial resources and services necessary to perform their respective activities. The Segment also includes financing to individuals; in particular, it includes the disbursement of loans against assignment of one-fifth of salary or pension and some portfolios of personal loans.

ENTERPRISES

The Enterprises Segment includes the following business areas:

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

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net interest income	230.798	247.457	(16.659)	(6,7)%
Net commission income	88.366	85.432	2.934	3,43%
Other components of net banking income	(7.682)	2.624	(10.306)	n.s.
Net banking income	**311.482**	**335.513**	**(24.031)**	**(7,2)%**
Net credit risk losses/reversals	(83.532)	(97.438)	13.906	(14,3)%
Net profit (loss) from financial activities	**227.950**	**238.075**	**(10.125)**	**(4,3)%**

INCOME STATEMENT DATA (in thousands of Euro)	4th Q 2019	4th Q 2018	CHANGE	
			ABSOLUTE	%
Net interest income	62.550	74.764	(12.214)	(16,3)%
Net commission income	23.537	24.392	(855)	(3,5)%
Other components of net banking income	(166)	(5.199)	5.033	(96,8)%
Net banking income	**85.921**	**93.957**	**(8.036)**	**(8,6)%**
Net credit risk losses/reversals	(37.362)	(28.994)	(8.368)	28,86%
Net profit (loss) from financial activities	**48.559**	**64.963**	**(16.404)**	**(25,3)%**

The contribution to net banking income for 2019 made by the organisational units making up the Enterprises Segment, as described in greater detail in the following paragraphs, can be broken down as follows: Trade receivables 168,3 million Euro (-1,7 million Euro compared to 2018), Corporate Banking 72,0 million Euro (-28,3 million Euro), Leasing 56,1 million Euro (+4,5 million Euro) and Tax receivables 15,0 million Euro (+1,4 million Euro).

Trade receivables contributed to the change in net banking income, down 1% on 2018. The volumes record good performance with turnover up 4,0% on end 2018 and a number of client businesses that has increased 5,4% on last year. This sound volume performance did not entirely offset the pressure on margins seen during the year.

With regard to Corporate Banking, the decrease in net banking income is due mainly for 10,3 million Euro to the change in the fair value measurement of financial instruments recognised during the year compared to the one recognised in 2018 (-7,7 million Euro at 31 December 2019 vs -2,6 million Euro at 31 December 2018) and for 19,9 million Euro to the physiological lower contribution of the "reversal PPA", which went from 77,8 million Euro in 2018 to 57,9 million Euro in 2019 (-25,6%).

The remainder of said "Reversal PPA" related to the entire Enterprises Segment, net of the reallocation of some positions in the Governance & Services Segment of about 1 million Euro, amounted to 99,1 million Euro at 31 December 2019 (185,7 million Euro at 31 December 2018) and, on the basis of the collection plans envisaged today, will make a positive contribution to the results for future years, in line with the average life of the underlying portfolio estimated at approximately 3 years.

The net banking income of the Leasing Area increased by 8,7% compared to the previous year, mainly due to an increase in average lending.

In 2019, the Enterprises Segment recorded credit risk losses for a total of 83,5 million Euro (down 13,9 million Euro on last year, -14,3%), of which 55,2 million Euro relating to exposures of the Trade Receivables unit (-26,3%), 17,9 million Euro to Corporate Banking (+54,0%), mainly connected with write-downs in relation to the impairment of positions that had already been restructured and 10,2 million Euro to Leasing (-4,2%).

The financial assets of the Enterprises Segment relate to receivables due from customers for 5.923,6 million Euro (basically in line with 31 December 2018, +0,1%), Other financial assets mandatorily measured at fair value through profit or loss of 97,4 million Euro (-15,0%) and Financial assets measured at fair value through other comprehensive income of 13,3 million Euro (+9,3%); the latter two categories mainly refer to investments made in units of UCITS funds as part of corporate banking activities and loans to customers who failed the SPPI test.

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

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net bad loans	68.900	67.947	953	1,40%
Net unlikely to pay	138.747	147.458	(8.711)	(5,9)%
Net non-performing past due exposures	96.010	94.953	1.057	1,11%
Total net non-performing exposures to customers (stage 3)	**303.657**	**310.358**	**(6.701)**	**(2,2)%**
Net performing loans (stages 1 and 2)	5.619.975	5.608.138	11.837	0,21%
Total on-balance-sheet receivables due from customers	**5.923.632**	**5.918.496**	**5.136**	**0,09%**

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

- 57,1 million Euro at 31 December 2019 (66,7 million Euro at 31 December 2018) classified as gross non-performing exposures;
- 9,8 million Euro at 31 December 2019 (22,2 million Euro at 31 December 2018) classified as gross performing exposures (stages 1 and 2).

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

The following table provides a detail of the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category of receivables due from customers.

ENTERPRISES SEGMENT (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 31.12.2019						
Nominal amount	233.525	256.237	104.863	**594.625**	5.653.922	**6.248.547**
Impairment losses	(164.625)	(117.490)	(8.853)	**(290.968)**	(33.947)	**(324.915)**
Carrying amount	68.900	138.747	96.010	**303.657**	5.619.975	**5.923.632**
Coverage ratio	*70,5%*	*45,9%*	*8,4%*	***48,9%***	*0,6%*	***5,2%***
Gross ratio	*3,7%*	*4,1%*	*1,7%*	***9,5%***	*90,5%*	***100,0%***
Net ratio	*1,2%*	*2,3%*	*1,6%*	***5,1%***	*94,9%*	***100,0%***
BALANCE AT 31.12.2018						
Nominal amount	251.456	233.526	107.108	**592.090**	5.637.795	**6.229.885**
Impairment losses	(183.509)	(86.068)	(12.155)	**(281.732)**	(29.657)	**(311.389)**
Carrying amount	67.947	147.458	94.953	**310.358**	5.608.138	**5.918.496**
Coverage ratio	*73,0%*	*36,9%*	*11,3%*	***47,6%***	*0,5%*	***5,0%***
Gross ratio	*4,0%*	*3,7%*	*1,7%*	***9,5%***	*90,5%*	***100,0%***
Net ratio	*1,1%*	*2,5%*	*1,6%*	***5,2%***	*94,8%*	***100,0%***

Net non-performing exposures in the Enterprises Segment stood at 303,7 million Euro at 31 December 2019, down by 6,7 million Euro compared to the value at 31 December 2018 (310,4 million Euro, -2,2%): bad loans increased by 1,0 million Euro (+1,4%), although the ratio of net bad loans to total loans remained substantially stable (1,2% compared to 1,1% at 31 December 2018), unlikely to pay fell by 8,7 million Euro (-5,9%) also as a result of the increase in average coverage and, lastly, past due exposures increased by 1,1 million Euro (+1,1%).

The overall coverage ratio of non-performing exposures went from 47,6% at 31 December 2018 to 48,9% at 31 December 2019. This effect is also influenced by write-offs made during the year on fully written-down exposures.

KPI	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Cost of credit quality	1,37%	1,70%	n.a.	(0,33)%
Net NPE ratio	5,1%	5,2%	n.a.	(0,1)%
Gross NPE ratio	9,5%	9,5%	n.a.	(0,0)%
Total RWA per Segment	4.888.659	4.793.273	95.386	2,0%

The cost of credit quality came to 137 bps, as compared with the 170 bps at 31 December 2018.

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

Trade receivables

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net interest income	100.963	106.690	(5.727)	(5,4)%
Net commission income	67.379	63.332	4.047	6,4%
Net banking income	**168.342**	**170.022**	**(1.680)**	**(1,0)%**
Net credit risk losses/reversals	(55.192)	(74.904)	19.712	(26,3)%
Net profit (loss) from financial activities	**113.150**	**95.118**	**18.032**	**19,0%**

INCOME STATEMENT DATA (in thousands of Euro)	4th Q 2019	4th Q 2018	CHANGE	
			ABSOLUTE	%
Net interest income	25.172	28.892	(3.720)	(12,9)%
Net commission income	16.482	17.508	(1.026)	(5,9)%
Net banking income	**41.654**	**46.400**	**(4.746)**	**(10,2)%**
Net credit risk losses/reversals	(23.124)	(20.373)	(2.751)	13,50%
Net profit (loss) from financial activities	**18.530**	**26.027**	**(7.497)**	**(28,8)%**

In 2019, the Trade Receivables Area contributed 168,3 million Euro to the Enterprises Segment's net banking income, down 1,0% compared to last year.

This result reduces interest income due to the lesser contribution of the reversal of PPA (-3,8 million Euro) and the increase in figurative interest expense attributed to the Governance & Services Segment; this interest expense increases both due to the greater average volumes intermediated and the rise in the internal transfer rate, according to the comprehensive cost of funding.

Net commission income, on the other hand, increased by 6,4% (+4,0 million Euro), driven by management commissions linked to the increase in turnover in the area dedicated to supporting the trade credit of SMEs operating in the domestic market.

The change in net banking income during the year was consistent with the trend in volumes concerning both conventional factoring operations and medium/long-term financing - which the Group started providing to SMEs following the merger of Interbanca, expanding its offerings with new products. As for factoring volumes, in 2019, turnover totalled 13,9 billion Euro, up 0,5 billion Euro (+4,0%) on the previous year. The nominal amount of the loans managed (total loans) at the end of 2019 was 3,9 billion Euro, a decrease of approximately 0,1 billion Euro (-2,2%) compared to 2018.

Net credit risk losses/reversals amounted to 55,2 million Euro (compared to 74,9 million Euro in 2018, -26,3%); it is noted that the 2018 figure was significantly affected by some adjustments to non-performing positions belonging to the construction sector.

Therefore, net profit from financial activities amounted to 113,2 million Euro, up 18,0 million Euro (+19,0%).

At 31 December 2019, the Area's total net loans amounted to 3,6 billion Euro, up 0,8% compared to 31 December 2018.

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

TRADE RECEIVABLES AREA (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 31.12.2019						
Nominal amount	192.166	187.614	92.480	**472.260**	3.413.617	**3.885.877**
Impairment losses	(152.598)	(97.252)	(3.765)	**(253.615)**	(18.532)	**(272.147)**
Carrying amount	39.568	90.362	88.715	**218.645**	3.395.085	**3.613.730**
Coverage ratio	*79,4%*	*51,8%*	*4,1%*	***53,7%***	*0,5%*	***7,0%***
BALANCE AT 31.12.2018						
Nominal amount	209.948	170.319	89.198	**469.465**	3.377.558	**3.847.023**
Impairment losses	(171.287)	(72.581)	(4.620)	**(248.488)**	(14.418)	**(262.906)**
Carrying amount	38.661	97.738	84.578	**220.977**	3.363.140	**3.584.117**
Coverage ratio	*81,6%*	*42,6%*	*5,2%*	***52,9%***	*0,4%*	***6,8%***

Leasing

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net interest income	43.828	40.131	3.697	9,2%
Net commission income	12.289	11.487	802	7,0%
Net banking income	**56.117**	**51.618**	**4.499**	**8,7%**
Net credit risk losses/reversals	(10.250)	(10.700)	450	(4,2)%
Net profit (loss) from financial activities	**45.867**	**40.918**	**4.949**	**12,1%**

INCOME STATEMENT DATA (in thousands of Euro)	4th Q 2019	4th Q 2018	CHANGE	
			ABSOLUTE	%
Net interest income	10.833	10.406	427	4,1%
Net commission income	3.435	2.783	652	23,4%
Net banking income	**14.268**	**13.189**	**1.079**	**8,2%**
Net credit risk losses/reversals	(1.922)	(3.007)	1.085	(36,1)%
Net profit (loss) from financial activities	**12.346**	**10.182**	**2.164**	**21,3%**

Net banking income from leasing is 56,1 million Euro, up 8,7% (+4,5 million Euro in absolute value) as compared with the figure of 31 December 2018; this positive change is mainly due to the greater interest margin following the rise in average lending (approximately +97 million Euro on December 2018).

Net credit risk losses amounted to 10,2 million Euro, down 0,5 million Euro compared to 2018; the decrease is due to lower provisions for non-performing positions.

At 31 December 2019, total net loans in the Area amounted to 1.448 million Euro compared to 1.400 million Euro at 31 December 2018, with a positive change of 3,5%.

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

LEASING AREA (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 31.12.2019						
Nominal amount	13.429	21.949	12.383	**47.761**	1.438.367	**1.486.128**
Impairment losses	(10.880)	(13.858)	(5.088)	**(29.826)**	(7.839)	**(37.665)**
Carrying amount	2.549	8.091	7.295	**17.935**	1.430.528	**1.448.463**
Coverage ratio	*81,0%*	*63,1%*	*41,1%*	***62,4%***	*0,5%*	***2,5%***
BALANCE AT 31.12.2018						
Nominal amount	14.492	16.554	17.473	**48.519**	1.387.814	**1.436.333**
Impairment losses	(12.222)	(10.295)	(7.535)	**(30.052)**	(6.342)	**(36.394)**
Carrying amount	2.270	6.259	9.938	**18.467**	1.381.472	**1.399.939**
Coverage ratio	*84,3%*	*62,2%*	*43,1%*	***61,9%***	*0,5%*	***2,5%***

Corporate Banking

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net interest income	71.105	87.082	(15.977)	(18,3)%
Net commission income	8.601	10.601	(2.000)	(18,9)%
Other components of net banking income	(7.683)	2.624	(10.307)	n.s.
Net banking income	**72.024**	**100.307**	**(28.283)**	**(28,2)%**
Net credit risk losses/reversals	(17.852)	(11.592)	(6.260)	54,0%
Net profit (loss) from financial activities	**54.172**	**88.715**	**(34.543)**	**(38,9)%**

INCOME STATEMENT DATA (in thousands of Euro)	4th Q 2019	4th Q 2018	CHANGE	
			ABSOLUTE	%
Net interest income	21.724	31.043	(9.319)	(30,0)%
Net commission income	3.594	4.089	(495)	(12,1)%
Other components of net banking income	(167)	(5.199)	5.032	(96,8)%
Net banking income	**25.151**	**29.933**	**(4.782)**	**(16,0)%**
Net credit risk losses/reversals	(12.211)	(5.489)	(6.722)	122,5%
Net profit (loss) from financial activities	**12.940**	**24.444**	**(11.504)**	**(47,1)%**

With regard to Corporate Banking, the decrease in net banking income of 28,3 million Euro is mainly due to the net negative change in the fair value measurement of equity instruments recognised in 2019 compared to that recognised in 2018 for approximately 11 million and for 19,9 million Euro to the physiological lower contribution of the "reversal PPA", which went from 77,8 million Euro in 2018 to 57,9 million Euro in 2019 (-25,6%).

Net credit risk losses amounted to 17,9 million Euro, an increase of 6,3 million Euro compared to the previous year, which recorded net impairment losses on receivables of 11,6 million Euro mainly for non-performing positions in run-off.

The contribution of the Corporate Banking Area to the net profit from financial activities of the Enterprises Segment therefore amounted to 54,2 million Euro, down 38,9% compared to the previous year.

At 31 December 2019, total net receivables due from customers in the Area amounted to 706,9 million Euro compared to 798,2 million Euro at 31 December 2018, with a negative change of 11,4%.

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

CORPORATE BANKING AREA (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 31.12.2019						
Nominal amount	27.930	46.197	-	**74.127**	647.672	**721.799**
Impairment losses	(1.147)	(6.380)	-	**(7.527)**	(7.409)	**(14.936)**
Carrying amount	26.783	39.817	-	**66.600**	640.263	**706.863**
Coverage ratio	*4,1%*	*13,8%*	*n.a.*	***10,2%***	*1,1%*	***2,1%***
BALANCE AT 31.12.2018						
Nominal amount	27.016	46.191	437	**73.644**	736.523	**810.167**
Impairment losses	-	(3.192)	-	**(3.192)**	(8.750)	**(11.942)**
Carrying amount	27.016	42.999	437	**70.452**	727.773	**798.225**
Coverage ratio	*0,0%*	*6,9%*	*0,0%*	***4,3%***	*1,2%*	***1,5%***

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

Tax Receivables

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net interest income	14.902	13.554	1.348	9,9%
Net commission income	97	12	85	n.s.
Net banking income	**14.999**	**13.566**	**1.433**	**10,6%**
Net credit risk losses/reversals	(238)	(242)	4	(1,7)%
Net profit (loss) from financial activities	**14.761**	**13.324**	**1.437**	**10,8%**

INCOME STATEMENT DATA (in thousands of Euro)	4th Q 2019	4th Q 2018	CHANGE	
			ABSOLUTE	%
Net interest income	4.821	4.423	398	9,0%
Net commission income	27	12	15	125,0%
Net banking income	**4.848**	**4.435**	**413**	**9,3%**
Net credit risk losses/reversals	(106)	(125)	19	(15,2)%
Net profit (loss) from financial activities	**4.742**	**4.310**	**432**	**10,0%**

The Tax Receivables Area contributed 15,0 million Euro to the Enterprises Segment's net banking income, up 10,6% from 31 December 2018.

This change is mainly due to the increase in the loans portfolio managed, which benefited from large purchasing volumes realised; the volumes of loans acquired in fact increased, going from a nominal 62,8 million Euro in 2018 to a nominal 108,7 million Euro in 2019.

At 31 December 2019, the Area's total net loans amounted to 154,6 million Euro, up 13,5% from 136,1 million Euro at 31 December 2018. Receivables in this Segment are classified as performing loans, in stages 1 and 2, given the nature of the counterparty.

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

TAX RECEIVABLES AREA (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 31.12.2019						
Nominal amount	-	477	-	**477**	154.266	**154.743**
Impairment losses	-	-	-	**-**	(167)	**(167)**
Carrying amount	-	477	-	**477**	154.099	**154.576**
Coverage ratio	-	*0,0%*	-	***0,0%***	*0,1%*	***0,1%***
BALANCE AT 31.12.2018						
Nominal amount	-	328	-	**328**	135.900	**136.228**
Impairment losses	-	-	-	**-**	(147)	**(147)**
Carrying amount	-	328	-	**328**	135.753	**136.081**
Coverage ratio	-	*0,0%*	-	***0,0%***	*0,1%*	***0,1%***

NPL

This is the Banca Ifis Group's Segment dedicated to non-recourse acquisition and managing distressed retail loans. The Segment's results from 7 January 2019 also include the contribution of the FBS Group, which is mainly specialised in servicing and the management of non-performing secured loans.

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

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

The following table shows the breakdown of the NPL Segment's receivables portfolio by conversion and accounting methods; the impact recognised through profit or loss, totalling 250,1 million Euro, is the result of 129,4 million Euro in interest income from amortised cost and for 120,7 million Euro in other components of net interest income from change in cash flows. Also included are the loan yields of the newly acquired FBS S.p.A. Instead, said amount does not comprise funding costs, net commission income, and the gains on sales of receivables, which are included in the table "Income Statement Data" presented below.

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

NPL Segment Portfolio (in thousands of Euro)	Outstanding nominal amount	Carrying amounts	Carr. amount / Out. nom. amount	Impact through profit or loss	ERC	Main method of accounting
Cost	1.793.988	109.086	6,1%	-	235.581	Acquisition cost
Non-judicial	10.378.108	356.038	3,4%	77.076	627.033	
of which: Collective (curves)	*9.974.742*	*189.887*	*1,9%*	*(3.016)*	*308.331*	*Cost = NPV of flows from model*
of which: Plans	*403.366*	*166.151*	*41,2%*	*80.092*	*318.702*	*Cost = NPV of flows from model*
Judicial	5.668.726	813.096	14,3%	171.228	1.647.663	
of which: Other positions undergoing judicial processing	*2.520.558*	*274.151*	*10,9%*	-	*567.793*	*Acquisition cost*
of which: Writs, Property Attachments, Garnishment Orders	*1.182.697*	*387.104*	*32,7%*	*122.739*	*871.638*	*Cost = NPV of flows from model*
of which: Secured and Corporate	*1.965.471*	*151.841*	*7,7%*	*48.489*	*208.232*	*Cost = NPV of flows from model*
Total	**17.840.822**	**1.278.220**	**7,2%**	**248.304**	**2.510.277**	

Post-acquisition management

Right after the acquisition, pending the completion of information retrieval operations to help decide the most appropriate conversion method, the receivable is classified in a so-called "staging" area and recognised at cost (109 million Euro at 31 December 2019, compared to 224,7 million Euro at 31 December 2018) with no contribution to profit or loss.

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

Non-judicial operations

As for the positions not eligible for judicial operations, after completing the groundwork for processing them, they are classified in a "collective" portfolio pending the collection of the mentioned settlement plans.

In this phase, the positions are measured at amortised cost (189.9 million Euro at 31 December 2019, compared to 153,4 million Euro at 31 December 2018), calculated as the net present value of expected cash flows based on a proprietary statistical model built using internal historical data series. This model calculates conversion estimates for clusters of similar receivables and is regularly updated to account for changes in receipts as well as the characteristics of the acquired portfolios.

When finalising a settlement plan or bill of exchange, if an amount equal to at least 3 times the average instalment has been paid since the collection date, the positions included in this portfolio are reclassified to the item "Plans"; these are measured at amortised cost (166,2 million Euro at 31 December 2019, compared to 137,9 million Euro at 31 December 2018), calculated as the net present value of expected cash flows based on the settlement plans, net of the historical default rate.

Judicial operations

The positions that meet requirements for judicial processing are sent for the relative management; in particular, judicial processing, understood as a garnishment action, requires a number of legal phases intended to obtain an enforcement order, which overall typically last 18-24 months and include: obtaining the injunction, obtaining the writ, attachment of property and lastly the garnishment order by the court.

At the end of the first quarter of 2018, the Bank released into production a statistical model developed on proprietary data to estimate the cash flows of positions in judicial processing that have not yet reached the garnishment order ("pre-garnishment order collective model"), until the previous year valued at cost. The future cash inflows were estimated for these cases, taking into consideration both the average timing observed for each processing phase (writ, attachment of property), as well as the likelihood of success of the various phases (from writ to attachment of property, from attachment of property to garnishment order) and the average timing observed between obtaining a garnishment order and the registration of the first collection. These cash flows are used in the measurement at amortised cost which is calculated as the discounting of expected cash flows at the internal rate of return. The total amount of all positions in the writ, attachment of property and garnishment order phase was 387,1 million Euro at 31 December 2019, compared to 315,7 million Euro at the end of 2018.

The remaining positions undergoing judicial processing are valued at purchase cost until the above requirements are met and is included in the table above in the category "Other positions undergoing judicial processing", which amounts to 274,1 million Euro at 31 December 2019, compared to 188,5 million Euro at 31 December 2018.

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

Finally, the "Secured and Corporate" category, amounting to 151,8 million Euro at 31 December 2019 compared to 72,7 million Euro at the end of 2018, includes portfolios originating in corporate banking or real estate sectors, valued on a case-by-case basis or using a model for estimating expected cash flows for positions guaranteed by properties on which a mortgage is present.

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

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

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	128.442	99.801	28.641	28,7%
Interest income notes	1.015	-	1.015	n.a.
Other components of net interest income	119.862	138.150	(18.288)	(13,2)%
Funding costs	(18.011)	(10.823)	(7.188)	66,4%
Net interest income	**231.308**	**227.128**	**4.180**	**1,8%**
Net commission income	5.794	6	5.788	n.s.
Other components of net banking income	(415)	-	(415)	n.a.
Gain on sale of receivables	15.738	17.100	(1.362)	(8,0)%
Net banking income	**252.425**	**244.234**	**8.191**	**3,4%**
Net profit (loss) from financial activities	**252.425**	**244.234**	**8.191**	**3,4%**

INCOME STATEMENT DATA (in thousands of Euro)	4th Q 2019	4th Q 2018	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	32.716	27.537	5.179	18,8%
Interest income notes	75	-	75	n.a.
Other components of net interest income	45.650	41.942	3.708	8,8%
Funding costs	(4.617)	(3.076)	(1.541)	50,1%
Net interest income	**73.824**	**66.403**	**7.421**	**11,2%**
Net commission income	1.801	19	1.782	n.s.
Other components of net banking income	112	-	112	n.a.
Gain on sale of receivables	7.833	9.569	(1.736)	(18,1)%
Net banking income	**83.569**	**75.991**	**7.578**	**10,0%**
Net profit (loss) from financial activities	**83.569**	**75.991**	**7.578**	**10,0%**

"Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, was up 28,7% from 99,8 million Euro to 128,4 million Euro, largely thanks to the increase in receivables measured at amortised cost, the greater contribution by which is related for 64,1 million Euro to writs, attachments of property, and garnishment orders, and for 24,4 million Euro to settlement plans. This item also includes 7,9 million Euro attributable to the newly acquired FBS.

The item "Other components of net interest income" includes the economic effect of the change in expected cash flows as a result of higher or lower collections realised or expected compared to previous forecasts and declined from 138,1 million Euro to 119,9 million Euro, a decrease of 13,2%; this item includes the contribution of non-judicial operations for approximately 28,1 million Euro and the contribution of writs, attachments of property and garnishment orders for approximately 58,6 million Euro and secured and corporate for approximately 33,2 million Euro; please note that this item refers for 5,4 million Euro to the newly-acquired FBS.

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

The increase in net commission income is almost entirely due to the contribution of the newly acquired FBS and related to the Group's servicing business with respect to a managed portfolio of 7,9 billion Euro.

Finally, profits from sales decreased from 17,1 million Euro to 15,7 million Euro, i.e. by -8%. The sales relate to portfolios consisting of residual positions with an amortised cost value of 7,4 million Euro.

The net profit from financial activities of the NPL Segment therefore amounted to 252,4 million Euro (244,2 million Euro at 31 December 2018, +3.4%). Collections went from 181,3 million Euro in 2018 to 258,2 million Euro in 2019 (+42,4%).

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

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	31.12.2019(1)	31.12.2018	CHANGE	
			ABSOLUTE	%
Net bad loans	963.230	781.572	181.658	23,2%
Net unlikely to pay	308.061	306.348	1.713	0,6%
Net non-performing past due exposures	30	131	(101)	(77,1)%
Total net non-performing exposures to customers (stage 3)	**1.271.321**	**1.088.051**	**183.270**	**16,8%**
Net performing loans (stages 1 and 2)	9.011	4.748	4.263	89,8%
Total on-balance-sheet receivables due from customers	**1.280.332**	**1.092.799**	**187.533**	**17,2%**

(1) At 31 December 2019, this item included 2.112 thousand Euro in receivables for invoices to be issued arising from the servicing activities of the subsidiary FBS S.p.A.

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

KPI	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	17.840.822	15.756.372	2.084.450	13,2%
Total RWA per Segment	1.753.888	1.584.420	169.468	10,7%

Total Estimated Remaining Collections (ERC) amounted to approximately 2,5 billion Euro.

NPL SEGMENT LOAN PORTFOLIO PERFORMANCE	31.12.2019	31.12.2018
Opening loan portfolio	**1.092.799**	**799.436**
Business combinations	23.952	-
Purchases	182.297	240.863
Sales	(26.677)	(21.214)
Gains on sales	15.738	17.100
Interest income from amortised cost	128.442	99.801
Other components of interest from change in cash flow	119.862	138.150
Collections	(258.193)	(181.337)
Closing loan portfolio	**1.278.220**	**1.092.799**

The item "Business combinations" refers to the loan portfolio acquired through the business combination with the FBS Group. Total purchases in 2019 amounted to 182,3 million Euro, down on 2018 when 240,9 million Euro were purchased.

The item "Sales" includes 3,5 million Euro in receivables falling within the disposal perimeter concluded at the end of the previous year with the acceptance by the Group of the binding offers presented by the purchaser, and 23,2 million Euro in the sale price of disposals concluded in 2019.

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

Funding from settlement plans (equal to the nominal amount of all the instalments under the plans entered into with the debtors in the period) was up from 2018, reaching 325 million Euro at 31 December 2019 compared to 297,9 million Euro in the previous year.

At the end of the years, the portfolio managed by the NPL Segment included 1.764.252 positions, for a nominal amount of 17,8 billion Euro.

GOVERNANCE & SERVICES

The Segment comprises, among other things, the resources required for the performance of the services of the Audit, Administration-Accounting, Financial, Planning, Organisation, ICT, Marketing and Communication, and HR functions, as well as the structures responsible for raising, managing and allocating financial resources to the operating segments. It also includes developing activities whose served customers are natural persons; in particular, it includes the activities of the subsidiary Cap.Ital.Fin. S.p.A., that deals with the disbursement of loans against the assignment of one-fifth of salary or pension and some portfolios of personal loans.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net interest income	(3.238)	(5.323)	2.085	(39,2)%
Net commission income	(82)	(933)	851	(91,2)%
Other components of net banking income	(2.254)	3.012	(5.266)	(174,8)%
Net banking income	**(5.574)**	**(3.244)**	**(2.330)**	**71,8%**
Net credit risk losses/reversals	(3.651)	(2.656)	(995)	37,5%
Net profit (loss) from financial activities	**(9.225)**	**(5.900)**	**(3.325)**	**56,4%**

INCOME STATEMENT DATA (in thousands of Euro)	4th Q 2019	4th Q 2018	CHANGE	
			ABSOLUTE	%
Net interest income	(2.144)	(1.149)	(995)	86,6%
Net commission income	11	113	(102)	(90,3)%
Other components of net banking income	(267)	4.041	(4.308)	(106,6)%
Net banking income	**(2.400)**	**3.005**	**(5.405)**	**(179,9)%**
Net credit risk losses/reversals	(807)	(2.185)	1.378	(63,1)%
Net profit (loss) from financial activities	(3.207)	820	(4.027)	n.s.

The net banking income of the Segment was negative for 5,6 million Euro, down from 31 December 2018. The negative change is due to the extraordinary buy-back transaction implemented at the end of the previous year and which concerned a part of the bond issues outstanding. This transaction contributed by approximately 8 million Euro towards the 2018 revenues. As regards net interest income, the rise in revenues is mainly due to the following factors:

- An increase of approximately 10,7 million Euro in revenues from the internal transfer rate system, due to the higher average volumes handled by the various Business Units and the upward revision of TIT to the Group Segments, according to the comprehensive cost of funding;
- Greater "PPA reversal" of the Governance & Services Segment, related to the retail mortgage portfolio (formerly Leasing), with a positive contribution of 8 million Euro as compared with the 6,7 million Euro booked for 2018. The total residual amount of the PPA reversal for the Governance & Services Segment was 33 million Euro at 31 December 2019.

These increases are partially offset by the reduction in interest receivable on the portfolio securities and the increase in the cost of funding. In terms of funding, in fact, the Rendimax and Contomax products continue to be the Group's main source of funding, with a cost of 70 million Euro, up on last year (59 million Euro) mainly due to the rise in rates offered to customers and average assets under management, which reach 4.720 million Euro (as compared with average funding of 4.548 million Euro in 2018, +4%). It is recalled that, starting from the end of the first quarter of 2017 the Bank has been pursuing a series of initiatives in the wholesale segment to diversify funding sources. At 31 December 2019, the value of the total amortised cost of bond issues amounted to 1.067,1 million Euro attributable to 4 different instruments (a senior unsecured bond with a nominal amount of 300 million Euro and a maturity of May 2020, a subordinated Tier 2 bond with a nominal amount of 400 million Euro and a final maturity of October 2027, callable in October 2022, a senior preferred unsecured bond, partially repurchased at the end of 2018 and now outstanding with a nominal amount of 300 million Euro, and the bond of the merged Interbanca for nominal 42,0 million Euro). On the economic side, the interest expense accrued on total issues is substantially in line with last year. The cost of liquidity held by the Bank of Italy decreased, with a negative contribution of 2,7 million Euro compared with 5,2 million Euro in 2018, consistent with the lower liquidity deposited there. As of the end of the first half of 2019, investments were made in securities that took total assets to 1.451 million Euro, as compared with 497,6 million Euro in 2018 (+192%) in order to reduce the amount of liquidity held with the Bank of Italy, which contributed negatively to net interest income.

In terms of the cost of credit, despite a reduction in non-performing exposures, a worsening is recorded in the credit quality of the retail portfolios that are already impaired, with a consequent increase in impairment at 31 December 2019.

At 31 December 2019, total net financial assets at amortised cost of the Segment amounted to 447,3 million Euro, up 47,8% on the figure at 31 December 2018 (302,7 million Euro). The increase is mainly due to the creation, starting from the second half of the year, of a proprietary portfolio of debt securities, mainly government securities, with the aim of optimising the Group’s liquidity. As regards pre-existing components, in detail, there was a growth of 12,5% regarding the receivables of the subsidiary Cap.Ital.Fin. S.p.A., which at 31 December stood at 36,4 million Euro compared to 32,4 million Euro at 31 December 2018, and a 9,3% reduction in receivables relating to other retail portfolios, which stood at 116,4 million Euro compared to 128,3 million Euro at 31 December 2018.

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

GOVERNANCE & SERVICES (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
BALANCE AT 31.12.2019						
Nominal amount	20.106	19.755	2.977	**42.838**	420.987	**463.824**
Impairment losses	(5.955)	(6.772)	(750)	**(13.478)**	(3.086)	**(16.563)**
Carrying amount	14.151	12.983	2.226	**29.360**	417.901	**447.261**
Coverage ratio	*29,6%*	*34,3%*	*25,2%*	***31,5%***	*0,7%*	***3,6%***
BALANCE AT 31.12.2018						
Nominal amount	14.318	23.286	5.651	**43.255**	270.039	**313.294**
Impairment losses	(2.209)	(4.674)	(739)	**(7.622)**	(2.995)	**(10.617)**
Carrying amount	12.109	18.612	4.911	**35.632**	267.045	**302.677**
Coverage ratio	*15,4%*	*20,1%*	*13,1%*	***17,6%***	*1,1%*	***3,4%***

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

2.11 Group financial and income results

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

2.11.1 Reclassified Statement of financial positions items

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2019	31.12.2018	ABSOLUTE	%
Other financial assets mandatorily measured at fair value through profit or loss	112.785	163.845	(51.060)	(31,2)%
Financial assets measured at fair value through other comprehensive income,	1.173.808	432.094	741.714	n.s.
Due from banks measured at amortised cost	626.890	590.595	36.295	6,1%
Receivables due from customers measured at amortised cost	7.651.226	7.313.972	337.254	4,6%
Property, plant and equipment and intangible assets	167.220	153.927	13.293	8,6%
Tax assets	391.185	395.084	(3.899)	(1,0)%
Other assets	402.910	332.744	70.166	21,1%
Total assets	**10.526.024**	**9.382.261**	**1.143.763**	**12,2%**
Payables due to banks measured at amortised cost	959.477	785.393	174.084	22,2%
Payables due to customers measured at amortised cost	5.286.239	4.673.299	612.940	13,1%
Debt securities issued	2.217.529	1.979.002	238.527	12,1%
Tax liabilities	69.018	52.722	16.296	30,9%
Provisions for risks and charges	32.965	25.779	7.186	27,9%
Other liabilities	421.843	407.066	14.777	3,6%
Equity	1.538.953	1.459.000	79.953	5,5%
Total liabilities and equity	**10.526.024**	**9.382.261**	**1.143.763**	**12,2%**

Financial assets mandatorily measured at fair value through profit or loss

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

The reduction in the item is linked to the sale of units of a UCITS fund (held as a cash investment) for approximately 50,0 million Euro insofar as no longer consistent with the Group's investment policies, to the sale of receivables at fair value for 40,1 million Euro and to the impairment of an equity instrument for 11 million Euro. Net of changes in fair value, this reduction was only partially offset by new subscriptions of units of UCITS funds, for a net amount of 35,5 million Euro, by the subscription of new loans carried at fair value for 14,9 million Euro and by the increase in debt securities by 2,6 million Euro, deriving from the acquisition of the FBS Group. Net changes in fair value are negative for 4,7 million Euro.

Below is the breakdown of this line item.

FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Debt securities	2.713	1.935	778	40,2%
Equity securities	-	11.266	(11.266)	(100,0)%
UCITS units	87.763	99.349	(11.586)	(11,7)%
Loans	22.309	51.295	(28.986)	(56,5)%
Total	**112.785**	**163.845**	**(51.060)**	**(31,2)%**

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income amounted to 1.173,8 million Euro at 31 December 2019, up 171,7% from 31 December 2018. The item includes debt securities that have passed the SPPI test and equity securities for which the Bank has exercised the OCI Option.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Debt securities	1.124.634	418.709	705.925	168,6%
Equity securities	49.174	13.385	35.789	267,4%
Total	**1.173.808**	**432.094**	**741.714**	**171,7%**

Debt securities held in the portfolio at 31 December 2019 amounted to 1.124,6 million Euro, up 168,6% compared to the balance at 31 December 2018, mainly driven by the purchase of Italian government securities.

Specifically, the item includes 1.096,3 million Euro Italian government securities, whose relative net negative fair value reserve amounts to 0,4 million Euro compared to a net negative reserve of 8,4 million Euro at the end of the previous year.

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

Issuer/Maturity	1 year	2 years	3 years	5 years	over 5 years	Total
Government bonds	390.917	363.627	-	228.272	110.786	1.093.602
% of total	*34,8%*	*32,3%*	-	*20,3%*	*9,9%*	*97,2%*
Banks	-	-	-	9.198	6.014	15.212
% of total	-	-	-	*0,8%*	*0,5%*	*1,4%*
Other issuers	-	-	-	8.443	7.377	15.820
% of total	-	-	-	*0,8%*	*0,7%*	*1,4%*
Total	**390.917**	**363.627**	**-**	**245.913**	**124.177**	**1.124.634**
% of total	***34,8%***	***32,3%***	**-**	***21,9%***	***11,0%***	***100,0%***

This item includes also equity securities relating to non-controlling interests, amounting to 49,2 million Euro, up 267,4% compared to 31 December 2018. The change is closely linked to the creation, starting from the second half of the year, of a portfolio of listed securities functional to generating income over time. The positive net fair value reserve for these securities totalled 3,2 million Euro.

Due from banks measured at amortised cost

Total Receivables due from banks measured at amortised cost at 31 December 2019 amounted to 626,9 million Euro, compared to 590,6 million Euro at 31 December 2018. The item refers to Receivables due from central banks for 374,0 million Euro as compared with 280,9 million Euro at 31 December 2018.

Receivables due from customers measured at amortised cost

Total receivables due from customers measured at amortised cost amounted to 7.651,2 million Euro, up compared to the 7.314,0 million Euro booked at 31 December 2018 (+4,6%). Against growth in the NPL Segment of 17,2%, also thanks to the contribution made by the FBS Group, total receivables due from customers in the Enterprises Segment, remains basically stable (+0,1% compared to 31 December 2018). Finally, loans in the Governance & Services Segment portfolio rose by 47,8%, coming in at 447,3 million Euro compared to 302,7 million Euro at 31 December 2018. The increase is due to the creation, starting from the second half of the year, of a proprietary portfolio of debt securities, mainly government securities, with the aim of optimising the Group's liquidity.

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

RECEIVABLES DUE FROM CUSTOMERS BREAKDOWN BY SEGMENT (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Enterprises Segment	5.923.632	5.918.496	5.136	0,1%
- of which non-performing	*303.657*	*310.358*	*(6.701)*	*(2,2)%*
NPL Segment	1.280.332	1.092.799	187.533	17,2%
- of which non-performing	*1.271.328*	*1.088.051*	*183.277*	*16,8%*
Governance & Services Segment	447.261	302.677	144.584	47,8%
- of which non-performing	*29.360*	*35.632*	*(6.272)*	*(17,6)%*
Total receivables due from customers	**7.651.225**	**7.313.972**	**337.253**	**4,6%**
- of which non-performing	**1.604.345**	**1.434.041**	**170.304**	**11,9%**

Total net non-performing exposures, which are significantly affected by the receivables of the NPL Segment, amounted to 1.604,3 million Euro at 31 December 2019, compared to 1.434,0 million Euro at 31 December 2018 (+11,9%).

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

Intangible assets and property, plant and equipment

Intangible assets amounted to 60,9 million Euro, compared to 23,3 million Euro at 31 December 2018 (+161,7%). The increase was largely attributable to the recognition of the goodwill (in application of IFRS 3), determined at 38,0 million Euro related to the acquisition of the FBS Group on 7 January 2019, as detailed in Part G - Business combinations below in the Notes to the consolidated financial statements at 31 December 2019.

The item also included 21,4 million Euro worth of software, 0,8 million Euro in goodwill arising from the consolidation of the investment in Ifis Finance Sp.Z o.o., and 0,7 million Euro in the estimated goodwill arising from the acquisition of the subsidiary Cap.Ital.Fin. S.p.A.

Property, plant and equipment amounted to 106,3 million Euro, compared to 130,6 million Euro at 31 December 2018, down 18,6% mainly due to the effect of the sale of the subsidiary Two Solar Park 2008 S.r.l. that contributed to this item for 16,1 million Euro (substantially related to photovoltaic plants) and the reclassification to non-current assets held for disposal of the property in Corso Venezia, Milan, for 25,6 million Euro, following the late 2019 stipulation of a binding offer for its sale; these changes were partially offset by the effect of the recognition of 12,0 million Euro for the Right of Use as required by the new IFRS 16 - Leases in force from 1 January 2019 and the contribution due to the acquisition of the FBS Group equal to 5,6 million Euro at 31 December 2019.

At the end of the year, the properties recognised under property, plant and equipment included the important historical building "Villa Marocco", located in Mestre – Venice and housing Banca Ifis's registered office. Since Villa Marocco is a luxury property, it is not depreciated, but it is tested for impairment at least annually. To this end, they are appraised by experts specialising in luxury properties. During the year, there were no indications requiring to test the assets for impairment.

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.

Tax assets amounted to 391,2 million Euro, substantially in line with the figure at 31 December 2018 (-1,0%).

Deferred tax assets amounted to 334,3 million Euro, compared with 348,3 million Euro at 31 December 2018, of which 81,2 million Euro for previous tax losses and ACE benefits (102 million Euro at 31 December 2018) and of which 218,4 million Euro, unchanged compared to 31 December 2018, in impairment losses on receivables that can be deducted in the following years and transformed into tax credits in accordance with Italian Law no. 214/2011, following the freezing of the recovery plan for 2019 envisaged by the latest financial law.

Tax liabilities amounted to 69,0 million Euro, up 30,9% from 31 December 2018.

Current tax liabilities, amounting to 28,2 million Euro, represent the tax burden for the year (13,4 million Euro at 31 December 2018).

Deferred tax liabilities, amounting to 40,8 million Euro, mainly include 27,3 million Euro on receivables recognised for interest on arrears that will be taxed upon collection, 6,0 million Euro on property revaluations and 3,2 million Euro on misalignments of trade receivables.

As regards the prudential consolidation, tax assets are treated differently in accordance with Regulation (EU) 575/2013 (CRR), which was transposed in the Bank of Italy's Circulars no. 285 and no. 286.

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

- the "deferred tax assets that rely on future profitability and do not arise from temporary differences" are deducted from CET1; at 31 December 2019, the 100% deduction amounted to 103,8 million Euro, including the parent company La Scogliera: in this regard, please note that this deduction will be gradually absorbed by the future use of such deferred tax assets;
- the "deferred tax assets that rely on future profitability and arise from temporary differences" are not deducted from CET1 and receive instead a 250% risk weight: at 31 December 2019, these assets, which amounted to 34,7 million Euro, were offset by the corresponding deferred tax liabilities;
- the "deferred tax assets pursuant to Italian Law no. 214/2011", concerning impairment losses on receivables that can be converted into tax credits, receive a 100% risk weight; at 31 December 2019, the corresponding weight totalled 218,4 million Euro;
- "current tax assets" receive a 0% weight as they are exposures to the Central Government.

Overall, the Tax Assets recognised at 31 December 2019 and 100% deducted from Own Funds resulted in an expense amounting to 1,13% as a proportion of CET1, which will decline in the future as said assets are utilised against taxable income.

Other assets and liabilities

Other assets, of 402,9 million Euro as compared to a balance of 332,7 million Euro at 31 December 2018, include:

- financial assets held for trading for 24,3 million Euro (29,8 million Euro at 31 December 2018), mainly relating to transactions hedged by opposite positions entered amongst financial liabilities held for trading;
- Non-current assets under disposal for 25,6 million Euro (this item was not present at 31 December 2018), following the sale of the property in Corso Venezia, Milan.
- other assets for 353,0 million Euro (302,9 million Euro at 31 December 2018), of which 106,6 million Euro refer to the receivable due from the parent company La Scogliera S.p.A. by virtue of the tax consolidation agreements (114,8 million Euro at 31 December 2018) and 29,8 million Euro to VAT credits (42,8 million Euro at 31 December 2018).

Other liabilities come to 421,8 million Euro as compared with 407,1 million Euro at 31 December 2018, and consist of:

- trading derivatives for 21,8 million Euro (31,2 million Euro at 31 December 2018), mainly referring to transactions hedged by opposite positions entered amongst financial assets held for trading;
- 10,0 million Euro liabilities for post-employment benefits (8,0 million Euro at 31 December 2018);
- 390,0 million Euro for other liabilities (367,9 at 31 December 2018), largely referred to amounts due to customers that have not yet been credited as well as a 29,0 million Euro payable to the parent company La Scogliera deriving from the tax consolidation regime.

Funding

FUNDING (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Due to banks	959.477	785.393	174.084	22,2%
- Eurosystem	*792.168*	*695.075*	*97.093*	*14,0%*
- Other payables	*167.309*	*90.318*	*76.991*	*85,2%*
Payables due to customers	5.286.239	4.673.299	612.940	13,1%
- Repurchase agreements	*150.280*	-	*150.280*	*n.a.*
- Rendimax and Contomax	*4.790.954*	*4.424.467*	*366.487*	*8,3%*
- Other term deposits	*72.475*	*37.669*	*34.806*	*92,4%*
- Lease payables	*15.909*	*3.471*	*12.438*	*n.s.*
- Other payables	*256.621*	*207.692*	*48.929*	*23,6%*
Debt securities issued	2.217.529	1.979.002	238.527	12,1%
Total funding	8.463.245	7.437.694	1.025.551	13,8%

Total funding, which amounted to 8.463,2 million Euro at 31 December 2019 (+13,8% compared to 31 December 2018), is represented for 62,5% by Payables due to customers (compared to 62,8% at 31 December 2018), for 11,3% by Payables due to banks (compared to 10,6% at 31 December 2018), and for 26,2% by Debt securities issued (26,6% at 31 December 2018).

Payables due to customers at 31 December 2019 amounted to 5.286,2 million Euro (+13,1% compared to 31 December 2018), essentially due to the increase in retail funding (Rendimax and Contomax), from 4.424,5 at 31 December 2018 to 4.791,0 million Euro at 31 December 2019, a breakdown of which is given in the table below.

CONTOMAX and RENDIMAX FUNDING (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Short-term funding (within 18 months)	3.762.031	3.909.617	(147.587)	(3,8)%
of which: FREE DEPOSITS	*798.019*	*819.634*	*(21.615)*	*(2,6)%*
of which: LIKE/ONE	*1.361.563*	*1.120.062*	*241.501*	*21,6%*
of which: TIME DEPOSITS	*1.602.449*	*1.969.922*	*(367.473)*	*(18,7)%*
Medium/long-term funding (beyond 18 months)	1.028.923	514.846	514.077	99,9%
Total funding	4.790.954	4.424.463	366.491	8,3%

Payables due to banks amounted to 959,5 million Euro (+22,2% compared to 31 December 2018). This item mainly refers to the TLTRO tranche totalling 792,2 million Euro subscribed respectively in 2017 and at end 2019, deposits with other banks of 122,6 million Euro and 44,7 million Euro related to other accounts and loans.

Debt securities issued amounted to 2.217,5 million Euro. The item included 1.150,0 million Euro (+15,0% compared to 31 December 2018) in securities issued by the special purpose vehicles as part of the securitisation of trade receivables launched at the end of 2016. The item also comprised 605,1 million Euro (including interest) in senior bonds issued by Banca Ifis, as well as the 401,9 million Euro (including interest) Tier 2 bond. The rest of debt securities issued at 31 December 2019 included 59,5 million Euro in a bond loan issued at the time by the merged entity Interbanca.

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	3.952	3.896	56	1,4%
Legal and tax disputes	22.894	14.566	8.328	57,2%
Other provisions	6.119	7.317	(1.198)	(16,4)%
Total provisions for risks and charges	32.965	25.779	7.186	27,9%

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

Provisions for credit risk related to commitments and financial guarantees granted

At 31 December 2019, the balance of 4,0 million Euro, in line with the end of the previous year, reflects the write-down of the financial guarantees and commitments given by the Group.

Legal and tax disputes

At 31 December 2019, the Bank had set aside 22,9 million Euro in provisions. This amount breaks down as follows:

- 12,0 million Euro for 44 disputes concerning the Trade Receivables Area (the plaintiffs seek 30,1 million Euro in damages), these disputes are mainly connected with the request for the repetition of amounts collected or payments under guarantee in relation to factoring positions without recourse;
- 5,4 million Euro (the plaintiffs seek 64,8 million Euro in damages) for 27 disputes concerning the Corporate Banking and Commercial Lending Areas and linked for 4,9 million Euro to positions deriving from the former Interbanca;
- 1,9 million Euro (the plaintiffs seek 4,0 million Euro in damages) for 61 disputes concerning the Leasing Area;
- 0,8 million Euro (the plaintiffs seek the same amount in damages) for disputes concerning the investee Ifis Rental;
- 1,0 million Euro for various disputes concerning Credifarma;

- 330 thousand Euro (the plaintiffs seek 4,0 million Euro) for 27 disputes with customers and agents relating to Cap.Ital.Fin.;
- 1,3 million Euro (the plaintiffs seek 3,8 million Euro in damages) for 39 disputes concerning receivables of the subsidiary Ifis Npl;
- 106 thousand Euro for 7 disputes relating to FBS, and the plaintiffs seek a total of 1,8 million Euro in damages.

Other provisions for risks and charges

At 31 December 2019, there were "Other provisions" of 6,1 million Euro (7,3 million Euro at 31 December 2018) consisting mainly of 4,7 million Euro for supplementary indemnities for customers connected with the operations of the Leasing Area compared to 3,7 million Euro at 31 December 2018, 0,6 million Euro for staff-related charges (1,0 million Euro at 31 December 2018) and 0,2 million Euro for the provision for complaints. The decrease of 1,2 million Euro in the item "Other provisions" compared to the balance at 31 December 2018 is mainly due to the release of a risk provision of 0,9 million Euro connected with probable costs of formal adaptation of plants of the former subsidiary Two Solar Park sold in June 2019.

Contingent liabilities

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

Tax dispute

Dispute concerning the write-off of receivables. Company involved Banca IFIS as the acquiring company of the former Ifis Leasing S.p.A. (former GE Capital Interbanca Group)

The Italian Revenue Agency has reclassified the write-off of receivables made by the Company in 2004, 2005, 2006 and 2007 and added in the years between 2005 and 2014 to losses on receivables - without any actual evidence.

Overall, the Agency assessed 242,7 thousand Euro in additional taxes and administrative penalties amounting to 100%.

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

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

Dispute concerning the assumed "permanent establishment" in Italy of the Polish company

Following the investigation carried out by the Guardia di Finanza [Financial Police Force] in regard to Direct Tax, VAT and other tax for the tax years 2016 and 2017 and 2013/2015 limited to transactions implemented with the Polish subsidiary Ifis Finance SP Zoo, Verification Notices were served in regard to the years 2013/2015.

The Guardia di Finanza claims that it has found evidence to suggest that in the foreign country (Poland), a "permanent establishment" of Banca Ifis has been set up and not an autonomous legal subject with capacity of self-determination.

In other words, by refusing to acknowledge the autonomous legal organisation of the Company with simultaneous tax residence of such in Poland, the costs and revenues of the Polish office would constitute positive or negative items producing income taxable in Italy (net of the tax credit for tax ultimately paid abroad).

In holding the Financial Administration's claim to be unfounded, the Bank will be filing an appeal against the Verification Notice pursuant to the law with the competent Tax Commissions, paying 1/3 of the tax as provisional enrolment on the tax register.

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

Reimbursements

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

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

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

Consolidated equity

At 31 December 2019, Consolidated equity totalled 1.539,0 million Euro, up +5,5% from 1.459,0 million Euro at 31 December 2018.

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

EQUITY: BREAKDOWN (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	102.285	102.116	169	0,2%
Valuation reserves:	(3.037)	(14.606)	11.569	(79,2)%
- Securities	*2.737*	*(8.692)*	*11.429*	*(131,5)%*
- Post-employment benefits	*(124)*	*118*	*(242)*	*n.s.*
- exchange differences	*(5.650)*	*(6.032)*	*382*	*(6,3)%*
Reserves	1.260.238	1.168.543	91.695	7,8%
Treasury shares	(3.012)	(3.103)	91	(2,9)%
Equity attributable to non-controlling interests	5.571	5.476	95	1,7%
Net profit attributable to the Parent company	123.097	146.763	(23.666)	(16,1)%
Group equity	**1.538.953**	**1.459.000**	**79.953**	**5,5%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2018	1.459.000
Increases:	138.644
Profit for the year attributable to the Parent company	123.097
Change in valuation reserve:	14.135
- Securities	*13.753*
- Exchange differences	*382*
Other changes	1.317
Equity attributable to non-controlling interests	95
Decreases:	58.691
Dividends distributed	56.125
Change in valuation reserve:	2.566
- Securities	*2.324*
- Post-employment benefits	*242*
Equity at 31.12.2019	1.538.953

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

Own funds and capital adequacy ratios

OWN FUNDS AND CAPITAL ADEQUACY RATIOS (in thousands of Euro)	31.12.2019	31.12.2018
Common equity Tier 1 Capital (CET1)	1.008.865	924.285
Tier 1 capital (T1)	1.064.524	980.463
Total own funds	**1.342.069**	**1.257.711**
Total RWA	**9.206.155**	**8.974.645**
Common Equity Tier 1 Ratio	10,96%	10,30%
Tier 1 Capital Ratio	11,56%	10,92%
Ratio - Total Own Funds	**14,58%**	**14,01%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 31 December 2019 net of the estimated dividend.

Consolidated own funds, risk-weighted assets and prudential ratios at 31 December 2019 were calculated based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), which were transposed in the Bank of Italy's Circulars no. 285 and no. 286. In particular, article 19 of the CRR requires to include the unconsolidated parent company La Scogliera in prudential consolidation.

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

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

- 0,85 from 1 January 2019 to 31 December 2019;

- 0,70 from 1 January 2020 to 31 December 2020;
- 0,50 from 1 January 2021 to 31 December 2021;
- 0,25 from 1 January 2022 to 31 December 2022.

At 31 December 2019, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 3,4 million Euro, net of the tax effect. Therefore, in accordance with the transitional arrangements - "dynamic approach" - 1,5 million Euro were included in the Common Equity Tier 1 (CET1) capital attributable to the Group.

The 84,3 million Euro increase in Own Funds compared to 31 December 2018 was largely attributable to:

- 26,1 million Euro arising from the inclusion of the profit for the year ended 31 December 2019 attributable to the Group and calculated for regulatory purposes, net of the estimated dividend;
- the deduction from the CET1 for an amount of 38,0 million Euro, as the result of the Purchase Price Allocation process carried out in compliance with IFRS 3, in connection with the FBS Group acquisition;
- 40,1 million Euro arising from the higher amount of minority interests included in the calculation (article 84 CRR);
- the lower 100% deduction from CET1 of "deferred tax assets that rely on future profitability and do not arise from temporary differences" totalling 103,8 million Euro - compared to 145,9 million Euro deducted at 31 December 2018; in this regard, please note that this deduction will be further absorbed by the future use of such deferred tax assets;
- the remainder referred to the positive change in reserves, including the profits generated by the Companies not included in the Banking Group's scope and attributable to the Group.

The absorption of capital deriving from the increase in risk-weighted assets, equal to about 18,5 million Euro, in respect of the growth in Own Funds for 84 million Euro, caused the Total capital ratio to amount to 14,58% at 31 December 2019, up from the results achieved at 31 December 2018 of 14,01%; this trend was also reported for the CET1 ratio now 10,96%, compared to the previous figure of 10,30%.

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

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Total RWA per Segment	4.888.659	1.753.888	476.571	7.119.118
Off-balance sheet exposures: payable, guarantees granted	X	X	X	499.503
Other assets: sundry receivables, suspense accounts	X	X	X	383.356
Tax assets	X	X	X	218.582
Market risk	X	X	X	86.085
Operational risk (basic indicator approach)	X	X	X	889.318
Credit valuation adjustment risk on derivatives	X	X	X	10.194
Total RWAs	X	X	X	9.206.155

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

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

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

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

OWN FUNDS AND CAPITAL ADEQUACY RATIOS WITHOUT IFRS 9 TRANSITIONAL ARRANGEMENTS (in thousands of Euro)	**31.12.2019**	**31.12.2018**
Common equity Tier 1 Capital (CET1)	1.007.416	924.063
Tier 1 capital (T1)	1.063.075	980.241
Total own funds	**1.340.620**	**1.257.489**
Total RWA	**9.207.122**	**8.974.328**
Common Equity Tier 1 Ratio	10,94%	10,30%
Tier 1 Capital Ratio	11,55%	10,92%
Ratio - Total Own Funds	**14,56%**	**14,01%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 31 December 2019 net of the estimated dividend.

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

OWN FUNDS AND CAPITAL ADEQUACY RATIOS: BANCA IFIS BANKING GROUP SCOPE (in thousands of Euro)	**31.12.2019**	**31.12.2018**
Common equity Tier 1 Capital (CET1)	1.312.821	1.231.537
Tier 1 capital (T1)	1.312.821	1.231.537
Total own funds	**1.713.198**	**1.631.858**
Total RWA	**9.190.900**	**8.966.099**
Common Equity Tier 1 Ratio	14,28%	13,74%
Tier 1 Capital Ratio	14,28%	13,74%
Ratio - Total Own Funds	**18,64%**	**18,20%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 31 December 2019 net of the estimated dividend.

2.11.2 Reclassified income statements items

Formation of net banking income

Net banking income totalled 558,3 million Euro, down 3,2% from last year's 576,5 million Euro.

This change was mainly due to the decrease in net interest income in the Enterprises Segment, down 7,2% compared to 31 December 2018, where the substantially stable results of the Trade receivables (-1,0%) and positive results of the Leasing (+8,7%) and Fast Finance (+10,6%) business areas were offset by the reduction in the Corporate Banking area (-28,2%) mainly linked to the lower contribution of the "reversal PPA" (77,8 million Euro at 31 December 2018 compared to 57,9 million Euro at 31 December 2019) and the recognition of negative changes in the fair value of financial assets held in portfolio (-11,0 million Euro). Net banking income for the NPL Segment amounted to 252,4 million Euro, up 3,4% on the previous year. Finally net banking income for the Governance & Services Segment was negative by 5,6 million Euro, as compared to a negative value of 3,2 million Euro the previous year.

NET BANKING INCOME (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net interest income	458.868	469.261	(10.393)	(2,2)%
Net commission income	94.078	84.505	9.573	11,3%
Other components of net banking income	5.387	22.737	(17.350)	(76,3)%
Net banking income	**558.333**	**576.503**	**(18.170)**	**(3,2)%**

Net interest income went from 469,3 million Euro at 31 December 2018 to 458,9 million Euro at 31 December 2019 (-2,2%) because of the reasons previously discussed with reference to net banking income.

Net commission amounted to 94,1 million Euro, up 11,3% compared to the previous year, also benefiting from the positive contribution of 6,8 million Euro resulting from the acquisition of the FBS Group.

Commission income, totalling 105,3 million Euro compared to 97,7 million Euro at 31 December 2018, came primarily from factoring commissions on the turnover generated by individual customers (with or without recourse, in a flat or monthly scheme), arrangement fees for structured finance transactions, leases, third-party servicing, as well as from other fees usually charged to customers for services.

Commission expense, totalling 11,2 million Euro compared to 13,2 million Euro in the prior year, largely referred to fees paid to banks and financial intermediaries such as management fees, fees paid to third parties for the distribution of leasing products, as well as brokerage operations carried out by approved banks and other credit brokers.

The other components of net banking income are made up as follows:

- 0,8 million Euro from dividends (0,3 million Euro at 31 December 2018);
- 4,5 million Euro in the negative result from trading activities (negative result of 0,8 million Euro at 31 December 2018), mainly relating to the cost of cross currency swaps entered into in order to neutralise the exchange rate risk deriving from loans to customers in currencies other than the Euro;
- 18,7 million Euro in gains on the disposal of assets measured at amortised cost (25,4 million Euro at 31 December 2018), of which 15,8 attributable to the NPL Segment;
- 9,6 million Euro the net negative result of other financial assets and liabilities measured at fair value through profit or loss (negative 2,2 million Euro at 31 December 2018). This result is the combined effect on gains from the disposal of financial assets at fair value for 6,4 million Euro, juxtaposed by comprehensive changes in fair value of 16,0 million Euro, of which one connected with a single participating financial instrument for 11,3 million Euro.

Formation of net profit (loss) from financial activities

The Group's net profit from financial activities totalled 471,2 million Euro, compared to 476,4 million Euro at 31 December 2018 (-1,1%).

FORMATION OF NET PROFIT (LOSS) FROM FINANCIAL ACTIVITIES (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net banking income	**558.333**	**576.503**	**(18.170)**	**(3,2)%**
Net credit risk losses/reversals	(87.183)	(100.094)	12.911	(12,9)%
Net profit (loss) from financial activities	**471.150**	**476.409**	**(5.259)**	**(1,1)%**

Net credit risk losses totalled 87,2 million Euro (compared to 100,1 million Euro at 31 December 2018, -12,9%) and were almost entirely due to the Enterprises Segment. In 2019, this segment recorded credit risk losses for a total of 83,5 million Euro (down 13,9 million Euro on 2018, -14,3%), of which 55,2 million Euro relating to exposures of the Trade Receivables unit (-26,3%), 17,9 million Euro to Corporate Banking (+54,0%), mainly connected with write-downs in relation to the impairment of positions that had already been restructured and 10,2 million Euro to Leasing (-4,2%).

Formation of profit for the year

FORMATION OF NET PROFIT (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Net profit (loss) from financial activities	**471.150**	**476.409**	**(5.259)**	**(1,1)%**
Operating costs	(294.921)	(273.431)	(21.490)	7,9%
Gains (Losses) on disposal of investments	(408)	-	(408)	n.a.
Pre-tax profit (loss) from continuing operations	**175.821**	**202.978**	**(27.157)**	**(13,4)%**
Income taxes for the year relating to current operations	(52.633)	(56.168)	3.535	(6,3)%
Profit (loss) for the year attributable to non-controlling interests	91	47	44	92,8%
Profit (loss) for the year attributable to the Parent company	**123.097**	**146.763**	**(23.666)**	**(16,1)%**

Operating costs totalled 294,9 million Euro (273,4 million Euro at 31 December 2018, +7,9%).

OPERATING COSTS (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Administrative expenses:	344.237	288.110	56.127	19,5%
a) personnel expenses	129.959	111.584	18.375	16,5%
b) other administrative expenses	214.278	176.526	37.752	21,4%
Net allocations to provisions for risks and charges	12.376	2.099	10.277	n.s.
Net impairment losses/reversals on property, plant and equipment and intangible assets	15.839	12.758	3.081	24,1%
Other operating income/expenses	(77.531)	(29.536)	(47.995)	162,5%
Operating costs	**294.921**	**273.431**	**21.490**	**7,9%**

Personnel expenses of 130,0 million Euro were up by 16,5% (111,6 million Euro in the year ended 31 December 2018), due to both the increase in the number of the Group's employees, which stood at 1.753 at 31 December 2019 (+7,0% on the 1.638 employees at 31

December 2018), and the effect of the settlement agreements relating to the departure of the minority shareholders and directors of FBS.

Other administrative expenses, amounting to 214,3 million Euro compared to 176,5 million Euro at 31 December 2018, include the expense of 30,9 million Euro relating to the settlement of certain tax disputes regarding the former subsidiary Interbanca, the economic impact of which is fully offset in the item "other net operating income" for 46,2 million Euro (including the related tax effect) against the activation of outstanding guarantees. Net of this item, an increase is booked of approximately 11,7 million Euro in legal and consultancy expenses, partially offset by a reduction of 4,8 million Euro in other expenses, as more extensively explained below.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	31.12.2019	31.12.2018	CHANGE	
			ABSOLUTE	%
Expenses for professional services	**70.691**	**59.636**	**11.055**	**18,5%**
Legal and consulting services	52.043	40.354	11.689	29,0%
Auditing	773	516	257	49,9%
Outsourced services	17.875	18.766	(891)	(4,7)%
Direct and indirect taxes	**76.735**	**45.291**	**31.444**	**69,4%**
Expenses for purchasing goods and other services	**66.852**	**71.599**	**(4.747)**	**(6,6)%**
Customer information	18.345	17.645	700	4,0%
Software assistance and hire	16.511	16.117	394	2,4%
FITD and Resolution fund	6.492	5.983	509	8,5%
Postage and archiving of documents	5.708	5.761	(53)	(0,9)%
Property expenses	5.643	6.697	(1.054)	(15,7)%
Advertising and inserts	2.957	3.395	(438)	(12,9)%
Telephone and data transmission expenses	2.671	3.737	(1.066)	(28,5)%
Business trips and transfers	2.546	3.491	(945)	(27,1)%
Car fleet management and maintenance	2.452	3.627	(1.175)	(32,4)%
Securitisation costs	1.422	1.642	(220)	(13,4)%
Other sundry expenses	2.105	3.504	(1.399)	(40,0)%
Total administrative expenses	**214.278**	**176.526**	**37.752**	**21,4%**

The sub-item "Legal and consulting services" amounted to 52,0 million Euro at 31 December 2019, an increase of 29,0% compared to the 40,4 million Euro in the previous year and includes costs linked to recovery of judicial operations in particular for receivables belonging to the NPL Segment (25,1 million Euro at 31 December 2018). The increase in the item is due to both the change in the consolidation area with the inclusion of FBS and Credifarma for all 12 months, for an effect of approximately 5,0 million Euro and the increase in consultancy linked to corporate acquisitions and the reorganisation of the Group's corporate structures.

"Outsourced services", amounting to 17,9 million Euro at 31 December 2019, substantially in line compared with the 18,8 million Euro of the previous year, mainly refers to the recovery of non-judicial operations in the NPL Segment.

The item "Direct and indirect taxes", equal to 76,7 million Euro compared to 45,3 million Euro at 31 December 2018, is significantly influenced by the charge of 30,9 million Euro related to the requests for facilitated settlement of tax disputes presented during 2019. Net of this effect, the item mainly refers to the registration tax incurred for the judicial recovery of receivables for a total of 31,3 million Euro at 31 December 2019 in line with the 30,8 million Euro of the previous year. The item also includes stamp duty of 12,1 million Euro, the charge of which to customers is included in the item Other operating income.

"Expenses for purchasing goods and other services" amounted to 66,9 million Euro, down 6,6% from 71,6 million Euro in the previous year. The change in this item is due to the contrasting effect in the change in some of the most significant items, in particular:

- expenses for customer information of 18,3 million Euro, up 4,0% on the previous year: the increase refers mainly to the NPL Segment and is namely related to the valuation of assets to guarantee the portfolios managed.
- FITD and Resolution fund amounted to 6,5 million Euro, up 8,5% compared to 6,0 million Euro at 31 December 2018;
- property expenses and car fleet management and maintenance, which decreased by a total of 2,2 million Euro, essentially due to the application from 1 January 2019 of the new IFRS 16 standard;
- business trips and transfers dropped by 27,1% as compared with the previous year, coming in at 2,6 million Euro, also following the completion of projects involving employees in the various Group offices, above all during the previous year.

Net allocations to provisions for risks and charges amounted to 12,4 million Euro compared with net allocations of 2,1 million Euro at 31 December 2018. Year net allocations mainly referred, for 6,2 million Euro, to disputes relating to trade receivables, for 1,8 million Euro to provisions made for leasing, for 1,6 million Euro to disputes deriving from the former Interbanca portfolio, for 1,3 million Euro to essential commitments to disburse funds and for 1,2 million Euro to provisions for risks and charges linked to the NPL Segment.

Other net operating income amounted to 77,5 million Euro (29,5 million Euro at 31 December 2018) and included the effects of the aforementioned activation of guarantees in place in view of the closure of certain tax disputes for 46,2 million Euro at 31 December 2019; net of this amount, other net operating income equal to 31,3 million Euro mainly refers to revenues deriving from the recovery of expenses charged to third parties, the related cost item of which is included in other administrative expenses, in particular under legal expenses and indirect taxes, as well as from the recovery of expenses connected with leasing activities, in line with the previous year.

Losses on disposal of investments include the effects of the sale of the controlling interest in Two Solar Park 2008 S.r.l. at the end of the first half of 2019.

Pre-tax profit from continuing operations amounted to 175,8 million Euro (-13,4% compared to 31 December 2018).

Income taxes amounted to 52,6 million Euro (-6,3% compared to 31 December 2018). The tax rate for FY 2019 was 29,94%, compared to 27,67% in the prior year. Please note that the tax rate used in 2019 suffers the negative effects of the non-deductibility of the expense relating to requests for the facilitated settlement of tax disputes mentioned previously and partially offset by the positive effects of the reintroduction of the regulations on aid for economic growth (ACE), the tax redemption of goodwill entered in the statutory consolidated accounts following the purchase of the controlling equity investment in FBS S.p.A., the tax alignment of the value of certain properties to their carrying amount and the positive outcome of an IRAP appeal relating to tax year 2018.

Excluding 91 thousand Euro in profit attributable to non-controlling interests, the net profit for the year attributable to the Parent company totalled 123,1 million Euro (-16,1% from the prior year).

Below is the table reconciling equity and the net result of the Parent company with the corresponding consolidated data:

(in thousands of Euro)	31.12.2019		31.12.2018	
	EQUITY	OF WHICH PROFIT (LOSS) FOR THE YEAR	EQUITY	OF WHICH PROFIT (LOSS) FOR THE YEAR
Parent company balance	1.352.244	27.346	1.368.465	82.806
Difference compared to the carrying amounts of the companies consolidated	187.061	95.813	90.824	63.893
IFIS Finance Sp. Z o.o.	*10.724*	*1.033*	*9.310*	*1.505*
IFIS NPL S.p.A.	*129.762*	*79.738*	*50.032*	*50.030*
IFIS Rental Services S.r.l.	*36.262*	*11.560*	*24.706*	*11.782*
Cap.Ital.Fin. S.p.A.	*(4.393)*	*(1.754)*	*(2.680)*	*(2.655)*
Credifarma S.p.A.	*9.761*	*211*	*9.456*	*3.979*
FBS Group	*4.945*	*5.025*	-	-
Two Solar Park 2008 S.r.l.	-	-	-	*(748)*
Other changes	*(352)*	*(62)*	*(289)*	*64*
Group consolidated balance	1.538.953	123.097	1.459.000	146.763

2.12 Main risks and uncertainties

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

Reference should be made to Part E of the Notes to the Consolidated Financial Statements for further information on the Banca IFIS Group's risks, typical of the banking sector.

2.13 Banca Ifis shares

The share price

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

Official share price	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Share price at year-end	14,00	15,44	40,77	26,00	28,83

Price/book value

Below is the ratio of the share price at year-end to consolidated equity per share outstanding.

Price/book value	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Share price at year-end	14,00	15,44	40,77	26,00	28,83
Consolidated Equity per share	28,79	27,30	25,62	22,99	10,81
Price/book value	0,49	0,57	1,59	1,13	2,67

Outstanding shares	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Number of shares outstanding at year end (in thousands)(1)	53.452	53.441	53.433	53.431	53.072

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

Earnings per share and Price/Earnings

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

Earnings per share (EPS) & Price/Earnings (P/E)	31.12.2019	31.12.2018
Net profit for the year attributable to the Parent company (in thousands of Euro)	123.097	146.763
Consolidated earnings per share (EPS)	2,30	2,75
Price/Earnings (P/E) Ratio	6,08	5,62

Earnings per share and diluted earnings per share	31.12.2019	31.12.2018
Net profit for the year attributable to the Parent company (in thousands of Euro)	123.097	146.763
Average number of outstanding shares	53.448.405	53.438.425
Average number of diluted shares	53.448.405	53.438.425
Consolidated earnings per share for the year (Units of Euro)	2,30	2,75
Consolidated diluted earnings per share for the year (Units of Euro)	2,30	2,75

Payout ratio

For 2019, the Board of Directors proposed to the Shareholders' Meeting to distribute a dividend of 1,10 Euro per share.

Payout ratio (in thousands of Euro)	2019	2018	2017	2016	2015
Consolidated net profit	123.097	146.763	180.767	687.945	161.966
Parent company dividends (1)	58.797	56.125	53.433	43.813	40.334
Payout ratio	47,8%	38,2%	29,6%	6,4%	24,9%

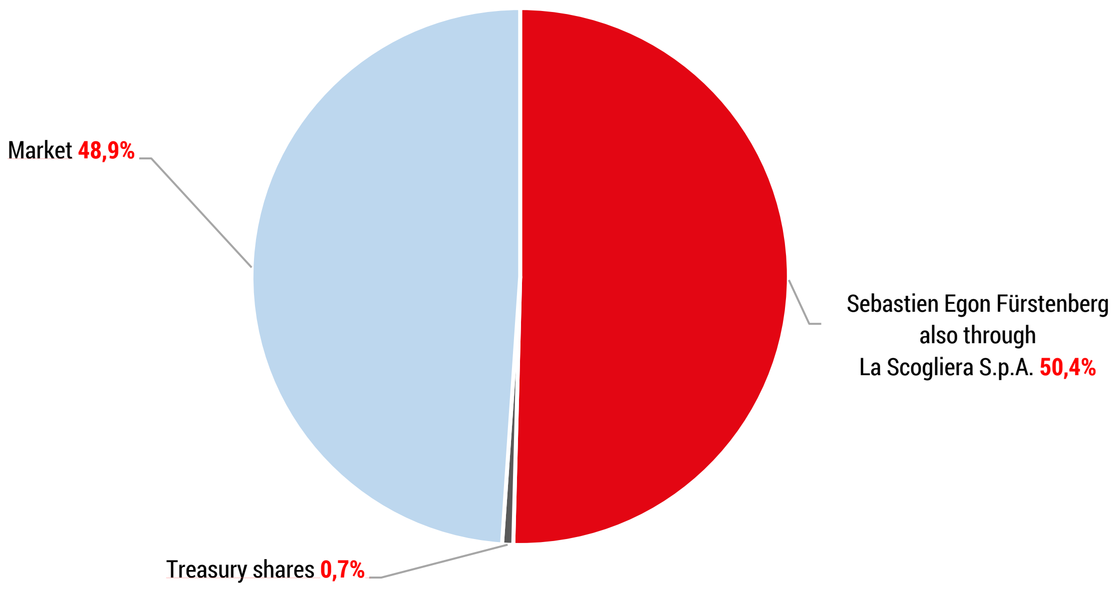
(1) The data for FY 2019 refers to the dividend proposed by the Board of Directors of Banca IFIS.

The 2016 payout ratio was influenced by the gain on bargain purchase deriving from the acquisition of the former GE Capital Interbanca Group. After normalising the profit for the year for the impact of the acquisition, the payout ratio would have stood at 48,8%. Consistently with the Bank's willingness to further strengthen its capital base, the amount corresponding to the gain on bargain purchase that arose from the acquisition of the former GE Capital Interbanca Group was allocated to a reserve that will remain unavailable until the approval of the financial statements for the year 2021.

Shareholders

The share capital of the Parent company at 31 December 2019 amounted to 53.811.095 Euro and is broken down into 53.811.095 shares for a nominal amount of 1 Euro each.

The following table shows Banca IFIS's shareholders that, either directly or indirectly, own equity instruments with voting rights representing over 3% of Banca IFIS's share capital, or 2% in the case of shareholders that are also Directors of the Bank:



Corporate governance rules

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

Internal dealing rules

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

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

Specifically, this Policy governs:

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

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

Rules for the handling of inside information

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

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

In addition, it adopted a Group policy for the handling of inside information in order to:

- prevent individuals who, based on their duties, have no reason to know such information from accessing it;
- identify the individuals who have access to such information at all times.

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

2.14 Significant events occurred during the year

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

Below is a summary of the most significant events that occurred during the year.

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

On 7 January 2019, the acquisition was finalised of FBS S.p.A., the fourth national operator specialising in the management of mortgage and corporate NPLs. The operation, announced on 15 May 2018 and financed entirely from the liquidity available to Banca IFIS, involved 90% of the capital of FBS for a total amount of 58,5 million Euro paid in cash.

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

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

2.14.3 Fitch confirms BB+ rating, stable outlook

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

2.14.4 Results of the Bank of Italy's inspection report

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

2.14.5 Abandoned negotiations between Banca IFIS and Credito Fondiario

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

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

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

2.14.7 Sale of the property located on Corso Venezia in Milan to Merope A.M.

On 29 November 2019 Banca IFIS announced that it had signed a contract with Merope Asset Management for the sale of the property located at Corso Venezia 56 in Milan for the price of 50,5 million Euro, realising a pre-tax gain of approximately 25 million Euro, to be recognised in financial year 2020, in addition to annual savings on operating costs, once fully effective, of approximately 1,5 million Euro. The sale of the property, in line with the strategy pursued by Banca IFIS, is intended to optimise the use of owned properties, rationalise spaces and contain costs. The transaction will be completed in the first half of 2020.

2.14.8 The Shareholders' Meeting approves amendments to the Articles of Association and updates the Remuneration Policies

On 19 December 2019 the Shareholders' Meeting of Banca IFIS S.p.A., gathered in extraordinary and ordinary session, approved amendments to Articles 8, 10, 12, 13 and 20 of the Articles of Association and the addition of Articles 10-bis and 12-bis. The amendments to the Articles of Association relate to: the rules governing the chair of the Shareholders' Meeting and the role of secretary of the Shareholders' Meeting; the ratio of the fixed to the variable component of the remuneration of personnel; the introduction of the position of honorary Chairman of the Bank; the function of secretary of the Board of Directors and responsibility for appointment of the secretary; the express provision of internal board committees; the introduction of the "casting vote"; and the rules governing the powers of representation in the event of the absence or impediment of the Chairman of the Board of Directors.

The Shareholders' Meeting also approved the update to the Banca IFIS Group's Remuneration Policies for 2019.

2.15 Significant subsequent events

2.15.1 Presentation of the 2020/2022 Business Plan

On 14 January 2020 the Board of Directors of Banca IFIS, chaired by Vice Chairman Ernesto Fürstenberg Fassio, approved the 2020/2022 Strategic Plan, which calls for a net profit of 147 million Euro in 2022, investments of 60 million Euro and 190 new employees.

2.15.2 Placement of Senior Preferred bonds

On 18 February 2020, the Banca IFIS Group successfully concluded placement of a Senior Preferred 4-year bond issue, for an amount of 400 million Euro. The bond has a 5-year maturity and a 1,75% fixed coupon rate, and the issue price was 99,692%. The bond, reserved to professional investors, was strongly in demand with final orders, more than 60% of which came from foreign investors, more than three times the allocated amount.

2.15.3 New Coronavirus (Covid-19)

The figures entered on the consolidated financial statements at 31 December 2019 took into account estimates and assumptions based on the macroeconomic and financial indicators envisaged at the reporting date. The Group considers the spread of the new Coronavirus in early January 2020, first throughout continental China and then in Italy in the second half of February, resulting in a suspension of economic and commercial business, as a subsequent event that does not entail any adjustment of the financial statements as prepared. At present, the situation is evolving rapidly, making it impossible to forecast the potential impact of said event on the Group's prospective economic, equity and financial position. If present, this impact will be included in the estimates adopted by the Group in 2020.

The Bank is monitoring the phenomenon daily, paying close attention both to how the situation evolves in the territory and the related institutional assessments, as well as to potential impacts on the various business lines in which the Bank operates, including the maintenance and constant monitoring of asset quality.

No other significant events occurred between the end of the year and the approval of the consolidated financial statements by the Board of Directors.

2.16 Outlook

The first few weeks of 2020 were favourable and benefited from the stabilisation of the world economy recorded in the second half of 2019, supported by the expansive monetary policies and the first stage in the commercial agreement between China and the USA, which opened up to a solution to the tariff war.

The latest estimates by Prometeia had Italy's gross domestic product booked as expected to grow by 0,5%. The Italian banking system was expected to benefit from growth of the gross domestic product and the demand for finance (mainly medium and long-term) from businesses and families looking to make the most of the low interest rates.

The bank's derisking process, aimed at improving the quality of assets, is expected to continue over the next few quarters, supporting the offer of NPL on the primary market. Banca Ifis will be playing an active part in all unsecured NPL disposal processes.

On 14 January 2020, Banca Ifis disclosed its 2020-22 Business Plan to the financial community, setting out the strategic guidelines and main economic-financial objectives set for the next few years. The 2020-22 Business Plan is based on macroeconomic estimates that forecast a slight improvement in the GDP in 2022 and negative interest rates through to 2022 (EURIBOR 3M -0,35% at 2022).

On 18 February, consistently with the objectives of the Business Plan that sees a greater diversification of the funding mix, a 400 million Euro senior bond was issued, which enjoyed high demand with final orders, more than 60% of which came from foreign investors, more than three times the amount allocated.

Additionally, and again in line with that defined by the 2020-22 Business Plan, the Group has started a design process aimed at rationalising its corporate and organisational structures in the NPL business and redefining the operative processes, including through the creation of a new company and the merger of existing ones.

However, late February saw a slow-down to certain production activities as a result of the new Coronavirus (Covid-19) epidemic.

The financial markets reacted negatively and the stock market indexes recorded a downturn that eroded the earnings of the first few weeks of the year. From the start of the year through to 4 March 2020, the FTSMIB index has recorded a reduction of 6,6%; Italian banks book downturns that exceed the Italian index, anticipating the possible negative impacts on net banking income and the quality of assets deriving from the economic slow-down. Since the start of the year, the market price of the Banca Ifis share has dropped by 8,6%.

The Monetary Fund, and indeed Standard & Poor's, have reduced the Eurozone growth forecasts. The manoeuvres implemented both by the central banks, like the Federal Reserve, which has reduced rates by half a point, and the individual national governments, will be focussed on supporting the real economies and, accordingly, the aggregated demand. The Eurogroup is also striving to identify joint strategies to prevent the general slow-down to the economy from turning into a recession.

At present, the situation is evolving rapidly, making it impossible to quantitatively forecast the potential impact of said event on the Group's prospective economic, equity and financial position and indeed said impact on the banking system as a whole.

As regards the specific Group business segments, we note, however, that there has been a physiological slow-down to commercial development in terms of credit, connected with both the restrictions to travel imposed by the Group on its networks and the measures defined autonomously by customers (potential and portfolio). Certain specific positions are also being assessed on sectors that are particularly impacted by the current crisis, such as tourism and food & beverage, on which the Group has activated closer monitoring measures in order to intercept any possible signs of difficulty or tension in the positions.

At the time this document was drafted, no operating losses were recorded as due to COVID-19. We are operatively monitoring certain receivables due from ordinary counterparties (retail and corporate), which may be subject to suspension free of charge for the counterparties, as from the end of the first quarter 2020.

With reference to the NPL business, the substantial block of certain courts causes managerial delays in the pursuit of legal proceedings with a consequent potential impoverishing of the positions. The positions for which the Group has already obtained a garnishment order on the available portion of the salary or pension, may be impacted due to labour law interventions open to all companies (e.g. temporary lay-off funds).

As regards amicable collection, on the other hand, the networks used by the Group are impacted by the current restrictions and show a slight slow-down to deposits. This latter will potentially be impacted by the institutions' considerations regarding the freezing of payments in the areas worst struck by the phenomenon.

2.17 Other information

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

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

Report on Corporate Governance and Shareholding Structure

Pursuant to article 123 bis, paragraph three, of Italian Legislative Decree no. 58 of 24 February 1998, a separate report has been prepared from this Group Report on Operations, which was approved by the Board of Directors and published together with the draft consolidated financial statements at 31 December 2019. This document is also made available on Banca IFIS's website, *www.bancaifis.com*, in the "Corporate Governance" Section.

The Report on Corporate Governance and Shareholding Structure has been drawn up according to the format provided by Borsa Italiana.

Together with this Report, the "Report on Remuneration" prepared pursuant to article 123-ter of the Consolidated Law on Finance, was also made available.

Non-Financial Statement

Pursuant to article 5, paragraph 3 of Italian Legislative Decree no. 254 of 30 December 2016, the consolidated non-financial statement represents a report separate from this document, which is approved by the Board of Directors and published together with the draft consolidated financial statements at 31 December 2019. This document is also made available on the website, *www.bancaifis.com*, in the "Group - Sustainability" Section.

The disclosures on policies concerning the diversity of administration, management and control bodies in terms of age, gender, and education and professional background, as well as the description of the goals, implementation and results of said policies, as per article 123-bis, paragraph 2, letter d-bis) of the Consolidated Law on Finance are included in the "Report on Corporate Governance and Shareholding Structure".

Privacy measures

The Banca IFIS Group has consolidated a project to comply with Regulation (EU) 2016/679 in order to incorporate the relevant regulatory provisions into its internal privacy management model, planning a series of both technological and organisational steps that will concern all the Group's companies.

Parent company management and coordination

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

National consolidated tax regime

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

Transactions between these companies were regulated by means of a private written agreement between the parties. This agreement will lapse after three years.

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

Under this tax regime, the taxable profits and tax losses reported by each entity for the fiscal year 2019 were transferred to the consolidating company La Scogliera S.p.A..

Due mainly to the offsetting of the net result for the year 2019 with the previous tax losses and ACE surpluses, the net receivable from the parent company at 31 December 2019 decreased to 21,9 million Euro, compared to 42,5 million Euro at the end of the previous year.

Transactions on treasury shares

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

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

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

Related-party transactions

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

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

During 2019, no significant transactions with related parties were undertaken.

For information on individual related-party transactions, please refer to Part H of the Notes to the Consolidated Financial Statements.

Atypical or unusual transactions

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

Research and development activities

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

Venice - Mestre, 12 March 2020

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Luciano Colombini

3.

Consolidated Financial Statements

3.1 Consolidated Statement of Financial Position

ASSETS (in thousands of Euro)		31.12.2019	31.12.2018
10.	Cash and cash equivalents	56	48
20.	Financial assets measured at fair value through profit or loss	137.098	193.654
	a) financial assets held for trading	24.313	29.809
	c) other financial assets mandatorily measured at fair value	112.785	163.845
30.	Financial assets measured at fair value through other comprehensive income	1.173.808	432.094
40.	Financial assets measured at amortised cost	8.278.116	7.904.567
	a) receivables due from banks	626.890	590.595
	b) receivables due from customers	7.651.226	7.313.972
70.	Equity investments	6	-
90.	Property, plant and equipment	106.301	130.650
100.	Intangible assets	60.919	23.277
	of which:		
	- goodwill	39.542	1.515
110.	Tax assets:	391.185	395.084
	a) current	56.869	46.820
	b) deferred	334.316	348.264
120.	Non-current assets and disposal groups	25.560	-
130.	Other assets	352.975	302.887
	Total assets	**10.526.024**	**9.382.261**

	LIABILITIES AND EQUITY (in thousands of Euro)	31.12.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	8.463.245	7.437.694
	a) payables due to banks	959.477	785.393
	b) payables due to customers	5.286.239	4.673.299
	c) debt securities issued	2.217.529	1.979.002
20.	Financial liabilities held for trading	21.844	31.155
60.	Tax liabilities:	69.018	52.722
	a) current	28.248	13.367
	b) deferred	40.770	39.355
80.	Other liabilities	390.022	367.872
90.	Post-employment benefits	9.977	8.039
100.	Provisions for risks and charges:	32.965	25.779
	a) commitments and guarantees granted	3.952	3.896
	c) other provisions for risks and charges	29.013	21.883
120.	Valuation reserves	(3.037)	(14.606)
150.	Reserves	1.260.238	1.168.543
160.	Share premiums	102.285	102.116
170.	Share capital	53.811	53.811
180.	Treasury shares (-)	(3.012)	(3.103)
190.	Equity attributable to non-controlling interests (+/-)	5.571	5.476
200.	Profit (loss) for the year (+/-)	123.097	146.763
	Total liabilities and equity	10.526.024	9.382.261

3.2 Consolidated Income Statement

	ITEMS (in thousands of Euro)	31.12.2019	31.12.2018
10.	Interest receivable and similar income	453.343	436.046
	of which: interest income calculated using the effective interest method	*452.404*	*431.151*
20.	Interest due and similar expenses	(114.337)	(104.934)
30.	**Net interest income**	**339.006**	**331.112**
40.	Commission income	105.250	97.697
50.	Commission expense	(11.172)	(13.192)
60.	**Net commission income**	**94.078**	**84.505**
70.	Dividends and similar income	813	336
80.	Net profit (loss) from trading	(4.487)	(772)
100.	Profit (loss) from sale or buyback of:	18.680	25.396
	a) financial assets measured at amortised cost	17.721	17.165
	b) financial assets measured at fair value through other comprehensive income	959	-
	c) financial liabilities	-	8.231
110.	Net result of other financial assets and liabilities measured at fair value through profit or loss	(9.619)	(2.223)
	b) other financial assets mandatorily measured at fair value	(9.619)	(2.223)
120.	**Net banking income**	**438.471**	**438.354**
130.	Net credit risk losses/reversals on:	32.679	38.055
	a) financial assets measured at amortised cost	32.566	39.074
	b) financial assets measured at fair value through other comprehensive income	113	(1.019)
150.	**Net profit (loss) from financial activities**	**471.150**	**476.409**
190.	Administrative expenses:	(344.237)	(288.110)
	a) personnel expenses	(129.959)	(111.584)
	b) other administrative expenses	(214.278)	(176.526)
200.	Net allocations to provisions for risks and charges	(12.376)	(2.099)
	a) commitments and guarantees granted	(1.287)	(229)
	b) other net allocations	(11.089)	(1.870)
210.	Net impairment losses/reversals on property, plant and equipment	(7.960)	(6.315)
220.	Net impairment losses/reversals on intangible assets	(7.879)	(6.443)
230.	Other operating income/expenses	77.531	29.536
240.	**Operating costs**	**(294.921)**	**(273.431)**
280.	Gains (Losses) on disposal of investments	(408)	-
290.	**Pre-tax profit (loss) from continuing operations**	**175.821**	**202.978**
300.	Income taxes for the year relating to current operations	(52.633)	(56.168)
330.	**Profit (loss) for the year**	**123.188**	**146.810**
340.	Profit (loss) for the year attributable to non-controlling interests	91	47
350.	**Profit (loss) for the year attributable to the Parent company**	**123.097**	**146.763**

3.3 Consolidated Statement of Comprehensive Income

	ITEMS (in thousands of Euro)	31.12.2019	31.12.2018
10.	Profit (Loss) for the year	123.188	146.810
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	138	1.684
20.	Equity securities measured at fair value through other comprehensive income	380	1.586
30.	Financial liabilities measured at fair value through profit or loss (changes in own credit risk)	-	-
40.	Hedging of equity securities measured at fair value through other comprehensive income	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(242)	98
80.	Non-current assets and disposal groups	-	-
90.	Share of valuation reserves of equity accounted investments	-	-
	Other comprehensive income, net of taxes, to be reclassified to profit or loss	10.245	(13.573)
100.	Foreign investment hedges	-	-
110.	Exchange differences	382	(1.027)
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated items)	-	-
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	9.863	(12.546)
150.	Non-current assets and disposal groups	-	-
160.	Share of valuation reserves of equity accounted investments	-	-
170.	Total other comprehensive income	10.383	(11.889)
180.	Total comprehensive income (Item 10 + 170)	133.571	134.921
190.	Total consolidated comprehensive income attributable to non-controlling interests	91	47
200.	Total consolidated comprehensive income attributable to the Parent company	133.480	134.874

3.4 Statement of Changes in Consolidated Equity at 31 December 2019

	Balance at 31.12.2018	Change in opening balances	Balance at 01.01.2019	Allocation of profit from previous year: Reserves	Allocation of profit from previous year: Dividends and other allocations	Changes during the year: Changes in reserves	Changes during the year – Equity transactions: Issue of new shares	Equity transactions: Buyback of treasury shares	Equity transactions: Extraordinary distribution of dividends	Equity transactions: Changes in equity instruments	Equity transactions: Derivatives on treasury shares	Equity transactions: Stock Options	Equity transactions: Changes in equity interests	Comprehensive income for the year	Equity attributable to the Parent company at 31.12.2019	Equity attributable to non-controlling interests at 31.12.2019	Consolidated equity at 31.12.2019
Share capital:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
a) ordinary shares	53.811	X	53.811	-	X	X	-	-	X	X	X	X	-	X	53.811	4.434	58.245
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	-	X	-	-	-
Share premiums	102.116	X	102.116	-	X	169	-	X	X	X	X	X	-	X	102.285	-	102.285
Reserves:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
a) retained earnings	1.163.194	-	1.163.194	90.638	X	1.014	-	-	-	X	X	X	-	X	1.254.846	978	1.255.824
b) other	5.349	-	5.349	-	X	43	-	X	-	X	-	-	-	X	5.392	-	5.392
Valuation reserves:	(14.606)	-	(14.606)		X	1.186	X	X	X	X	X	X	-	10.383	(3.037)	68	(2.969)
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	-	X	-	-	-
Treasury shares	(3.103)	X	(3.103)	X	X	X	-	91	X	X	X	X	X	X	(3.012)	-	(3.012)
Profit (loss) for the year attributable to the Parent company	146.763	-	146.763	(90.638)	(56.125)	X	X	X	X	X	X	X	X	123.097	123.097	91	123.188
Equity attributable to the Parent company	1.453.524	-	1.453.524	-	(56.125)	2.412	-	91	-	-	-	-	-	133.480	1.533.382	X	X
Equity attributable to non-controlling interests	5.476	-	5.476	-	-	-	-	-	-	-	-	-	4	91	X	5.571	X
Consolidated Equity	1.459.000	-	1.459.000	-	(56.125)	2.412	-	91	-	-	-	-	4	133.571	X	X	1.538.953

3.5 Statement of Changes in Consolidated Equity at 31 December 2018

	Balance at 31.12.2017	Change in opening balances	Balance at 01.01.2018	Allocation of profit from previous year		Changes during the year									Equity attributable to the Parent company at 31.12.2018	Equity attributable to non-controlling interests at 31.12.2018	Consolidated equity at 31.12.2018
							Equity transactions										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity interests	Comprehensive income for the year			
Share capital:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
a) ordinary shares	53.811	X	53.811	-	X	X	-	-	X	X	X	X	-	X	53.811	4.430	58.241
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	-	X	-	-	-
Share premiums	101.864	X	101.864	-	X	-	-	X	X	X	X	X	-	X	102.116	-	102.116
Reserves:	X	X	X	X	X	X	X	252	X	X	X	X	X	X	X	X	X
a) retained earnings	1.032.741	2.948	1.035.689	127.334	X	171	-	-	-	X	X	X	-	X	1.163.194	931	1.164.125
b) other	5.414	-	5.414	-	X	-	-	(65)	-	X	-	-	-	X	5.349		5.349
Valuation reserves:	(2.710)	(7)	(2.717)	X	X	-	X	X	X	X	X	X	-	(11.889)	(14.606)	68	(14.538)
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	-	X	-	-	-
Treasury shares	(3.168)	X	(3.168)	X	X	X	-	65	X	X	X	X	X	X	(3.103)	-	(3.103)
Profit (loss) for the year attributable to the Parent company	180.767	-	180.767	(127.334)	(53.433)	X	X	X	X	X	X	X	X	146.763	146.763	47	146.810
Equity attributable to the Parent company	1.368.719	2.941	1.371.660	-	(53.433)	171	-	252	-	-	-	-	-	134.874	1.453.524	X	X
Equity attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	5.429	47	X	5.476	X
Consolidated Equity	1.368.719	2.941	1.371.660	-	(53.433)	171	-	252	-	-	-	-	5.429	134.921	X	X	1.459.000

3.6 Consolidated Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT	AMOUNT	
Indirect method	31.12.2019	31.12.2018
A. OPERATING ACTIVITIES		
1. Operations	186.015	202.076
- profit (loss) for the year (+/-)	123.097	146.763
- profit/loss on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)	14.106	2.995
- net credit risk losses/reversals (+/-)	(32.679)	(38.055)
- net impairment losses/reversals on property, plant and equipment and intangible assets (+/-)	15.839	12.758
- net allocations to provisions for risks and charges and other expenses/income (+/-)	12.376	2.193
- unpaid taxes, duties and tax credits (+/-)	52.633	56.168
- other adjustments (+/-)	643	19.254
2. Cash flows generated/absorbed by financial assets	(1.087.568)	141.382
- financial assets held for trading	1.009	5.033
- other assets mandatorily measured at fair value	44.065	(107.261)
- financial assets measured at fair value through other comprehensive income	(730.032)	(2.433)
- financial assets measured at amortised cost	(309.424)	287.826
- other assets	(93.186)	(41.783)
3. Cash flows generated/absorbed by financial liabilities	1.042.277	(265.299)
- financial liabilities measured at amortised cost	1.025.853	(287.465)
- financial liabilities held for trading	(9.311)	(7.016)
- other liabilities	25.735	29.182
Net cash flows generated/absorbed by operating activities A (+/-)	140.724	78.159
B. INVESTING ACTIVITIES		
1. Cash flows generated by	100	-
- sales of subsidiaries and business units	100	-
2. Cash flows absorbed by	(85.166)	(25.213)
- purchases of property, plant and equipment	(6.979)	(9.084)
- purchases of intangible assets	(7.501)	(5.237)
- purchases of subsidiaries and business units	(70.687)	(10.892)
Net cash flows generated/absorbed by investing activities B (+/-)	(85.066)	(25.213)
C. FINANCING ACTIVITIES		
- issues/buyback of treasury shares	260	317
- issues/buyback of equity instruments	214	167
- distribution of dividends and other	(56.124)	(53.433)
Net cash flows generated/absorbed by financing activities C (+/-)	(55.650)	(52.949)
NET CASH GENERATED/USED DURING THE PERIOD D=A+/-B+/-C	8	(2)
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	48	50
TOTAL NET CASH GENERATED/USED DURING THE YEAR D	8	(2)
CASH AND CASH EQUIVALENTS: EFFECT OF CHANGES IN EXCHANGE RATES F	-	-
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	56	48

4.

Notes to the Consolidated Financial Statements

4.1 Part A - Accounting policies

A.1 - General part

Section 1 – Statement of compliance with international accounting standards

The Consolidated Financial Statements at 31 December 2019 have been drawn up in accordance with the IAS/IFRS standards in force at said date issued by the International Accounting Standards Board (IASB), together with the relevant interpretations (IFRICs and SICs). These standards were endorsed by the European Commission in accordance with the provisions in article 6 of European Union Regulation no. 1606/2002. This regulation was implemented in Italy with Italian Legislative Decree no. 38 of 28 February 2005.

Concerning the interpretation and implementation of international accounting standards, the Banca IFIS Group referred to the "Framework for the Preparation and Presentation and Financial Statements", even though it has not been endorsed by the European Commission, as well as the Implementation Guidance, Basis for Conclusions, and any other documents prepared by the IASB or the IFRIC complementing the accounting standards issued.

The accounting standards adopted in preparing these financial statements are those in force at 31 December 2019 (including SIC and IFRIC interpretations).

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

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

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

Section 2 – Basis of preparation

The Consolidated Financial Statements consist of:

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

in addition, they contain the Directors' Report.

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

For the preparation of these Consolidated Financial Statements, reference was made to the format set out by Bank of Italy's Circular no. 262 of 22 December 2005, 6th update of 22 December 2018.

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

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

The Notes do not include the items and tables required by Bank of Italy's Regulation no. 262/2005 where these items are not applicable to the Banca IFIS Group.

The recognition, measurement and derecognition criteria for assets and liabilities, and the procedures for recognising revenues and costs, adopted in the consolidated financial statements at 31 December 2019 have remained substantially unchanged from those adopted for the preparation of the 2018 financial statements of the Banca IFIS Group, with the exception of the amendments that derive essentially from the mandatory application, as of 1 January 2019, of the new international accounting standard IFRS 16 Leases.

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

Information on the business as a going concern

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

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

In this regard, having examined the risks and uncertainties connected to the present macro-economic context, and considering the 2020-22 business plan approved by the Banca Ifis Board of Directors on 13 January 2020, the Banca IFIS Group can indeed be considered as a going concern, in that it can be reasonably expected to continue operating in the foreseeable future. Therefore, the consolidated financial statements at 31 December 2019 are prepared in accordance with this fact.

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

Section 3 - Consolidation scope and method

The Consolidated Financial Statements of the Banca IFIS Group have been drawn up on the basis of the accounts at 31 December 2019 prepared by the directors of the companies included in the consolidation scope.

At 31 December 2019, the Group was composed of the parent company, Banca IFIS S.p.A., the wholly-owned subsidiaries IFIS Finance Sp. Z o.o., IFIS Rental Services S.r.l., IFIS NPL S.p.A. and Cap.Ital.Fin. S.p.A., by the 70% subsidiary Credifarma S.p.A. and, following the acquisition of the FBS Group completed on 7 January 2019, by the companies FBS S.p.A. 100% controlled, FBS Real Estate S.p.A. 99.28% controlled and by the company Elipso Finance S.r.l. 50% jointly controlled. It should also be noted that the 100% stake in the company Two Solar Park 2008 S.r.l. was sold to third parties on 26 June 2019.

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

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

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

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

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

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

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

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

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

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

The consolidation process of the subsidiaries resulted in the following goodwill being recognised under the item intangible assets: 38,0 million Euro for the consolidation of the FBS Group, 822 thousand Euro at year end exchange rates for the subsidiary IFIS Finance Sp. Z o.o. and 700 thousand Euro for the subsidiary Cap.Ital.Fin S.p.A..

It should be noted that on 7 January 2019, the Group completed the acquisition of control of the FBS Group through the acquisition of 90% of the capital of the FBS Group for a total value of 58,5 million Euro. At the same time as the sale and purchase agreement, contracts were defined for the purpose of regulating the put and call option agreements with the minority shareholders of the FBS Group and concerning the remaining shares of the latter. Thereafter, on 30 October 2019, the Group closed the purchase of the remaining 10% interest in FBS S.p.A. from minority shareholders for a price of 12,2 million Euro. The total price of the purchase was therefore 70,7 million Euro.

1. Equity investments in exclusively controlled companies

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

Key

(1) Type of relationship:

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

2 = dominant influence in the Annual Shareholders' Meeting

3 = agreements with other shareholders

4 = other forms of control

5 = joint management pursuant to article 26, paragraph 1, Italian Legislative Decree no. 87/92

6 = joint management pursuant to article 26, paragraph 2, Italian Legislative Decree no. 87/92

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

2. Significant judgements and assumptions in determining the scope of consolidation

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

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

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

Generally, there is a presumption that a majority of voting rights gives control over the investee. The Group reconsiders whether or not it has control of an investee if the facts and circumstances indicate that there have been changes in one or more of the three elements relevant to the definition of control. The consolidation of a subsidiary begins when the Group obtains control and ceases when the Group loses control. The assets, liabilities, revenues and costs of the subsidiary acquired or sold during the year are included in the Consolidated Financial Statements from the date on which the Group obtains control until the date on which the Group no longer exercises control over the company.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent company of the Group and to the non-controlling interests, even if this results in the minority interests having a deficit balance. When necessary, appropriate adjustments are made to the Financial Statements of the subsidiaries, in order to ensure compliance with the Group's accounting standards. All assets and liabilities, equity, revenues, costs and inter-group financial flows relating to transactions between Group entities are derecognised completely during the consolidation phase.

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

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

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

3. Equity investments in exclusively controlled companies with significant minority interests

3.1 Non-controlling interests, voting rights held by non-controlling interests, and dividends distributed to non-controlling interests

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

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

3.2 Equity investments with significant non-controlling interests: accounting information

Company Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Equity	Net interest income	Net banking income	Operating costs	Pre-tax profit (loss) from continuing operations	Profit (loss) from continuing operations, net of taxes	Profit (loss) of disposal groups, net of taxes	Profit (Loss) for the year (1)	Other comprehensive income, net of taxes (2)	Comprehensive income (3) = (1) + (2)
Credifarma S.p.A.	104.280	3	96.212	1.809	82.212	18.561	4.001	6.443	(5.762)	478	302	-	302	3	305

4 Significant restrictions

There were no significant restrictions as per paragraph 13 of IFRS 12, i.e. statutory, contractual and regulatory restrictions on its ability to access or use the assets and settle the liabilities of the Group, nor protective rights of non-controlling interests that can significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

5 Other information

The reporting date of the accounts prepared by the directors of the companies included in the consolidation scope was 31 December 2019.

Section 4 - Subsequent events

No significant events occurred between year-end and the preparation of these consolidated financial statements other than those already included herein.

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

Section 5 – Other aspects

Risks and uncertainties related to estimates

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

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

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

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

- fair value of receivables and financial instruments not quoted in active markets;
- receivables of the NPL Segment;
- receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable;
- measurement of the Expected Credit Loss for receivables other than the NPL Segment;
- provisions for risks and charges;
- post-employment benefits;
- goodwill and other intangible assets.

Fair value of financial instruments not quoted in active markets

In the presence of financial instruments not quoted in active markets or illiquid and complex instruments, it is necessary to activate adequate valuation processes characterised with certain judgement on the choice of valuation models and related input parameters, which may sometimes not be observable in the market. There is a degree of subjectivity involved in assessing whether certain inputs are observable and categorising them within the fair value hierarchy accordingly. For qualitative and quantitative information on the method to determine the fair value of instruments measured in the financial statements at fair value, reference should be made to paragraph A.2 - Part relating to the main items of the consolidated financial statements at 31 December 2019.

NPL Segment exposures

Concerning specifically the measurement of the receivables in the NPL Segment, the Risk Management, when assessing the Bank's capital adequacy (ICAAP), regularly assesses the so-called model risk, since the characteristics of the business model imply a high level of variability concerning both the amount collected and the date of actual collection.

In particular, for receivables undergoing non-judicial operations, the proprietary model estimates cash flows by projecting the breakdown of the nominal amount of the receivable over time based on the historical recovery profile for similar clusters. In addition, for the positions with settlement plan funding characteristics, a deterministic model based on the measurement of the future instalments of the plan, net of the historical default rate is used. Therefore, the timely and careful management of cash flows is particularly important. To ensure expected cash flows are correctly assessed, also with a view to correctly pricing the transactions undertaken, the Group carefully monitors the trend in collections compared to expected flows.

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

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

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

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

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

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

Measurement of the expected credit loss for receivables other than the NPL Segment

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

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

"Expected Credit Losses" (ECLs) are calculated based on whether the financial instrument's credit risk has significantly increased since initial recognition. Reference should be made to the information given in paragraph A.2 - Part relating to the main items of these consolidated financial statements at 31 December 2019.

Goodwill and other intangible assets.

In accordance with IAS 36, goodwill must be impairment tested annually, to check that the value can be recovered. The recoverable value is the greater of Value in Use and fair value, net of the costs of sale.

In order to determine the value in use of goodwill allocated to the cash generating units ("CGUs") making it up, the Banca IFIS Group estimates both future cash flows in the explicit forecasting period and flows used to determine the terminal value. In a similar fashion, the Group also estimates the discounting rate of future cash flows previously estimated. The discounting rate has been determined by the Group using the "Capital Asset Pricing Model" (CAPM).

We would refer you to the more detailed information given in Part B - Information on the Consolidated Statement of Financial Position, Section 10 - Intangible assets - Item 100, Paragraph 10.3 Other information of these Consolidated Financial Statements.

For the other cases listed, reference should be made to the valuation criteria described in paragraph A.2 - Part relating to the main items of these consolidated financial statements at 31 December 2019.

Coming into effect of new accounting standards

Standards issued, effective and applicable to these financial statements

The Consolidated Financial Statements at 31 December 2019 have been drawn up in accordance with the IAS/IFRS accounting standards in force at the reporting date. See the paragraph "Statement of compliance with international accounting standards".

The accounting standards used in preparing these consolidated financial statements, as far as the classification, recognition, measurement, and derecognition of financial assets and liabilities as well as the methods for recognising revenue and costs are concerned, changed compared to the ones used in preparing the consolidated financial statements at 31 December 2018. These changes derive essentially from the mandatory application, starting 1 January 2019, of international financial reporting standard IFRS 16 "Leases", endorsed by the European Commission with Regulation no. 1986/2017, which annulled and replaced IAS 17, IFRIC 4, SIC 15 and SIC 27; please refer to the paragraph "Impact of the first-time adoption of IFRS 16".

The Group has also adopted for the first time some accounting standards and amendments effective for years beginning on or after 1 January 2019. Below are the new accounting standards and the amendments to existing accounting standards endorsed by the EU, which have not materially affected the amounts reported in the annual consolidated financial statements at 31 December 2019:

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

Standards issued but not yet effective

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

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

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

Impact of the first-time adoption of IFRS 16

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

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The purpose is to ensure that lessees and lessors provide appropriate information in a manner that faithfully represents transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance, and cash flows of the entity.

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

The main amendment concerns the representation of the lessee in the statement of financial position with reference to the Right of Use and the commitment made in relation to operating leases, through the recognition of an asset and a liability. Specifically, the lessee shall recognise a liability based on the present value of future lease payments as well as a corresponding right-of-use asset.

After initial recognition:

- the right of use will be subject to amortisation over the duration of the contract or the useful life of the asset (on the basis of IAS 16), if the lease contract transfers ownership of the underlying asset to the lessee at the end of the lease period or if the cost of the asset consisting of the right of use reflects the fact that the lessee will exercise the purchase option, or valued using an alternative criterion - revaluation or fair value model - (respectively IAS 16 or IAS 40)

- the liability shall be gradually reduced as lease payments are made, and the lessee shall recognise interest expense on the liability through profit or loss.

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

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

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

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

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

As for the lessor, the accounting requirements for leases in IAS 17 remain essentially unchanged, differentiating between operating and finance leases. In the event of a finance lease, the lessor will continue to recognise a receivable for future lease payments in the statement of financial position.

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

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

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

Assets/Amounts	31.12.2018	Rights of use acquired through leases	01.01.2019
Property, plant and equipment for functional use	129.930	12.777	142.707
a) Land	35.902	204	36.106
b) Buildings	68.508	10.416	78.924
c) Furniture	1.985	-	1.985
d) Electronic equipment	4.741	155	4.896
e) Other	18.794	2.002	20.796
Property, plant and equipment held for investment purpose	720	-	720
b) Buildings	720	-	720
Total	130.650	12.777	143.427

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

Deadlines for the approval and publication of the Financial Statements

Pursuant to article 154-ter of Italian Legislative Decree no. 58/98 (Consolidated Law on Finance), the Parent company must approve the separate financial statements and publish the Consolidated Annual Financial Report, including the draft separate financial statements, the directors' report, and the declaration as per article 154-bis, paragraph 5, within 120 days of the end of the financial year. The Board of Directors approved the Parent company's draft separate financial statements and the consolidated financial statements on 12 March 2020; the Parent company's separate financial statements will be submitted to the Shareholders' Meeting to be held on 23 April 2020 at first call for approval.

A.2 - Main items of the financial statements

1 - Financial assets measured at fair value through profit or loss ("FVTPL")

Classification criteria

This category comprises financial assets other than Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost. Specifically, this line item includes:

- financial assets held for trading, essentially consisting of debt and equity securities as well as the positive amount of derivative contracts held for trading;
- financial assets measured at fair value, i.e. non-derivative financial assets designated as such on initial recognition if the relevant conditions are met. At initial recognition, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss if, and only if, doing so would eliminate or significantly reduce a measurement or recognition inconsistency.
- financial assets mandatorily measured at fair value, consisting of financial assets that are not eligible for the measurement at amortised cost or fair value through other comprehensive income based on the relevant business model or cash flow characteristics. Specifically, this category includes:
  - debt instruments, securities and loans without cash flows that are solely payments of principal and interest consistent with a "basic lending arrangement" (so-called "SPPI test" failed);

- debt instruments, securities and loans held within a business model that is neither "Held to collect" (whose objective is to hold the asset to collect contractual cash flows) nor "Held to collect and sell" (whose objective is achieved by both collecting contractual cash flows and selling financial assets);
- UCITS units;
- equity instruments for which the Group elects not to use the option under the standard to measure them at fair value through other comprehensive income (so-called "OCI Option").

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

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

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

Recognition criteria

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

Measurement criteria

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

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

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

Derecognition criteria

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

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

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

2 - Financial assets measured at fair value through other comprehensive income ("FVOCI")

Classification criteria

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

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

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

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

Recognition criteria

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

Measurement criteria

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

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

The fair value is calculated on the basis already described for Financial assets measured at fair value through profit or loss.

In the case of Financial assets measured at fair value through other comprehensive income that are either debt securities or receivables, at each reporting date, including interim reporting dates, the Bank assesses whether a significant increase in credit risk (impairment) has occurred pursuant to IFRS 9, recognising an impairment loss to cover the expected credit losses through profit or loss.

Conversely, equity securities are not tested for impairment.

Derecognition criteria

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

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

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

3 - Financial assets measured at amortised cost

Classification criteria

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

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

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

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

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

Recognition criteria

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

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

Measurement criteria

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

The amortised cost method usually does not apply to short-term loans, as the effect of discounting would be immaterial. These are measured instead at their acquisition cost. A similar criterion applies to loans without a definite payment date or revocable loans. Furthermore, newly acquired distressed retail loans are measured at cost until the Bank has started taking action to collect the debt, as specified later on in the part concerning non-performing exposures in the NPL Segment.

At each reporting date, including interim reporting dates, the Group estimates the impairment of these assets in accordance with the impairment rules of IFRS 9, detailed in paragraph 16 – Other information.

The impairment losses found are recognised through profit or loss under “Net credit risk losses/reversals”—and so are the reversals of part or all of the amounts previously written down.

Impairment losses are reversed if the quality of the exposure has improved to the point of reducing the previously recognised impairment loss.

In profit or loss, under “Interest receivable and similar income”, the Group recognises the amount represented by the gradual reversal of the discount calculated at the time the impairment loss was recognised.

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

In some cases, throughout the life of the financial assets concerned, and specifically of receivables, the parties to the agreement subsequently agree to modify the original contractual terms. When, during the life of an instrument, the contractual terms are modified, the Group shall assess whether the original asset must continue to be recognised or, conversely, the original instrument must be derecognised and a new financial instrument recognised in its place.

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

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

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

Derecognition criteria

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

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

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

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

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

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

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

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

6 - Property, plant and equipment

Classification criteria

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

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

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

Property, plant and equipment for functional use include:

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

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

This item also includes the Rights of Use acquired through leases and relating to the use of property, plant and equipment.

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

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

Recognition criteria

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

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

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

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

Measurement criteria

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

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

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

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

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

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

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

The usually estimated useful lives are the following:

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

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

Derecognition criteria

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

The right of use deriving from lease contracts is derecognised from the statement of financial position at the end of the lease.

7 - Intangible assets

Classification criteria

Intangible assets are non-monetary assets, identifiable even though they lack physical substance, that meet the requirements of identifiability, control over a resource and existence of future economic benefits. Intangible assets mainly include goodwill and software.

Recognition criteria

Intangible assets are recognised in the statement of financial position at cost, i.e. the purchase price and any direct cost incurred in preparing the asset for use.

Goodwill is represented by the positive difference between the acquisition cost and the fair value of the acquiree's assets and liabilities and when such positive difference is representative of the capacity to generate returns in the future.

Measurement criteria

Intangible assets with a finite useful life are systematically amortised according to their estimated useful life.

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

Intangible assets with an indefinite useful life are not amortised. The carrying amount is compared with the recoverable amount at least on an annual basis. If the carrying amount is greater than the recoverable amount, a loss equal to the difference between the two amounts is recognised in profit or loss.

Should the impairment of an intangible asset (excluding goodwill) be reversed, the increased net carrying amount cannot exceed the net carrying amount that would have been measured if no impairment loss had been recognised on the asset in previous years.

Goodwill is recognised in the statement of financial position at cost, net of any accrued losses, and is not subject to amortisation. Goodwill is tested for impairment at least annually by comparing its carrying amount to its recoverable amount. To this end, goodwill must be allocated to cash-generating units (CGUs) in compliance with the maximum combination limit that cannot exceed the "operating segment" identified for internal management purposes.

The impairment loss, if any, is calculated based on the difference between the carrying amount of the CGU plus its recoverable amount, which is the higher of the CGU's fair value less costs to sell and its value in use.

The amount of any impairment losses is recognised in profit or loss and is not derecognised in the following years should the reason for the impairment be no longer valid.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

8 - Non-current assets and disposal groups

Non-current assets or groups of assets/liabilities for which a process of disposal has begun and their sale is considered highly probable are classified under the item of the assets "Non-current assets and asset disposal groups held for sale" and the item of the liabilities "Liabilities associated with assets held for sale". With the exception of certain types of assets (e.g. financial assets coming under the scope of application of IFRS 9), for which IFRS 5 specifically establishes that the measurement criteria of the relevant accounting standard must be applied, these assets/liabilities are otherwise measured at the lower of carrying amount and their fair value net of selling costs.

Income and expenses (net of the tax effect) attributable to asset disposal groups held for sale or recognized as such during the year, are presented in the income statement in a separate item.

9 - Current and deferred taxes

Classification criteria

Current and deferred taxes, calculated in compliance with national tax laws, are recognised in profit or loss with the exception of items directly credited or debited to equity.

Current tax liabilities are shown in the statement of financial position gross of the relevant tax advances paid for the current year.

Deferred tax assets and liabilities are recognised in the statement of financial position at pre-closing balances and without set-offs, and are included in the items `Tax assets' and `Tax liabilities', respectively, except when there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which deferred tax liabilities or assets are expected to be settled or recovered.

Under the existing tax consolidation arrangements between the Group companies, the current corporate income (IRES) tax expense for the year is included in either Other Assets or Other Liabilities as Receivables due from/Payables due to the Consolidating/Parent company La Scogliera S.p.A..

Recognition and measurement criteria

Deferred tax assets and liabilities are calculated based on temporary differences—without time limits—between the value attributed to the asset or liability according to statutory criteria and the corresponding tax base, applying the tax rates expected to be applicable for the year in which the tax asset will be realised, or the tax liability will be settled, according to theoretical tax laws in force at the realisation date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- when the timing of the reversal of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that they can be recovered, based on the ability of the company concerned or the Parent company, as a result of the "tax consolidation" option, to continue to generate taxable profit, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

10 - Provisions for risks and charges

The provisions for risks and charges on commitments and guarantees granted include the provisions for credit risk set aside for loan commitments and the other guarantees granted that fall within the scope of the impairment rules in IFRS 9. As a general rule, in this case the Bank adopts the same methods for allocating items to three credit risk Stages and calculating expected credit losses as the ones described for assets measured at amortised cost or at fair value through other comprehensive income.

In addition, these include also the provisions for risks and charges set aside for other types of commitments and guarantees granted that, because of their specific characteristics, they do not fall within the scope of the impairment rules in IFRS 9. Specifically, other provisions for risks and charges consist of liabilities arising when:

- a legal or constructive obligation exists as a result of a past event;
- it is likely that it will be necessary to spend resources which could generate economic benefits to settle the obligation;
- the amount of the obligation can be reliably estimated.

Should all these conditions not be met, no liability is recognised.

The amount recognised as a provision represents the best estimate of the expense required to meet the obligation and reflects the risks and uncertainties regarding the facts and circumstances in question.

Where the cost deferral is significant, the amount of the provision is determined as the present value of the best estimate of the cost to settle the obligation. In this case a discount rate is used that reflects current market assessments.

The provisions made are periodically reviewed and, if necessary, adjusted to reflect the best current estimate. When the review finds that the cost is unlikely to be incurred, the provision is reversed.

11 - Financial liabilities measured at amortised cost

Classification criteria

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

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

Recognition criteria

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

Measurement criteria

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

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

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

Derecognition criteria

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

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

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

12 - Financial liabilities held for trading

Classification criteria

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

Recognition criteria

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

Measurement criteria

Even after initial recognition, financial liabilities held for trading are measured at fair value at the reporting date, and the impact of the application of this method is measured through profit or loss. The fair value is calculated based on the same criteria as those used for financial assets held for trading.

Derecognition criteria

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

14 - Foreign currency transactions

Initial recognition

At initial recognition, foreign currency transactions are recognised in the money of account, applying the exchange rate at the date of the transaction.

Subsequent recognitions

At each reporting date, including interim periods, foreign currency monetary assets and liabilities are translated using the closing exchange rate.

Non-monetary assets and liabilities recognised at historical cost are translated at the historical exchange rate, while those measured at fair value are translated using the year-end rate. Any exchange differences arising from the settlement of monetary elements or their translation at exchange rates different from those used at initial recognition or in previous financial statements are recognised in profit or loss in the period in which they arise, excluding those relating to available for sale financial assets, as they are recognised in equity.

16 - Other information

Post-employment benefits

Pursuant to IAS 19 `Employee benefits' and up to 31 December 2006, the so-called `TFR' post-employment benefit for employees of the Group's Italian companies was classified as a defined benefit plan. The Group had to recognise this benefit by discounting it using the projected unit credit method.

Following the coming into force of the 2007 Budget Law, which brought the reform regarding supplementary pension plans - as per Italian Legislative Decree no. 252 of 5 December 2005 - forward to 1 January 2007, the employee was given a choice as to whether to allocate the post-employment benefits earned as from 1 January 2007 to supplementary pension funds or to maintain them in the company, which would then transfer it to a dedicated fund managed by INPS (the Italian National Social Security Institute).

This reform has led to changes in the accounting of post-employment benefits as for both the benefits earned up to 31 December 2006 and those earned from 1 January 2007.

In particular:

- post-employment benefits earned as from 1 January 2007 constitute a defined-contribution plan, regardless of whether the employee has chosen to allocate them to a supplementary pension fund or to INPS's Treasury Fund. Those benefits shall be calculated according to contributions due without applying actuarial methods;
- post-employment benefits earned up to 31 December 2006 continue to be considered as a defined-benefit plan, and as such are calculated on an actuarial basis which, however, unlike the calculation method applied until 31 December 2006, no longer requires that the benefits be proportionally attributed to the period of service rendered. This is because the employee’s service is considered entirely accrued due to the change in the accounting nature of benefits earned as from 1 January 2007.

Actuarial gains/losses shall be included immediately in the calculation of the net obligations to employees through equity, to be reported in other comprehensive income.

Share-based payments

They are payments granted to employees or similar parties as remuneration for the services received that are settled in equity instruments.

The relevant international accounting standard is IFRS 2 – Share-based payments; specifically, since the Bank is to settle the obligation for the service received in equity instruments (shares "to the value of", i.e. a given amount is converted into a variable number of shares based on the fair value at grant date), those payments fall under "equity-settled share-based payments". The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense together with a corresponding increase in equity over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The cost or revenue in the statement of profit or loss for the year represents the movement in cumulative expense recognised as at the beginning and end of that year.

Treasury shares

Pursuant to regulations in force in Italy, buying back treasury shares requires a specific resolution of the shareholders' meeting and the recognition of a specific reserve in equity. Treasury shares in the portfolio are deducted from equity and measured at cost, calculated using the "Fifo" method. Differences between the purchase price and the selling price deriving from trading in these shares during the accounting period are recognised under equity reserves.

Recognition of income and costs

Income from management and guarantee services for receivables purchased through factoring activities are recognised under commission income according to their duration. Components considered in the amortised cost to calculate the effective interest rate are excluded and recognised instead under interest income.

Costs are recognised on an accrual basis. Concerning the costs of the NPL Segment, the costs incurred upfront for non-judicial debt collection operations through settlement plans, as well as legal expenses and registration fees for judicial debt collection operations, are recognised in profit or loss under "Other administrative expenses" in the period in which the positive impact of the relevant receivables deriving from the change in the underlying cash flows associated with the plans entered into or the court orders obtained is recognised in profit or loss.

Dividends

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

Repurchase and reverse repurchase agreements

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

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

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

Amortised cost

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

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

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

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

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

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

Purchased or Originated Credit Impaired (POCI) Financial Assets

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

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

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

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

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

A subsequent improvement in the counterparty's creditworthiness, which may be reflected in the present value of cash flows, shall cause the exposure to be classified within Stage 2.

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

The NPL Segment's receivables all qualify as POCI financial assets and are recognised and assessed through the following steps:

- at the time of purchase, receivables are recognised by allocating the portfolio's purchase price among the individual receivables it consists of through the following steps:
  - recognition of the individual receivables at a value equal to the contract price, which is used for the purposes of reporting to the Central Credit Register;
  - after verifying the documentation, if provided in the contract, the Bank returns the positions lacking documentation or beyond the statute of limitations to the seller, and measures the fair value of receivables which actually exist and can be collected; finally, after sending a notice of assignment to the debtor, the Bank can start taking action to collect the receivable;
  - once the collection process begins, receivables are measured at amortised cost using the effective interest rate method;

- the effective interest rate is calculated on the basis of the price paid, the transaction costs, if any, and the estimated cash flows and collection time calculated using either proprietary models or analytical estimates made by managers;
- the effective interest rate as set out in the previous point is unchanged over time;
- at the end of each reporting period, interest income accrued on the basis of the original effective interest rate is recognised under Interest income. Said interest is calculated as follows: Amortised Cost at the beginning of the period x IRR/365 x days in the period;
- in addition, at the end of each reporting period, the expected cash flows for each position are re-estimated;

- should events occur (higher or lower revenues realised or expected compared to forecasts and/or a change in collection times) which cause a change in the amortised cost (calculated by discounting the new cash flows at the original effective rate compared to the amortised cost in the period), this change is also recognised under Credit risk losses/reversals.

Impairment of financial instruments

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

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

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

- Stage 1: financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date;
- Stage 2: financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that 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: PD_(t=rep) (t=rep)>X*PD_(t=0) (t=0)=Threshold
- exposures that are more than 30 days past due or overdrawn;
- forborne exposures;
- "Watchlist & Other Early Warnings (e.g. financial ratios)", exposures included in the watchlist as part of the tier 1 credit monitoring process or exposures to companies with negative equity, substantial reductions in sales and/or EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) compared to the prior period.

The stage allocation of the exposures in the Debt securities portfolio is managed at the level of the purchased tranche for each ISIN code held at the reporting date and requires using an external rating of the issue or, if this is not available, the issuer; in short, they are allocated to the different stages based on the following transfer criteria:

- "Low credit risk exemption": if the issue rating of the security (ISIN) at the reporting date is "investment grade", the tranche is allocated to Stage 1; otherwise, the Bank assesses the significant increase in credit risk between origination and reporting date;

- if the issue is "speculative grade", for each individual tranche, the Bank assesses the difference between the issue rating at the reporting date and the origination date; if the resulting rating difference is of 2 or more grades, the tranche is allocated to Stage 2; otherwise, it is allocated to Stage 1;
- if the issue rating at the reporting date is "speculative grade" and no issue rating at the origination date is available, the tranche is allocated to Stage 2;
- if there is no issue rating at the reporting date, but an issuer rating is available, the exposure shall be allocated by applying the previously described approach for the issue rating to the issuer rating.

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

If, at a given reporting date, an exposure is allocated to Stage 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 ECLs are:

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

Once the allocation of exposures to the various stages of credit risk has been defined, the determination of expected losses (ECL) is carried out, at the level of individual transactions or tranches of securities, on the basis of models calibrated on internal Group data, and models calibrated on data from the External Credit Assessment Institution ("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.

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

The original effective interest rate of each loan does not change over time even if a restructuring involved changing the contractual rate or the loan no longer bears contractual interest in practice. Any impairment loss is recognised through 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 through 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 Euro are individually evaluated, whereas bad loans with an outstanding gross amount of less than 100 thousand Euro as well as bad loans with an outstanding gross amount of more than 100 thousand Euro but that were classified as such over 10 years prior to the reporting date are written off.

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

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

A.3 - Disclosure of transfers of financial assets between portfolios

No financial assets were transferred between portfolios during 2019.

A.4 - Fair value disclosure

Qualitative disclosure

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date, under current market conditions (i.e. the exit price), regardless of the fact that said price is directly observable or that another measurement approach is used.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In order to measure unquoted equity instruments, the Bank mainly uses income or financial models (Discounted Cash Flow Model or market multiples for comparable entities).

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

Finally, as for over-the-counter (OTC) derivatives not quoted in active markets, their fair value is calculated based on measurement techniques that take into account all risk factors that could affect the value of the financial instrument concerned, using observable market inputs (interest rates, exchange rates, share indices, etc.) adjusted as appropriate to account for the creditworthiness of the specific counterparty, including the counterparty's credit risk (CVA, Credit Value Adjustment) and/or the Group's own credit risk (DVA, Debt Value Adjustment).

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

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

As for the receivables portfolio of the NPL Segment, which purchases and manages non-performing receivables mainly due from individuals, the Discounted Cash Flow Model is used to calculate fair value. In this case, the expected net cash flows are discounted at a market rate. The market rate is calculated without considering a credit spread, since the credit risk of the individual counterparties is already incorporated in the statistical model used to estimate future cash flows with regard to collective management (non-judicial operations). The model projects the relevant cash flows based on historical evidence concerning the recovery of positions in the Group's portfolio. As for individual management (judicial operations), the projections of future cash flows are based on an internal algorithm or defined by the manager according to how the underlying receivable is being processed.

As for acquired tax receivables, the Bank believes their amortised cost can be used as an approximation of fair value. The only element of uncertainty concerning these receivables due from tax authorities is the time required for collecting them; currently, there are no significant differences in the time it takes for the tax authorities to repay their debts. It should also be noted that Banca IFIS is one of the leading players in this operating segment, which makes it a price maker in the case of sales.

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

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

A.4.2 Measurement processes and sensitivity

In compliance with IFRS 13, for financial assets and liabilities measured at fair value categorised within level 3, the Group tests their sensitivity to changes in one or more unobservable inputs used in the fair value measurements like, by way of example and in no means exhaustive, discount rates applied to cash flows or expected cash flows themselves.

A.4.3 Fair value hierarchy

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

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

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

- observable inputs became available during the period (e.g. prices for identical assets and liabilities defined in comparable transactions between independent and knowledgeable parties). In this case, they are reclassified from level 3 to level 2;

- inputs directly or indirectly observable used in measuring them are no longer available or current (e.g. no recent comparable transactions or no longer applicable multiples). In this case, the entity shall use valuation techniques incorporating unobservable inputs.

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value (in thousands of Euro)	**31.12.2019**			**31.12.2018**		
	L1	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets measured at fair value through profit or loss	5.061	24.313	107.724	-	78.891	114.763
a) financial assets held for trading	-	*24.313*	-	-	*29.809*	-
b) financial assets measured at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	*5.061*	-	*107.724*	-	*49.082*	*114.763*
2. Financial assets measured at fair value through other comprehensive income	1.159.444	-	14.364	418.709	-	13.385
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	1.164.505	24.313	122.088	418.709	78.891	128.148
1. Financial liabilities held for trading	-	21.844	-	-	31.155	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	21.844	-	-	31.155	-

Key:

L1 = Level 1: fair value of a financial instrument quoted in an active market;

L2 = Level 2 fair value measured using valuation techniques based on observable market inputs other than the financial instrument's price;

L3 = Level 3 fair value calculated using valuation techniques based on inputs not observable in the market.

At 31 December 2019, the impact of the application of the Credit Value Adjustment on the assets of derivatives with a positive mark-to-market is 0,6 thousand Euro (relating to trading derivatives); with regard to instruments with a negative mark-to-market, there is no impact of the application of the Debit Value Adjustment on the assets of derivatives.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other compre-hensive income	Hedging derivati-ves	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: c) other financial assets mandatori-ly measured at fair value				
1. Opening balance	114.763	-	-	114.763	13.385	-	-	-
2. Increases	65.776	-	-	65.776	2.198	-	-	-
2.1. Purchases	51.254	-	-	51.254	-	-	-	-
- of which from business combinations	*2.748*			*2.748*				
2.2. Profit taken to:	-	-	-	-	-	-	-	-
2.2.1. Income Statement	14.522	-	-	14.522	-	-	-	-
- of which capital gains	*13.303*	-	-	*13.303*	-	-	-	-
2.2.2. Equity	-	X	X	X	2.198			
2.3. Transferred from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	72.815	-	-	72.815	1.219	-	-	-
3.1. Sales	50.159	-	-	50.159	599	-	-	-
3.2. Reimbursements	4.600	-	-	4.600	-	-	-	-
3.3. Losses taken to:	-	-	-	-	-	-	-	-
3.3.1. Income Statement	18.056	-	-	18.056	-	-	-	-
- of which capital losses	*17.047*	-	-	*17.047*	-	-	-	-
3.3.2. Equity	-	X	X	X	620	-	-	-
3.4. Transferred to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	107.724	-	-	107.724	14.364	-	-	-

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis (in thousands of Euro)	31.12.2019				31.12.2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	8.278.116	241.048	-	8.115.038	7.904.567	14.155	-	8.054.188
2. Property, plant and equipment held for investment purpose	720	-	-	720	720	-	-	880
3. Non-current assets and disposal groups	25.560	-	-	50.500	-	-	-	-
Total	8.304.396	241.048	-	8.166.258	7.905.287	14.155	-	8.055.068
1. Financial liabilities measured at amortised cost	8.463.245	748.984	-	7.721.092	7.437.694	708.742	-	6.610.659
2. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	8.463.245	748.984	-	7.721.092	7.437.694	708.742	-	6.610.659

Key

CA = Carrying amount

L1 = Level 1: fair value of a financial instrument quoted in an active market;

L2 = Level 2 fair value measured using valuation techniques based on observable market inputs other than the financial instrument's price;

L3 = Level 3 fair value calculated using valuation techniques based on inputs not observable in the market.

A.5 - Disclosure on day one profit/loss

With reference to the provisions of IFRS 7 par. 28, it is established that a financial instrument must initially be recognised at a value equal to its fair value which, unless there is evidence to the contrary, is equal to the price paid/collected in trading. The above standard governs such cases by establishing that an entity may recognise a financial instrument at a fair value other than the consideration given or received only if the fair value is evidenced:

- by comparison with other observable current market transactions in the same instrument;
- through valuation techniques using exclusively, as variables, data from observable markets.

In other words, the assumption under IFRS 9, whereby fair value is equal to the consideration given or received, may be overcome only if there is objective evidence that the consideration given or received is not representative of the actual market value of the financial instrument being traded.

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

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

No such transactions were carried out as part of the Group's operations during 2019.

4.2 Part B - Consolidated statement of financial position

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	31.12.2019	31.12.2018
a) Cash	56	48
b) On demand deposits at Central banks	-	-
Total	56	48

Section 2 - Financial assets measured at fair value through profit or loss - Item 20

2.1 Financial assets held for trading: breakdown by type

Items/Amounts	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-
1. Financial derivatives	-	24.313	-	-	29.809	-
1.1 held for trading	-	24.313	-	-	29.809	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	-	24.313	-	-	29.809	-
Total (A+B)	-	24.313	-	-	29.809	-

The financial assets held for trading outstanding at 31 December 2019 still mainly referred to interest rate derivatives that the merged entity Interbanca S.p.A. negotiated with its Corporate clients up to 2009 to provide them with instruments to hedge risks such as fluctuations in interest rates. In order to remove market risk, these transactions are hedged with "back to back" trades, in which Interbanca assumed a position opposite to the one sold to corporate clients with independent market counterparties. Alongside these financial assets, the trading book also includes options and futures deriving from hedges and ancillary enhancements to the Group's proprietary investment strategy, whose business started in the second half of 2019.

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Amounts	31.12.2019	31.12.2018
A. Cash assets	-	-
1. Debt securities	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	-	-
a) Banks	-	-
b) Other financial companies of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. UCITS units	-	-
4. Loans	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	-	-
B. Derivatives	-	-
a) Central Counterparties	-	-
b) Other	24.313	29.809
Total (B)	24.313	29.809
Total (A+B)	24.313	29.809

2.5 Other financial assets mandatorily measured at fair value: breakdown by type

Items/Amounts	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	2.715	-	-	1.935
1.1. Structured	-	-	-	-	-	-
1.2. Other debt securities	-	-	2.715	-	-	1.935
2. Equity securities	-	-	-	-	-	11.266
3. UCITS units	5.061	-	82.702	-	49.082	50.267
4. Loans	-	-	22.307	-	-	51.295
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2. Others	-	-	22.307	-	-	51.295
Total	5.061	-	107.724	-	49.082	114.763

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

Other debt securities consisted of junior and mezzanine notes associated with securitisation transactions.

Equity securities are zeroed in comparison with last year, following the comprehensive impairment of equity instruments relative to a previously restructured position.

2.6 Financial assets mandatorily measured at fair value: breakdown by debtor/issuer

	31.12.2019	31.12.2018
1. Equity securities	-	11.266
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	11.266
2. Debt securities	2.715	1.935
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	2.715	1.935
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. UCITS units	87.763	99.349
4. Loans	22.307	51.295
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	260	37.306
of which: insurance companies	-	-
e) Non-financial companies	22.047	13.987
f) Households	-	2
Total	112.785	163.845

UCITS units included 3,5 million Euro in closed-end real estate funds, 63,7 million Euro in funds investing in non-performing loans, 15,5 million Euro in equity funds, and 5,5 million Euro in bond funds.

Section 3 - Financial assets measured at fair value through other comprehensive income - Item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by type

Items/Amounts	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1.124.635	-	-	418.709	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	1.124.635	-	-	418.709	-	-
2. Equity securities	34.809	-	14.364	-	-	13.385
3. Loans	-	-	-	-	-	-
Total	1.159.444	-	14.364	418.709	-	13.385

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

Level 1 “other debt securities” referred for 1.094 million to Italian government bonds.

“Equity securities” referred to minority interests. The change compared to last year is closely linked to the creation, starting from the second half of the year, of a portfolio of listed securities functional to generating income over time. Level 3 securities are connected with minority interests deriving from the acquisition of the former Interbanca Group.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	31.12.2019	31.12.2018
1. Debt securities	1.124.635	418.709
a) Central Banks	-	-
b) Public Administrations	1.093.602	410.410
c) Banks	15.212	8.299
d) Other financial companies	13.666	-
of which: insurance companies	-	-
e) Non-financial companies	2.155	-
2. Equity securities	49.173	13.385
a) Banks	5.752	27
b) Other issuers:	43.421	13.358
- other financial companies	10.971	6.671
of which: insurance companies	3.242	-
- non-financial companies	32.450	-
- other	-	6.687
3. Loans	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	1.173.808	432.094

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and overall impairment losses/reversals

	Gross amount				Overall impairment losses/reversals			Overall partial write-offs(1)
	Stage 1	of which: Low credit risk instru-ments	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	1.125.461	1.125.461	-	-	826	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31.12.2019	**1.125.461**	**1.125.461**	**-**	**-**	**826**	**-**	**-**	**-**
Total 31.12.2018	**419.996**	**419.996**	**-**	**-**	**1.287**	**-**	**-**	**-**
of which: purchased or originated credit impaired financial assets	X	X	-	-	X	-	-	-

(1) Amount to be reported for disclosure purposes.

Section 4 - Financial assets measured at amortised cost - Item 40

4.1 Financial assets measured at amortised cost: breakdown of receivables due from banks by type

Type of transaction/Amounts	31.12.2019						31.12.2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	L1	L2	L3
A. Receivables due from Central banks	373.705	-	-	-	-	373.705	280.871	-	-	-	-	280.871
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Legal reserve	31.162	-	-	X	X	X	33.212	-	-	X	X	X
3. Reverse repurchase agreements		-	-	X	X	X	-	-	-	X	X	X
4. Others	342.543	-	-	X	X	X	247.659	-	-	X	X	X
B. Receivables due from banks	253.185	-	-	10.232	-	233.873	309.724	-	-	-	-	309.724
1. Loans	242.943	-	-	-	-	233.873	309.724	-	-	-	-	309.724
1.1 Current accounts and on demand deposits	75.933	-	-	X	X	X	269.607	-	-	X	X	X
1.2. Term deposits	161.553	-	-	X	X	X	39.224	-	-	X	X	X
1.3 Other loans:	5.457	-	-	X	X	X	893	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	1.400	-	-	X	X	X	-	-	-	X	X	X
- Other	4.057	-	-	X	X	X	893	-	-	X	X	X
2. Debt securities	10.242	-	-	10.232	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	10.242	-	-	10.232	-	-	-	-	-	-	-	-
Total	626.890	-	-	10.232	-	607.578	590.595	-	-	-	-	590.595

The fair value of receivables due from banks is in line with the relevant carrying amount, considering the fact that interbank deposits are short- or very short-term indexed-rate instruments.

4.2 Financial assets measured at amortised cost: breakdown of receivables due from customers by type

Type of transaction/Amounts	31.12.2019						31.12.2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	L1	L2	L3
1. Loans	5.739.885	1.604.345	1.364.638	-	-	7.432.323	5.699.330	1.450.924	1.220.878	-	-	1.093.810
1. Current accounts	19.312	41.805	862	X	X	X	47.829	40.980	134	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X	49.846	-	-	X	X	X
3. Loans/mortgages	1.221.183	110.053	87.629	X	X	X	1.106.038	130.010	122.272	X	X	X
4. Credit cards, personal loans and salary-backed loans	33.908	563.681	563.786	X	X	X	30.209	2.174	855	X	X	X
5. Finance leases	1.227.978	16.518	383	X	X	X	1.158.551	16.410	-	X	X	X
6. Factoring	2.584.609	145.376	1.637	X	X	X	2.656.445	150.459	3	X	X	X
7. Other loans	652.895	726.912	710.341	X	X	X	650.412	1.110.891	1.077.614	X	X	X
2. Debt securities	306.995	1	-	230.816	-	75.137	163.717	1	-	14.155	-	149.617
2.1. Structured	996	-	-	-	-	996	-	-	-	-	-	-
2.2. Other debt securities	305.999	1	-	230.816	-	74.141	163.717	1	-	14.155	-	149.617
Total	6.046.880	1.604.346	1.364.638	230.816	-	7.507.460	5.863.047	1.450.925	1.200.878	14.155	-	1.243.427

Acquired non-performing exposures mainly refer to the distressed retail loans of the NPL Segment and the non-performing assets that arose from the business combination with the GE Capital Interbanca Group at the acquisition date.

Finally, other debt securities include 213,0 million Euro in government securities acquired during the second half of the year with a view to optimizing Group liquidity. Level 3 securities include investments in securitisations and minibond issues.

4.3 Financial assets measured at amortised cost: breakdown of receivables due from customers by debtor/issuer

Type of transaction/Amounts	31.12.2019			31.12.2018		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired
1. Debt securities:	306.995	1	-	163.717	1	-
a) Public Administrations	216.023	-	-	-	-	-
b) Other financial companies	73.074	-	-	138.111	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	17.898	1	-	25.606	1	-
2. Loans to:	5.739.885	1.604.345	1.364.638	5.699.330	1.450.924	1.200.878
a) Public Administrations	690.911	49.455	3	706.608	51.707	8
b) Other financial companies	318.971	4.751	4.123	398.302	5.395	5.231
of which: insurance companies	253	-	-	83	-	-
c) Non-financial companies	4.202.819	397.590	222.913	4.031.310	383.949	213.866
d) Households	527.184	1.152.549	1.137.599	563.110	1.009.873	981.773
Total	6.046.880	1.604.346	1.364.638	5.863.047	1.450.925	1.200.878

4.4 Financial assets measured at amortised cost: gross amount and overall impairment losses/reversals

	Gross amount				Overall impairment losses/reversals			Overall partial write-offs(1)
	Stage 1	of which: low credit risk instruments	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	317.563	317.563	-	1	326	-	-	-
Loans	5.997.770	-	396.363	1.912.668	31.629	5.970	308.324	60.379
Total 31.12.2019	6.315.333	317.563	396.363	1.912.669	31.955	5.970	308.324	60.379
Total 31.12.2018	6.067.509	77.573	419.982	1.740.229	29.376	4.459	289.318	340.838
of which: purchased or originated credit impaired financial assets	X	X	21.821	1.328.522	X	54	5.456	1.349

(1) Amount to be reported for disclosure purposes

Section 7 - Equity investments - Item 70

7.1 Equity investments: information on investments

Company Name	Registered office	Head office	Equity %	Voting rights %
A. Joint Ventures				
Elipso Finance S.r.l.	Conegliano (Province of Treviso)	Conegliano (Province of Treviso)	50%	50%

Elipso Finance S.r.l. is a company included on the list of securitisation SPVs held by the Bank of Italy. The portion of equity held by the Group at 31 December 2019 came to 6 thousand Euro.

There are no significant restrictions or commitments subscribed in regard to the company in question.

7.5 Equity investments: annual changes

Assets/Amounts	31.12.2019	31.12.2018
A. Opening balance	-	-
B. Increases	6	-
B.1 Purchases	6	-
of which: from business combinations	*6*	-
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	-	-
C.1 Sales	-	-
C.2 Impairment losses and amortisation	-	-
C.3 Devaluations	-	-
C.4 Other changes	-	-
D. Closing balance	6	-

Section 9 - Property, plant and equipment - Item 90

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

Assets/Amounts	31.12.2019	31.12.2018
1. Owned	88.934	126.088
a) Land	20.297	35.902
b) Buildings	60.417	64.666
c) Furniture	2.188	1.985
d) Electronic systems	4.629	4.741
e) Others	1.403	18.794
2. Rights of use acquired through leases	16.648	3.842
a) Land	-	-
b) Buildings	14.562	3.842
c) Furniture	-	-
d) Electronic systems	495	-
e) Others	1.591	-
Total	105.582	129.930
of which: obtained by enforcing collateral	-	-

Property, plant and equipment for functional use amounted to 105,6 million Euro, compared to 129,9 million Euro at 31 December 2018, down mainly due to the effect of the sale of the subsidiary Two Solar Park 2008 S.r.l. that contributed to this item for 16,1 million Euro (substantially related to photovoltaic plants) and the reclassification to non-current assets held for disposal of the property in Corso Venezia, Milan, for 25,6 million Euro, following the late 2019 stipulation of a binding offer for its sale; these changes were partially offset by the effect of the recognition of 12,0 million Euro for the right of use as required by the new IFRS 16 - Leasing in force from 1 January 2019 and the contribution due to the acquisition of the FBS Group equal to 5,6 million Euro at 31 December 2019.

At the end of the year, the properties recognised under property, plant and equipment included the important historical building "Villa Marocco", located in Mestre – Venice and housing Banca IFIS's registered office. Since Villa Marocco is a luxury property, it is not depreciated, but it is tested for impairment at least annually. To this end, it is appraised by experts specialising in luxury properties. The impairment test did not reveal any impairment losses to be recognised in profit or loss.

9.2 Property, plant and equipment held for investment purpose: breakdown of assets measured at cost

Assets/Amounts	31.12.2019				31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned	720	-	-	720	720	-	-	880
a) Land	-	-	-	-	-	-	-	-
b) Buildings	720	-	-	720	720	-	-	880
2. Rights of use acquired through leases	-	-	-	-	-	-	-	-
a) Land	-	-	-	-	-	-	-	-
b) Buildings	-	-	-	-	-	-	-	-
Total	720	-	-	720	720	-	-	880
of which: obtained by enforcing collateral	-	-	-	-	-	-	-	-

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

9.6 Property, plant and equipment for functional use: annual changes

	Land	Buildings	Furnishings	Electronic systems	Others	Total 31.12.2019
A. Gross opening balance	35.902	95.186	12.277	27.988	22.557	193.910
A.1 Total net depreciation and impairment losses	-	(26.678)	(10.292)	(23.247)	(3.763)	(63.980)
A.2 Net opening balance	35.902	68.508	1.985	4.741	18.794	129.930
B. Increases	810	19.402	730	2.517	3.336	26.795
B.1 Purchases	810	6.064	730	1.614	2.056	11.274
of which from business combinations	*810*	*3.607*	*98*	*4*	*309*	*4.828*
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	610	-	-	-	610
B.4 Fair value gains taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	X	X	X	-
B.7 Other changes	-	12.728	-	903	1.280	14.911
C. Decreases	(16.415)	(12.932)	(527)	(2.134)	(19.136)	(51.144)
C.1 Sales	-	(92)	(28)	(1)	(16.631)	(16.752)
C.2 Depreciation	-	(3.465)	(499)	(2.131)	(2.475)	(8.570)
C.3 Impairment losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to	(16.415)	(9.145)	-	-	-	(25.560)
a) Property, plant and equipment held for investment purpose	-	-	X	X	X	-
b) non-current assets and disposal groups	(16.415)	(9.145)	-	-	-	(25.560)
C.7 Other changes	-	(230)	-	(2)	(30)	(262)
D. Net closing balance	20.297	74.978	2.188	5.124	2.994	105.581
D.1 Total net depreciation and impairment losses	-	22.234	10.374	15.422	13.119	61.149
D.2 Gross closing balance	20.297	97.212	12.562	20.546	16.113	166.730
E. Measurement at cost	-	-	-	-	-	-

As indicated previously, the item “Transfers to non-current assets and disposal groups” refers to the property of Corso Venezia, Milan, for which, at end 2019, a binding offer of sale was stipulated.

The line item "Of which from business combinations" includes the balances that arose at the time of the FBS Group acquisition.

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

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

9.7 Property, plant and equipment held for investment purpose: annual changes

	31.12.2019	
	Land	**Buildings**
A. Opening balance	-	720
B. Increases	-	-
B.1 Purchases	-	-
B.2 Capitalised improvement expenses	-	-
B.3 Fair value gains	-	-
B.4 Reversals of impairment losses	-	-
B.5 Exchange gains	-	-
B.6 Transfers from property for functional use	-	-
B.7 Other changes	-	-
C. Decreases	-	-
C.1 Sales	-	-
C.2 Depreciation	-	-
C.3 Fair value losses	-	-
C.4 Impairment losses	-	-
C.5 Exchange losses	-	-
C.6 Transfers to	-	-
a) property for functional use	-	-
b) Non-current assets and disposal groups	-	-
C.7 Other changes	-	-
D. Closing balance	-	720
E. Measurement at fair value	-	720

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

9.9 Commitments to purchase property, plant and equipment

There were no commitments to purchase property, plant and equipment.

Section 10 - Intangible assets - Item 100

10.1 Intangible assets: breakdown by asset type

Assets/Amounts	31.12.2019		31.12.2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	39.542	X	1.515
A.1.1 attributable to the Group	X	39.542	X	1.515
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	21.377	-	21.762	-
A.2.1 Assets measured at cost:	21.377	-	21.762	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	21.377	-	21.762	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	21.377	39.542	21.762	1.515

Goodwill totalled 39.542 thousand Euro, with 822 thousand Euro arising from the line-by-line consolidation of the Polish subsidiary IFIS Finance Sp.Zo.o. 700 thousand Euro from the subsidiary Cap.Ital.Fin. S.p.A. and 38.020 thousand Euro from the FBS Group, acquired in 2019.

Other intangible assets at 31 December 2017 refer exclusively to software purchase and development, amortised on a straight-line basis over the estimated useful life, which is 5 years from deployment.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total 31.12.2019
		FINITE	INDEF	FINITE	INDEF	
A. Opening balance	**1.515**	**-**	**-**	**21.762**	**-**	**23.277**
A.1 Total net amortisation and impairment losses	-	-	-	-	-	-
A.2 Net opening balance	**1.515**	**-**	**-**	**21.762**	**-**	**23.277**
B. Increases	**38.027**	**-**	**-**	**7.494**	**-**	**45.521**
B.1 Purchases	38.020	-	-	7.494	-	45.514
of which from business combinations	*38.020*	-	-	*155*	-	*38.175*
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Reversals of impairment losses	X	-	-	-	-	-
B.4 Fair value gains	-	-	-	-	-	-
- to equity	X	-	-	-	-	-
- to profit or loss	X	-	-	-	-	-
B.5 Exchange gains	7	-	-	-	-	7
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**(7.879)**	**-**	**(7.879)**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses and amortisation	-	-	-	(7.879)	-	(7.879)
- Amortisation	X	-	-	(7.348)	-	(7.348)
- Impairment losses:	-	-	-	(531)	-	(531)
+ equity	X	-	-	-	-	-
+ profit or loss	-	-	-	(531)	-	(531)
C.3 Fair value losses:	-	-	-	-	-	-
- to equity	X	-	-	-	-	-
- to profit or loss	X	-	-	-	-	-
C.4 Transfer to non-current assets under disposal	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**39.542**	**-**	**-**	**21.377**	**-**	**60.919**
D.1 Total net amortisation, impairment losses and reversals of impairment losses	-	-	-	-	-	-
E. Gross closing balance	**39.542**	**-**	**-**	**21.377**	**-**	**60.919**
F. Measurement at cost	-	-	-	-	-	-

Key
FIN: finite useful life
INDEF: indefinite useful life

The line item "Of which from business combinations" includes the balances that arose at the time the Group acquired control over the FBS Group.

Excluding the effects of business combinations, purchases refer only to investments for the enhancement of IT systems.

10.3 Other information

Information about goodwill

The application of accounting standard IFRS 3 in booking acquisitions may entail the entry of new intangible assets and the recording of goodwill.

In the case of the Banca IFIS Group, acquisitions made during previous years (of the companies IFIS Finance and Cap.Ital.Fin.) resulted in the recording of total goodwill of 1,5 million Euro.

Additionally, with the acquisition of the FBS Group, in FY 2019, a new business combination was completed, entailing the recording of new intangible assets in the form of goodwill. The difference between the cost of the acquisition and the fair value of equity has been allocated to goodwill, for the amount of 38,0 million Euro.

For more details on the above transaction, see part G of these Notes.

The prospectus below summarises the goodwill values entered into the consolidated financial statements with the related dynamics during the year, divided up by CGU, which represent the aggregations of assets at which level impairment testing must be performed on goodwill, to verify the recoverable value.

GOODWILL: YEAR CHANGES (in thousands of Euro)	Goodwill at 31.12. 2018	Exchange rates update	FBS Group acquisition	Goodwill at 31.12.2019
Goodwill for the FBS Group (CGU: "NPL Segment")	-	-	38.020	38.020
Goodwill for IFIS Finance (CGU: "Enterprises Segment")	815	7	-	822
Goodwill for Cap.Ital.Fin. (CGU: "Cap.Ital.Fin. legal entity")	700	-	-	700
Total goodwill	1.515	7	38.020	39.542

In accordance with IAS 36, goodwill must be impairment tested annually, to check that the value can be recovered. The recoverable value is the greater of Value in Use and fair value, net of the costs of sale.

Finally, please note that IAS 36, in order to determine the Value in Use of the intangibles subject to impairment testing, rules that reference must be made to the cash flows relative to the intangible in its current condition (at the date of impairment testing), without drawing any distinction between the cash flows referring to the asset originally noted during application of IFRS 3 and those relative to the assets in place at the time of impairment testing; this insofar as it would be difficult, particularly in the case of extraordinary transactions between businesses or changes to the asset following significant turnover of assets, customers, contracts, etc., to distinguish between the flows referring to the original asset and others.

This concept can also be replicated for the determination, for the impairment testing of goodwill, of the Value in Use of the CGU, whose cash flows must be considered with reference to all assets and liabilities included in the CGU and not only for the assets and liabilities in regard to which goodwill was noted during application of IFRS 3.

Also, please note that the methods and assumptions underlying the goodwill impairment testing procedure and the related results defined by the management, were approved by the Board of Directors before approval of the draft 2019 financial statements.

Impairment testing of the CGUs and goodwill

The definition of Cash Generating Units (CGUs)

The estimate of the Value in Use, in order to perform impairment testing, in accordance with IAS 36 of intangible assets with undefined life (including goodwill), which do not generate cash flow except jointly with other corporate assets, requires the preliminary attribution of such intangible assets to organisational units of relatively autonomous management, able to generate flows of financial resources that are largely independent of those produced by other business areas, but inter-dependent within the organisational unit that generates them. These organisational units are called "Cash Generating Units" (or "CGUs").

The text of IAS 36 reveals the need to correlate the level at which goodwill is tested with the level of internal reporting at which the management controls the growth and reductions of said value. In these terms, the definition of said level is closely linked to the organisational models and the attribution of the management responsibilities in order to define operative guidelines and consequent monitoring. The organisational models can be regardless (and indeed in the case of the Banca IFIS Group are regardless) of the structure of the legal entities through which operations take place and, very often, are closely linked to the definition of the business operating segments that underlie the segment reporting envisaged by IFRS 8. These considerations with reference to the criteria employed to determine the CGUs for impairment testing the goodwill are, moreover, consistent with the definition of the recoverable value of an asset - the determination of which underlies the impairment testing - according to which the amount is relevant that the company expects to recover from said asset, considering synergies with other assets.

Therefore, consistently with the logics of price formation that gave rise to the booking of goodwill, the recoverable value for the purpose of the impairment testing of the CGU to which goodwill is allocated, must include the valuation of not only external (or universal) synergies, but also internal synergies, which the specific buyer can obtain from the integration of the assets acquired in its economic combinations, evidently according to the defined business management models.

In view of the foregoing, the Group believes it appropriate to identify the CGUs with the operating segments as defined in the information accompanying the consolidated financial statements (Enterprises Segment and NPL Segment). Considering the nature of the Governance & Services Segment supporting the operations of other segments, the CGUs to which the goodwill is allocated in relation to the companies included in it, are defined as coinciding with said companies.

Finally, considering that the goodwill connected with the purchase of the equity investment in IFIS Finance is significant in regard to the whole of the Enterprises Segment, in practical implementation, the choice has been made to perform impairment testing at the level of the individual companies.

The carrying amount of the CGUs

The carrying amount of the CGUs must be determined consistently with the criterion whereby their recoverable value was estimated. For a bank, it is not possible to identify the flows generated by a CGU without considering the flows deriving from financial assets/liabilities, given that the latter represent its core business. In other words, the recoverable value of the CGU is impacted by said flows and, accordingly, their carrying amount must be determined consistently with the scope of estimate of the recoverable value and must, therefore, also include the financial assets/liabilities.

Taking this approach, the carrying amount of the CGU of the Banca IFIS Group can be determined in terms of contribution towards the consolidated equity, including any part pertaining to minorities. In any case, under the scope of the combinations performed by Banca IFIS, resulting in the recording of goodwill, there is no share of goodwill pertaining to minorities, because they are all transactions resulting in 100% control.

Therefore, the carrying amount of the CGUs comprising companies belonging to a single segment has been determined through the sum of the individual equity contributions on a consolidated level.

The table below gives the carrying amounts of the CGUs and the portions of goodwill allocated to each.

CARRYING AMOUNTS AND GOODWILL ALLOCATED (in thousands of Euro)	**Values at 31.12.2019**		
	Carrying amount	of which Group share of goodwill	of which goodwill pertaining to minorities
NPL Segment	567.878	38.020	-
IFIS Finance	37.080	822	-
Cap.Ital.Fin.	17.716	700	-
Total	622.674	39.542	-

Criteria for estimating the Value in Use of the CGUs

The Value in Use (or “VIU”) is the current value of estimated future cash flows deriving from the continuous use of the assets and its disposal at the end of its useful life.

Cash flows comprise cash flows from the business in its current condition and cash flows deriving from budget forecasts, short-term forecasts and terminal value, adjusted for the company’s specific risks.

More specifically, IAS 36 requires cash flow forecasts based on reasonable, sustainable assumptions that are specific for CGUs, which reflect the value of the CGU in its current condition and represent the best estimate management can make in regard to all existing economic circumstances during the rest of the useful life of the CGU.

For the purpose of impairment testing, reference is made to the value in use estimated according to the valuation approach that can be identified with the method known in doctrine as “discounted cash flow - DCF”. The method estimates the value in use of an asset by discounting the forecast cash flows, determined according to economic-financial forecasts prepared by the management in respect of the asset valued.

In the case of banks and financial institutions in general, the available cash flow is understood as the distributable cash flow, taking into account the equity restrictions imposed by the Supervisory Authorities or held to be appropriate to monitor the risk typical of the asset analysed. Therefore, future cash flows can be identified as the flows that may potentially be distributed after having satisfied the minimum allocated capital restrictions, i.e. DCF, in the version of the Excess Capital Method.

The flow of the last year of the analytical forecast is forecast perpetually through an appropriate long-term growth rate (“g”), in order to estimate the terminal value.

Future cash flows must be discounted at a rate that reflects the current valuations of the time value of money and specific risks of the business. More specifically, the discounting rates to be used must incorporate current market values with reference to the risk-free component and risk premium correlated with the share component observed over a sufficiently extensive time frame to reflect market conditions and different economic cycles, and using an appropriate beta coefficient in consideration of the risk levels of the respective operating areas.

Cash flow forecasts

Forecast cash flow is understood as the distributable cash flow, taking into account the equity restrictions imposed by the Supervisory Authorities or held to be appropriate to monitor the risk typical of the asset analysed. Therefore, future cash flows can be identified as the flows that may potentially be distributed after having satisfied the minimum allocated capital restrictions. In the forecasts of available cash flows, consideration was given to maintaining a level of CET1 in line with the supervisory provisions, of 8,12% (minimum value envisaged by the last SREP received and relative to the Banca IFIS Group). The consolidated SREP limit is considered insofar as higher thresholds are imposed internally in respect of a control context, envisaging alert and warning thresholds. The consolidated limit is respected as required by the Supervisory Body. Implicitly, this limit sets limits that exceed the regulatory minimums for the subsidiaries. The internal audits, with higher thresholds in RAF, prudently avoid any overrun.

Consistently with the time frame for strategic planning, forecasts are prepared over an explicit period of three years, in line with the information contained in the 2020-22 Business Plan approved by the Parent company’s Board of Directors on 13 January 2020.

Under the scope of the financial matrix measurement criteria, as is that used to estimate the Value in Use, the value of a business at the end of the analytical flow forecasting period (the “Terminal Value”) is generally determined by capitalising infinitely at an appropriate “g” rate, the cash flow that can be achieved when “fully up and running”.

Flow discounting rates

The Value in Use is estimated by discounting cash flows at a rate that considers the current market rates referring to both the time value component and the country risk component, as well as specific risks of the assets considered.

The discounting rate has been determined using the “Capital Asset Pricing Model” (CAPM). On the basis of this model, the discounting rate is determined as the sum of the returns on risk-free investments and a risk premium, in turn dependent on the specific risk level of the asset (thereby meaning both the risk level of the operating segment and the geographic risk level represented by the “country risk”).

If we take a more detailed look at the various components that go towards determining the discounting rate, we note that:

- with reference to the risk-free component and the country risk premium (CRP), consideration was given to the currently, very low values with reference to the general interest rate context. Indeed, although the interest rates are not expected to rise significantly (at least in the short/medium-term), it is in any case appropriate to give some thought to assessing whether or not the current situation can reasonably be expected to last for beyond the “explicit period” of cash flow forecasting, for impairment test measurements. Indeed, it is common knowledge that a significant component of the calculation of the CGU value consists of its Terminal Value, calculated as the perpetual incoming cash flow that can be achieved when “fully up and running”; in this sense, reflections should focus on the analysis of the current macroeconomic context, to verify if the current level of interest rates may be representative of an ordinary situation and, therefore, can be incorporated into the flow discount rate implicit in the Terminal Value, in long-term calculations, as those required for an impairment testing process. On the basis of the situation described above, considering the mentioned long-term prospects that must guide the impairment testing, for the 2019 financial statements, we have chosen to use:

  - as the risk-free rate, the spot rate at 31 December 2019 of Italian ten-year government securities (Bloomberg Italy Generic Govt 10Y Yield);
  - as CRP, considering that there is no goodwill allocated to CGUs other than those (mainly) operating in Italy and, therefore, that the "country risk" substantively coincides with the "Italy risk", the Damodaran Country Equity Premium for Italy, updated at January 2020;

- the Beta coefficient, which measures the specific risk level of the individual business or operating segment, has been determined, identifying the beta adjusted to 5 years of Banca IFIS at 31 December 2019, published by Bloomberg.

Results of the impairment testing

The results of the impairment testing revealed that at 31 December 2019, the Values in Use of each of the CGUs with goodwill exceeded their respective carrying amounts. There was therefore no need to impair the goodwill booked.

Sensitivity analyses

As the Value in Use is determined by using estimates and assumptions that may include elements of uncertainty, as required by the IAS/IFRS standards, sensitivity analyses have been performed to verify the sensitivity of the results obtained to changes in certain underlying parameters and hypotheses.

More specifically, for CGUs with residual goodwill values, the impact was verified on the Value in Use of a zeroing of the annual "g" growth rate used for the Terminal Value. In other words, for the purpose of sensitivity analysis, the scenario was simulated whereby forecast cash flows for the years 2023 and thereafter (i.e. beyond the analytical forecasting period on the basis of the 2020 - 2022 Strategic Plan) are constant and equal to those estimated for 2022.

None of the CGUs tested revealed any impairment in the cases analysed.

Section 11 - Tax assets and liabilities - Item 110 of assets and Item 60 of liabilities

11.1 Deferred tax assets: breakdown

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

Deferred tax assets	31.12.2019	31.12.2018
A. Gross deferred tax assets	334.316	348.264
A1. Receivables (including securitisations)	221.055	223.049
A2. Other financial instruments	1.088	5.745
A3. Goodwill	12.574	-
A4. Expenses spanning several years	-	-
A5. Property, plant and equipment	2.729	2.716
A6. Provisions for risks and charges	9.416	11.113
A7. Entertainment expenses	-	-
A8. Personnel-related expenses	-	-
A9. Tax losses	81.232	101.994
A10. Unused tax credits to be deducted	-	-
A11. Others	6.222	3.647
B. Set-off with deferred tax liabilities	-	-
C. Net deferred tax assets	334.316	348.264

Deferred tax assets of 334,3 million Euro mainly comprise 218,4 million Euro for impairment losses on receivables deductible during following years and which can be transformed into tax credits in accordance with Italian Law no. 214/2011 and 81,2 for tax losses and surplus previous ACE that can be carried forward to subsequent tax periods.

The reduction in prepaid tax for 14,0 million Euro is mainly due to the use for 20,8 million Euro of previous tax losses and ACE surpluses offsetting the period tax charge and the receivable due from the consolidating company La Scogliera S.p.A. and the 4,7 million reduction in taxation connected with the negative fair value reserve of the assets measured at fair value through other comprehensive income, partly offset by an increase of 12,6 million for prepaid tax allocated for the redemption in accordance with Italian Decree Law no. 98/2011 of goodwill entered on these consolidated financial statements in relation to the purchase of the controlling investment by Banca IFIS in regard to FBS S.p.A., whose substitute tax, of 6,1 million Euro, was noted on profit and loss with a counter-entry under “Current tax liabilities”.

11.2 Deferred tax liabilities: breakdown

The main types of deferred tax liabilities are shown below.

Deferred tax liabilities	31.12.2019	31.12.2018
A. Gross deferred tax liabilities	40.770	39.355
A1. Capital gains to be spread over multiple periods	-	-
A2. Goodwill	-	-
A3. Property, plant and equipment	5.964	9.332
A4. Financial instruments	1.494	673
A5. Personnel-related expenses	-	-
A6. Others	33.312	29.350
B. Set-off with deferred tax assets	-	-
C. Net deferred tax liabilities	40.770	39.355

Deferred tax liabilities, amounting to 40,8 million Euro, mainly include 27,3 million Euro on receivables recognised for interest on arrears that will be taxed upon collection, 6,0 million Euro on property revaluations and 3,2 million Euro on misalignments of trade receivables.

The increase in deferred tax liabilities for 1,4 million Euro is mainly due to the recording, for 2,2 million Euro, of deferred tax on the value of receivables entered only in the consolidated financial statements, due to purchase price allocation following the purchase of the controlling share in FBS S.p.A., the increase for 0,8 million Euro in taxation relating to the positive fair value reserve of certain assets measured at fair value through other comprehensive income, the increase of 1,5 million Euro in taxation relating to late payment interest already taxable only at collection, partly offset by a decrease of 2,9 million Euro for the cancellation of deferred tax already recorded on property, plant and materials, due to the exercise of the option envisaged by Italian Law no. 160/2019 (2020 Budget Law) for the realignment of tax values with the greater carrying amounts, with reference to owned property and land, which coincides with substitute tax of 0,9 million booked as profit and loss with counter-entry under “Current tax liabilities”.

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

	31.12.2019	31.12.2018
1. Opening balance	342.433	366.896
2. Increases	22.377	23.964
2.1 Deferred tax assets recognised in the year	8.782	19.159
a) relative to previous years	5	1.539
b) due to change in accounting standards	-	-
c) reversals of impairment losses	-	-
d) other	8.777	17.620
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	13.595	4.805
3. Decreases	31.769	48.427
3.1 Deferred tax assets reversed during the year	30.479	48.408
a) reversals	26.191	45.476
b) impairment losses due to unrecoverability	-	-
c) change in accounting standards	-	-
d) other	4.288	2.932
3.2 Reductions in tax rates	-	-
3.3 Other decreases	1.290	19
a) conversion into tax credits as per Italian Law no. 214/2011	-	19
b) other	1.290	-
4. Closing balance	333.041	342.433

Concerning the changes in deferred tax assets (recognised through profit or losses), please note that:

- increases included deferred tax assets resulting from the inclusion of the companies FBS and FBS RE in the scope of consolidation;
- the deferred tax assets related to the taxable profit for the year were not included, as they were recognised under other assets and other liabilities as a Receivable and Payable due from and to the Parent/Consolidating Company La Scogliera under current tax consolidation arrangements.

11.4 Changes in deferred tax assets as per Italian Law no. 214/2011

	31.12.2019	31.12.2018
1. Opening balance	218.430	214.656
2. Increases	-	3.802
2.1 Deferred tax assets recognised in the year	-	3.802
2.2 Other increases	-	-
3. Decreases	-	28
3.1 Reversals	-	-
3.2 Conversion in tax credits	-	19
a) deriving from losses for the year	-	-
b) deriving from tax losses	-	19
3.3 Other decreases	-	9
4. Closing balance	218.430	218.430

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

	31.12.2019	31.12.2018
1. Opening balance	38.597	36.800
2. Increases	4.465	9.600
2.1 Deferred tax assets recognised in the year	1.573	9.419
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	1.573	9.419
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	2.892	181
3. Decreases	3.799	7.803
3.1 Deferred tax liabilities reversed during the year	3.799	7.803
a) reversals	933	7.617
b) due to change in accounting standards	-	-
c) other	2.866	186
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	39.263	38.597

11.6 Changes in deferred tax assets (recognised through equity)

	31.12.2019	31.12.2018
1. Opening balance	5.831	418
2. Increases	110	5.881
2.1 Deferred tax assets recognised in the year	110	5.881
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	110	5.881
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	4.666	468
3.1 Deferred tax assets reversed during the year	4.666	468
a) reversals	4.663	191
b) impairment losses due to unrecoverability	-	-
c) due to change in accounting standards	-	-
d) other	3	277
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	1.275	5.831

The change was strictly related to the tax impact of the negative change in the fair value reserve for financial assets measured at fair value through other comprehensive income.

11.7 Changes in deferred tax liabilities (recognised through equity)

	31.12.2019	31.12.2018
1. Opening balance	758	1.799
2. Increases	998	491
2.1 Deferred tax assets recognised in the year	750	60
a) relative to previous years	-	59
b) due to change in accounting standards	-	-
c) other	750	1
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	248	431
3. Decreases	249	1.532
3.1 Deferred tax liabilities reversed during the year	1	1.532
a) reversals	1	1.532
b) due to change in accounting standards	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	248	-
4. Closing balance	1.507	758

Section 12 – Non-current assets and disposal groups and related liabilities – Item 120 (assets) and Item 70 (liabilities)

12.1 Non-current assets and disposal groups: breakdown by type of asset

	31.12.2019	31.12.2018
A. Assets held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3. Property, plant and equipment	25.560	-
of which: obtained by enforcing collateral	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total (A)	25.560	-
of which measured at cost	*25.560*	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- financial assets held for trading	-	-
- financial assets measured at fair value	-	-
- other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained by enforcing collateral	-	-
B.6 Intangible assets	-	-
B.7. Other assets	-	-
Total (B)	-	-
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debts	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total (C)	-	-
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

	31.12.2019	31.12.2018
D. Liabilities associated with discontinued operations		
C.1 Financial liabilities measured at amortised cost	-	-
C.2 Financial liabilities held for trading	-	-
D.3. Financial liabilities measured at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total (D)	-	-
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

As indicated previously, non-current assets held for disposal refer to the property of Corso Venezia, Milan, for which, at the end of 2019, a binding offer of sale was stipulated.

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

	31.12.2019	31.12.2018
Tax receivables	41.280	69.046
Accrued income and deferred expenses	34.522	35.367
Guarantee deposits	1.215	1.058
Other sundry items	275.958	197.416
Total	352.975	302.887

Tax receivables mainly include 10,1 million Euro in receivables for deposits paid in relation to the stamp duty paid virtually and 30,9 million Euro in Group VAT receivables.

Other items included 106,1 million Euro in receivables due from the parent La Scogliera S.p.A., including 51,9 million Euro arising from the tax consolidation regime and 54,2 million Euro in tax credits claimed by the latter for excess tax payments from prior years.

Finally, the line item accrued income and prepaid expenses included 26,2 million Euro in deferred costs associated with the NPL Segment's judicial debt collection proceedings pending the valuation at amortised cost.

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities at amortised cost: breakdown of payables due to banks by type

Type of transaction/Amounts	31.12.2019				31.12.2018			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Payables due to Central banks	792.168	X	X	X	695.075	X	X	X
2. Payables due to banks	167.309	X	X	X	90.318	X	X	X
2.1 Current accounts and on demand deposits	27.926	X	X	X	61.512	X	X	X
2.2. Term deposits	119.663	X	X	X	25.393	X	X	X
2.3 Loans	19.280	X	X	X	3.413	X	X	X
2.3 1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	19.280	X	X	X	3.413	X	X	X
2.4 Debt from buyback commitments on treasury equity instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	-	X	X	X	-	X	X	X
2.6 Other payables	440	X	X	X	-	X	X	X
Total	959.477	-	-	959.477	785.393	-	-	785.393

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

Payables due to central banks essentially consisted of the subscribed 800,0 million Euro (par value) TLTRO tranche obtained in March 2017 and in December 2019.

The fair value of payables due to banks is in line with the relevant carrying amount, considering the fact that interbank deposits are short- or very short-term.

1.2 Financial liabilities measured at amortised cost: breakdown of payables due to customers by type

Type of transaction/Amounts	31.12.2019				31.12.2018			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on demand deposits	1.013.871	X	X	X	1.008.056	X	X	X
2. Term deposits	4.065.418	X	X	X	3.642.498	X	X	X
3. Loans	150.280	X	X	X	3.471	X	X	X
3.1 Repurchase agreements	150.280	X	X	X	-	X	X	X
3.2 Other	-	X	X	X	3.471	X	X	X
4. Debt from buyback commitments on treasury equity instruments	-	X	X	X	-	X	X	X
5. Lease payables	15.250	X	X	X	-	X	X	X
6. Other payables	41.420	X	X	X	19.274	X	X	X
Total	5.286.239	-	-	5.309.828	4.673.299	-	-	4.654.803

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

Current accounts and on demand deposits at 31 December 2019 mainly included funding from the on demand Rendimax savings account and the Contomax on-line current account, amounting to 751,6 million Euro and 46,4 million Euro, respectively; term deposits represent funding from fixed-term Rendimax and Contomax accounts and time deposits.

It should be noted that the Bank does not carry out "term structured repo" transactions.

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued by type

Type of securities/Amounts	31.12.2019				31.12.2018			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	2.217.078	748.984	-	1.451.336	1.978.462	708.742	-	1.170.463
1.1 structured bonds	-	-	-	-	-	-	-	-
1.2 other bonds	2.217.078	748.984	-	1.451.336	1.978.462	708.742	-	1.170.463
2. Other securities	451	-	-	451	540	-	-	540
2.1 structured	-	-	-		-	-	-	-
2.2 other	451	-	-	451	540	-	-	540
Total	2.217.529	748.984	-	1.451.787	1.979.002	708.742	-	1.171.003

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

Bonds issued included the principal and interest amounts of the senior bonds issued by Banca IFIS, totalling 605,1 million Euro, as well as the 401,8 million Euro Tier 2 bond issued in mid-October 2017. The line item also included 60,1 million Euro in bond loans issued by the merged entity Interbanca S.p.A.

as well as 1.150,0 million Euro in notes issued by the special purpose vehicles as part of the securitisation. These resulted from the consolidation of the vehicle, which was intended to represent the overall transaction more fairly.

1.4 Breakdown of subordinated debts/securities

The line item "Debt securities issued" included 401,8 million Euro in subordinated notes related to Euro Tier 2 bond issued in mid-October 2017 for a nominal amount of 400 million Euro.

1.6 Lease payables

	31.12.2019	31.12.2018
Lease payables	15.907	3.471

The above payable relates for 12,6 million Euro to lease contracts of properties and cars for application of the accounting standard IFRS 16, which came into force at 1 January 2019 and as more extensively described in “Part M - Information on leasing” of this document.

It also includes 3,3 million Euro for the real estate lease the former company Toscana Finanza S.p.A. entered into in 2009 for the property located in Florence, which housed the headquarters of the NPL Segment until August 2016. The term of the lease entered into with Centro Leasing S.p.A. is 18 years (from 01.03.2009 to 01.03.2027) and provides for the payment of 216 monthly instalments of 28.490 Euro, including the principal, interest and an option to buy the asset at the end of the lease for 1.876.800 Euro. The property currently houses the head office of Banca Ifis.

Section 2 - Financial liabilities held for trading - item 20

2.1 Financial liabilities held for trading: breakdown by type

Type of transaction/Amounts	31.12.2019					31.12.2018				
	NA	Fair value			Fair value*	NA	Fair value			Fair value*
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Payables due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										-
1. Financial derivatives		-	21.844	-	-	-	-	31.155	-	-
1.1 Held for trading	X	-	21.844	-	X	X	-	31.155	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	X	-	-	-	X
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	-	21.844	-	X	X	-	31.155	-	X
Total (A+B)	-	-	21.844	-	-	X	-	31.155	-	X

Key

NA = Nominal or notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair Value* = Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness compared to the date of issuance

Concerning level 2 liabilities held for trading, see the comments in section 2 under assets.

Section 6 - Tax liabilities - Item 60

Current tax liabilities, amounting to 28,2 million Euro, represent the tax burden for the year (13,4 million Euro at 31 December 2018). Deferred tax liabilities, of 40,8 million Euro, are better described in section 11 of the assets, to which reference is made.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

	31.12.2019	31.12.2018
Payables due to suppliers	103.398	45.259
Payables due to personnel	17.279	14.166
Payables due to the Tax Office and Social Security agencies	13.937	11.284
Sums available to customers	20.596	18.889
Accrued liabilities and deferred income	2.641	4.072
Other payables	232.171	271.202
Total	390.022	367.872

Other payables included approximately 120,3 million Euro in amounts due to customers that have not yet been credited as well as a 29,0 million Euro payable due to the parent company La Scogliera deriving from the tax consolidation regime.

Section 9 - Post-employment benefits - Item 90

9.1 Post-employment benefits: annual changes

	31.12.2019	31.12.2018
A. Opening balance	8.039	7.550
B. Increases	3.173	835
B.1 Provisions for the year	984	94
B.2 Other changes	353	135
B.3 Business combinations	1.836	606
C. Decreases	1.235	346
C.1 Payments made	401	157
C.2 Other changes	834	189
D. Closing balance	9.977	8.039
Total	9.977	8.039

The increases deriving from business combinations concern the post-employment benefit liabilities assumed by the Group as a result of the acquisition of the FBS Group.

Payments made represent the benefits paid to employees during the year.

Other decreases include the impact of the discounting of benefits earned up to 31 December 2006 and still held in the company, which, based on the changes introduced by the new IAS 19, are recognised through equity.

Pursuant to the requirements of the ESMA in the document "European common enforcement priorities for 2012 financial statements" of 12 November 2012, the discount rate used was the interest rate based on the market yield of a benchmark of AA-rated European corporate bonds with maturity over 10 years. The same interest rate was used to discount the obligations at 31 December 2018.

9.2 Other information

Under IAS/IFRS standards, a company's liabilities regarding benefits that will be paid to employees at the conclusion of the employer/employee relationship (post-employment benefits) should be recognised based on actuarial calculations of the amount that will be paid at maturity.

Specifically, these allocations must take into account the amount already earned over the period at the reporting date, projecting it into the future in order to calculate the amount that will be paid at the conclusion of the employer/employee relationship. This amount must then be discounted to take into account the time that will pass until payment.

Following the coming into force of the 2007 Budget Law, which brought the reform regarding supplementary pension plans - as per Italian Legislative Decree no. 252 of 5 December 2005 - forward to 1 January 2007, the employee was given a choice as to whether to allocate the post-employment benefits earned as from 1 January 2007 to supplementary pension funds or to maintain them in the company, which would then transfer it to a dedicated fund managed by INPS (the Italian National Social Security Institute).

This reform has led to changes in the accounting of post-employment benefits as for both the benefits earned up to 31 December 2006 and those earned from 1 January 2007.

In particular:

- post-employment benefits earned as from 1 January 2007 constitute a defined-contribution plan, regardless of whether the employee has chosen to allocate them to a supplementary pension fund or to INPS's Treasury Fund. Those benefits shall be calculated according to contributions due without applying actuarial methods;
- post-employment benefits earned up to 31 December 2006 continue to be considered as a defined-benefit plan, and as such are calculated on an actuarial basis which, however, unlike the calculation method applied until 31 December 2006, no longer requires that the benefits be proportionally attributed to the period of service rendered. This is because the employee's service is considered entirely accrued due to the change in the accounting nature of benefits earned as from 1 January 2007.

Section 10 - Provision for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2019	31.12.2018
1. Provisions for credit risk related to commitments and financial guarantees granted	3.952	3.896
2. Provisions on other commitments and financial guarantees granted	-	-
3. Provisions for pensions	-	-
4. Other provisions for risks and charges	29.013	21.883
4.1 legal and tax disputes	22.894	14.566
4.2 personnel expenses	614	977
4.3 other	5.505	6.340
Total	32.965	25.779

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and financial guarantees granted	Provisions for pensions	Other provisions for risks and charges	Total 31.12.2019
A. Opening balance	-	-	21.883	21.883
B. Increases	-	-	14.488	14.488
B.1 Provisions for the year	-	-	14.022	14.022
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to changes in the discount rate	-	-	-	-
B.4 Other changes	-	-	-	-
Business combinations	-	-	*466*	*466*
C. Decreases	-	-	7.359	7.359
C.1 Used in the year	-	-	2.667	2.667
C.2 Changes due to changes in the discount rate	-	-	-	-
C.3 Other changes	-	-	4.691	4.691
D. Closing balance	-	-	29.013	29.013

The change for "Business combinations" relates to the acquisition of the Fbs Group.

10.3 Provisions for credit risk related to commitments and financial guarantees granted

	Provisions for credit risk related to commitments and financial guarantees granted			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments	1.501	50	-	1.551
Guarantees granted	223	79	2.099	2.401
Total	1.724	129	2.099	3.952

At 31 December 2019, the balance of 4,0 million Euro, in line with the end of the previous year, reflects the write-down of the financial guarantees and commitments given by the Group.

10.6 Provisions for risks and charges - Other provisions

Legal and tax disputes

At 31 December 2019, the Bank had set aside 22,9 million Euro in provisions. This amount breaks down as follows:

- 12,0 million Euro for 44 disputes concerning the Trade Receivables Area (the plaintiffs seek 30,1 million Euro in damages), these disputes are mainly connected with the request for the repetition of amounts collected or payments under guarantee in relation to factoring positions without recourse;
- 5,4 million Euro (the plaintiffs seek 64,8 million Euro in damages) for 27 disputes concerning the Corporate Banking and Commercial Lending Areas and linked for 4,9 million Euro to positions deriving from the former Interbanca;
- 1,9 million Euro (the plaintiffs seek 4,0 million Euro in damages) for 61 disputes concerning the Leasing Area;
- 0,8 million Euro (the plaintiffs seek the same amount in damages) for disputes concerning the investee IFIS Rental;
- 1,0 million Euro for various disputes concerning Credifarma;

- 330 thousand Euro (the plaintiffs seek 4,0 million Euro) for 27 disputes with customers and agents relating to Cap.Ital.Fin.;
- 1,3 million Euro (the plaintiffs seek 3,8 million Euro in damages) for 39 disputes concerning receivables of the subsidiary IFIS NPL;
- 106 thousand Euro for 7 disputes relating to FBS, and the plaintiffs seek a total of 1,8 million Euro in damages.

Other provisions for risks and charges

At 31 December 2019, there were "Other provisions" of 6,1 million Euro (7,3 million Euro at 31 December 2018) consisting mainly of 4,7 million Euro for supplementary indemnities for customers connected with the operations of the Leasing Area compared to 3,7 million Euro at 31 December 2018, 0,6 million Euro for staff-related charges (1,0 million Euro at 31 December 2018) and 0,2 million Euro for the provision for complaints. The decrease of 1,2 million Euro in the item "Other provisions" compared to the balance at 31 December 2018 is mainly due to the release of a risk provision of 0,9 million Euro connected with probable costs of formal adaptation of plants of the former subsidiary Two Solar Park sold in June 2019.

Contingent liabilities

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

Tax dispute

Dispute concerning the write-off of receivables. Company involved Banca IFIS as the acquiring company of former IFIS Leasing S.p.A. (former GE Capital Interbanca Group)

The Italian Revenue Agency has reclassified the write-off of receivables made by the Company in 2004, 2005, 2006 and 2007 and added in the years between 2005 and 2014 to losses on receivables - without any actual evidence.

Overall, the Agency assessed 242,7 thousand Euro in additional taxes and administrative penalties amounting to 100%.

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

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

Dispute concerning the assumed "permanent establishment" in Italy of the Polish company

Following the investigation carried out by the Guardia di Finanza [Financial Police Force] in regard to Direct Tax, VAT and other tax for the tax years 2016 and 2017 and 2013/2015 limited to transactions implemented with the Polish subsidiary IFIS Finance SP Zoo, Verification Notices were served in regard to the years 2013/2015.

The Guardia di Finanza claims that it has found evidence to suggest that in the foreign country (Poland), a "permanent establishment" of Banca IFIS has been set up and not an autonomous legal subject with capacity of self-determination.

In other words, by refusing to acknowledge the autonomous legal organisation of the Company with simultaneous tax residence of such in Poland, the costs and revenues of the Polish office would constitute positive or negative items producing income taxable in Italy (net of the tax credit for tax ultimately paid abroad).

In holding the Financial Administration's claim to be unfounded, the Bank will be filing an appeal against the Verification Notice pursuant to the law with the competent Tax Commissions, paying 1/3 of the tax as provisional enrolment on the tax register.

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

Reimbursements

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

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

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

Section 13 - Group Equity - Items 120, 130, 140, 150, 160, 170 and 180

13.1 Share capital and treasury shares: breakdown

Item		31.12.2019	31.12.2018
170	Share capital (in thousands of Euro)	53.811	53.811
	Number of ordinary shares	53.811.095	53.811.095
	Nominal amount of ordinary shares	1 euro	1 euro
180	Treasury shares (in thousands of Euro)	(3.012)	(3.103)
	Number of treasury shares	359.144	370.112

13.2 Share capital - number of parent company shares: annual changes

Items/Types	Ordinary	Others
A. Shares held at the beginning of the year	**53.811.095**	**-**
- fully paid-up	53.811.095	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	(370.112)	-
A.2 Outstanding shares: opening balance	**53.440.983**	**-**
B. Increases	**10.968**	**-**
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	10.968	-
C. Decreases	**-**	**-**
C.1 Annulments	-	-
C.2 Buybacks of treasury shares	-	-
C.3 Company sell-offs	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	**53.451.951**	**-**
D.1 Treasury shares (+)	359.144	-
D.2 Shares held at the end of the year	53.811.095	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-

13.3 Share capital: other information

The share capital is composed of 53.811.095 ordinary shares with a nominal value of 1 Euro each, bearing no rights, liens and obligations, including those relating to dividend distribution and capital redemption.

13.4 Profit reserves: other information

Items/Components	31.12.2019	31.12.2018
Legal reserve	17.806	10.762
Extraordinary reserve	546.261	487.336
Other reserves	690.779	665.096
Total profit reserves	**1.254.846**	**1.163.194**
Buyback reserve	3.012	3.103
Other reserves	2.380	2.246
Total item 150 reserves	**1.260.238**	**1.168.543**

Total profit reserves include "Other reserves" for 633,4 million Euro as non-available reserve until approval of the financial statements for the year ended 31 December 2021. This amount is equal to the gain on bargain purchase from the acquisition of the former GE Capital Interbanca Group.

Pursuant to article 1, paragraph 145 of the 2014 Stability law (Italian Law no. 147 of 27.12.2013) and article 1, paragraph 704 of the 2020 Budget Law (Italian Law no. 160 of 27.12.2019), the Bank has realigned the spread between the statutory value and tax value on certain properties. The amount corresponding to the higher values following the realignment, net of the substitute tax, generated a 15,3 million Euro untaxed reserve.

In addition, following the merger of Interbanca S.p.A. into Banca IFIS, article 172 paragraph 5 of the Consolidated Law on Income Tax required the surviving entity to restore the merging entity's deferred tax reserves as follows:

- 4,6 million Euro special reserve as per article 15 paragraph 10 of Italian Law no. 516 of 7/8/82;
- 2,3 million Euro revaluation reserve as per Italian Law no. 408/90.

Finally, there were an additional 20,7 million Euro in deferred tax reserves recognised by Banca IFIS and arising from the merger of Interbanca, in accordance with the following laws: no. 576/07, no. 83/72 and no. 408/90, that had been previously recognised as share capital of the latter.

Section 14 - Equity attributable to non-controlling interests - Item 190

14.1 Breakdown of Item 210 Equity attributable to non-controlling interests

Company name	31.12.2019	31.12.2018
Equity investments in consolidated companies with significant minority interests		
1. Credifarma S.p.A.	5.567	5.476
2. FBS Real Estate S.r.l.	4	-
Total	5.571	5.476

Other information

1. Commitments and financial guarantees granted

	Nominal amount of commitments and financial guarantees granted			Total 31.12.2019	Total 31.12.2018
	Stage 1	Stage 2	Stage 3		
1. Loan commitments	**748.019**	**4.753**	**38.330**	**791.102**	**937.602**
a) Central Banks	-	-	-	-	-
b) Public Administrations	1.474	-	-	1.474	695
c) Banks	-	-	-	-	-
d) Other financial companies	184.229	-	-	184.229	121.023
e) Non-financial companies	310.919	4.674	36.697	352.290	539.195
f) Households	251.397	79	1.633	253.109	276.689
2. Guarantees granted	**235.668**	**9.985**	**42.238**	**287.891**	**257.645**
a) Central Banks	-	-	-	-	-
b) Public Administrations	-	-	-	-	-
c) Banks	30.584	474	1.262	32.320	10.256
d) Other financial companies	6.568	-	-	6.568	6.965
e) Non-financial companies	194.425	9.511	28.449	232.385	227.622
f) Households	4.091	-	12.527	16.618	12.802

3. Assets used as collateral for own liabilities and commitments

Portfolios	31.12.2019	31.12.2018
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	1.096.321	410.410
3. Financial assets measured at amortised cost	228.882	31.542
4. Property, plant and equipment	-	-
- of which: property, plant and equipment qualifying as inventories	-	-

Financial assets measured at fair value through other comprehensive income, as well as financial assets measured at amortised cost for 213 million, refer to government securities as a guarantee of loans at the Eurosystem and a reverse repurchase agreement.

The rest of the financial assets measured at amortised cost refer to bank deposits backing derivative transactions.

5. Administration and mediation on behalf of third parties

Type of services	AMOUNT
1. Execution of orders on behalf of clients	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Portfolio management	**-**
a) individual	-
b) collective	-
3. Safekeeping and administration of securities	**4.179.867**
a) third party securities in custody: associated with depositary bank	-
services (excluding portfolio management)	-
1. securities issued by consolidated companies	-
2. other securities	-
b) other third party securities in custody (excluding portfolio management): other	1.009.560
1. securities issued by consolidated companies	-
2. other securities	1.009.560
c) third party securities held with third parties	944.877
d) own securities held with third parties	2.225.430
4. Other transactions	**-**

4.3 Part C - Consolidated income statement

Section 1 - Interest - Items 10 and 20

1.1 Interest receivable and similar income: breakdown

Items/Types	Debt securities	Loans	Other transactions	Total 31.12.2019	Total 31.12.2018
1. Financial assets measured at fair value through profit or loss:	368	4.572	983	5.923	12.274
1.1. Financial assets held for trading	-	-	-	-	-
1.2. Financial assets measured at fair value	-	-	-	-	-
1.3. Other financial assets mandatorily measured at fair value	368	4.572	983	5.923	12.274
2. Financial assets measured at fair value through other comprehensive income	3.864	-	X	3.864	6.904
3. Financial assets measured at amortised cost:	4.367	423.354	-	427.721	416.463
3.1. Receivables due from banks	33	2.993	X	3.026	2.905
3.2. Receivables due from customers	4.334	420.361	X	424.695	413.558
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	15.835	15.835	405
6. Financial liabilities	X	X	X	-	-
Total	8.599	427.926	16.818	453.343	436.046
of which: interest income on impaired financial assets	-	146.778	-	146.778	116.348
of which: interest income on financial leases	-	44.289	-	44.289	54.924

As for Financial assets measured at fair value through profit or loss, the amounts refer to debt securities and loans that failed the SPPI test, whereas in the case of Financial assets measured at fair value through other comprehensive income, the reported amounts are securities, mainly government bonds, in the portfolio.

Interest income from receivables due from customers at amortised cost referring to debt securities is associated with the senior tranche of a securitisation backed by the Italian government's state-guarantee scheme for NPL-backed securities (GACS) that the Group purchased in January 2018, as well as with the securities portfolio, established as a use of liquidity in the second half of 2019.

Finally, interest income on receivables due from customers at amortised cost referring to loans, related for 128,4 million to NPL Segment exposures (99,8 million in 2018).

1.2 Interest receivable and similar income: other information

1.2.1 Interest income on foreign currency financial assets

	31.12.2019	31.12.2018
Interest income on foreign currency financial assets	7.877	9.927

1.3 Interest due and similar expenses: breakdown

Items/Types	Payables	Securities	Others transactions	Total 31.12.2019	Total 31.12.2018
1. Financial liabilities measured at amortised cost	(83.605)	(30.714)	(2)	(114.321)	(104.934)
1.1 Payables due to central banks	(2.741)	X	X	(2.741)	(5.150)
1.2 Payables due to banks	(2.341)	X	X	(2.341)	(1.903)
1.3 Payables due to customers	(78.523)	X	X	(78.523)	(59.846)
1.4 Debt securities issued	X	(30.714)	X	(30.714)	(38.035)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities measured at fair value	(10)	-	-	(10)	-
4. Other liabilities and provisions	X	X	(6)	(6)	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	-	-
Total	**(83.615)**	**(30.714)**	**(8)**	**(114.337)**	**(104.934)**
of which: interest expense on lease payables	(235)	-	-	(235)	(104)

Interest expense on payables due to customers included 70,3 million Euro at 31 December 2019 (59,1 million Euro at 31 December 2018) relating to retail funding - deriving mainly from the Rendimax savings account and the Contomax current account.

Interest expense on debt securities issued included 7,7 million Euro in funding costs for the securitisation carried out in late 2016, as detailed in Part E of these Notes.

1.4 Interest due and similar expenses: other information

1.4.1 Interest expense on foreign currency liabilities

	31.12.2019	31.12.2018
Interest expense on foreign currency liabilities	(2.118)	(1.433)

Section 2 - Commissions - Items 40 and 50

2.1 Commission income: breakdown

Type of services/Amounts	31.12.2019	31.12.2018
a) guarantees granted	2.004	2.243
b) credit derivatives	-	-
c) management, mediation and consultancy services:	8.395	8.489
1. trading in financial instruments	-	-
2. trading in currencies	-	-
3. individual asset management	53	843
3.1. individual	53	843
3.2. collective	-	-
4. safe custody and management of securities	-	-
5. depository bank	-	-
6. placement of securities	-	-
7. order collection and transmission	-	-
8. consultancy	-	-
8.1 on investments	-	-
8.2 on financial structure	-	-
9. third-party services	8.342	7.646
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	8.342	7.646
d) collection and payment services	3.430	884
e) servicing for securitisation transactions	5.758	196
f) services for factoring transactions	62.376	58.731
g) tax collection and payment	-	-
h) management of multi-lateral trading systems	-	-
i) current account holding and management	621	625
j) other services	22.666	26.529
Total	105.250	97.697

In 2019, commissions for other services included 8,0 million Euro (compared to 8,1 million Euro in 2018) in fees received as part of leasing operations.

2.2 Commission expense: breakdown

Services/Amounts	31.12.2019	31.12.2018
a) guarantees received	(550)	(585)
b) credit derivatives	-	-
c) management, mediation and consultancy services:	(86)	(12)
1. trading in financial instruments	-	-
2. trading in currencies	-	-
3. individual asset management	(47)	-
3.1 own assets	(47)	-
3.2 delegated by third parties	-	-
4. safe custody and management of securities	(39)	(12)
5. placement of financial instruments	-	-
6. out-of-office canvassing of financial instruments, services and products	-	-
d) collection and payment services	(1.892)	(1.104)
e) other services	(8.644)	(11.491)
Total	(11.172)	(13.192)

The line item Other services included 4,4 million Euro (4,2 million Euro in 2018) in fees deriving from leasing operations (brokerage and insurance).

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	31.12.2019		31.12.2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	35	-
C. Financial assets measured at fair value through other comprehensive income	813	-	301	-
D. Equity investments	-	-	-	-
Total	813	-	336	-

Section 4 - Net profit (loss) from trading - Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions/Income items	Capital gains (A)	Profit from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	-	120	-	-	120
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	120	-	-	120
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
Tax assets and liabilities: exchange differences	X	X	X	X	(3.723)
3. Derivatives	10.299	10.526	(10.454)	(11.255)	(884)
3.1. Financial derivatives:	10.299	10.526	(10.454)	(11.255)	(884)
- On debt securities and interest rates	10.299	10.331	(9.552)	(10.512)	566
- On equity instruments and share indexes	-	195	(902)	(743)	(1.450)
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
3.2 Derivatives on loans	-	-	-	-	-
Of which: natural hedges connected to the fair value option	X	X	X	X	-
Total	10.299	10.646	(10.454)	(11.255)	(4.487)

Section 6 - Profit (loss) from sale or buyback - Item 100

6.1 Profit (loss) from sale or buyback: breakdown

Items/Income items	31.12.2019			31.12.2018		
	Profit	Losses	Net result	Profit	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	17.740	(19)	17.721	17.286	(121)	17.165
1.1 Receivables due from banks	-	-	-	-	-	-
1.2 Receivables due from customers	17.740	(19)	17.721	17.286	(121)	17.165
2. Financial assets measured at fair value through other comprehensive income	10.021	(9.062)	959	-	-	-
2.1 Debt securities	10.021	(9.062)	959	-	-	-
2.2 Loans	-	-	-	-	-	-
Total assets (A)	27.761	(9.081)	18.680	17.286	(121)	17.165
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Payables due to customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	8.233	(2)	8.231
Total liabilities (B)	-	-	-	8.233	(2)	8.231

The gains on the sale of receivables due from customers were achieved in the amount of 15,7 million Euro by selling portfolios of receivables of the NPL Segment, as commented under Contribution of business segments in the Directors' Report.

It should be recalled that gains on securities in issue at 31 December 2018 mainly referred to the buy-back of own financial liabilities through the "Tender Offer" launched in December 2018 over the 5-year bond issued in April 2018.

Section 7 - Net result of financial assets and liabilities measured at fair value through profit or loss - Item 110

7.2 Net change in other financial assets and liabilities at fair value through profit or loss: breakdown of financial assets mandatorily measured at fair value

Transactions/Income items	Capital gains (A)	Gains on sale (B)	Capital losses (C)	Losses on sale (D)	Net result [(A+B)-(C+D)]
1. Financial assets	8.951	2.917	(21.389)	(98)	(9.619)
1.1 Debt securities	495	-	-	(98)	397
1.2 Equity instruments	-	2.044	(11.266)	-	(9.222)
1.3 UCITS units	61	873	(4.600)	-	(3.666)
1.4 Loans	8.395	-	(5.523)	-	2.872
2. Financial assets: exchange differences	X	X	X	X	-
Total	8.951	2.917	(21.389)	(98)	(9.619)

Section 8 - Net credit risk losses/reversals - Item 130

8.1 Net credit risk losses related to financial assets measured at amortised cost: breakdown

Transactions/Income items	Impairment losses			Reversals of impairment losses		Total 31.12.2019	Total 31.12.2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write off	Others				
A. Receivables due from banks	(82)	-	-	22	-	(60)	290
- loans	(82)	-	-	22	-	(60)	290
- debt securities	-	-	-	-	-	-	-
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	-
B. Receivables due from customers	(5.497)	(159.468)	(342.720)	4.287	536.024	32.626	38.784
- loans	(5.486)	(44.067)	(116.710)	4.287	80.197	(81.779)	39.169
- debt securities	(11)	(115.401)	(226.010)	-	455.827	114.405	(385)
of which: purchased or originated credit impaired loans	(2)	(115.428)	(226.023)	8	458.179	116.734	220.166
Total	(5.579)	(159.468)	(342.720)	4.309	536.024	32.566	39.074

Impairment losses/reversals on receivables due from customers related to purchased or originated credit impaired ("POCI") loans included 119,6 million Euro (138,1 million Euro at 31 December 2018) in reversals on exposures of the NPL Segment. Specifically, this line item includes the impact of the periodic change in lifetime expected credit losses, even if those changes are favourable or lower than the ones included in the estimates of cash flows on initial recognition.

8.2 Net credit risk losses related to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income items	Impairment losses			Reversals of impairment losses		Total 31.12.2019	Total 31.12.2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write off	Others				
A. Debt securities	-	-	-	-	113	113	(1.019)
B. Loans	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: purchased or originated credit impaired financial assets	-	-	-	-	-	-	-
Total	-	-	-	-	113	113	(1.019)

Section 12 - Administrative expenses - Item 190

12.1 Personnel expenses: breakdown

Type of expense/Sectors	31.12.2019	31.12.2018
1) Employees	(122.053)	(107.228)
a) salaries and wages	(85.843)	(76.478)
b) social security contributions	(23.719)	(21.147)
c) post-employment benefits	(5.339)	-
d) pension expense	(606)	-
e) allocations for post-employment benefits	(454)	(4.713)
f) allocations to pensions and similar provisions:	(45)	-
- defined contribution plans	-	-
- defined benefit plans	(45)	-
g) payments made to supplementary external funds:	(107)	(76)
- defined contribution plans	(107)	(17)
- defined benefit plans	-	(59)
h) costs arising from share-based payment agreements	-	-
i) other employee benefits	(5.939)	(4.814)
2) Other serving employees	(318)	(61)
3) Directors and Statutory Auditors	(7.587)	(4.295)
4) Retired personnel	-	-
Total	(129.959)	(111.584)

Personnel expenses of 130,0 million Euro were up by 16,5% (111,6 million Euro in the year ended 31 December 2018), due to both the increase in the number of the Group's employees, which stood at 1.753 at 31 December 2019 (+7,0% on the 1.638 employees at 31 December 2018), and the effect of the settlement agreements relating to the departure of the minority shareholders and directors of FBS.

Allocations for post-employment benefits included both contributions that employees have chosen to leave in the company and to be paid to INPS's Treasury Fund, and contributions to be paid to supplementary pension funds -- as well as the interest expense on the defined benefit obligation.

12.2 Average number of employees by category

Employees:	31.12.2019	31.12.2018
Employees:	1.695,5	1.554,0
a) managers	67,5	59,0
b) middle managers	498,5	468,0
c) other employees	1.129,5	1.027,0
Other personnel	-	-

12.5 Other administrative expenses: breakdown

Type of expense/Amounts	31.12.2019	31.12.2018
Expenses for professional services	**(70.691)**	**(59.636)**
Legal and consulting services	(52.043)	(40.354)
Auditing	(773)	(516)
Outsourced services	(17.875)	(18.766)
Direct and indirect taxes	**(76.735)**	**(45.291)**
Expenses for purchasing goods and other services	**(66.852)**	**(71.599)**
Customer information	(18.345)	(17.645)
Software assistance and hire	(16.511)	(16.117)
FITD and Resolution fund	(6.492)	(5.983)
Postage and archiving of documents	(5.708)	(5.761)
Property expenses	(5.643)	(6.697)
Advertising and inserts	(2.957)	(3.395)
Telephone and data transmission expenses	(2.671)	(3.737)
Business trips and transfers	(2.546)	(3.491)
Car fleet management and maintenance	(2.452)	(3.627)
Securitisation costs	(1.422)	(1.642)
Other sundry expenses	(2.105)	(3.504)
Total administrative expenses	**(214.278)**	**(176.526)**

Other administrative expenses, amounting to 214,3 million Euro compared to 176,5 million Euro at 31 December 2018, include the expense of 30,9 million Euro relating to the settlement of certain tax disputes regarding the former subsidiary Interbanca, the economic impact of which is fully offset in the item "other net operating income" for 46,2 million Euro (including the related tax effect) against the activation of outstanding guarantees. Net of this item, an increase is booked of approximately 11,7 million Euro in legal and consultancy expenses, partially offset by a reduction of 4,8 million Euro in other expenses, as more extensively explained below.

The sub-item "Legal and consulting services" amounted to 52,0 million Euro at 31 December 2019, an increase of 29,0% compared to the 40,4 million Euro in the previous year and includes costs linked to recovery of judicial operations in particular for receivables belonging to the NPL Segment for 25,1 million Euro (21,9 million Euro at 31 December 2018). The increase in the item is above all due to both the change in the consolidation area with the inclusion of FBS and Credifarma for all 12 months, for an effect of approximately

5,0 million Euro and the increase in consultancy linked to corporate acquisitions and the reorganisation of the Group's corporate structures.

"Outsourced services", amounting to 17,9 million Euro at 31 December 2019, substantially in line compared with the 18,8 million Euro of the previous year, mainly refers to the recovery of non-judicial operations in the NPL Segment.

The item "Direct and indirect taxes", equal to 76,7 million Euro compared to 45,3 million Euro at 31 December 2018, is significantly influenced by the charge of 30,9 million Euro related to the requests for facilitated settlement of tax disputes presented during 2019. Net of this effect, the item mainly refers to the registration tax incurred for the judicial recovery of receivables for a total of 31,3 million Euro at 31 December 2019 in line with the 30,8 million Euro of the previous year. The item also includes stamp duty of 12,1 million Euro, the charge of which to customers is included in the item Other operating income.

"Expenses for purchasing goods and other services" amounted to 66,9 million Euro, down 6.6% from 71,6 million Euro in the same period of the previous year. The change in this item is due to the contrasting effect in the change in some of the most significant items, in particular:

- Expenses for customer information of 18,3 million Euro, up 4,0% on the previous year: the increase refers mainly to the NPL Segment and is mainly related to the expenses incurred for the valuation of assets to guarantee the portfolios managed;
- FITD and Resolution fund amounted to 6,5 million Euro, up 8,5% compared to 6,0 million Euro at 31 December 2018.
- Property expenses and car fleet management and maintenance, which decreased by a total of 2,2 million Euro, essentially due to the application from 1 January 2019 of the new IFRS 16 standard.
- Business trips and transfers dropped by 27,1% as compared with the previous year, coming in at 2,6 million Euro, also following the completion of projects involving employees in the various Group offices, above all during the previous year.

Below is a summary of the prices for auditing and non-auditing services for 2019.

Type of services	Service provider	Beneficiary	Fees (units of Euro)
Independent auditors' fees	EY S.p.A.	Banca IFIS S.p.A.	288.354
		Subsidiaries	306.545
Certification services	EY S.p.A	Banca IFIS S.p.A.	93.500
		Subsidiaries	-
Tax consultancy services	EY S.p.A	Banca IFIS S.p.A.	-
		Subsidiaries	-
Other services	EY S.p.A	Banca IFIS S.p.A.	-
		Subsidiaries	-
Total			688.399

Section 13 - Net allocations to provisions for risks and charges - Item 200

13.1 Net provisions for credit risk related to loan commitments and financial guarantees granted: breakdown

Net provisions for credit risk related to loan commitments and financial guarantees granted totalled 1,3 million Euro in at 31 December 2019, up on the net provisions of 0,2 million Euro. The increase is mainly due to credit risk on irrevocable commitments to disburse funds on two positions that have already been restructured.

13.3. Net allocations to other provisions for risks and charges: breakdown

For more details, see Part B, Section 10 Provisions for risks and charges in these Notes to the Consolidated Financial Statements.

Section 14 - Net impairment losses/reversals on property, plant and equipment - Item 210

14.1. Net impairment losses on property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Property, plant and equipment				
1. for functional use	(8.512)	-	610	(7.902)
- owned	(5.306)	-	610	(4.696)
- rights of use acquired through leases	(3.206)	-	-	(3.206)
2. Held for investment	(58)	-	-	(58)
- owned	-	-	-	-
- rights of use acquired through leases	(58)	-	-	(58)
3. Inventories	X	-	-	-
Total	(8.570)	-	610	(7.960)

Section 15 - Net impairment losses/reversals on intangible assets - Item 220

15.1 Net impairment losses on intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(7.879)	-	-	(7.879)
- Internally generated	-	-	-	-
- Other	(7.879)	-	-	(7.879)
A.2 Rights of use acquired through leases	-	-	-	-
Total	(7.879)	-	-	(7.879)

Section 16 - Other operating income (expenses) - Item 230

16.1 Other operating expenses: breakdown

Type of expense/Amounts	31.12.2019	31.12.2018
a) Transactions with customers	(485)	(130)
b) Capital losses	(1.966)	(2.366)
c) Other expenses	(2.667)	(2.265)
Total	(5.118)	(4.761)

16.2 Other operating income: breakdown

Amounts/Income	31.12.2019	31.12.2018
a) Bargain on interest acquisition	-	3.869
a) Recovery of expenses charged to third parties	17.245	15.709
c) Rental income	786	1.004
d) Income from the realisation of property, plant and equipment	97	-
e) Other income	64.521	13.715
Total	82.649	34.297

Other operating income, equal to 82,6 million Euro (34,3 million Euro at 31 December 2018) include the effects of the previously-mentioned enforcement of the guarantees given in view of the closure of certain tax disputes for 46,2 million Euro at 31 December 2019. Net of this amount, other operating income referred mainly to revenue from the recovery of expenses charged to third parties. The relevant cost item is included in other administrative expenses, namely under legal expenses and indirect taxes, as well as recoveries of expenses associated with leasing operations.

The comparative balance at 31 December 2018 included the 3,9 million Euro gain on bargain purchase arising from the acquisition of a controlling interest in Credifarma S.p.A..

Section 20 - Gains (Losses) on disposal of investments - item 280

20.1 Gains (Losses) on disposal of investments: breakdown

Type of expense/Amounts	31.12.2019	31.12.2018
A. Property	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets	(408)	-
- Gains on disposal	-	-
- Losses on disposal	(408)	-
Net result	(408)	-

Losses on disposal of investments refers entirely to the sale of 100% of the share capital of Two Solar Park 2008 S.r.l. at the end of the first half of 2019.

Section 21 - Income taxes for the year relating to current operations - Item 300

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

	Income items/Sectors	31.12.2019	31.12.2018
1.	Current taxes (-)	(57.553)	(31.696)
2.	Changes in current taxes of previous years (+/-)	4.347	515
3.	Reductions in current taxes for the year (+)	-	-
3.bis	Reductions in current taxes for the year for tax credits as per Italian Law no. 214/2011 (+)	-	19
4.	Changes in deferred tax assets (+/-)	(1.653)	(23.390)
5.	Changes in deferred tax liabilities (+/-)	2.226	(1.616)
6.	Tax expense for the year (-) (-1+/-2+3+3 bis+/-4+/-5)	(52.633)	(56.168)

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

Items/Components	31.12.2019
Pre-tax profit (loss) for the period from continuing operations	**175.821**
Corporate tax (IRES) - theoretical tax charges (27,5%)	(48.349)
- lower tax rate impact	349
- effect of non-taxable income and other decreases - permanent	9.203
- effect of non-deductible charges and other increases - permanent	(12.821)
- non-current corporate tax	326
Corporate tax (IRES) - Effective tax charges	**(51.292)**
Regional tax on productive activities (IRAP) - theoretical tax charges (5,57%)	(9.794)
- lower tax rate impact	238
- effect of income/charges that are not part of the taxable base	(4.585)
- non-current regional tax on productive activities (IRAP)	4.379
Regional tax on productive activities (IRAP) - Effective tax charges	**(9.762)**
Other taxes	**8.421**
Effective tax charges for the year	**(52.633)**

The tax rate for the year 2019 was 29,94%. Please note that the tax rate used in 2019 suffers the negative effects of the non-deductibility of the expense relating to requests for the facilitated settlement of tax disputes mentioned previously and partially offset by the positive effects of the reintroduction of the regulations on aid for economic growth (ACE), the tax redemption of goodwill entered in the statutory consolidated accounts following the purchase of the controlling equity investment in FBS S.p.A., the tax alignment of the value of certain properties to their carrying amount and the positive outcome of an IRAP appeal relating to tax year 2018.

Section 23 - Profit (loss) for the year attributable to non-controlling interests - Item 340

23.1 Detail of item 340 Profit (loss) for the year attributable to non-controlling interests

Company Name	31.12.2019	31.12.2018
Consolidated equity investments with significant minority interests		
Credifarma S.p.A.	91	47
Total	**91**	**47**

Section 24 - Other information

24.1 Disclosure of government grants as per article 1, paragraph 125 of Italian Law no. 124 of 04 August 2017 (the "Annual Law on the Market and Competition")

Italian Law no. 124 of 4 August 2017 (Annual law for the market and competition) introduced, under article 1, paragraphs 125 to 129, certain measures aimed at assuring transparency in the system of public grants starting 2018. These measures are intended to make grants from public administrations and entities -- including listed ones -- to third-sector organisations and businesses in general more transparent.

Specifically, with respect to the 2019 financial reporting process, the law requires all businesses to disclose subsidies, grants, paid positions, and economic benefits of any kind received from the following entities in the notes to the separate and consolidated financial statements, where applicable:

- public administrations and entities with equivalent status (article 2-bis, Italian Legislative Decree no. 33/2013);

- entities owned, either de jure or de facto, directly or indirectly, by public administrations; and
- state-owned enterprises.

Said disclosures are required if the amounts received during the reporting period exceeded 10 thousand Euro.

Consistently with the clarification issued by Italy's Council of State with opinion no. 1.149 of 1 June 2018 and the guidance provided by trade associations (Assonime), as well as in line with currently available public information, apparently the disclosure requirements do not apply to the following:

- prices for the business provision of professional and other services and supplies or other appointments coming under the scope of the core business. Indeed, these amounts received do not come under the scope of donations/public support policies;
- tax expenditures available to all businesses that meet specific conditions, based on pre-established general requirements, which are also the subject of specific disclosures;
- extension of subsidised loans to customers, as these involve funds of third parties (e.g. interest rate subsidies from the public administration) and not funds of the bank that acts as intermediary.

In consideration of the foregoing, below are the subsidies, grants, paid positions, and economic benefits of any kind received by the Group's companies, net of the 4% withholding envisaged by article 28, paragraph 2 of Italian Presidential Decree no. 600/1973.

Grantor	Recipient Group Company	Amount of the government grant
Italian Fund for the support of employment in the credit industry	Banca IFIS S.p.A.	227
Italian Fund for the support of employment in the credit industry	IFIS NPL	491
Total		718

Grantor	Reference	Recipient Group Company	Amount of the government grant
Italian Social Security Administration	Italian Law no. 205/2017	Banca IFIS S.p.A.	106
Italian Social Security Administration	Italian Law no. 205/2017	IFIS NPL S.p.A.	16
Italian Social Security Administration	Italian Law no. 205/2017	FBS S.p.A.	12
Italian Social Security Administration	Italian Law no. 248/2005	Banca IFIS S.p.A.	301
Italian Social Security Administration	Italian Law no. 248/2005	IFIS NPL S.p.A.	46
Italian Social Security Administration	Italian Law no. 248/2005	IFIS Rental Services S.r.l	5
Total			486

In addition, please refer to the "Transparency" section of Italy's National State Aid Register for a summary of the applications for Training Aid (article 31 Regulation EC 651/2014) and the relevant commitment of expenditure by the granter.

Finally, concerning the company Two Solar Park 2008 S.r.l., which was a subsidiary until 26 June 2019, the revenue generated by the company includes the feed-in tariffs granted through specific arrangements with GSE (Gestore dei Servizi Energetici S.p.A.), which, starting January 2015, following Italian Law no. 116 of 11/08/2014 and on the basis of the choices made by the Company in regard to the restructuring of incentive tariffs, disburses the incentives in equal monthly instalments, according to production estimates based on historic data of plants, annually calculating the balance, by 30 June of the following year, on the actual production recorded by the grid distributor (ENEL).

During the year, the incentives disbursed/paid by the GSE until the date of loss of control by the Banca IFIS Group (26 June 2019) come to 692 thousand Euro, of which 279 thousand Euro relate to 2018 production and 413 thousand Euro relative to 2019 production only for the period for which the Group has control.

Finally, approximately 415 thousand Euro has accrued in energy incentives in the first half of the year, not yet collected at 26 June 2019, on which date the Group lost control.

Section 25 - Earnings per share

25.1 Average number of ordinary diluted shares

Earnings per share and diluted earnings per share	31.12.2019	31.12.2018
Net profit for the year attributable to the Parent company (in thousands of Euro)	123.097	146.763
Average number of outstanding shares	53.448.405	53.438.425
Average number of diluted shares	53.448.405	53.438.425
Consolidated earnings per share (Units of Euro)	2,30	2,75
Consolidated diluted earnings per share (Units of Euro)	2,30	2,75

4.4 Part D - Consolidated statement of comprehensive income

	ITEMS (in thousands of Euro)	31.12.2019	31.12.2018
10.	Profit (Loss) for the year	123.188	146.810
	Other comprehensive income not to be reclassified to profit or loss	138	1.684
20.	Equity securities measured at fair value through other comprehensive income	759	2.370
	a) fair value gains (losses)	1.945	2.379
	b) transfers to other components of equity	(1.186)	(9)
70.	Defined benefit plans	(334)	135
100.	Income taxes related to other comprehensive income to be reclassified to profit or loss	(287)	(821)
	Other comprehensive income to be reclassified to profit or loss	10.245	(13.573)
120.	Exchange differences	382	(1.027)
	a) fair value gains (losses)	382	(1.027)
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	14.963	(11.035)
	a) fair value gains (losses)	13.990	(12.558)
	b) reclassification to profit or loss	973	1.523
	- credit risk losses	(460)	1.523
	- gains/losses on sale	1.433	-
180.	Income taxes related to other comprehensive income to be reclassified to profit or loss	(5.100)	(1.511)
190.	Total other comprehensive income	10.383	(11.889)
200.	Total comprehensive income (Item 10 + 190)	133.571	134.921
210.	Total consolidated comprehensive income attributable to non-controlling interests	91	47
220.	Total consolidated comprehensive income attributable to the Parent company	133.480	134.874

4.5 Part E - Information on risks and risk management policies

Risk governance organisation

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

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

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

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

With reference to the above and pursuant to Circular no. 285 of 17 December 2013 as amended - Supervisory Provisions for banks - the Banca IFIS Group has set up an Internal Control System that aims to guarantee a reliable and sustainable generation of value in a context of sensible risk control and taking, so as to protect the Group's capital adequacy as well as its financial position and performance.

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

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

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

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

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

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

Risk culture

The Parent company facilitates the development and dissemination at all levels of an integrated risk culture in relation to the various types of risk and extended to the entire Group. Specifically, working together with the different corporate functions and Human Resources, it has developed and implemented training programmes to raise awareness about risk prevention and management responsibilities among employees.

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

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

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

Section 1 - Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Non-performing and performing exposures: amounts, impairment losses, trend, economic breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amounts)

Portfolio/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other 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 measured at fair value through other comprehensive income	-	-	-	-	1.124.635	1.124.635
3. Financial assets measured 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 31.12.2019	1.053.329	471.287	98.266	405.405	7.399.486	9.427.773
Total 31.12.2018	861.628	519.371	99.995	316.825	6.578.687	8.376.506

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

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall impairment losses/reversa	Net exposure	Overall partial write-offs (1)	Gross exposure	Overall impairment losses/reversa	Net exposure	
1. Financial assets measured at amortised cost	1.908.792	304.446	1.604.346	60.379	6.711.698	37.928	6.673.770	8.278.116
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	1.125.462	827	1.124.635	1.124.635
3. Financial assets measured at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	18.536	-	18.536	-	X	X	6.486	25.022
5. Financial assets under disposal	-	-	-	-	-	-	-	-
Total 31.12.2019	1.927.328	304.446	1.622.882	60.379	7.837.160	38.755	7.804.891	9.427.773
Total 31.12.2018	1.770.349	289.355	1.480.994	340.838	6.923.956	34.721	6.895.512	8.376.506

(1) Amount to be reported for disclosure purposes.

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

Portfolio/Quality	Low credit quality assets		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	540	28	24.285
2. Hedging derivatives	-	-	-
Total 31.12.2019	540	28	24.285
Total 31.12.2018	850	4.429	25.380

B. Disclosure on structured entities (other than securitisation vehicles)

B.2 Unconsolidated structured entities

Qualitative information

There were no unconsolidated structured entities at 31 December 2019.

Section 2 - Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

In accordance with the guidelines approved by the Parent company's Governing Body and the changes in the supervisory regulatory framework, the Group seeks to strengthen its competitive position in the market offered to small and medium businesses. The aim is to increase its market share in the following segments: trade receivables—including for entities with specialist needs such as pharmacies—leasing, tax receivables, and distressed loans, providing high-quality and highly customisable financial services while keeping credit risk under control and profitability in line with the level of quality offered.

In this context, the banking group currently operates in the following fields:

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

- the granting of loans to retail customers, including through the definition and refinancing of transferred non-performing loans, to be settled through salary- or pension-backed loan schemes, managed by the subsidiary Cap.Ital.Fin. S.p.A.;
- short- and medium-term lending to pharmacies by the subsidiary Credifarma S.p.A. largely consists in factoring receivables due from Italy's National Health Service as well as public- and private-sector healthcare providers.

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).

2. Credit risk management policies

As part of its lending operations, the Banca IFIS Group is exposed to the risk that an unexpected change in the creditworthiness of a counterparty may cause an unforeseen change in the relevant credit exposure, requiring to write off all or part of the receivables. This risk is always inherent in conventional lending operations, regardless of the form of financing.

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

2.1 Organisational aspects

Within the Banca IFIS Group, the Corporate Bodies of the Bank and the subsidiaries play a key role in managing and controlling credit risk, ensuring an appropriate supervision of credit risk within the scope of their responsibilities by identifying strategic guidelines as well as risk management and control policies, assessing their efficiency and effectiveness over time, and defining the duties and responsibilities of the corporate functions involved in the relevant processes.

Under the current organisational structure, specific central areas are involved in credit risk management and governance, ensuring, with the appropriate level of segregation, the performance of management operations as well as first and second line of defence controls by adopting adequate processes and IT 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.

Specifically, Banca IFIS's organisational structure consists of the following Business Units, dedicated to different activities:

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

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

- **IFIS NPL S.p.A.**, company dedicated to the acquisition, management and sale of non-performing loans, mainly originating from financial institutions and banks, resulting from the transfer of the business unit of Banca IFIS dedicated to the NPL business during the previous year;
- **FBS S.p.A.**, company specialising in the management of mortgage and corporate NPLs and servicing and recovery activities on behalf of third parties;
- **Cap.Ital.Fin. S.p.A.**, company operating in the sector of salary-/pension-backed loans, payment delegations and in the distribution of financial products such as mortgages and personal loans;
- **Credifarma S.p.A.**, reference company for pharmacies for the granting of advances, medium and long-term loans, leases and financial services;
- **IFIS Finance Sp. Zo.o.**, factoring company operating in Poland;
- **IFIS Rental Service S.r.l.**, an unregulated entity specialising in operating leases.

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

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

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

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

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

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

The operational management of receivables, carried out for performing customers, mainly consists in **monitoring** and **ordinary management** conducted by dedicated structures at each of the Group's companies with the aim of constantly and pro-actively reviewing borrowers. This activity is supported by a monitoring activity carried out at Group level by a specific organisational unit set up at the Parent company, in order to identify counterparties with anomalous performance, to anticipate the occurrence of problematic cases and to provide adequate reporting to the competent corporate functions.

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

The **acquisition of the non-performing loans portfolio** process adopted by the subsidiary IFIS NPL and, with due consideration of the specificities connected with the type of credit, by the new subsidiary FBS S.p.A., envisages similar organisational phases, which can be summarised as:

- **origination**, with the identification of the counterparties from which to purchase the portfolios and assessment of the economic expediency of said transactions;
- **due diligence**, as part of which highly-skilled analysts assess the quality of the portfolio being transferred and the relevant organisational impact. Once the due diligence is completed, the Group sets the terms and conditions for offering/acquiring the receivables portfolio and how to manage it (individual or collective method), assessing the relevant impact on operating structures;

- **approval**, this stage includes the preparation of the file, the decision-making process, and the implementation of the approval by the competent decision-making body;
- **finalisation**, the parties prepare and finalise the purchase agreement, and the relevant consideration is paid.

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

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

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

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

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

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

Non-judicial operations, IFIS NPL

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

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

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

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

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

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

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

Judicial operations, IFIS NPL

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

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

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

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

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

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

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

In addition to the above, judicial operations involve also collection efforts, i.e. foreclosure proceedings, which consist of several stages and apply to portfolios originated in corporate, banking, or real estate segments.

During the last quarter of 2019, a "David model" was defined for the valuation of forecast cash flow with reference to certain positions for which the mortgage in regard to debtors in possession of available properties, was flanked by a lawsuit aiming to seize salary; therefore, even where there is a mortgage, the position is valued taking into account the cash flow deriving from the property given as guarantee.

Management of FBS S.p.A. receivables

The operative management of debt collection is carried out through the different channels, through which FBS operates both through in-house staff of the intermediary and a widespread, experienced network of external lawyers operating over the whole of national territory. The company oversees the judicial debt collection process, working with the law firms hired by the Bank and constantly monitoring their work to evaluate their performance and ensure they act fairly.

The legal and amicable management of the unsecured receivables of FBS is, with the specificity of its portfolio, basically in line with that already described in reference to the related managements of IFIS NPL, also thanks to the continuous integration process started at acquisition and now drawing to a close.

As regards the management of secured loans obtained from the company's previous activity, the collection process involves a specific analysis of the positions by internal legal professionals (asset managers), who ensure the legal and amicable collection of debt, including with the assistance of FBS Real Estate, in order to define both the collection value and its timing.

2.2 Management, measurement and control systems

Credit risk is constantly monitored by means of procedures and instruments that can rapidly identify 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, receivables due from customers are monitored by specific units within the mentioned business areas 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 in progress with a view to revising the expanded estimate of the ratings models, to include not only trade receivables but also other businesses (i.e. leasing). The development was concentrated in 2019; in 2020, the risk parameters associated with the new model will be defined, also in accordance with the new definition of default that will come into force starting 31/12/2020; there will be a continuous analysis, through periodic simulations, of the impacts deriving from the use of the new ratings model on the system employed to determine collective adjustments.

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

Concerning credit risks, the Risk Management function:

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

- performs quantitative analyses to support the business units in using risk measures;
- oversees the supervision of the value of collateral as well as personal and financial guarantees.

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

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

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

In order to assess its vulnerabilities in terms of capital and liquidity management, the Parent company Banca IFIS has developed quantitative and qualitative techniques with which it assesses its exposure to exceptional but plausible events. These analyses, 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 analyses make it possible to verify the Group's resilience, simulating and estimating the impacts of adverse situations, and provide important indications regarding its exposure to risks and instruments, the adequacy of the related mitigation and control systems and its ability to cope with unexpected losses, also from a prospective and planning perspective.

For regulatory purposes, the Parent company Banca IFIS 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.

2.3 Measurement of Expected Credit Losses

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

The most significant aspects that characterise this approach, concern:

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

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

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

Quantitative transfer criteria

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

Qualitative transfer criteria

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

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

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

The measurement of expected credit losses (ECLs) accounts for cash shortfalls, the probability of default, and the time value of money. Specifically, the Group measures the loss allowance for the financial instrument as:

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

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

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

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

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

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

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

The Group has adopted econometric models (based on the stress test framework - “satellite” models), aimed at forecasting the evolution of the institute’s risk factors (i.e. mainly PD, LGD, EAD and migrations between statuses for credit risk) on the basis of a joint forecast of the evolution of the economic and financial indicators (see macroeconomic scenario).

The PD and LGD satellite models meet the need to identify the existence of a significant relationship between the general economic conditions (i.e. macroeconomic and financial variables) and a proxy variable of the risk factor (i.e. target variable) e.g. the credit rating of counterparties (which represents the respectively probability of default as a summary of the PD factor) and the recovery rates (summarising the LGD factor for non-performing exposures).

With reference to the macroeconomic scenarios feeding into the IFRS 9 provisioning process by means of the satellite models described previously, the Risk Management Department has decided to use the public scenarios published by the EBA with reference to the stress tests. By agreement with the ESRB, in addition to developing the stress test methodology, the EBA publishes forecasts for the main economic/financial indicators for the years after publication. The forecasts are laid out in two different scenarios, “baseline” and “adverse”, the latter of which is indicated as a stress scenario.

The probability that the scenarios may occur is calibrated through direct analyses performed by the Risk Management Department on historic public data observed and by the same scenario forecasts supplied by the standard setter (see EBA-ESRB) relative to the baseline and adverse scenarios. Finally, in line with the methodological framework used to calibrate the probability of occurrence, based on the analysis of the individual marginal distributions, the Risk Management Department has generated an “upside” scenario.

The Risk Management Department has included the forecasts defined by its satellite models in the structures at the end of the PD lifetime. For the purpose of applying macroeconomic shifts, the migration matrices have been defined between the different credit statuses of each perimeter and the scaling factors derived, to be applied to the curves as per the defined method. Starting out, therefore, from an initial transition matrix, the approach used allows for a stressed matrix to be obtained.

The satellite models developed for the PD have also been applied to the danger rate, used in LGD.

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

2.4 Credit risk mitigation techniques

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

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

In particular:

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

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

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

3. Non-performing credit exposures

3.1 Management strategies and policies

The Group adopts a business model that has peculiar features compared to most other Italian banking institutions, which largely operate as general banks.

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

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

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

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

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

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

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

- "gross NPE ratio", consisting of the ratio of "gross non-performing exposures" to "total receivables due from customers";
- "net NPE ratio", consisting of the ratio of "non-performing exposures net of related adjustments" to "total receivables due from customers".

With reference to on-balance-sheet credit exposures to customers outstanding at 31 December 2019, excluding positions resulting from the purchase and management of non-performing loans from third-party originators managed by the subsidiaries IFIS NPL S.p.A. and FBS S.p.A., as well as retail loan portfolios, the NPE ratio levels are in line with the reduction targets set for the period in question. The pursuit of the objective of a general reduction in the stock of medium/long-term non-performing loans is expected to take place through a differentiated strategy in relation to the specificity of the individual portfolios concerned (taking into account the type of counterparty and the specificity of the individual products). In general, the action that will be taken is essentially based on the following goals, which it has been pursuing for some time now:

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

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

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

3.2 Write-offs

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

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

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

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

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

In 2019, total derecognitions were applied for approximately 47 million Euro (nominal amount) worth of exposures, these were entirely written off without forfeiting the right to collect the receivable.

3.3 Purchased or originated credit impaired financial assets

Organisational aspects

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

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

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

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

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

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

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

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

Quantitative information

To date, the outstanding nominal amount of IFIS NPL's proprietary portfolio was approximately 16.507 million Euro. At the time of purchase, the nominal amount of these receivables was approximately 17.024 million Euro, and they were acquired for approximately 976 million Euro, i.e. an average price equal to approximately 5,7% of the historical book value. In 2019, approximately 2.519 million Euro were acquired for approximately 186 million Euro, i.e. an average price equal to 7,37%. The overall portfolio of non-performing exposures purchased and not yet collected has an overall weighted average life of around 33 months compared to their acquisition date.

As regards the individual phases of processing of NPL receivables, as described in paragraph "2.1 - Organisational aspects" above in relation to credit risk, the carrying amount at 31 December 2019 of the positions in out-of-court management comes to 356,0 million Euro, whilst the carrying amount of the positions under legal management comes to 813,1 million Euro.

Finally, IFIS NPL seizes market opportunities in accordance with its business model by selling portfolios of positions yet to be processed to third parties. Overall, IFIS NPL completed 11 sales of portfolios to leading players whose business is purchasing NPLs.

Overall, receivables were sold with an outstanding nominal amount of approximately 864,2 million Euro, consisting of approximately 174 thousand positions, for an overall consideration of about 23,2 million Euro.

The residual nominal amount of the proprietary portfolio of FBS S.p.A. at the reference date is approximately 1,3 billion Euro, divided into 445 million Euro of secured portfolio and 889 million Euro of unsecured portfolio. During the year, 5 portfolios of bad loans were acquired for a nominal amount of 371 million and no sales were made on the market.

In March 2019, the company implemented transactions linked to the purchase of the receivables underlying the securitisation of Tersicore 2 and 3 for a total of 5,6 million Euro; it also implemented purchases of the receivables underlying the Orta 1 and 2 securitisations for a total of 0,6 million in July 2019 and a further 0,4 million Euro for having stipulated a purchase contract without recourse with Banco BPM S.p.A. for the sale of bad loans in March 2019.

4. Financial assets subject to business renegotiations and forborne exposures

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

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

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

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

Quantitative information

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, impairment losses, trend, and economic breakdown

A.1.1 Prudential consolidation - Breakdown of financial assets by past due buckets (carrying amounts)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	281.137	5.751	122.183	10.509	49.059	204.306	5.004	21.818	1.445.246
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
2. Financial assets under disposal	-	-	-	-	-	-	-	-	-
Total 31.12.2019	281.137	5.751	122.183	10.509	49.059	204.306	5.004	21.818	1.445.246
Total 31.12.2018	272.719	1.950	3.560	8.593	81.007	191.284	158.550	21.581	1.252.008

A.1.2 Prudential consolidation - Financial assets, loan commitments and financial guarantees granted: overall impairment losses/reversals and overall provisions

Reason/Risk stage	Overall impairment losses/reversals													Total provisions on loan commitments and financial guarantees granted			Total
	Stage 1 assets				Stage 2 assets				Stage 3 assets								
	Financial assets measured at amortised cost	Financial assets measured at fair value through other compre-hensive income	of which: individual impair-ment	of which: collective impair-ment	Financial assets measured at amortised cost	Financial assets measured at fair value through other compre-hensive income	of which: individual impair-ment	of which: collective impair-ment	Financial assets measured at amortised cost	Financial assets measured at fair value through other compre-hensive income	of which: individual impair-ment	of which: collective impair-ment	of which: purch-ased or origina-ted credit impair-ed finan-cial assets	Stage 1	Stage 2	Stage 3	
Opening balance	27.487	1.287	-	28.774	4.974	-	-	4.974	278.178	-	278.178	-	-	1.969	24	1.887	315.806
Increases from purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net credit risk losses/reversals (+/-) (1)	(203)	(113)	-	(316)	2.202	-	-	2.202	83.795	-	83.795	-	-	220	(106)	1.173	86.968
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	(47.178)	-	(47.178)	-	-	-	-	-	(47.178)
Other changes	4.015	(347)	-	3.668	(1.211)	-	-	(1.211)	(21.002)	-	(21.002)	-	-	(428)	175	(962)	(19.760)
Closing balance	31.299	827	-	32.126	5.965	-	-	5.965	293.793	-	293.793	-	-	1.761	93	2.098	335.836
Reversals from collections on financial assets written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(1) Collections are not included relative to the NPLs (classified as POCI) of the companies IFIS NPL and FBS

A.1.3 Prudential consolidation - Financial assets, loan commitments and financial guarantees granted: transfers between different credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross amounts/nominal amount					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortised cost	754.874	129.880	37.385	17.128	101.727	35.787
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets under disposal	-	-	-	-	-	-
4. Loan commitments and financial guarantees granted	17.585	9.745	9.598	63	16.741	18.032
Total 31.12.2019	772.459	139.625	46.983	17.191	118.468	53.819
Total 31.12.2018	389.169	59.237	28.495	32.283	163.614	21.451

A.1.4 Prudential consolidation - On- and off-balance-sheet credit exposures to banks: gross and net amounts

Types of exposures/Amounts	Gross exposure		Overall impairment losses/reversals and overall allocations	Net exposure	Overall partial write-offs
	Non-performing	Performing			
A. On-balance-sheet credit exposures					
a) Bad loans	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which forborne exposures	X	-	-	-	-
e) Other performing exposures	X	635.110	895	634.215	-
- of which forborne exposures	X	-	-	-	-
Total (A)	-	635.110	895	634.215	-
B. Off-balance-sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	78.267	-	78.267	-
Total (B)	-	78.267	-	78.267	-
Total (A+B)	-	713.377	895	712.482	-

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

A.1.5 Prudential consolidation - On- and off-balance-sheet credit exposures to customers: gross and net amounts

Types of exposures/Amounts	Gross exposure		Overall impairment losses/reversals and overall allocations	Net exposure	Overall partial write-offs
	Non-performing	Performing			
A. On-balance-sheet credit exposures					
a) Bad loans	1.220.101	X	167.004	1.053.097	58.507
- of which forborne exposures	115.117	X	10.273	104.844	225
b) Unlikely to pay	591.138	X	120.312	470.826	-
- of which forborne exposures	96.713	X	6.700	90.013	-
c) Non-performing past due exposures	103.789	X	6.477	97.312	-
- of which forborne exposures	2.200	X	464	1.736	-
d) Performing past due exposures	X	412.584	2.115	410.469	-
- of which forborne exposures	X	4.749	229	4.520	-
e) Other performing exposures	X	6.652.332	35.081	6.617.251	-
- of which forborne exposures	X	25.700	498	25.202	-
Total (A)	**1.915.028**	**7.064.916**	**330.989**	**8.648.955**	**58.507**
B. Off-balance-sheet credit exposures					
a) Non-performing	83.921	X	2.099	81.822	-
b) Performing	X	1.012.070	1.853	1.010.217	-
Total (B)	83.921	1.012.070	3.952	1.092.039	-
Total (A+B)	**1.998.949**	**8.076.986**	**334.941**	**9.740.994**	**58.507**

On-balance-sheet exposures include all on-balance-sheet financial assets due from customers regardless of the portfolio they are included in (measured at amortised cost, measured at fair value through other comprehensive Income, designated as measured at fair value, mandatorily measured at fair value, under disposal).

A.1.7 Prudential consolidation - On-balance-sheet credit exposures to customers: trends in gross non-performing exposures

Reason/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Opening gross exposure	1.043.656	622.827	107.669
- of which: transferred and not derecognised	6.966	-	-
B. Increases	2.211.475	1.150.719	562.106
B.1 income from performing exposures	3.876	53.581	474.260
B.2 income from purchased or originated impaired financial assets	8.757	23.566	392
B.3 transfers from other non-performing exposure categories	36.534	43.027	444
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	2.162.308	1.030.545	87.010
C. Decreases	2.035.030	1.182.408	565.986
C.1 outflows to performing exposures	10.566	16.001	414.156
C.2 write-offs	100.691	4.489	13
C.3 collections	198.971	275.915	7.239
C.4 proceeds from sales	9.147	1.750	-
C.5 losses on sale	-	-	-
C.6 transfers to other non-performing loan categories	1.354	32.760	49.548
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	1.714.301	851.493	95.030
D. Closing gross exposure	1.220.101	591.138	103.789
- of which: transferred and not derecognised	-	-	-

On-balance-sheet exposures include all on-balance-sheet financial assets due from customers regardless of the portfolio they are included in (measured at amortised cost, measured at fair value through other comprehensive income, designated as measured at fair value, mandatorily measured at fair value, under disposal).

A.1.7bis Prudential consolidation - On-balance-sheet credit exposures to customers: trends in gross forborne exposures broken down by credit quality

Reason/Categories	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening gross exposure	247.607	30.409
- of which: transferred and not derecognised	180	1.746
B. Increases	744.259	49.297
B.1 inflows from non-forborne performing exposures	1.913	6.415
B.2 inflows from forborne performing exposures	3.472	X
B.3 inflows from non-performing forborne exposure	X	2.206
B.4 inflows from non-forborne non-performing exposures	22.599	283
B.5 other increases	716.275	40.393
C. Decreases	777.836	49.257
C.1 outflows to non-forborne performing exposures	X	3.862
C.2 outflows to forborne performing exposures	2.206	X
C.3 outflows to non-performing forborne exposures	X	3.472
C.4 write-offs	7.993	1
C.5 collections	125.866	4.728
C.6 proceeds from sales	-	-
C.7 losses on sale	-	-
C.8 other decreases	641.771	37.194
D. Closing gross exposure	214.030	30.449
- of which: transferred and not derecognised	1.036	3.798

A.1.9 Prudential consolidation - On-balance-sheet non-performing credit exposures to customers: trends in overall impairment losses/reversals

Reason/Categories	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance of total impairment losses/reversals of impairment losses	181.750	10.263	87.241	4.690	9.189	373
- of which: transferred and not derecognised	-	-	697	2	-	-
B. Increases	110.071	42	68.335	2.043	2.381	261
B.1 impairment losses from purchased or originated impaired financial assets	11	X	-	X	-	X
B.2. other impairment losses	77.341	-	66.818	194	1.926	-
B.3 losses on sale	-	-	-	-	-	-
B.4 transfers from other non-performing exposure categories	20.606	42	1.517	161	25	-
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	12.113	-	-	1.688	430	261
C. Decreases	124.817	32	35.264	33	5.093	170
C.1 impairment reversals from appreciation	40.072	-	10.213	-	28	-
C.2 impairment reversals from collection	4.824	-	6.958	-	8	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	79.640	-	178	-	13	-
C.5 transfers to other non-performing exposures categories	240	-	17.792	33	4.992	170
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	41	32	123	-	52	-
D. Closing balance of total impairment losses/reversals of impairment losses	167.004	10.273	120.312	6.700	6.477	464
- of which: transferred and not derecognised	-	-	1.680	154	-	-

A.2 Classification of exposures based on external and internal ratings

For the purposes of calculating capital requirements against credit risk, Banca IFIS uses the external credit assessment institution (ECAI) Fitch Ratings exclusively for the positions recognised under "Exposures to Central Governments and Central Banks"; no external ratings are used for the other asset classes. Considering the composition of the assets, external ratings are used exclusively for the portfolio of government bonds.

A.2.2 Prudential consolidation - Breakdown of financial assets, loan commitments and financial guarantees granted by internal rating class (gross amounts)

The Banca IFIS Group does not use internal ratings for the purposes of calculating capital absorption. The Group has implemented a managerial internal ratings system on the domestic enterprises segment. This has been developed on proprietary databases and has the following components:

- a "financial" module, to assess the company's operating/financial soundness;
- a "central credit register" module, presenting the evolution of counterparty risk vis-à-vis the banking industry;
- an "internal performance" module, monitoring the performance of the relationships between the counterparty and the Bank.

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Prudential consolidation - Guaranteed on- and off-balance-sheet credit exposures to banks

	Gross exposure	Net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
								Other								
			Property Mortgages	Property Finance Leases	Securities	Other collateral guarantees	CNL	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Guaranteed on-balance-sheet credit exposures:	1.406	1.400	-	-	-	1.400	-	-	-	-	-	-	-	-	-	1.400
1.1 totally guaranteed	1.406	1.400	-	-	-	1.400	-	-	-	-	-	-	-	-	-	1.400
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance-sheet credit exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - Guaranteed on- and off-balance-sheet credit exposures to customers

	Gross exposure	Net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
								Other								
			Property Mortgages	Property Finance Leases	Securities	Other collateral guarantees	CNL	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Guaranteed on-balance-sheet credit exposures:	2.490.990	2.400.252	432.494	-	8.930	1.412.933	-	-	-	-	-	128.275	340	16.651	235.562	2.235.185
1.1 totally guaranteed	2.153.229	2.079.963	376.742	-	8.930	1.348.531	-	-	-	-	-	127.295	340	15.991	202.134	2.079.963
- of which non-performing	209.745	153.207	93.982	-	-	21.204	-	-	-	-	-	6.327	211	517	30.966	-
1.2 partially guaranteed	337.761	320.289	55.752	-	-	64.402	-	-	-	-	-	980	-	660	33.428	155.222
- of which non-performing	31.695	17.563	6.449	-	-	161	-	-	-	-	-	-	-	178	1.233	-
2. Guaranteed off-balance-sheet credit exposures:	17.343	16.470	889	-	-	2.411	-	-	-	-	-	-	-	50	7.559	10.909
2.1 totally guaranteed	8.557	8.540	517	-	-	633	-	-	-	-	-	-	-	50	7.340	8.540
- of which non-performing	593	593	417	-	-	-	-	-	-	-	-	-	-	-	176	-
2.2 partially guaranteed	8.786	7.930	372	-	-	1.778	-	-	-	-	-	-	-	-	219	2.369
- of which non-performing	4.812	3.982	309	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Concentration and distribution of credit exposures

B.1 Prudential Consolidation - Breakdown of on- and off-balance-sheet credit exposures to customers by segment

Exposures/Counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	2.320	6.439	1.794	9.108	-	-	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	-	-	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	-	-	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	-	4.285.507	28.371	527.275	5.755
- of which forborne exposures	1.596	46	3.697	-	-	-	14.237	169	10.192	512
Total (A)	2.048.761	9.075	219.876	14.146	35	-	4.701.372	272.427	1.678.946	35.341
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	66.975	1.952	14.847	147
B.2 Performing exposures	-	-	21.114	165	-	-	713.731	1.565	275.372	123
Total (B)	-	-	21.114	165	-	-	780.706	3.517	290.219	270
Total (A+B) 31.12.2019	2.048.761	9.075	240.990	14.311	35	-	5.482.078	275.944	1.969.165	35.611
Total (A+B) 31.12.2018	1.168.035	9.706	522.240	12.328	-	-	5.317.048	262.710	1.872.574	30.183

B.2 Prudential consolidation - Geographical breakdown of on- and off-balance-sheet credit exposures to customers

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit 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 credit 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) 31.12.2019	9.251.437	329.982	337.296	4.082	108.423	682	43.195	192	643	3
Total (A+B) 31.12.2018	8.504.208	309.556	261.491	4.238	97.647	1.003	16.293	129	258	1

B.3 Prudential consolidation - Geographical breakdown of on- and off-balance-sheet credit exposures to banks

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	594.663	747	29.329	110	10.223	38	-	-	-	-
Total (A)	594.663	747	29.329	110	10.223	38	-	-	-	-
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	66.193	-	773	-	11.301	-	-	-	-	-
Total (B)	66.193	-	773	-	11.301	-	-	-	-	-
Total (A+B) 31.12.2019	660.856	747	30.102	110	21.524	38	-	-	-	-
Total (A+B) 31.12.2018	552.634	1.145	35.780	87	21.281	25	-	-	-	-

B.4 Major exposures

		31.12.2019	31.12.2018
a)	Carrying amount	2.565.298	1.573.611
b)	Weighted amount	573.734	602.111
c)	Number	4	4

The overall weighted amount of major exposures at 31 December 2019 consisted of 219 million Euro in tax assets and 216 million Euro in exposures to equity investments not included in the prudential scope of consolidation and 139 million Euro in exposures to customers.

Disclosure regarding Sovereign Debt

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

Pursuant to said communication, please note that at 31 December 2019 the exposures to sovereign debt entirely consisted of Italian government bonds; their carrying amount totalled 1.310 million Euro, net of the positive 1,7 million Euro valuation reserve.

These securities, with a nominal amount of approximately 1.272 million Euro, are included within the banking book and have a weighted residual average life of approximately 39 months.

The fair values used to measure the exposures to sovereign debt securities at 31 December 2019 are considered to be Level 1.

Pursuant to the CONSOB Communication, besides the exposure to sovereign debt, it is also necessary to consider receivables due from the Italian National Administration, which at 31 December 2019 totalled 739 million, including 125 million Euro relating to tax receivables.

C. Securitisation transactions

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

Qualitative information

Objectives, strategies and processes

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

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

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

In particular, after identifying the investment opportunity, the unit that proposes the transaction conducts a due diligence review to estimate future cash flows and determine whether the price is fair, coordinating the organisational units concerned from time to time and formalising the relevant findings to be submitted to the competent decision-making body.

Subsequent to the purchase, the investment is constantly monitored based on the performance indicators of the underlying exposures and whether cash flows are in line with the estimates made at the time of the acquisition.

Internal measurement and control systems for risks associated with securitisation transactions

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

Hedging policies adopted to mitigate the relevant risks

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

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

IFIS ABCP Programme securitisation

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

Banca IFIS acts as servicer, performing the following tasks:

- following collection operations and monitoring cash flows on a daily basis;
- reconciling the closing balance at every cut-off date;

- verifying, completing and submitting the service report with the information on the securitised portfolio requested by the vehicle and the banks at every cut-off date.

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

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

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

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

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

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

Third-party securitisation transactions

At 31 December 2019, the Group held 62,9 million Euro in notes deriving from third-party securitisation transactions: specifically, it held 60,2 million Euro worth of senior notes and 2,7 million Euro worth of mezzanine and junior notes.

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

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

- "Cinque V" securitisation: launched in late November 2017, this securitisation through the special purpose vehicle Ballade SPV S.r.l. only has a mutuo fondiario classified as bad loan as the underlying asset, with a nominal amount of 20 million Euro and maturity in October 2020. Also in this case, the Parent company participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior notes (2,1 million Euro) and 5% of the junior notes; the transaction was substantially closed following the sale of the underlying asset to the mortgage credit;
- "Elite Basket Bond (EBB)" securitisation: the special purpose vehicle EBB S.r.l. issued Asset Backed Securities (ABS) at a price equal to the nominal amount, amounting to 122 million Euro, in a single tranche with maturity in December 2027 and a Basket of minibonds issued by 11 Italian listed companies as the underlying asset. These notes are unsecured senior bonds but carry a Credit Enhancement equal to 15% of the transaction's overall amount (24 million Euro), to be used in the event the issuers default on interest and/or principal payments on the minibonds. The Parent company participates in this transaction only as underwriter, subscribing for 6,0 million Euro worth of notes of the above tranche;
- "FINO 1" securitisation: this is an investment as a senior Noteholder in a securitisation transaction whose tranches issued are supported by a state guarantee "GACS" (Guarantee on the securitisation of bad loans) and with underlying

bad loans with an original total nominal amount of about 5,4 billion Euro. The tranche originally subscribed for 92,5 million Euro by Banca IFIS (out of a total nominal amount of 650 million Euro) is the Senior Note Class A, with maturity in October 2045. Net of the redemptions occurred during the year, at 31 December 2019 the carrying amount of the portion subscribed for was 54,2 million Euro.

- “Elipso Finance” securitisation: this is an investment as mezzanine and junior noteholder in a securitisation and with underlying non-performing positions worth a total original nominal amount of approximately 2,6 billion Euro. The tranches originally subscribed for 74 million Euro by the company that is today the subsidiary FBS SPA (out of a total nominal amount of 470 million Euro) are the Mezzanine Note Class B and Junior Note Class C, with maturity in January 2025. No capital redemptions occurred during the year and at 31 December 2019 the carrying amount of the portion subscribed for was 2,6 million Euro.

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

Quantitative information

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

Type of securitised asset/Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals
A. Fully derecognised																		
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised																		
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised																		
- non-performing receivables due from customers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- performing receivables due from customers	-	-	-	-	88.247	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Type of securitised asset/Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals
Secured and unsecured loans	54.152	40	2.713	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities	5.958	24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	60.110	64	2.713	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Prudential consolidation - Interests in special purpose vehicles for the securitisation

Securitisation name / Special purpose vehicle name	Registered office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Others	Senior	Mezzanine	Junior
IFIS ABCP Programme S.r.l.	Conegliano (Province of Treviso)	100%	1.585.766	-	98.923	1.150.000	-	-

Additionally, please note the investment of 50% in the share capital of Elipso Finance S.r.l., a joint venture consolidated using the equity method.

C.6 Prudential consolidation - Consolidated securitisation vehicles

Securitisation name/ Special purpose vehicle	Registered office	% stake
IFIS ABCP Programme S.r.l.	Conegliano (Province of Treviso)	0%

Additionally, please note the investment of 50% in the share capital of Elipso Finance S.r.l., a joint venture consolidated using the equity method.

D. Disposals

A. Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised refer to securitised receivables.

Quantitative information

D.1. Prudential consolidation - Financial assets sold and fully recognised and associated financial liabilities: carrying amounts

	Financial assets sold and fully recognised				Associated financial liabilities		
	Carrying amount	of which: securitised	of which: subject to repurchase agreements	of which non-performing	Carrying amount	of which: securitised	of which: subject to repurchase agreements
A. Financial assets held for trading							
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value							
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets measured at fair value							
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income							
1. Debt securities	150.303	-	150.303	-	150.280	-	150.280
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost							
1. Debt securities	-	-	-	-	-	-	-
2. Loans	832.843	832.843	-	-	232.886	232.886	-
Total 31.12.2019	983.146	832.843	150.303	-	383.166	232.886	150.280
Total 31.12.2018	767.627	767.627	-	-	163.669	163.669	-

C. Financial assets sold and fully derecognised

In 2019, two disposals took place of receivables to mutual investment funds with the attribution of the related portions to the transferring Banca Ifis Group.

The first transaction was the disposal of a receivable and participating financial instruments deriving from the restructuring of a leverage buy-out to a mutual investment fund that had already taken over control of the debtor company and a significant portion of bank exposure. Receivables was worth a nominal amount of 14,8 million Euro, classified as unlikely to pay and were recorded for a net book value of 12,4 million Euro; participating financial instruments were worth a nominal amount of 12,4 fully impaired. For this transaction, the Group received 1,4 million Euro in cash and units of investment fund initially entered at a fair value of 13,2 million Euro.

The second transaction was the disposal of non-performing retail loans worth a nominal amount of approximately 15,7 million Euro and with a carrying amount of 1,9 million Euro. For this transaction, the Banca Ifis Group received units of three mutual investment funds entered at a fair value of 7,6 million Euro.

1.2 Market risks

1.2.1 Interest rate risk and price risk - supervisory trading book

Qualitative information

A. General aspects

During the second half of 2019, the management process was operatively activated of the portfolio of financial instruments held for proprietary investment, carried out through the Capital Markets Central Department. The practical approach taken in the mission took concrete form in the activation, during the year, of different strategies relating to the Proprietary Portfolio.

The investment strategy proposed, regulated in the “Banca IFIS Proprietary Portfolio Management Policy” is structured to coincide with the risk appetite formulated in 2019 by the Board of Directors and laid out in the "Group Market Risk Management Policy”, as well as with the system of objectives and limits.

In the general architecture of the comprehensive investment strategy, the aim was to centralise a conservative “stance”, mainly comprising a low-risk, highly liquid portfolio and a strategy that would offer constant returns in the medium-term.

Accordingly, the assets making up said portfolio are mainly measured at amortised cost or through the FVOCI method; they come under the scope of the banking book and do not, therefore, constitute any market risk.

Under this scope, the component relating to the “trading book”, from whence stems the market risk in question, is marginal, both in terms of absolute risk values recorded and with respect to the limits established. The trading book mainly comprises options and futures deriving from hedging transactions and ancillary enhancements to the investment strategy in assets that are part of the “banking book” and “discretionary trading” portfolio, characterised by short-term speculation. There is also an equity security present for residual amounts.

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

B. Management procedures and measurement methods concerning interest rate risk and price risk

The guidelines on the assumption and monitoring of market risk are laid out on a Group level in the “Group Market Risk Management Policy”, which also indicates, for the purpose of a more rigorous and detailed representation of the process activities, the metrics used for the measuring and monitoring of the risk in question.

More specifically, the measurement and assessment of market risks is based on the various characteristics (in terms of time frame, investment instruments, etc.) of the investment strategies used in the Banca IFIS Proprietary Portfolio. This is consistent with the “Banca IFIS Proprietary Portfolio Management Policy”, which defines and details the strategies to be pursued in terms of portfolio structure, operative instruments and assets.

Under this scope, the monitoring of the consistency of the Group's portfolio risk profiles in respect of the risk/return objectives is based on a system of limits (both strategic and operational), which envisages the combined use of various different indicators. More specifically, the following are defined:

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

Respect for the limits assigned to each portfolio is checked 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 allows the loss that may be suffered following adverse changes to risk factors, to be estimated.

The VaR is measured using a confidence interval of 99% and a holding period of 1 day; it expresses the "threshold" of daily losses that, on the basis of probabilistic hypotheses may only be surpassed in 1% of cases. The method used to calculate the VaR is historical simulation. With this approach, the portfolio is re-valued, applying all variations to the risk factors recorded the previous year (256 observations). The values thus obtained are compared with the current portfolio value, determining the relevant series of hypothetical gains or losses. The VaR corresponds to the ninety-ninth worst result of those obtained.

The VaR is also divided, for monitoring purposes, amongst the risk factors referring to the portfolio.

To supplement the risk indications deriving from the VaR, managerially, for monitoring purposes, the Expected Shortfall (ES) is also used, which expresses the daily loss that exceeds the VaR data.

The forecasting capacity of the risk measurement model used, is verified through a daily backtesting analysis in which the VaR for the positions in the portfolio at t-1 is compared with the profit and loss generated by such positions at t.

Quantitative information

1. Supervisory trading book: breakdown by residual maturity (re-pricing date) of on-balance-sheet financial assets and liabilities and financial derivatives - Currency: Euro

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	indefinite life
1. On-balance-sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance-sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	11	-	145	6	-	-	-
+ short positions	-	6	-	-	87	68	-	-
- Other								
+ long positions	-	-	-	1.265	800	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	631	160.418	76.901	4.860	66.178	10.039	-	-
+ short positions	630	22.622	76.874	4.834	66.178	10.039	-	-

1. Supervisory trading book: breakdown by residual maturity (re-pricing date) of on-balance-sheet financial assets and liabilities and financial derivatives - Currency: Other currencies

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	indefinite life
1. On-balance-sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance-sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	137.326	-	-	-	-	-	-

3. Supervisory trading book: internal models and other methods for the sensitivity analysis

1.2.2 Interest rate risk and price risk - banking portfolio

Qualitative information

A. General aspects, management procedures and measurement methods concerning the interest rate risk and the price risk

As a general principle, the Group does not assume significant interest rate risks. In terms of the breakdown of the Balance Sheet and consequent sources generating a rate risk, on the liability side, the main technical form of funding continues to be the on-line "rendimax" deposit account. Customer deposits on the "rendimax" and "contomax" products are at a fixed rate for the fixed-term part, while on-demand and call deposits are at a non-indexed floating rate the Bank can unilaterally revise without prejudice to legal and contractual provisions. The other main components of funding concern mainly fixed-rate bond funding, a variable-rate self-securitisation operation and loans with the Eurosystem (TLTRO).

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

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

At 31 December 2019, approximately 8% of the total bond portfolio mainly consisted of fixed-rate government securities and inflation-indexed bonds. The average duration of this portfolio is approximately 2,9 years.

The corporate department appointed to guarantee the rate risk management is the Capital Markets Central Department, which, in line with the risk appetite established, defines what action is necessary to pursue this. The Risk Management Department is responsible for proposing the risk appetite, identifying the most appropriate risk indicators and monitoring the relevant performance of the assets and liabilities in connection with the pre-set limits. Senior Management makes annual proposals to the Bank Board as to the policies on lending, funding and the management of interest rate risk, as well as suggesting appropriate actions by which to ensure that operations are carried out consistently with the risk policies approved by the Bank.

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

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

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

The classification of the bonds held as Financial assets measured at fair value through other comprehensive income introduces the risk that the Group's reserves may fluctuate as a result of the change in their fair value. There is also a residual portion in equity securities, which belong to the major European indexes and are highly liquid, including Financial assets measured at fair value through other comprehensive income. A part share of these assets are economically hedged through derivatives that are part of the trading book.

From a managerial viewpoint, the above assets, relating to the management of the bank's Proprietary Portfolio, are specifically monitored as regulated in the “Group Market Risk Management Policy”.

Quantitative information

1. Banking book: breakdown by residual maturity (re-pricing date) of financial assets and liabilities - Currency: Euro

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite life
1. On-balance-sheet assets	2.455.672	2.740.852	1.225.082	474.238	1.567.349	372.601	59.112	-
1.1 Debt securities	-	57.457	523.254	200.485	499.090	138.275	26.024	-
- with early redemption option	-	151	1.706	10.118	28.176	994	6.071	-
- other	-	57.306	521.548	190.367	470.914	137.281	19.953	-
1.2 Loans to banks	42.846	390.386	127	256	890	-	-	-
1.3 Loans to customers	2.412.826	2.293.009	701.701	273.497	1.067.369	234.326	33.088	-
- current a/c	125.280	1.557	13.380	5.359	71.512	21.857	7.455	-
- other loans	2.287.546	2.291.452	688.321	268.138	995.857	212.469	25.633	-
- with early redemption option	221.908	760.097	437.580	29.561	58.022	-	225	-
- other	2.065.638	1.531.355	250.741	238.577	937.835	212.469	25.408	-
2. On-balance-sheet liabilities	1.268.112	5.457.311	444.519	300.396	2.558.744	409.658	37	-
2.1 Due to customers	1.076.355	4.405.199	141.807	300.353	1.460.797	5.221	37	-
- current a/c	270.689	81.552	18.537	17.682	11.394	-	-	-
- other payables	805.666	4.323.647	123.270	282.671	1.449.403	5.221	37	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	805.666	4.323.647	123.270	282.671	1.449.403	5.221	37	-
2.2 Due to banks	128.040	941	1	3	795.408	2.579	-	-
- current a/c	25.291	-	-	-	-	-	-	-
- other payables	102.749	941	1	3	795.408	2.579	-	-
2.3 Debt securities	60.350	1.051.171	302.711	40	302.539	401.858	-	-
- with early redemption option	-	-	-	-	-	401.858	-	-
- other	60.350	1.051.171	302.711	40	302.539	-	-	-
2.4 Other liabilities	3.367	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	3.367	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions								
+ long positions	120.289	-	-	-	-	-	-	-
+ short positions	29.528	11.787	624	1.610	16.039	60.700	-	-

1. Banking book: breakdown by residual maturity (re-pricing date) of financial assets and liabilities - Currency: Other currencies

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite life
1. On-balance-sheet assets	47.134	197.155	10.774	216	1.200	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	22.968	15.963	-	-	-	-	-	-
1.3 Loans to customers	24.166	181.192	10.774	216	1.200	-	-	-
- current a/c	2	1	-	-	-	-	-	-
- other loans	24.164	181.191	10.774	216	1.200	-	-	-
- with early redemption option	335	20.618	171	57	138	-	-	-
- other	23.829	160.573	10.603	159	1.062	-	-	-
2. On-balance-sheet liabilities	893	114.166	-	89	-	-	-	-
2.1 Due to customers	893	-	-	-	-	-	-	-
- current a/c	893	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	114.166	-	89	-	-	-	-
- current a/c	-	-	-	-	-	-	-	-
- other payables	-	114.166	-	89	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions								
+ long positions	2.256	1.174	-	-	-	-	-	-
+ short positions	2.256	1.174	-	-	-	-	-	-

1.2.3 Currency risk

Qualitative information

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

The assumption of the foreign exchange risk currently lies outside the Group’s policies. Banca IFIS's foreign currency operations largely involve collections and payments associated with factoring operations. In this sense, the advances in foreign currency granted to customers are generally hedged with deposits and/or loans from other banks in the same currency, thus eliminating for the most part the risk of losses associated with exchange rate fluctuations. In some cases, synthetic instruments are used as hedging instruments.

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

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

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

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

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

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

Furthermore, Banca IFIS owns a 4,68% interest in India Factoring and Finance Solutions Private Limited, worth 20 million Indian rupees and with a market value of 3.044 thousand Euro at the historical exchange rate. In 2015 the Bank tested said interest for impairment, recognising a 2,4 million Euro charge in profit or loss. Starting from 2016, the fair value was revalued through equity, bringing the value of the equity interest to 1.013 thousand Euro.

B. Hedging of currency risk

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

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	US DOLLAR	POUND STERLING	JAPANESE YEN	CANADIAN DOLLAR	SWISS FRANC	OTHER CURRENCIES
A. Financial assets	210.157	2.733	16	38	202	84.773
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	31.094	-	-	-	-	1.013
A.3 Loans to banks	18.797	395	16	37	197	24.564
A.4 Loans to customers	160.266	2.338	-	1	5	59.196
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	-	-	-	-	-	51
C. Financial liabilities	103.283	2.713	-	-	11	14.592
C.1 Due to banks	102.485	2.704	-	-	-	14.476
C.2 Due to customers	798	9	-	-	11	116
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	13.295
E. Financial derivatives						
- Options						
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other						
+ long positions	-	-	-	-	-	-
+ short positions	111.388	-	-	-	-	42.718
Total assets	210.157	2.733	16	38	202	84.824
Total liabilities	214.671	2.713	-	-	11	70.605
Imbalance (+/-)	(4.514)	20	16	38	191	14.219

1.3 Derivative instruments and hedging policies

1.3.1 Derivative instruments held for trading

A. Financial derivatives

Please see paragraph 1.2 Market risks.

A.1 Financial derivatives held for trading: year-end notional amounts

Underlying assets/Types of derivatives	31.12.2019				31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counter-parties	Without central counterparties			Central counter-parties	Without central counterparties		
		With netting agreemen-ts	Without netting agreemen-ts			With netting agreemen-ts	Without netting agreemen-ts	
1. Debt securities and interest rates	-	-	256.641	-	-	-	261.621	-
a) Options	-	-	75.464	-	-	-	-	-
b) Swaps	-	-	181.177	-	-	-	261.621	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indexes	-	-	66.431	-	-	-	30.091	-
a) Options	-	-	66.431	-	-	-	30.091	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	79.509	-	-	-	192.618	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	79.509	-	-	-	192.618	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Others	-	-	-	-	-	-	-	-
Total	-	-	402.581	-	-	-	484.330	-

A.2 Financial derivatives held for trading: gross positive and negative fair value - breakdown by product

Types of derivatives	31.12.2019				31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counter-parties	Without central counterparties			Central counter-parties	Without central counterparties		
		With netting agreemen-ts	Without netting agreemen-ts			With netting agreemen-ts	Without netting agreemen-ts	
1. Positive fair value								
a) Options	-	-	3.197	-	-	-	-	-
b) Interest rate swaps	-	-	20.667	-	-	-	30.023	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	449	-	-	-	1.426	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	24.313	-	-	-	31.449	-
2. Negative fair value								
a) Options	-	-	474	-	-	-	-	-
b) Interest rate swaps	-	-	21.277	-	-	-	30.970	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	93	-	-	-	185	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	21.844	-	-	-	31.155	-

A.3 OTC financial derivatives held for trading: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting agreements				
1) Debt securities and interest rates				
- notional amount	X	193.352	-	63.290
- positive fair value	X	11.678	-	9.009
- negative fair value	X	21.751	-	-
2) Equity instruments and share indexes				
- notional amount	X	30.715	35.716	-
- positive fair value	X	2.833	344	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional amount	X	79.509	-	-
- positive fair value	X	449	-	-
- negative fair value	X	93	-	-
4) Goods				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements	-	-	-	-
1) Debt securities and interest rates				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity instruments and share indexes				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Goods				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional amounts

Underlying assets/Residual life	Up to 1 year	Over 1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	104.206	132.357	20.078	256.641
A.2 Financial derivatives on equities and share indexes	11.865	54.566	-	66.431
A.3 Financial derivatives on exchange rates and gold	79.509	-	-	79.509
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2019	**195.580**	**186.923**	**20.078**	**402.581**
Total 31.12.2018	**233.308**	**192.885**	**58.137**	**484.330**

1.4 Liquidity risk

Qualitative information

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

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

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

At 31 December 2019, the main funding sources were equity, on-line retail funding - consisting of on-demand and term deposits - medium/long-term bonds issued as part of the EMTN programme, funding from the Eurosystem (TLTRO), medium/long-term securitisation transactions from the Abaco channel at the Bank of Italy.

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

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

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

The Group is constantly striving to improve the state of its financial resources, in terms of both size and cost, so as to have available liquidity reserves adequate for current and future business volumes.

The Parent's business functions responsible for ensuring that liquidity policies are properly implemented refer to the Capital Markets Central Department in respect of the direct management of 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 the Capital Markets Central Management, shall make proposals to the 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.

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

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

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

With reference to the Polish subsidiary, treasury operations are coordinated by the Parent company.

Quantitative information

1. Breakdown by residual contractual duration of financial assets and liabilities - Currency: Euro

Items/Duration	on demand	over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets										
A.1 Government bonds	704	-	446	-	975	195.023	207.044	616.000	263.620	-
A.2 Other debt securities	10.183	176	-	22	542	5.402	8.240	74.911	99.621	-
A.3 UCITS units	56.668	-	-	-	-	-	-	-	-	-
A.4 Loans	1.139.764	63.950	201.837	505.438	1.142.888	567.584	646.658	2.386.747	638.630	392.320
- banks	52.098	9.500	11	105.276	882	138	275	891	-	373.784
- customers	1.087.666	54.450	201.826	400.162	1.142.006	567.446	646.383	2.385.856	638.630	18.536
On-balance-sheet liabilities										
B.1 Deposits and current accounts	1.148.379	120.798	200.353	240.990	1.591.074	142.035	303.196	1.453.721	-	-
- banks	74.179	-	-	-	-	-	-	-	-	-
- customers	1.074.200	120.798	200.353	240.990	1.591.074	142.035	303.196	1.453.721	-	-
B.2 Debt securities	226	1	-	14	16	311.218	18.040	341.749	400.000	-
B.3 Other liabilities	12.309	150.548	15	468	428	1.233	3.220	1.863.111	7.714	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of underlying assets										
- long positions	-	20.000	117.850	-	2.926	-	20.220	3.313	-	-
- short positions	-	-	-	-	2.513	-	-	14.071	7.810	-
C.2 Financial derivatives without exchange of underlying assets										
- long positions	23.844	-	-	-	-	-	-	-	-	-
- short positions	21.278	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- long positions	14.253	-	7.200	8.860	636	2.036	1.610	17.497	68.196	-
- short positions	29.528	-	4.400	7.023	364	624	1.610	16.039	60.700	-
C.5 Financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. Breakdown by residual contractual duration of financial assets and liabilities - Currency: Other currencies

Items/Duration	on demand	over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets										
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	11.428	-
A.3 UCITS units	31.094	-	-	-	-	-	-	-	-	-
A.4 Loans	33.865	20.799	31.585	41.708	133.003	15.834	5.726	16.316	-	-
- banks	24.348	16.025	-	30.873	-	-	-	-	-	-
- customers	9.517	4.774	31.585	10.835	133.003	15.834	5.726	16.316	-	-
On-balance-sheet liabilities										
B.1 Deposits and current accounts	27.828	37.704	18.641	63.268	92	-	91	-	-	-
- banks	26.895	37.704	18.641	63.268	92	-	91	-	-	-
- customers	933	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	40	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	20.067	117.260	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- long positions	-	3.524	-	-	-	-	-	-	-	-
- short positions	-	3.524	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- long positions	2.008	-	-	-	-	-	-	-	-	-
- short positions	2.008	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisation transactions

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

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

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

During 2017, following the transaction restructuring, a revolving system was launched involving monthly assignments of new credit to the SPV, until July 2021. At the same time, the maximum nominal amount of the senior and junior notes was increased respectively to 609,5 and 169,7 million Euro. In the same period, the parent company Banca IFIS S.p.A. acquired all the senior notes issued by the vehicle. Following the May 2019 merger of IFIS Leasing S.p.A., Banca IFIS also became the subscriber of the junior notes.

At 31 December 2019 the Banca IFIS Group had therefore subscribed for all the notes issued by the vehicle.

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

Securitisation transactions

As for the securitisations outstanding at 31 December 2019 and their purpose, see the comments in the section on credit risks.

1.5 Operational risks

Qualitative information

A. General aspects, management procedures and measurement methods concerning operational risk

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

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

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

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

In the last quarter of 2019, the Group launched the periodic Risk Self-Assessment campaign, which included the scope at the end of the year. Following this campaign, scheduled to end in the first half of 2020, the Group shall identify the main operational issues and subsequently define and launch specific mitigation measures to bolster operational risk controls.

In addition, according to its operational risk management framework, the Group defines a set of risk measures that can promptly identify the presence of vulnerabilities in the exposure of the Bank and its subsidiaries to operational risks. These measures are continuously monitored and disclosed in periodic reports that are shared with the competent structures and bodies: events such as the breach of certain thresholds or the emergence of anomalies trigger specific escalation processes aimed at defining and implementing appropriate mitigation actions.

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

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

In addition, the Bank has started integrating the overall operational risk management framework, defining a single methodological approach at the Group level as far as the subsidiary FBS is concerned. In the second half of 2019, specific training was organised and provided to all structures of said company on operational risks and the use of the loss data collection software. In addition, with regard to the monitoring of risk indicators, roll-out of the indicators defined by the Parent company will also be initiated for the subsidiary FBS.

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

Alongside operational risk, reputational risk is also managed.

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

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

As in the case of operational risk, reputational risk management is ensured by the Parent company's Risk Management, which defines the Group's overall framework - in line with specific regulatory requirements and segment best practices - for managing reputational risk aimed at identifying, assessing and monitoring reputational risks assumed or to be assumed by the various Group companies and organisational units. The framework involves collecting reputational risk events as they occur, conducting a forward-looking reputational Risk Self-Assessment, and monitoring a set of risk measures over time.

In the last quarter of 2019, together with that carried out in terms of operational risk, the periodic Risk Self-Assessment campaign was launched, which included the scope at the end of the year.

Section 4 - Risks of the other entities

Qualitative information

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

4.6 Part F - Consolidated equity

Section 1 - Consolidated Equity

A. Qualitative information

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

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

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

The Group's capital adequacy is further assessed and monitored every time an extraordinary operation is planned. In these cases, based on available information regarding said operations, the Bank estimates the impact on capital adequacy ratios as well as the RAF, and considers any measures necessary to meet the requirements.

Transactions on treasury shares

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

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

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

B. Quantitative information

B.1 Consolidated equity: breakdown by type of entity

Equity items	Prudential consolidation	Insurance companies	Other entities	Consolidation eliminations & adjustments	Total
1. Share capital	58.245	-	6.600	(6.600)	58.245
2. Share premiums	102.285	-	-	-	102.285
3. Reserves	1.272.773	-	137.931	(149.488)	1.261.216
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(3.012)	-	-	-	(3.012)
6. Valuation reserves:	(2.963)	-	(6)	-	(2.969)
- Equity securities measured at fair value through other comprehensive income	3.153	-	-	-	3.153
- Hedging of equity securities measured at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	(416)	-	-	-	(416)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Hedging instruments [non-designated items]	-	-	-	-	-
- Exchange differences	(5.650)	-	-	-	(5.650)
- Non-current assets under disposal	-	-	-	-	-
- Financial liabilities measured at fair value through profit or loss (changes in own credit risk)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit pension plans	(50)	-	(6)	-	(56)
- Share of valuation reserves of equity accounted investments	-	-	-	-	-
- Specific revaluation laws	-	-	-	-	-
7. Profit (loss) for the year (+/-) of the Group and non-controlling interests	111.630	-	11.558	-	123.188
Total	1.538.958	-	156.083	(156.088)	1.538.953

The above table shows the components of equity, combining those of the Group and those of third parties, broken down by type of businesses included in the scope of consolidation. More specifically, the column referring to Prudential Consolidation shows the amount resulting from the consolidation of the entities that form part of the Banking Group, excluding the effect of the prudential consolidation in the parent company La Scogliera S.p.A. and including the economic effects of transactions carried out with other entities included in the scope of consolidation. The column Other entities shows the amounts resulting from the consolidation, including the economic effects of transactions carried out with entities that form part of the Banking Group. The column Consolidation eliminations & adjustments shows the adjustments necessary to obtain the reported amount.

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts	Prudential consolidation		Insurance companies		Other entities		Consolidation eliminations & adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1.067	(1.483)	-	-	-	-	-	-	1.067	(1.483)
2. Equity securities	4.087	(934)	-	-	-	-	-	-	4.087	(934)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31.12.2019	5.154	(2.417)	-	-	-	-	-	-	5.154	(2.417)
Total 31.12.2018	2.102	(10.794)	-	-	-	-	-	-	2.102	(10.794)

B.3 Valuations reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance (31.12.2018)	(10.279)	1.586	-
2. Increases	20.507	3.485	-
2.1 Fair value gains	18.405	4.412	-
2.2 Credit risk losses	-	X	-
2.3 Reclassification to profit or loss of negative reserves from sale	1.421	X	-
2.4 Transfers to other components of equity (equity securities)	-	(1.186)	-
2.5 Other changes	681	259	-
3. Decreases	10.644	1.918	-
3.1 Fair value losses	2.023	1.282	-
3.2 Reversals of credit risk losses	460	X	-
3.3 Reclassification to profit or loss of positive reserves from sale	2.381	X	-
3.4 Transfers to other components of equity (equity securities)	-	-	-
3.5 Other changes	5.780	636	-
4. Closing balance	(416)	3.153	-

B.4 Valuation reserves for defined benefit plans: annual changes

Valuation reserves for defined benefit plans show a negative balance at 31 December 2019 of 56 thousand Euro, comprising a negative balance of 124 thousand Euro pertaining to the Parent and a positive balance of 68 thousand Euro pertaining to minorities. The reduction of the item as compared with the positive figure of 186 thousand Euro recorded at the end of last year, is 85 thousand Euro due to the contribution made by the FBS Group acquired at the start of the year and for the remainder to the net actuarial losses accrued during the period on Group companies' Employee benefits.

Section 2 - Own funds and prudential ratios

Pursuant to Circular 262 - 6th update - the section on own funds and capital ratios is replaced by a reference to the "Pillar 3" disclosures, which contain similar information.

That said, below are the highlights about own funds and capital ratios.

Consolidated own funds, risk-weighted assets and prudential ratios at 31 December 2019 were calculated based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), which were transposed in the Bank of Italy's Circulars no. 285 and no. 286. In particular, article 19 of the CRR requires to include the unconsolidated Holding of the Banking Group in prudential consolidation.

	31.12.2019	31.12.2018
A. Common Equity Tier 1(1) (CET1) before application of prudential filters	**1.209.026**	**1.128.914**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(1.337)	-
C. CET1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	1.207.689	1.128.914
D. Items to be deducted from CET1	200.273	204.844
E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions	1.449	215
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**1.008.865**	**924.285**
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime	55.659	56.178
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions	-	-
L. Total Additional Tier 1 Capital (AT1) (G-H+/-I)	**55.659**	**56.178**
M. Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime	277.545	277.248
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 (T2) (M-N+/-O)	**277.545**	**277.248**
Q. Total own funds (F+L+P)	**1.342.069**	**1.257.711**

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

Categories/Amounts	Non-weighted amounts		Weighted amounts / requirements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	10.959.876	9.773.374	8.220.558	8.001.786
1. Standardised approach	10.959.876	9.773.374	8.220.558	8.001.786
2. Approach based on internal ratings	-	-	-	-
2.1 Basic indicator approach	-	-	-	-
2.2 Advanced measurement approach	-	-	-	-
3. Securitisation programmes	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			657.645	640.143
B.2 Credit and counterparty valuation adjustment risk			816	1.264
B.3 Regulatory risk			-	-
B.4 Market risks			6.887	4.674
1. Standard method			6.887	4.674
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			71.145	71.890
1. Basic indicator approach			71.145	71.890
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation factors			-	-
B.7 Total prudential requirements			736.492	717.971
C. RISK ASSETS AND CAPITAL REQUIREMENT RATIOS				
C.1 Risk-weighted assets			9.206.155	8.974.645
C.2 Common Equity Tier 1 capital / Risk-weighted assets (CET1 Capital ratio)			10,96%	10,30%
C.2 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)			11,56%	10,92%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			14,58%	14,01%

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

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

4.7 Part G - Business combinations

Section 1 - Transactions carried out during the year

1.1 Business combinations

On 7 January 2019, the Group finalised the acquisition of control over FBS S.p.A., a servicing specialist (including both master and special services), manager of secured and unsecured NPL portfolios, due diligence advisor, and investor authorised to conduct NPL transactions. The deal, announced on 15 May 2018, concerned 90% of FBS for 58,5 million Euro. At the same time as the purchase and sale contract, contracts were also stipulated to regulate the put and call option agreements with the minority shareholders of the FBS Group, which envisage various ranges of exercise over a period of between 2 and 4 years and variable valuations also depending on the performance of FBS S.p.A..

On 30 October 2019, following the stipulation of a specific agreement with the minority shareholders, the early purchase was completed of the remaining 10% of the investment, for a value of 12,2 million Euro. This transaction therefore took the comprehensive value of the price transferred for 100% of the capital of FBS S.p.A. to 70,7 million Euro.

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

Considering the two transactions of 7 January 2019 and 30 October 2019, the cost incurred for the FBS acquisition is therefore defined as 70,7 million Euro.

Company Name	Transaction date	(1)	(2)	(3)	(4)
FBS S.p.A.	7 January 2019	70.700	100%	7.835	5.025

Key:

(1) = Transaction cost

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

(3) = Total Group revenues.

(4) = Group net profit/loss

As regards the purchase price allocation ("PPA") of the aggregation to assets, liabilities and potential liabilities of the subject acquired, as can be identified at the purchase date and measured at their respective fair values, a preventive mapping has been carried out of all the assets and liabilities for which it was considered likely to encounter significant differences in value between the fair value and the respective carrying amount.

The assets and liabilities of FBS S.p.A. for which at the date of acquisition, a difference was identified between the book value and fair value, mainly relate to:

- the NPL portfolio included amongst financial assets measured at amortised cost;
- property, plant and equipment;
- tax assets and liabilities.

The fair values identified for the NPL portfolio were determined on the basis of the discounted cash flow method or by discounting the forecast cash flows from the portfolio valued. To this end, cash flows and discounting rates to be applied to such, needed to be identified on the basis of the following assumptions.

In order to determine the cash flows of the NPL portfolio, the following assumptions were made:

- Secured Portfolio: cash flows used are those present in the FBS systems, with no change made to settlement amount or timing. More specifically, this choice was due to the consolidated internal valuation model used for years by FBS in its management of the mortgage NPL portfolios.
- Unsecured Portfolio: for this portfolio, the following approach has been defined:

- Non-Judicial Portfolio: the cash flows used were reprocessed by the Banca IFIS Risk Management Department through the enrichment of the minimum information required to be made available by FBS in order to use the construction logics of the proprietary models of the Banca IFIS Risk Management Department and already applied for IFIS NPL.
- Judicial Portfolio: cash flows used are those present in the FBS systems, with no change made to settlement amount or timing. More specifically, this choice has been conveyed by the lack of information/attributes in the FBS systems, such as to require their immediate review through the use of the construction logics employed for the proprietary models of the Bank's Risk Management Department.

As regards the determination of the discounting rate to be applied to cash flows, an interest rate has been identified that represents the returns expected by the market in connection with exposures with similar characteristics and taking into account the information present at the date of acquisition.

The table below shows that the fair value measurement at PPA records a write-back for a total of 7,9 million Euro (gross of the tax effect), of which 2,5 million Euro on Secured bad loans and 5,4 million Euro on Unsecured bad loans (of which approximately 2,9 million relative to the unsecured non-judicial portfolio).

Portfolio at 7 January 2019 (in thousands of Euro)	Carrying amount (A)	GBV	Fair Value (B)	Difference (A) – (B)
Secured portfolio	5.300	82.374	7.816	(2.516)
Unsecured portfolio	5.108	888.218	10.501	(5.393)
Total	**10.408**	**970.592**	**18.317**	**(7.909)**

As regards the allocations of the fair value relative to Property, plant and equipment, these can be traced to the market value of the property owned in Ravenna, as recorded by an independent appraisal, with respect to the carrying amount as at the date of purchase of 4,4 million Euro. The greater value attributed to the land and building comes to 0,6 million Euro.

The tax assets and liabilities analysed can be traced exclusively to the tax effects deriving from capital gains and losses consequent to the adjustment to fair value of the assets acquired and liabilities and potential liabilities assumed, as resulting from the PPA process. On the basis of the analysis carried out, the tax effects connected with PPA adjustments have entailed the identification of deferred tax assets for 2,8 million Euro, calculated using the theoretical tax rate of 33,07%.

As instead regards any intangible assets not booked by FBS and potentially able to be recorded during the business combination (e.g. trademarks, customers and contracts), the analyses carried out on such did not reveal any values that can be represented for IFRS 3 purposes.

The table below gives the carrying amounts and fair values of the assets and liabilities acquired.

Description (in thousands of Euro)	Consolidated FBS Pre-transaction	Assets and liabilities acquired at fair value	Fair value adjustment
Cash and cash equivalents	13	13	-
Financial assets measured at fair value through profit or loss	9.316	9.316	-
Financial assets measured at amortised cost	28.141	36.050	7.909
of which NPL Secured Portfolio	*5.300*	*7.816*	*2.516*
of which NPL Unsecured Portfolio	*5.108*	*10.501*	*5.393*
Equity investments	6	6	-
Property, plant and equipment	4.830	5.413	583
Intangible assets	154	154	-
Tax assets	822	822	-
Other assets	969	969	-
Assets acquired	44.251	52.743	8.492
Financial liabilities at cost	(9.736)	(9.736)	-
Tax liabilities	(2.980)	(5.788)	(2.808)
Other liabilities	(2.460)	(2.460)	-
Post-employment benefits	(1.609)	(1.609)	-
Provisions for risks and charges	(466)	(466)	-
Equity attributable to non-controlling interests	(4)	(4)	-
Liabilities assumed	(17.255)	(20.063)	(2.808)
Net assets	26.996	32.680	5.684
Goodwill arising from the acquisition		38.020	
Price of the acquisition, disbursed using liquid funds		70.700	
Analysis of acquisition cash flow			
Price of the acquisition, disbursed using liquid funds		(70.700)	
Costs of the purchase (included in cash flows from operations)		-	
Net funds acquired with the subsidiary (included in cash flows of investments)		13	
Net cash flow from acquisition		(70.687)	

The purchase price allocation process described previously revealed a positive difference between the aggregation price and the fair value of the identifiable assets acquired, liabilities assumed and contingent liabilities, net of the related tax effects. This difference, which comes to 38,0 million Euro, was entered as goodwill on the Banca IFIS Group's consolidated financial statements.

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

The Banca IFIS Group did not carry out any business combination between the end of the year and the date of preparation of this document.

Section 3 - Retrospective adjustments

During the year ended 31 December 2019, no retrospective adjustments were made.

4.8 Part H - Related-party transactions

In compliance with the provisions of Consob resolution no. 17221 of 12 March 2010 (as subsequently amended by means of Resolution no. 17389 of 23 June 2010) and the provisions of Circular 263/2006 (Title V, Chapter 5) of the Bank of Italy, Banca IFIS prepared the procedure relating to transactions with "related parties". The latest version was approved by the Board of Directors on 6 March 2018. This document is publicly available on Banca IFIS's website, *www.bancaifis.it*, in the "Corporate Governance" Section.

During 2019, no significant transactions with related parties were undertaken.

At 31 December 2019, the Banca Ifis Group was owned by La Scogliera S.p.A. and consisted of the Parent company Banca Ifis S.p.A., the wholly-owned subsidiaries IFIS Finance Sp. Z o.o., IFIS Rental Services S.r.l., IFIS NPL S.p.A. and Cap.Ital.Fin. S.p.A., by the 70% subsidiary Credifarma S.p.A. and, following the acquisition of the FBS Group completed on 7 January 2019, by the companies FBS S.p.A. 100% controlled, FBS Real Estate S.p.A. 99.28% controlled and by the company Elipso Finance S.r.l. 50% jointly controlled. It should also be noted that the 100% stake in the company Two Solar Park 2008 S.r.l. was sold to third parties on 26 June 2019.

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

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

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

1. Information on the remuneration of key management personnel

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

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

Key management personnel in office at 31 December 2019

Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
3.835	-	76	66	187

The above information includes fees paid to Directors (2,6 million Euro, gross amount) and Statutory Auditors (313 thousand Euro, gross amount).

2. Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 31 December 2019, broken down by type of related party pursuant to IAS 24.

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Financial assets measured at fair value through other comprehensive income	-	-	5.500	5.500	0,5%
Receivables due from customers measured at amortised cost	-	-	4.537	4.537	0,1%
Other assets	106.066	-	-	106.066	30,0%
Total assets	**106.066**	**-**	**10.037**	**116.103**	**1,1%**
Payables due to customers measured at amortised cost	-	-	274	274	0,0%
Other liabilities	28.968	-	-	28.968	7,4%
Total liabilities	**28.968**	**-**	**274**	**29.242**	**0,3%**

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	-	1.439	1.439	0,3%

Transactions between Banca Ifis, IFIS Rental Services, IFIS NPL and Cap.Ital.Fin. with the parent company La Scogliera S.p.A. concern the application of group taxation (tax consolidation) in accordance with articles 117 and following of Italian Presidential Decree no. 917/86. Transactions between these companies were regulated by means of a private written agreement between the parties. This agreement will lapse after three years. For tax purposes, the consolidated companies have an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company. By virtue of the application of this system, the taxable income of Banca Ifis, IFIS Rental Services, IFIS NPL and Cap.Ital.Fin. is transferred to the consolidating company La Scogliera S.p.A., which determines the Group's comprehensive income. As a result, at 31 December 2019 Banca Ifis recognised a net receivable due from the parent company amounting to 101,4 million Euro, IFIS Rental Services for 4,2 million Euro and Cap.Ital.Fin. for 0,5 million Euro, whilst IFIS NPL entered a net payable at 31 December 2019 due to the parent company for 29,0 million Euro.

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

At 31 December 2019, there is a transaction involving an entity for which Banca Ifis holds an equity investment in excess of 20%, entered amongst financial assets measured at fair value through other comprehensive income for a total of 5,5 million Euro and related loans for 3,9 million Euro, classified amongst receivables due from customers measured at amortised cost.

During the year, it continued its factoring operations in favour of one company headed by close relatives of executive members of the Board of Directors: the Banca Ifis Group's exposure at 31 December 2019 amounted to 0,6 million Euro.

4.9 Part I - Share-based payments

Qualitative information

1. Description of share-based payment agreements

Top Management's remuneration consists of fixed pay and variable pay calculated as a percentage of consolidated profit gross of taxes.

Access to variable pay is contingent on:

- the Group's consolidated profit before taxes for the year exceeding 80 million Euro;
- meeting the minimum Liquidity Coverage Ratio (LCR) requirement applicable from time to time to the Group as calculated on a quarterly basis during the reporting year;
- meeting the minimum Net Stable Funding Ratio requirement applicable from time to time to the Group as calculated on a quarterly basis during the reporting year;
- the consolidated Total Own Funds Capital Ratio exceeding the Overall Capital Requirement announced by the Supervisory Body as part of the "Capital Decisions" following the periodic Supervisory Review and Evaluation Process (SREP).

Failure to meet one of these conditions will result in variable pay not being awarded.

The Shareholders' Meeting held on 19 April 2019, following expiry of the mandate of the Board of Directors in office for the three years 2016, 2017 and 2018 proceeded to appoint the Board of Directors for the three years 2019, 2020 and 2021. The appointment of the new Board of Directors was then followed by a review of the current remuneration and incentive policies; policies that were submitted, for due approval, to the Shareholders' Meeting on 19 December 2019. Said review regarded, amongst others, provisions on the economic treatment of the newly-appointed Chief Executive Officer. More specifically, starting 2019, the variable component of the remuneration of the Chief Executive Officer was reduced to 60% ("cap") of fixed remuneration, as compared with the variable component of 100% that had been envisaged the previous year. Instead, nothing has changed for the Chief Executive Officer for whom, for 2019 too, a variable component of 60% of the fixed remuneration was confirmed as the maximum limit that can be achieved.

60% of this variable component is awarded with an upfront payment, and the remaining 40% is deferred for three years from the date it was promised.

The deferred portion of variable remuneration (amounting to 40%) shall be paid as follows:

- 50% in the form of shares in the Parent to be awarded after the end of the three-year vesting period (the period after which the shares may be awarded) and that may be exercised following a retention period (during which the shares cannot be sold) of one additional year;
- the remaining 50% of deferred variable remuneration shall be paid in cash after three years and is subject to annual revaluation at the legal interest rate applicable from time to time.

The variable component paid upfront (the remaining 60%) shall be paid as follows:

- 50% in cash;
- and the remaining 50% in the form of shares in the Parent that may be exercised following a three-year retention period, in line with the strategic planning time horizon.

Starting from 2014, variable pay is paid 50% in cash and 50% in the form of shares in the Parent. This applies to both upfront and deferred variable pay.

The number of shares to be awarded is calculated by relying on the average share price for the month before the variable pay for the period is determined -- which shall occur at the date of the Meeting convened for the approval of the Financial Statements -- as the fair value of the share.

Variable pay is subject to malus/clawback mechanisms that may cause the amount to be reduced to as low as zero if certain conditions are met.

Quantitative information

The table on annual changes is not presented here, since for the Banca IFIS Group share-based payment agreements do not fall within the category concerned by said table.

2. Other information

If a result is achieved that equals or exceeds 100% of the annual targets assigned, the variable component of Senior Management will be considered as accrued in the amount of 100% of its value and, in this case, the variable remuneration referring to the component to be paid in shares, for 2019, is 299 thousand Euro; the number of shares to be attributed will be in any case calculated as described above.

In this regard, it is specified that, with reference to the CEO, starting 2019, the annual variable emoluments (equal to up to 60% of the recurring fixed emoluments - “cap” -):

- if achieving a result of 100% (or more) of the targets assigned, it will be understood as accrued at 100% of its value and,
- if a result is achieved that ranges between 80% and 100% of the targets assigned, it will be intended as accrued, in a growing proportion, up to a maximum of 100% of the target (“cap”).

4.10 Part L - Segment reporting

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

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

- Enterprises Segment, represents the commercial offer of the Group dedicated to companies and consists of the Business Areas Trade Receivables, Corporate Banking, Leasing and Tax Receivables. The Segment's results include the investee company Credifarma S.p.A. as from the second half of 2018.
- NPL Segment, dedicated to non-recourse acquisition and managing distressed retail loans. The Segment's results from 7 January 2019 also include the contribution of the FBS Group, which is mainly specialised in servicing and the management of non-performing secured loans.
- Governance & Services Segment, which provides the segments operating in the Group's core businesses with the financial resources and services necessary to perform their respective activities. The Segment also includes financing to individuals; in particular, it includes the disbursement of loans against assignment of one-fifth of salary or pension and some portfolios of personal loans.

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Financial assets held for trading through profit or loss				
Amounts at 31.12.2019	-	-	24.313	**24.313**
Amounts at 31.12.2018	-	-	*29.809*	***29.809***
% Change	-	-	*(18,4)%*	***(18,4)%***
Other financial assets mandatorily measured at fair value through profit or loss				
Amounts at 31.12.2019	97.445	10.190	5.150	**112.785**
Amounts at 31.12.2018	*114.619*	-	*49.226*	***163.845***
% Change	*(15,0)%*	*n.a.*	*(89,5)%*	***(31,2)%***
Financial assets measured at fair value through other comprehensive income				
Amounts at 31.12.2019	13.320	-	1.160.488	**1.173.808**
Amounts at 31.12.2018	*12.188*	-	*419.906*	***432.094***
% Change	*9,3%*	-	*176,4%*	***171,7%***
Receivables due from banks				
Amounts at 31.12.2019	-	-	626.890	**626.890**
Amounts at 31.12.2018	-	-	*590.595*	***590.595***
% Change	-	-	*6,1%*	***6,1%***
Receivables due from customers				
Amounts at 31.12.2019	5.923.633	1.280.332	447.261	**7.651.226**
Amounts at 31.12.2018	*5.918.496*	*1.092.799*	*302.677*	***7.313.972***
% Change	*0,1%*	*17,2%*	*47,8%*	***4,6%***
Due to banks				
Amounts at 31.12.2019	-	-	959.477	**959.477**
Amounts at 31.12.2018	-	-	*785.393*	***785.393***
% Change	-	-	*22,2%*	***22,2%***
Payables due to customers				
Amounts at 31.12.2019	-	-	5.286.239	**5.286.239**
Amounts at 31.12.2018	-	-	*4.673.299*	***4.673.299***
% Change	-	-	*13,1%*	***13,1%***
Debt securities issued				
Amounts at 31.12.2019	-	-	2.217.529	**2.217.529**
Amounts at 31.12.2018	-	-	*1.979.002*	***1.979.002***
% Change	-	-	*12,1%*	***12,1%***

INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Amounts at 31.12.2019	311.482	252.425	(5.574)	**558.333**
Amounts at 31.12.2018	*335.513*	*244.234*	*(3.244)*	***576.503***
% Change	*(7,2)%*	*3,4%*	*71,8%*	***(3,2)%***
Net profit (loss) from financial activities				
Amounts at 31.12.2019	227.950	252.425	(9.225)	**471.150**
Amounts at 31.12.2018	*238.075*	*244.234*	*(5.900)*	***476.409***
% Change	*(4,3)%*	*3,4%*	*56,4%*	***(1,1)%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES	CONS. GROUP TOTAL
Net banking income				
Fourth quarter 2019	85.921	83.569	(2.400)	**167.090**
Fourth quarter 2018	*93.957*	*75.991*	*3.005*	***172.953***
% Change	*(8,6)%*	*10,0%*	*(179,9)%*	***(3,4)%***
Net profit (loss) from financial activities				
Fourth quarter 2019	48.559	83.569	(3.207)	**128.921**
Fourth quarter 2018	*64.963*	*75.991*	*820*	***141.774***
% Change	*(25,3)%*	*10,0%*	*(491,1)%*	***(9,1)%***

SEGMENT KPI (in thousands of Euro)	ENTERPRISES	NPL	GOVERNANCE & SERVICES
Cost of credit quality			
Amounts at 31.12.2019	1,37%	-	-
Amounts at 31.12.2018	*1,70%*	-	-
% Change	*(0,33)%*	-	-
Net bad loans/Receivables due from customers			
Amounts at 31.12.2019	1,2%	75,3%	3,2%
Amounts at 31.12.2018	*1,1%*	*71,5%*	*4,0%*
% Change	*0,1%*	*3,8%*	*(0,8)%*
Coverage ratio on gross bad loans			
Amounts at 31.12.2019	70,5%	0,0%	29,6%
Amounts at 31.12.2018	*73,0%*	*0,0%*	*15,4%*
% Change	*(2,5)%*	*0,0%*	*14,2%*
Net non-performing exposures/Net receivables due from customers			
Amounts at 31.12.2019	5,1%	99,3%	6,6%
Amounts at 31.12.2018	*5,2%*	*99,6%*	*11,8%*
% Change	*(0,1)%*	*(0,3)%*	*(5,2)%*
Gross non-performing exposures/Gross receivables due from customers			
Amounts at 31.12.2019	9,5%	99,3%	9,2%
Amounts at 31.12.2018	*9,5%*	*99,6%*	*13,8%*
% Change	*0,0%*	*(0,3)%*	*(4,6)%*
RWAs(1)(2)			
Amounts at 31.12.2019	4.888.659	1.753.888	476.571
Amounts at 31.12.2018	*4.793.273*	*1.584.420*	*657.733*
% Change	*2,0%*	*10,7%*	*(27,5)%*

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

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

For a more detailed analysis of the results of the business sectors, please refer to the Directors' Report.

4.11 Part M - Leasing disclosure

Section 1 - Lessee

Qualitative information

As lessee, the Group companies stipulate lease contracts on properties mainly to be used instrumentally. They are therefore leases of properties intended to host internal offices. As the lease business is correlated to the Group's need to offshore its offices, particularly close attention is paid to identifying the most suitable properties for use, designated in line with the economic criteria established by the company.

At 31 December, there are 61 passive lease contracts for buildings and 22 for car parking spaces, the related right of use booked at 31 December 2019 is 13,9 million Euro, whilst the corresponding lease liabilities come to 13,8 million Euro. The Group also has a property in Florence, financially leased as described in part B - Information on the Consolidated Statement of Financial Position.

As regards the contracts for cars, the Group has passive contracts for 305 cars at 31 December 2019, which are mainly long-term hires of structure cars and fringe benefits for employees; at 31 December 2019, the related right of use is 1,6 million Euro, while the corresponding lease liability is also 1,6 million Euro.

In view of the non-marginal nature of the lease contracts in relation to the asset value, consisting of the right of use entered in total in the financial statements in accordance with IFRS 16, the Group's total lease liabilities at 31 December 2019 come to 15,9 million Euro.

The Group is not exposed to outgoing cash flows, which are not already reflected in the measurement of the leasing liabilities. In greater detail, exposure deriving from the extension options are included in lease liabilities booked, insofar as the Group considers the first renewal as certain; the other situations recalled by the standard (variable payments connected with leasing, guarantees of residual value, lease commitments that are not yet operative) are not present for the contracts stipulated as lessee.

The Group books the following costs:

- short-term leases in the event of assets such as properties and technologies (in particular, the mainframe hardware), when the related contracts have a maximum term of twelve months and have no option for extension.
- leases of assets of modest value, i.e. characterised by a new value of less than 5 thousand Euro, mainly for mobile telephony.

Quantitative information

The table below provides indication on the amortisation/depreciation cost for assets consisting of the right of use, broken down by classes of underlying asset.

AMORTISATION/DEPRECIATION COSTS FOR ASSETS COMPRISING THE RIGHT OF USE (in thousands of Euro)	31.12.2019	31.12.2018
a) Land	-	-
b) Buildings	2.085	121
c) Furniture	-	-
d) Electronic equipment	188	-
e) Other	982	-
Total	3.255	121

Section 2 - Lessor

Qualitative information

The Group offers fixed or variable-rate financial leasing solutions for vehicles (cars, commercial and industrial vehicles) and instrumental assets (industrial machinery, medical equipment, technological assets) to both private customers and small and medium enterprises through an internal commercial structure and a network of selected Agents in Financial Assets throughout the whole of national territory. The leasing of instrumental assets is also distributed through relations with manufacturers, distributors and retailers.

As lessor, the Parent company does not stipulate lease contracts for properties for commercial use or accommodation with third parties or other group companies.

In referring to the greater detail given in the report on operations to these financial statements, in the segments section, it is there pointed out that the lease agreements stipulated with customers enable the management of risk on the underlying assets in line with the Group's policy, as there is no provision for buy-back agreements, guarantees on residual value or variable payments. The Group therefore books the financial lease in accordance with accounting standard IFRS 16 and classifies the transactions amongst financial assets measured at amortised cost.

Quantitative information

1. Information from the statement of financial position and income statement

For information on lease financing, reference is made to the contents of Section 4, Assets, of Part B of the consolidated notes of this document. As regards interest income on lease loans, reference is made to the contents of Section 1 of Part C; for commission, refer to Section 2 of Part C and, finally, for other income, refer to Section 16, against of Part C of the consolidated notes, of this document.

2. Finance leases

2.1. Classification by time frames of payments to be received and reconciliation with the leasing loans entered under assets

Time frames	31.12.2019	31.12.2018
	Payments to be received for leasing	Payments to be received for leasing
Up to 1 year	458.737	434.978
Over 1 to 2 years	377.424	358.175
Over 2 to 3 years	283.621	269.156
Over 3 to 4 years	175.002	166.077
Over 4 to 5 years	73.783	70.020
Over 5 years	9.618	9.126
Total payments to be received for leasing	1.378.184	1.307.532
RECONCILIATION WITH LOANS		
Financial gains not accrued (-)	(132.288)	(132.571)
Residual value not guaranteed (-)	-	-
Financing for leasing	1.245.896	1.174.961

Venice - Mestre, 12 March 2020

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Luciano Colombini

5.

Country-by-country reporting

Reference date 31 December 2019

Pursuant to the supervisory provisions for banks

Bank of Italy Circular no. 285/2013 - Part I - Title III - Chapter 2

In order to increase the EU public's trust in the financial sector, here below is the information as per the Annex A of Part I, Title III, Chapter 2 of Bank of Italy's Circular No. 285.

The information refers to the situation at 31 December 2019.

	INFORMATION/ GEOGRAPHIC AREA	ITALY	POLAND	OTHER CONSOLIDATION ENTRIES	GROUP
a)	Company name	Banca Ifis S.p.A. Ifis Rental Services S.r.l. Ifis Npl S.p.A. Cap.Ital.Fin. S.p.A. Credifarma S.p.A. Fbs S.p.A. Fbs Real Estate S.p.A.	Ifis Finance Sp. Z o.o.	-	Banca Ifis S.p.A. Group
	Nature of business	Collecting savings from the public and lending. Banca Ifis specialises in the segment of trade receivables, medium/long-term corporate lending and structured finance, leasing, distressed retail loans and tax receivables.	Ifis Finance provides financial support and credit management services to businesses.	-	Collecting savings from the public and lending. Banca Ifis specialises in the segment of trade receivables, medium/long-term corporate lending and structured finance, leasing, distressed retail loans and tax receivables.
b)	Turnover (1) (in thousands of Euro)	436.776	3.010	(1.315)	438.471
c)	Number of full-time equivalents (2)	1.724	29	-	1.753
d)	Pre-tax profit or loss (in thousands of Euro)	176.365	1.295	(1.839)	175.821
e)	Income tax (in thousands of Euro)	(52.949)	(262)	578	(52.633)
f)	Government grants received (in thousands of Euro)	1.204	-	-	1.204

(1) Turnover corresponds to the Net Banking Income as per item 120 of the Consolidated Income Statement at 31 December 2019.

(2) The "Number of full-time equivalents" is calculated, in accordance with the relevant Provisions, as the ratio of total hours worked by all employees (including overtime) and the total contract work hours per year of a full-time employee (i.e. the total available work hours in a year excluding 20 days of annual leave).

6.

Declarations

6.1. Declaration of the Corporate Accounting Reporting Officer

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

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

   for the preparation of Banca IFIS's consolidated financial statements, over the course of the period from January 1st, 2019 to December 31st, 2019.

2. The adequacy of the administrative and accounting procedures in place for preparing the consolidated financial statements as at December 31st, 2019 has been assessed through a process established by Banca IFIS S.p.A. on the basis of the guidelines set out in the *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission (CoSO)*, an internationally accepted reference framework.

3. The undersigned further confirm that:

   3.1 the consolidated financial statements as at December 31st, 2019:
   a) are prepared in compliance with International Accounting Standards, endorsed by the European Commission as for European regulation no. 1606/2002 of the European Parliament and Council of July 19th, 2002;
   b) correspond to the related books and accounting records;
   c) provide a true and correct representation of the financial position of the issuer and the group of companies included in the scope of consolidation.

   3.2 The management report contains a reliable analysis of the business outlook and management result, the financial position of the issuer and group of companies included in the scope of consolidation and a description of the main risks and uncertainties they are exposed to.

Venice, March 12th, 2020

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

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

6.2. Board of Statutory Auditors' report

REPORT of the BOARD OF STATUTORY AUDITORS
to the FINANCIAL STATEMENTS as of 31 December 2019
(Translation from the original Italian text)

Dear Shareholders,

with this report – prepared pursuant to Art. 153 of Legislative Decree 58/1998 and Art. 2429, paragraph 2, Italian Civil Code – the Board of Statutory Auditors of Banca IFIS S.p.A. hereby informs you of the supervisory and control activities carried out in the performance of their duties, during the year ended 31 December 2019.

Introduction

The Shareholders' Meeting held on 19 April 2019 renewed the corporate bodies taking the number of Directors from 9 to 12 of which 8 newly appointed. The Meeting then appointed the new Chief Executive Officer.

The Board of Statutory Auditors was also renewed. The Meeting confirmed Giacomo Bugna as its President and appointed two new standing auditors, Marinella Monterumisi and Franco Olivetti.

In addition, please also note that the Board of Directors in its meeting of 13 January 2020 approved the 2020-2022 Strategic Plan and presented it to the financial community on 14 January 2020.

Lastly, on 19 March 2020, this Board of Statutory Auditors received the resignation of the director Alessandro Csillaghy effective as of 31 March 2020.

1. Activity of the Board of Statutory Auditors

During financial year 2019, the Board of Statutory Auditors carried out its institutional tasks in accordance with the rules of the Italian Civil Code and with Legislative Decrees 385/1993 (Consolidated Banking Law), 58/1998 (Consolidated Law on Finance), 39/2010, the By-Laws, in addition to being in compliance with those issued by the public Authorities that exercise activities of supervision and control, also taking into account the standards of conduct recommended by the National Council of Chartered Accountants in the document dated April 2018.

During the year, the Board of Statutory Auditors performed its duties holding 28 meetings, of which 6 held jointly with the Risk Management and Internal Control Committee and 2 held jointly with the Internal Control Committee, the Appointments Committee and the Remuneration Committee.

The Board also took part in all the 20 meetings held by the Board of Directors.

The Board of Statutory Auditors or single Auditors also took part in the meetings of the Risk Management and Internal Control Committee, of the Appointments Committee and of the Remuneration Committee.

The minutes of the Board of Statutory Auditors' meetings, which sometimes contain explicit recommendations to rapidly resolve difficulties that have come to light, are always sent in their entirety to the CEO and to the General Manager. The Chairman of the Risk Management and Internal Control Committee is constantly invited to attend meetings of the Board of Statutory Auditors. It is believed that such attendance will ensure an adequate flow of information between the committees within the Board of Directors.

The Head of Internal Auditing also attends the meetings of the Board of Statutory Auditors, as a permanent invitee for the continuous interaction with the corporate function of third-level control.

During 2019, Banca Ifis S.p.a. was audited by the Supervisory Authority. During that audit, the Board of Statutory Auditors interacted with the audit delegation every time it was required to do so. The audit ended with no specific findings.

On receiving the audit results, the Bank prepared a plan of corrective actions to be implemented and completed pursuant to timing indicated by the Supervisory Authority.

2. Significant transactions of the year

On carrying out the activities of supervision and control, the Board of Statutory Auditors obtained periodically from the Directors, including through the participation in meetings of the Board of Directors, information on the activities carried out and on the most important economic, financial and equity transactions approved and implemented by the Bank and by its subsidiaries, also pursuant to Art. 150, paragraph 1 of the Consolidated Law on Finance.

During the past financial year, the Bank purchased 100% of the capital of FBS S.p.A., an operator specialised (registered in the Register pursuant to art. 106 of the Consolidated Banking Law) in servicing activities (*master and special servicer*) for NPL portfolios, both guaranteed and not, by finalising the purchase of 90% of the capital in the month of January and the remaining 10% in October 2019.

That acquisition also involved the acquisition of FBS Real Estate S.p.A., as it is controlled 100% by FBS S.p.A.

Acquisition of FBS S.p.A. led to recognition, in the consolidated financial statements, of goodwill amounting to about €38 million.

During 2019, the Bank also sold its controlling investment in Two Solar Park 2008 s.r.l.

As a consequence of the above transactions, the scope of the Banking group consolidation has changed compared to the previous year and, as of 31 December 2019, includes the companies IFIS Finance Sp. Z.o.o, IFIS NPL S.p.a., Cap.Ital.Fin. S.p.A., Credifarma S.p.A FBS S.p.A., as well as the non-regulated company IFIS Rental Services S.r.l. and FBS Real Estate S.p.A.

Among the significant events of 2019, details of which are provided in the Management Report and the Explanatory Notes, it has been considered appropriate to report the first application of the IFRS 16 accounting standard, whose effects are covered in the Explanatory Notes.

3. Supervisory activities

3.1 – Supervisory activities on the observance of the law, the By-Laws, and the Self-Regulation Code for listed companies

On the basis of the information obtained through its own supervisory activities, the Board of Statutory Auditors was not made aware of any transactions that had not been conducted in compliance with the principles of correct management and that had not been approved and implemented in accordance with the law and with the By-Laws, which were contrary to the interests of the Bank, that were in contrast with the resolutions passed by the Shareholders' Meeting, that were imprudent or risky or were such as to compromise the integrity of corporate assets.

The Board of Statutory Auditors was not made aware of any transactions that could pose conflicts of interest.

The Board of Statutory Auditors monitored compliance of the Procedure for transactions with subjects related to the law in force and its correct application.

In particular, as provided for by the relevant rules, the Chairman and/or the other Statutory Auditors participated in the meetings of the Risk Management and Control Committee to discuss transactions with related parties; the Board of Statutory Auditors periodically received information relating to the progress of their positions.

The Board of Statutory Auditors assessed that the Board of Directors, in the Management Report and in the Notes, had provided adequate information on the transactions with related parties, taking into account the provisions of regulations in force. To the knowledge of the Board of Statutory Auditors, there are no intra-group transactions and no transactions with Related Parties being implemented in 2019 that were contrary to the interests of the company.

In the year 2019, the Bank did not perform any atypical or unusual transactions. With regard to transactions of particular importance, these respect the principles of prudence, do not contravene the resolutions of the Board of Directors' Meetings, and do not prejudice company assets.

Regarding the outsourcing of Bank activities, and in particular of the Important Operational Functions, the Board of Statutory Auditors acknowledged the report prepared by Internal Audit and expressed its opinion and recommendations in the Board of Directors' meeting of 29 April 2019, as requested by the Supervisory Authority.

The Board of Statutory Auditors, on acknowledging the accession of Banca IFIS S.p.A. to the Self-Regulation Code for listed companies, verified the requirements of independence of its members, in addition to the correct application of the criteria and procedures of verification adopted by the Board of Directors to assess the independence of directors.

3.2 – Supervisory activities on the adequacy of the internal audit system, of the risk management systems and of the organisational structure

The Board of Statutory Auditors monitored the suitability of internal monitoring systems and risk management through:

- meetings with the management of the Bank;
- regular meetings with the Audit Functions - Internal Audit, Compliance, Anti-money laundering (AML) and Risk Management and the Financial Reporting Officer - in order to evaluate the methodology for the planning of operations, based on the identification and evaluation of the principal risks present in the organisational processes and units;
- examination of the periodical reports from the Audit Functions and the periodical information regarding the results of monitoring activities;
- acquired information from the managers of corporate functions;
- discussion of the results of the work carried out by the external auditing firm;
- participation in the work of the Risk Management and Control Committee and, when the topics so required, in their joint examination with the Committee.

In the execution of its monitoring duties, the Board of Statutory Auditors maintained continuous relations with the Audit Function.

During the year the heads of Internal Audit and Risk Management changed. The Board of Statutory Auditors, as established by law, expressed its opinion in the Board meetings on respectively 30 May 2019 and 28 November 2019.

Having considered Bank development, the Board of Statutory Auditors focused on preparation of organisational safeguards to continually improve monitoring of the main risks.

The Board of Statutory Auditors focussed on the organisational structure of control functions, oriented to the control of risks in the new banking group configuration, which currently centres 3rd level control functions with the parent company, as well as 2nd level control functions for subsidiaries, except for Capitalfin S.p.A. and Credifarma S.p.A. for which there is independent control of the 2nd level control functions.

In that area, in the light of control structures, also by defining the management and coordination processes and policies of the control functions and their centralisation/decentralisation choices, the Board of Statutory Auditors acknowledged actions being implemented to strengthen the control and monitoring procedures for any risks possibly connected to liquidity (such as mismatching and funding gaps), potentially resulting from the change to procurement and use profiles, and those related to improving the Internal Audit action methods.

Furthermore, the Board of Statutory Auditors recommended assumption of all necessary and opportune initiatives - such as completion of setting-up the Validation Function - in order to guarantee the integrity and correctness of application of evaluation models, together with the results of the same, for the portfolios of non-performing loans.

Lastly, related to developments in implementing the group's IRB system, for management purposes, the Board of statutory Auditors recalled the need for it to be implemented in full for the various credit processing stages, as well as a full definition of the group's credit policies.

Over the course of 2019, the Board of Statutory Auditors also monitored maintenance of the Risk Appetite Framework and supervised the suitability and effects of the entire ICAAP and ILAAP processes on the requirements set out by regulations, underscoring the usefulness of appropriate data aggregation, integration, and validation processes to maintain the aforementioned documents.

The Board of Statutory Auditors acknowledges that the annual Reports from the Control Functions conclude with a substantially favourable judgement of the internal control system.

Action plans were provided with reference to the activities and to the problems identified, whose timely implementation is judged by the Board of Statutory Auditors as essential and that require special attention by the Management Body.

On the basis of activities carried out and the results of audits conducted by Internal Audit – also in relation to the continuous growth of the Bank and the group – the Board of Statutory Auditors believes that there are certain areas for further improvement, highlighting at the same time that there are no elements that are sufficiently critical to invalidate the internal control system and risk management.

3.3 – Supervisory activities on the administrative-accounting system and on the financial reporting and non-financial disclosure processes

The Board of Statutory Auditors, in its role as Committee for internal control and auditing, monitored the process and the efficiency of internal monitoring systems and risk management with regards to financial reporting.

The Board of Statutory Auditors periodically met the Financial Reporting Officer for the exchange of information regarding the administrative-accounting system and its reliability, in order to have an accurate presentation of management-related issues.

During these meetings, there were no indications of any significant short-comings in the operational and auditing processes that could invalidate the opinion of the adequacy and effective application of administrative accounting procedures.

The Board of Statutory Auditors examined the Report of the Financial Reporting Officer for the 2019 financial statements, which contains the results of tests on the controls carried out as well as the main problems identified in application of the relevant legislation and the methodologies used and identifies the appropriate remedies.

During the year the Bank, with the constant incitement of the Board of Statutory Auditors, improved the audit systems to ensure consistency and alignment of the data between the various characteristic sources of the individual pieces of information.

The Board of Statutory Auditors also examined declarations, issued on 12 March 2020 by the CEO and by the Financial Reporting Officer, in accordance with the provisions contained in Article 154 bis of the Consolidated Law on Finance and in Article 81 ter of the Italian Securities and Exchange Commission Regulation 11971/1999, from which no failings emerged that might affect the opinion of the adequacy of the administrative-accounting procedures.

The Board of Statutory Auditors then acknowledged the monitoring systems developed by the Financial Reporting Officer regarding the subsidiaries in the group of consolidated companies that do not show any significant criticality profiles.

The external Auditing Firm, EY S.p.a., during periodical meetings and in the light of the Additional report -– pursuant to Art. 11 of EU Regulation 537/2014 and issued on 25 March 2020, did not report any critical situations to the Board of Statutory Auditors that could affect the internal control system relating to the administrative and accounting procedures, nor did it ever highlight facts that were deemed reprehensible or any irregularities that would require reporting pursuant to Art. 155, paragraph 2, of the Consolidated Law on Finance.

The Board of Directors prepared, in accordance with the law, the consolidated financial statements as of 31 December 2019 of the Banca IFIS Group that were submitted for audit by the external auditing firm EY S.p.A. The group of consolidated companies, as previously mentioned, was modified following corporate changes that occurred during 2019. The Board of Statutory Auditors acknowledged the preparation of instructions provided to the subsidiaries for the process of consolidation.

With regard to the consolidated financial statements – as required by the rules of conduct recommended by the National Council of Chartered Accountants in the document dated April 2018 – the Board of Statutory Auditors monitored compliance with the procedural rules concerning the formation and layout of the same and of the management report. With regard to the above, no elements emerged to conclude that activities had not been carried out in accordance with the principles of correct administration or that the organisational structure, the internal audit and accounting and administrative systems were not, in their entirety, substantially adequate to the needs and size of the company.

The Bank has prepared the Non-Financial Disclosure (hereinafter NFD): the obligation to prepare the NFD was introduced by Legislative Decree 254/2016 and regulatory indications were completed by the "Implementation regulation of Legislative Decree 254 of 30 December 2016" published on 18 January 2018 by the Consob through Resolution 20267 and by the Call for attention no. 1 issued by the Consob on 28 February 2019.

The Bank prepared the NFD as an independent document, on a consolidated basis and this Board of Statutory Auditors, in the light of the provisions of Article 3, paragraph 7 of Legislative Decree 254/2016, checked the document - also in the light of what was declared by the external auditing firm in its report pursuant to Article 3, paragraph 10 of Legislative Decree 254/2016 issued on 25 March 2019 - with regards to its completeness and correspondence to regulations and according to the preparation criteria illustrated in the Methodology Notes for the Non-Financial Disclosure, without identifying elements which require mention in this report.

The NFD was also audited by the external auditing firm EY, which issued its report on 25 March 2020 without identifying any elements that could indicate that the NFD was not drafted in compliance with laws in force.

3.4 – Supervisory activities pursuant to Legislative Decree 39/2010

The Board of Statutory Auditors, as the "Committee for internal audit and for general auditing", supervised the Auditing Firm's operations, as provided for by Art. 19 of Legislative Decree 39/2010.

During the year, the Board of Statutory Auditors met with the external Auditing Firm EY S.p.A. several times, as already stated, pursuant to Art. 150 of the Consolidated Law on Finance, in order to exchange information concerning the activities carried out in implementation of their respective duties.

The external auditing firm

- issued, on 02 August 2019, the report on the limited audit of the abbreviated six-month consolidated financial statements with no exceptions being highlighted;
- issued, on 25 March 2020 - pursuant to Art.14 of Italian Legislative Decree 39/2010 and Art. 10 of EU Regulation 537 of 16 April 2014 - the certification reports from which it is evident that the financial statements and consolidated financial statements, closed on 31 December 2019, were drawn up clearly and represent in a truthful and correct manner the financial and asset situation, the operating result and the cash flows of Banca IFIS S.p.A. and of the Group for the year ended on that date. In the opinion of the external Auditing Firm, the Management Report on the financial statements and consolidated financial statements as of 31 December 2019 and the information of the "Report on corporate governance and shareholder structure" are consistent with the annual financial statements and consolidated financial statements as of 31 December 2019.

Still on 25 March 2020, the Auditing Firm presented the Board of Statutory Auditors with the Additional Report, provided for in Article 11 of EU Regulation 537/2014, which this Board of Statutory Auditors will submit to the attention of the upcoming meeting of the Board of Directors on 26 March 2020.

The Additional Report does not present any significant shortfalls in the internal auditing system with regards to the financial reporting process which would merit being brought to the attention of those responsible for governance.

In the Additional Report, the external Auditing Firm presented the Board of Statutory Auditors with the declaration regarding independence pursuant to Article 6 of EU Regulation 537/2014, from which no situations emerge that might compromise independence.

Lastly, the Board of Statutory Auditors acknowledged the Transparency Report of 30 June 2019 prepared by the external auditing firm and published on its website pursuant to Legislative Decree 39/2010.

Lastly, as previously mentioned, the Board of Statutory Auditors examined the content of the report by EY S.p.A. regarding the Non-financial Disclosure issued pursuant to Article 3, paragraph 10 of Legislative Decree 254/2016 on 25 March 2020.

The Board of Statutory Auditors reports that over the course of 2019, as well as auditing the individual financial statements, consolidated financial statements, and the financial statements of the subsidiaries, EY S.p.A., with the approval of this Board of Statutory Auditors, was entrusted with the following audit-related tasks:

- Profit verification 31/12/2019 BANCA IFIS individual and consolidated for €42,000
- Comfort Letter on EMTN Program renewal for 2019 for €45,000
- Agreed Upon procedures on the Servicer Reports of Indigo Lease for €50,000
- Agreed Upon procedures on TLTRO III for €27,000
- Limited Review accounting statements 31/3/2019 FBS S.p.A. for €22,000

The external Auditing Firm also confirmed to the Board of Statutory Auditors that, during the year and in the absence of the conditions for their release, it did not issue opinions pursuant to the law.

3.5 – Relations with the Supervisory Body

Following renewal of corporate bodies, the Board of Directors renewed the Supervisory Body (SB) which has 5 members including the standing auditor Marinella Monterumisi.

The Board of Statutory Auditors has read the minutes of meetings held by the SB and the exchange of information was also guaranteed by the discussion had within the Board of Statutory Auditors with the auditor member of the SB, without receiving reports and/or notes requiring a mention. The Bank and the Group are performing a general review of the Management and Organisation Model and the latter is also being updated to include the new predicate offences.

4. Remuneration policies

Remuneration policies were updated through the Shareholders' Meeting resolution of 19 December 2019, after the Bank's new Board of Directors had been appointed; related, in particular, to provisions for the economic treatment of the Chief Executive Officer, to treatment linked to key resources joining the company and provisions for severance indemnities.

Updates added include the possibility of a ratio between the fixed and variable components of individual remuneration of personnel that exceeds 100% (ratio 1:1); however not exceeding the limit set pursuant to pro tempore legislative and regulatory provisions in force (currently equal to 200%, ratio 2:1). Moreover, "golden parachutes" have been introduced for when the employment of key personnel should cease, as indicated in detail in paragraph 7 of the "Remuneration Report" made available to Shareholders. .

During the session of 25 March 2020, the Board of Statutory Auditors furthermore acknowledged, thus agreeing with its comments, the audits carried out by the Internal Audit function and presented in the document on adherence of remuneration policies to the Bank of Italy's regulations and the policies approved; audits which led to a satisfactory outcome.

By taking part in the Remuneration Committee meeting of 11 March 2020, the Board of Statutory Auditors acknowledged allocation of the variable remuneration for 2019 - of which a part in treasury shares of the Bank - to the CEO and the General Manager in accordance with the policies approved by the Shareholders' Meeting of 19 December 2019 and the operating procedure approved by the Board of Directors.

In general, in light of the provisions issued by the Supervisory Authorities on remuneration and incentive systems, the Board of Statutory Auditors monitored, in close connection with the Remuneration Committee, correct application of the rules governing the remuneration of managers of the Audit Functions and of the Manager Responsible and the communication of remuneration policies for the 2020 financial year to the companies belonging to the Group.

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The Board of Statutory Auditors is not aware, in addition to what was illustrated above, of facts or details that need to be submitted to the Shareholders' Meeting.

During 2019, the Board of Statutory Auditors did not receive complaints from Shareholders pursuant to Art. 2408 of the Italian Civil Code.

Finally, with reference to the COVID-19 epidemiological emergency, the Board of Statutory Auditors acknowledges that stated by the Board of Directors in its Directors' Report and Explanatory Notes, accompanying the 2019 financial statements.

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

In conclusion, the Board of Statutory Auditors - taking into account the specific tasks conferred on the external Auditing Firm regarding auditing of the accounts and the reliability of the financial statements that issued its opinion with no reserves, and in light of the statements issued pursuant to Art. 154 of Legislative Decree 58/1998 by the Financial Reporting Officer and the Chief Executive Office - has no comments to make to the Shareholders' Meeting, pursuant to Art. 153 of the Consolidated Law on Finance, related to approval of the financial statements for the years as of 31 December 2019, accompanied by the Management Report, as presented by the Board of Directors, and therefore has no objections to the approval of the financial statements, to the proposed allocation of the operating profit or to distribution of dividends.

Venice - Mestre, 26 March 2020.

for the Board of Statutory
Auditors.
The Chairman

Giacomo Bugna

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

6.3. Independent auditors' report on the consolidated financial statements

Banca IFIS S.p.A.

Consolidated financial statements as at December 31, 2019

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010, and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via Isonzo, 11
37126 Verona

Tel: +39 045 8312511
Fax: +39 045 8312550
ey.com

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

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca IFIS Group ("the Group"), which comprise the statement of financial position as at December 31, 2019, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flows statement for the year then ended, and the notes to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Banca IFIS Group as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.
We are independent of Banca IFIS S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matter	Audit Response
Accounting for the business combination of FBS S.p.A.	
On January 7, 2019, the Parent Company Banca IFIS S.p.A. finalized the acquisition of 90% of the capital of FBS S.p.A., completed with the purchase of the remaining 10% by the end of the same year (hereinafter, the "Transaction"). The Transaction is accounted for in the consolidated financial statements in accordance with the provisions of the international accounting standard IFRS 3 "Business combinations", which requires the determination and allocation of the acquisition cost ("purchase price allocation"), activities for which the Company management was supported by an external consultant. We considered the accounting of the Transaction a key aspect of the audit, due to the subjectivity of the assumptions made by Company management for the purpose of carrying out the purchase price allocation, as well as the assessments obtained by the independent external consultant, with particular reference to: • the estimate of the fair value of the financial assets acquired; • the recognition and valuation of goodwill; • the recognition of deferred taxation on the temporary differences between the book values determined in the purchase price allocation and the related tax values. The disclosure on the Transaction is provided in Part A - Accounting Policies and in Part G - Business Combinations concerning companies or business branches,	Our audit procedures in response to the key aspect included, inter alia: • analysis of the agreements stipulated relating to the Transaction and the minutes of the meetings of the corporate bodies of the Parent Company during which the same Transaction was discussed and approved, in order to understand the relevant terms and conditions; • analysis of the report prepared by the external consultant appointed by Company management; • assessment of the appropriateness of the methodology used and the reasonableness of the assumptions made by the Directors in relation to the purchase price allocation process with the support of our experts in business combinations, as well as the verification of the mathematical accuracy of the related calculations. Finally, we examined the adequacy of the disclosure provided in the notes to the consolidated financial statements in relation to the business combination.

of the notes to the consolidated financial statements.

Goodwill impairment test

Goodwill accounted for in Item 100 of the Balance Sheet of the consolidated financial statements at December 31, 2019 amounts to Euro 39.5 million, is mainly allocated to the cash flow generating unit (CGU) of the NPL sector.
Goodwill, as required by the international accounting standard IAS 36 "Impairment of assets", is not subject to systematic amortization but is subject, at least annually, to the impairment test by comparing the book values of the CGUs, inclusive of goodwill, and the related recoverable amount.

Parent Company management identified the so-called "Value in use", which is the recoverable value configuration of the CGUs to be used for the impairment test, determined through a procedure that provides for the discounted cash flows and assumptions which by their nature imply the judgments of the Directors.

In this context, for the purpose of estimating future cash flows, the Company management used the data contained in the "Strategic Plan" for the period 2020-2022, while for the subsequent period, growth rates were considered consequent to internal trends and consistent with the economic outlook.
In consideration of the significant amount of goodwill in the consolidated financial statements, as well as the subjectivity of the assumptions adopted by the Directors in the process of estimating the recoverable value of the CGUs, we considered the impairment test of goodwill a key aspect of the audit.

Our audit procedures in response to the key aspect included, inter alia:

- understanding the methods for determining the recoverable value adopted by the Parent Company as part of the impairment test process approved by the Board of Directors, and the related key controls;
- the comparison between the data used for conducting the impairment test and those presented in the "Strategic Plan" for the period 2020-2022, in order to understand the determinants of the main deviations;
- analysis of the reasonableness of the economic forecasts included in the "Strategic Plan" for the period 2020-2022 and used as part of the goodwill impairment test;
- with the support of our experts in business combinations, the assessment of the appropriateness of the methodology and the reasonableness of the assumptions used by the Directors for the determination of the recoverable value, as well as the verification of the mathematical accuracy of the calculations and sensitivity analysis on key assumptions.

Finally, we examined the adequacy of the disclosure provided in the notes to the consolidated financial statements.

The disclosure on the impairment test is provided in Part A - Accounting Policies and in Part B - Information on the balance sheet of the notes to the consolidated financial statements, in particular in section 10.3.

Classification and Valuation of Loans to Customers

Loans to customers of the Corporate and Governance & Services Sectors amount respectively to Euro 5,924 million and Euro 447 million, net of analytical and portfolio value adjustments for Euro 325 million and Euro 17 million respectively, and represent 61% of total assets at December 31, 2019.

The process of classification and evaluation of loans to customers in the various risk categories and the calculation of the allowance for doubtful accounts are relevant for the audit due to the significant value of the loans in the financial statements and due to the use of estimates that present a high degree of complexity and subjectivity. In this context, the identification and calibration of the parameters relating to the significant increase in credit risk for the purposes of the stage allocation of performing credit exposures (Stage 1 and Stage 2), is of particular importance, as well as the estimate of the values to be attributed to the PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) as inputs to the Expected Credit Loss model, the identification of objective evidence of increased risk for the classification of non-performing credit exposures (Stage 3), and the determination of the related recoverable cash flows.
The disclosure on the evolution of the quality of the portfolio of loans to customers, and the classification and evaluation criteria adopted is provided in Part A - Accounting Policies, in Part B - Information on the balance sheet, in Part C - Information on the income statement and in Part E - Information on risks and related hedging policies of the notes to the financial statements.

Our audit procedures in response to the key aspect included, inter alia:

- understanding and analysis of the main choices regarding policies and processes carried out by the Company with reference to the classification and valuation of loans to customers and performing compliance procedures over key controls
- carrying out portfolio analyses to understand, also through discussion with Company management, the main changes and the relative coverage levels by risk category;
- performing substantive procedures to verify the proper classification of credit positions;
- understanding, also through the support of our risk management and information systems experts, of the methodology used to estimate, at the balance sheet date, the expected credit losses on collectively assessed exposures, as well as performing compliance and substantive procedures to verify the completeness of the databases used and the related calculations;
- verification on a sample basis of the proper application of Company policies for estimating expected credit losses on exposures analytically assessed;
- examination of the adequacy of the disclosure provided in the notes to the financial statements.

Valuation of NPL Sector Loans

The Group operates with an operating segment ("NPL Sector") dedicated to the acquisition without recourse, management and collection of mainly unsecured loans that are difficult to collect (Stage 3), which contributes 45.2% of the reclassified consolidated brokerage margin equivalent to Euro 252.4 million.
This activity is relevant for the audit due to the related significant economic effects in the financial statements, and to the methods of representation and evaluation adopted by the Group which are characterized by complexity profiles and by the use of assumptions and hypotheses in the specific evaluation methods and models.
These methods and models, in compliance with IFRS 9, provide for the application of the amortized cost method which is based on specific recovery forecasts, where available, or on estimates of expected cash flows resulting from the historical experience gained and articulated by homogeneous clusters, updated on the basis of judicial or extrajudicial recovery activities.
As part of the accounting policies reported in part A of the notes to the consolidated financial statements, the criteria for the recognition and valuation of NPL sector receivables are described, as well as the risks and uncertainties associated with the use of the estimates underlying the evaluation process and in Part E - Information on the risks and related hedging policies of the notes to the consolidated financial statements.

Our audit procedures in response to the key aspect included, inter alia:

- understanding of the policies, processes and controls put in place by the Group for the acquisition, recognition and periodic valuation of NPL Sector credits, based on the evolution of the recovery estimate, and the performance of compliance procedures on controls considered key among those detected;
- understanding, also through the support of our risk management experts, of the methodology used for estimating and / or identifying the cash flows underlying the methods and models defined by the Group, as well as performing compliance and substantive procedures to verify the completeness of the databases used and, through portfolio analysis techniques, of the consistent application of the methods and models themselves;
- performing on a sample basis of substantive procedures to verify the correctness of the significant valuation assumptions both as regards expected cash flows and as regards the estimated timing for their recovery;
- performing procedures for comparative analysis of the loan portfolio of the NPL Sector through the correlation, for each method, of recovery and evaluation of balance sheet data with the respective economic effects, as well as with the related cash flows collected and analysis and discussion with management on the most significant deviations;
- analysis of the adequacy of the disclosure provided in the notes to the consolidated financial statements.

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

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing Banca IFIS Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; designed and performed audit procedures responsive to those risks and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banca IFIS Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banca IFIS Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Banca IFIS Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

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

Report on compliance with other legal and regulatory requirements

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

The Directors of Banca IFIS S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Banca IFIS Group as at December 31, 2019, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of Banca IFIS Group as at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above-mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Banca IFIS Group as at December 31, 2019 and comply with the applicable laws and regulations.

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The Directors of Banca IFIS S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by the Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information are subject to a separate compliance report signed by us.

Verona – March 25, 2020

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

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

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