Banca Ifis

Consolidated Half-Year Financial Report

30 June 2020

www.bancaifis.it

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1. Corporate Bodies

Corporate Bodies

Board of Directors

Chairman	Sebastien Egon Fürstenberg
Deputy Chairman	Ernesto Fürstenberg Fassio
CEO	Luciano Colombini [1]
Directors	Simona Arduini Monica Billio Beatrice Colleoni Roberto Diacetti Divo Gronchi Luca Lo Giudice Antonella Malinconico Riccardo Preve 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

Fully paid-up share capital: Euro 53,811,095
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

Member of FCI

2. Interim Directors' report on the Group

2.1 Results and Strategy

2.1.1 Comment by the CEO

The first half of the year has confirmed the validity of the strategy and financial solidity of Banca Ifis, in an absolutely unprecedented macroeconomic context. During the year of the Covid-19 pandemic, one of the worst in recent decades, Banca Ifis closes the first half showing a profit, strengthening its equity and speeding up investments. "Even in this difficult outlook, the Bank has shown considerable resilience thanks to the specificity of its business model, based, on the Enterprise front, on the disbursement of mainly short-term loans and, on the Npl side, on the definition of sustainable repayment plans, with an average term of approximately 7 years.

During the first six months, the Bank recorded net profit of 37 million Euro, net of adjustments and impairment for 36 million Euro (pre-tax) reasonably to be considered as a result of the Covid-19. Moreover, the lock-down and closure of the courts led to a slow-down of the Commercial & Corporate Banking Segment business and of the Npl segment collection business, thereby generating additional direct and indirect impacts.

Consolidated CET1, calculated excluding the 2019 dividend, which was suspended on the instruction of the Bank of Italy and, for the sake of prudence, excluding profits of the first half of 2020, came to 11,58%, up 62 basis points on 31 December 2019. The same ratio, without considering the effects of the regulatory consolidation into La Scogliera, would be 15,45% (14,28% as at 31 December 2019). Funding remained stable in both the retail and institutional components. I would like to point out that during the half-year, despite the macroeconomic uncertainty, Banca Ifis in any case speeded up the innovation and digital transformation of the business and operative model and, with respect to the forecasts given at the start of the year, expects to increase investments in digitisation.

Over the last few months, the Group has never stopped operating efficiently and with real faith in the future. Amidst the lock-down, we successfully completed a strategic deal, acquiring 70,77% of Farbanca, a transaction that will, thanks to the synergies with Credifarma, allow us to create a leading pole in loans to pharmacies; additionally, late June, we completed an important rebranding project that will improve the Bank's positioning and assure a better communication of our business and products. During the period, certain operations were completed, such as the sale of the property in Corso Venezia, Milan, which resulted in a capital gain of 24,2 million Euro and the issue of a bond worth 400 million Euro at more favourable conditions than originally expected and which, in the current market context, are no longer feasible. We have also diversified funding, exporting our offer of deposit accounts on the German savings market, thanks to an agreement with the fintech Raisin.

On the Commercial side, we guaranteed businesses our support, approving more than 98% of the more than 18.000 moratorium applications received. We stipulated an important agreement with the EIB whereby to finance and support the SMEs impacted by the Covid-19. And this latter measure, which comes in addition to the numerous activities and services made available by the Bank both during the lock-down and in the more difficult phase of recovery of production activities.

In terms of Npls, just as envisaged in the business plan, from January to July, we took over 1,3 billion Euro in non-performing exposures and are currently taking part in 15 transfer processes for an equivalent nominal amount of approximately 1,9 billion Euro. The purchases finalised in the last few months will make a good contribution towards the Bank's profitability over the next two years, thanks to proactive, diversified collection activities".

2.1.2 Redefinition of operating segments

In order to fully implement the Group's business model, as envisaged by the 2020-2022 Industrial Plan, changes have been made to the operating Segments as they were previously structured: the Enterprises Segment, renamed **Commercial & Corporate Banking** groups together the commercial activities intended for enterprises and excludes the portfolios of loans disbursed by Interbanca before the acquisition and set to run-off (previously aggregated into the Enterprises Segment); the Npl Segment has been kept in line with the past, while the Segment, now called **Governance & Non-Core Services**, has been integrated into the non-core section, which includes the portfolios excluded from Commercial & Corporate Banking.

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

- **Commercial & Corporate Banking** Segment, represents the commercial offer of the Group dedicated to companies and consists of the Business Factoring, Leasing and Corporate Banking & Lending;
- **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 business headed by the former Fbs Group, which is mainly specialised in servicing and the management of non-performing secured loans;
- **Governance & Non-Core 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 includes treasury and proprietary securities desk activities, the disbursement of salary- or pension-backed loans and some portfolios of personal loans, as well as some corporate loans portfolio assigned for run-off insofar as held to be non-strategic to the Group's growth.

The Segments of the economic-equity numericals are attributed on the basis of homogeneous allocation criteria in order to take into account both the specificity of the various segments and the need to guarantee effective monitoring of business performance over time.

Moreover, considering the foregoing, the Segment information has been extended in relation to the items of the income statement, revealing the results at the level of the net profit.

To this end, the operating costs needed to be attributed to the reference Segments and this was done as follows:

- for direct costs, allocation was as per the use of the cost centre by reference segment;
- for indirect costs, which by nature are attributable to a specific Segment insofar as incurred to guarantee normal operation and the correct function of the entire structure ("central services"), direction to the individual Segments was assured using different allocation instruments for the different cost categories, also based on internal surveys.

The comparative information in this document has been restated in line with the new Segment reporting.

2.1.3 Highlights - reclassified data[1]

Net banking income comes to 212,8 million Euro, down 23,8% on the 279,2 million Euro booked for the same period of 2019.

The Covid-19 health emergency led to a lock-down of economic-production activities in March and April 2020. This in turn resulted in a reduction in margins in all Segments and, in particular, those in which operations are connected with the legal system, which suffered the closure of courts, making it impossible to proceed with legal debt collection measures. In addition to this, there was a physiologically lesser contribution towards the release of PPA[2], the effects of which in the first half of 2020, equal to 19,6 million Euro were substantively halved as compared with the same period of last year (37,5 million Euro); this lesser contribution is further highlighted by the early repayments that took place in 2019.

The net banking income of the Commercial & Corporate Banking Segment amounted to 106,1 million Euro, down 11,2% on 30 June 2019. The Factoring Area (-10,5%), Leasing Area (-8,8%) and Corporate Banking & Lending Area are down, recording a reduction of 22,1%, mainly due to the lesser contribution of the "reversal PPA"[3] as compared with the same period of 2019.

Net credit risk losses[1] at 30 June 2020, come to 33,3 million Euro, -4,9% on the 35,0 million Euro booked at 30 June 2019. Against the increase in the Leasing Area, connected with the migration of performing counterparties to a higher risk status, which led to a growth of approximately 4,1 million Euro in the Area adjustments, we have lesser provisions made in the Factoring Area, which during the first half of 2019 had been negatively impacted by adjustments made to certain counterparties that were individually significant.

Operating costs rise 11,6%, totalling 155,5 million Euro (139,3 million Euro at 30 June 2019). The increase of 16,2 million Euro is mainly due to 6,9 million Euro in provisions made for solidarity and 6 million in provisions made for a guarantee on a former Interbanca credit position.

In detail, personnel expenses, of 60,7 million Euro, record a reduction of 5,4% mainly due to the lesser accruals for variable remuneration (64,2 million Euro at 30 June 2019). The number of Group employees at 30 June 2020 is 1.745 as compared with 1.793 of 30 June the previous year.

The other administrative expenses at 30 June 2020, come to 82,1 million Euro, dropping by 28,2% on 30 June 2019. In particular, we note that other administrative expenses at 30 June 2019 included 30,9 million Euro in expenses 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 38,5 million Euro (including the related tax effect) against the activation of outstanding guarantees. Without considering this effect, administrative expenses drop by 1,7%. The change is mainly due to the lesser costs for the purchase of goods and services and lesser indirect taxes and duties, only partially offset by higher costs for professional services. Net allocations to provisions for risks and charges amounted to 16,3 million Euro compared with 6,4 million Euro at 30 June 2019. Growth on the corresponding period of the previous year is due to the provision made for 6,9

1 Net impairment losses on receivables of the Npl segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business, as they represent an integral part of the overall return on the investment.
2 "Reversal PPA" means the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the former GE Capital Interbanca Group - acquired on 30 November 2016 - over time.

million Euro relative to the solidarity provision and greater provisions for commitments to disburse provisions and guarantees, mainly in connection with a position of the former Interbanca.

In a similar fashion to other administrative expenses, without considering the effects of indemnities for the definition of tax litigation of the former Interbanca, other net operating income, of 12,2 million Euro drop by 20,8% on the same period of the previous year. These mainly refer 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, in line with the same period of last year.

Pre-tax profit from continuing operations amounted to 48,2 million Euro (-53,9% compared to 30 June 2019). A result on which, despite the positive effect deriving from the sale of the Milan property for 24,2 million Euro, the effect of the adjustments and impairment reasonably considered as linked to the Covid-19 had a negative impact for approximately 36 million Euro and a provision of 6,9 million Euro was made for solidarity for voluntary redundancies.

At 30 June 2020, net profit came to 36,8 million Euro as compared with the 68,3 million Euro at 30 June 2019.

Highlights of the contributions of the various segments to the operating and financial results for the period ended 30 June 2020 are provided below:

Net profit of the **Commercial & Corporate Banking Segment** comes to 22,1 million Euro, down 18,7% as compared with the first half of last year. This negative change is due to the reduction of net banking income for 13,4 million Euro, partially offset by lesser value adjustments to credit risk for 4,0 million Euro. Operating costs dropped by a total of 3,1 million Euro on the figure recorded for the first half of 2019.

- The contribution made by the Factoring Area towards net banking income booked by the Commercial & Corporate Banking Segment came to 72,5 million Euro during the half, down 10,5% on the same period of last year. This result was due to both a lower contribution to net interest income (down by 2,3 million Euro) and net commissions (down by 6,2 million Euro). The half-year performance shows that this negative effect is mainly concentrated in the second quarter of 2020, a period in which the net interest margin decreased by 7,2 million Euro (net interest income down by 3,1 million Euro and net commissions down by 4,1 million Euro).
- Net banking income for Leasing come to 24,8 million Euro, down 8,8% on 30 June 2019; this negative change is due to the combined effect of a higher cost of funding of approximately 1,4 million Euro, due to an increase in figurative interest recognised to the Governance & Non-Core Services Segment and lesser margins of around 1,0 million Euro.
- Net banking income of the Corporate Banking & Lending Area, of 8,7 million Euro at 30 June 2020, shows a decline of 2,5 million Euro on the same period of last year. The negative change mainly refers to the "Other components of net banking income" and is due to the reduction in the fair value of the units of UCITSs held in the portfolio, which accounted for approximately 2 million Euro. This effect is due to the worsening of risk factors (liquidity and credit) during the half, negatively impacted by the instability of markets in the current context.

Net banking income of the **Npl Segment**[3] comes to 73,0 million Euro as compared with 125,5 million Euro at 30 June 2019 and is characterised by the following entries.

- "Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, was up 9,3% from 63 million Euro to 68,9 million Euro, largely thanks to the increase in receivables measured at amortised cost, the greater contribution by which is related for 34,3 million Euro to writs, attachments of property, and garnishment orders, and for 13,4 million Euro to settlement plans.
- By contrast, the reduction of "Other components of net interest income from change in cash flow" includes the economic effect deriving from the change in cash flows expected as a result of the greater or lesser collections made or expected in respect of the previous forecasts. This component goes from 62,7 million Euro to 14,6 million Euro, down 76,8%. The negative change in the item suffers the closure of courts in March, April and May, which significantly reduced, in comparison with the same period of 2019, the capacity to obtain writs, attachments of property and garnishment orders, as well as reducing door-to-door amicable debt collection activities.
- Net commission income is essentially in line with the same period of the previous year and is almost entirely attributable to the contribution made by commission income from servicing on third party portfolios.

Operating costs decline by 10,5%, going from 73,2 million Euro in the first half of 2019 to 65,6 million Euro in 2020. The change is mainly due to the variable costs connected with debt collection and, in particular, those relating to legal collection. As for revenues, the court closure due to the Covid-19 emergency and the general lock-down resulted in the halt of a series of costly lawsuits used by the Segment to increase its chance of collection.

Net profit for the period is down by more than 84,8% or approximately 31,4 million Euro in absolute value, the determinant factors of which are mainly due, as specified previously, to external negative factors that have struck the whole of the national economic system.

Net banking income from the **Governance & Non-Core Services Segment** totalled 33,7 million Euro, down approximately 0,6 million Euro on 30 June 2019. The negative change is due to the combined effect of the progressive reduction of the contribution of the "reversal of PPA" (down approximately 17 million Euro), only partially offset by an increase in interest income on the government securities portfolio of approximately 1,0 million Euro and other components of net banking income up more than 13 million Euro mainly due to income on the proprietary portfolio.

As regards the **cost of credit**, an increase is seen to net adjustments, which come to 13,4 million Euro, as compared with 11,1 million Euro for the first half of 2019. The change in value adjustments is mainly due to the collective value adjustments made to the portfolio of government securities, which suffer the increase in coverage following the expansion of the credit spreads.

Operating costs come to 32,6 million Euro, up 27,0 million Euro on the first half of 2019. The Segment costs in fact include the previously-specified provisions connected with solidarity and the provisions made for risks in

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

view of a guarantee over a former Interbanca credit position. Moreover, the figure of 2019 benefited from the net effect of 7,6 million connected with the definition of tax litigation of the former Interbanca.

Finally, the result for the Segment includes the capital gain, net of the related selling costs, of 24,2 million Euro on the sale of the property located on Corso Venezia in Milan.

Total receivables due from customers measured at amortised cost amounted to 8.034,0 million Euro, up 5% on 31 December 2019. More specifically, as compared with 31 December 2019, we note that the Commercial & Corporate Banking Segment has dropped by -4,8% while the Npl Segment and the Governance & Non-Core Services Segment have respectively grown by 2,1% and 65,2%.

The Commercial & Corporate Banking Segment's net non-performing exposures totalled 230,0 million Euro at 30 June 2020, up 3,6 million Euro from 31 December 2019 (226,4 million Euro), and may be broken down as follows:

- Net non-performing exposures come to 40,3 million Euro are basically stable in terms of the ratio of net non-performing exposures to total loans (0,8%).
- The balance of net unlikely to pay positions was 97,9 million Euro, up 10,5% from the 88,6 million Euro at 31 December 2019.
- Net non-performing past due exposures come to 91,8 million Euro as compared with the 96,0 million Euro at 31 December 2019 (-4,6%) with coverage ratio of 9,7% as compared with 8,4% at 31 December 2019;

The Gross NPE ratio of the Commercial & Corporate Banking Segment is 9,1% (8,5% at 31 December 2019) and the Net NPE ratio is 4,5% (4,2% at 31 December 2019).

During the first half of 2020, the Group continued its strategy of consolidating wholesale funding in order to ensure a better balance with respect to retail funding. In line with this strategy, no transactions were undertaken on the debt market with institutional investors during the period. At 30 June 2020, total funding came to 9.171,0 million Euro, +8,4% on the end FY 2019; the funding structure was as follows:

- 53,0% Customers
- 12,0% Debt securities
- 10,2% ABS
- 21,8% TLTRO
- 3,0% Other.

Payables due to customers at 30 June 2020 come to 4.863,9 million Euro (-8,0% on 31 December 2019), essentially due to the decline in retail funding (Rendimax and Contomax), which goes from 4.791,0 million Euro at 31 December 2019 to 4.383,5 million Euro at 30 June 2020.

Payables due to banks amounted to 2.270,7 million Euro, up 136,7% compared to 31 December 2019. This increase is substantively due to the June 2020 subscription of a TLTRO III tranche worth a nominal 1.900 million Euro maturing in June 2023 and the simultaneous early repayment of the TLTRO II tranche subscribed in 2017 for a nominal 700 million Euro. This subscription is in addition to the tranche with a nominal value of 100 million subscribed in December 2019 and to time deposits with other banks for 270,9 million Euro.

Debt securities issued amounted to 2.036,3 million Euro. The item included 932,8 million Euro (-18,9% compared to 31 December 2019) 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 630,9 million Euro (including interest) in senior bonds issued by Banca Ifis, as well as the 410,9 million Euro (including interest) Tier 2 bond.

At 30 June 2020, the Group's consolidated equity totalled 1.496,9 million Euro, as compared with 1.539,0 million Euro at 31 December 2019.

The coefficients with the prudent consolidation in La Scogliera at 30 June 2020 come to a CET1 of 11,58%[4] (as compared with 10,96% at 31 December 2019), a TIER1 of 12,17%[4] (11,56% at 31 December 2019) and Total Capital of 15,33%[4] (compared with 14,58% at 31 December 2019).

The coefficients of the Banca Ifis Group alone, without considering the effects of the consolidation in the parent company La Scogliera, at 30 June 2020 come to a CET1 of 15,45%[4] (as compared with 14,28% at 31 December 2019), a TIER1 of 15,45%[4] (14,28% at 31 December 2019) and Total Capital of 20,15%[4] (compared with 18,64% at 31 December 2019).

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 30 June 2020. The same amounts instead include the profits generated by the Banking Group at 31 December 2019, net of the dividend approved and suspended.

In addition, please note that the Bank of Italy has instructed the Banca Ifis Group to adopt the following consolidated capital requirements in 2020, in continuity with 2019, including a 2,5% capital conservation buffer:

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

At 30 june 2020, the Banca Ifis Group met the above prudential requirements.

4 Common Equity Tier 1, Tier 1 Capital, and total Own Funds at 30 June 2020 do not include the profits generated by the Banking Group in the first half of 2020.

2.2 Highlights

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Financial assets measured at fair value through other comprehensive income	1.146.701	1.173.808	(27.107)	(2,3)%
Receivables due from banks measured at amortised cost	1.007.613	626.890	380.723	60,7%
Receivables due from customers measured at amortised cost	8.034.032	7.651.226	382.806	5,0%
Total assets	11.252.321	10.526.024	726.297	6,9%
Payables due to banks measured at amortised cost	2.270.742	959.477	1.311.265	136,7%
Payables due to customers measured at amortised cost	4.863.949	5.286.239	(422.290)	(8,0)%
Debt securities issued	2.036.348	2.217.529	(181.181)	(8,2)%
Equity	1.496.948	1.538.953	(42.005)	(2,7)%

CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Net banking income	**212.791**	**279.197**	**(66.406)**	**(23,8)%**
Net credit risk losses/reversals	(33.340)	(35.046)	1.706	(4,9)%
Net profit (loss) from financial activities	**179.451**	**244.151**	**(64.700)**	**(26,5)%**
Operating costs	**(155.458)**	**(139.250)**	**(16.208)**	**11,6%**
Gains (Losses) on disposal of investments	24.161	(408)	24.569	n.s.
Pre-tax profit from continuing operations	**48.154**	**104.493**	**(56.339)**	**(53,9)%**
Net profit for the period attributable to the Parent company	**36.756**	**68.266**	**(31.510)**	**(46,2)%**

RECLASSIFIED QUARTERLY CONSOLIDATED INCOME QUARTERLY (in thousands of Euro)	2nd QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net banking income	**106.839**	**149.088**	**(42.249)**	**(28,3)%**
Net credit risk losses/reversals	(14.828)	(21.958)	7.130	(32,5)%
Net profit (loss) from financial activities	**92.011**	**127.130**	**(35.119)**	**(27,6)%**
Operating costs	**(81.959)**	**(64.886)**	**(17.073)**	**26,3%**
Gains (Losses) on disposal of investments	-	(408)	408	(100,0)%
Pre-tax profit from continuing operations	**10.052**	**61.836**	**(51.784)**	**(83,7)%**
Net profit for the period attributable to the Parent company	**10.330**	**38.346**	**(28.016)**	**(73,1)%**

CONSOLIDATED COMPREHENSIVE INCOME (in thousands of Euro)	30.06.2020	30.06.2019
Profit (Loss) for the period	**36.822**	**68.308**
Other comprehensive income, net of taxes, not to be reclassified to profit or loss	(16.967)	(1.251)
Other comprehensive income, net of taxes, to be reclassified to profit or loss	(3.277)	2.124
Comprehensive Income	**16.578**	**69.181**
Total consolidated comprehensive income attributable to non-controlling interests	63	46
Total consolidated comprehensive income attributable to the Parent company	**16.515**	**69.135**

GROUP KPIs	30.06.2020	31.12.2019	30.06.2019
Ratio - Total Own Funds (1)	15,33%	14,58%	14,51%
Ratio - Common Equity Tier 1 (1)	11,58%	10,96%	10,81%
Number of company shares (in thousands)	53.811	53.811	53.811
Number of shares outstanding at year end(2) (in thousands)	53.460	53.452	53.452
Book value per share	28,00	28,79	27,54
EPS	0,69	2,30	1,28

(1) Common Equity Tier 1 and total Own Funds at 30 June 2020 do not include the profits generated by the Banking Group in the first half of 2020.
(2) Outstanding shares are net of treasury shares held in the portfolio.

2.3 Results by operating segments

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

SEGMENT KPIs (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Other financial assets mandatorily measured at fair value through profit or loss							
Amounts at 30.06.2020	36.839	-	-	36.839	9.350	56.158	**102.347**
Amounts at 31.12.2019	*39.767*	-	-	*39.767*	*10.190*	*62.828*	***112.785***
% Change	*(7,4)%*	-	-	*(7,4)%*	*(8,2)%*	*(10,6)%*	***(9,3)%***
Financial assets measured at fair value through other comprehensive income							
Amounts at 30.06.2020	3.099	-	-	3.099	-	1.143.602	**1.146.701**
Amounts at 31.12.2019	*6.733*	-	-	*6.733*	-	*1.167.075*	***1.173.808***
% Change	*(54,0)%*	-	-	*(54,0)%*	-	*(2,0)%*	***(2,3)%***
Receivables due from customers(1)							
Amounts at 30.06.2020	5.165.404	2.862.374	1.397.015	906.015	1.306.847	1.561.782	**8.034.032**
Amounts at 31.12.2019	*5.425.270*	*3.229.347*	*1.448.463*	*747.460*	*1.280.332*	*945.624*	***7.651.226***
% Change	*(4,8)%*	*(11,4)%*	*(3,6)%*	*21,2%*	*2,1%*	*65,2%*	***5,0%***

(1) In the Governance & Non-Core Services sector, as of 30 June 2020, there were government securities amounting to 894,2 million Euro (213,0 million Euro at 31 December 2019).

RECLASSIFIED HALF-YEAR INCOME STATEMENT DATA (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Net banking income							
Amounts at 30.06.2020	106.074	72.517	24.809	8.749	73.017	33.700	**212.791**
Amounts at 30.06.2019	*119.494*	*81.054*	*27.216*	*11.224*	*125.450*	*34.253*	***279.197***
% Change	*(11,2)%*	*(10,5)%*	*(8,8)%*	*(22,1)%*	*(41,8)%*	*(1,6)%*	***(23,8)%***
Net profit (loss) from financial activities							
Amounts at 30.06.2020	86.114	66.580	16.050	3.485	73.017	20.320	**179.451**
Amounts at 30.06.2019	*95.535*	*61.833*	*22.523*	*11.179*	*125.450*	*23.165*	***244.151***
% Change	*(9,9)%*	*7,7%*	*(28,7)%*	*(68,8)%*	*(41,8)%*	*(12,3)%*	***(26,5)%***
Profit for the period							
Amounts at 30.06.2020	22.092	20.150	2.605	(663)	5.649	9.082	**36.822**
Amounts at 30.06.2019	*27.177*	*11.880*	*9.209*	*6.088*	*37.066*	*4.066*	***68.308***
% Change	*(18,7)%*	*69,6%*	*(71,7)%*	*(110,9)%*	*(84,8)%*	*123,4%*	***(46,1)%***

RECLASSIFIED QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Net banking income							
Second quarter 2020	52.310	34.548	12.976	4.786	29.783	24.746	**106.839**
Second quarter 2019	*61.040*	*41.739*	*13.908*	*5.394*	*63.653*	*24.395*	***149.088***
% Change	*(14,3)%*	*(17,2)%*	*(6,7)%*	*(11,2)%*	*(53,2)%*	*1,4%*	***(28,3)%***
Net profit (loss) from financial activities							
Second quarter 2020	43.398	33.414	8.554	1.430	29.783	18.830	**92.011**
Second quarter 2019	*45.726*	*29.384*	*10.724*	*5.618*	*63.653*	*17.751*	***127.130***
% Change	*(5,1)%*	*13,7%*	*(20,2)%*	*(74,5)%*	*(53,2)%*	*6,1%*	***(27,6)%***
Profit for the period							
Second quarter 2020	11.211	11.618	187	(594)	(1.124)	292	**10.380**
Second quarter 2019	*10.712*	*3.928*	*3.697*	*3.086*	*21.551*	*6.104*	***38.367***
% Change	*4,7%*	*195,8%*	*(94,9)%*	*(119,3)%*	*(105,2)%*	*(95,2)%*	***(72,9)%***

SEGMENT KPIs (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT[1]
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA		
Cost of credit quality						
Amounts at 30.06.2020	0,76%	0,40%	1,24%	1,26%	n.a.	6,86%
Amounts at 31.12.2019	*0,95%*	*1,11%*	*0,72%*	*0,74%*	*n.a.*	*8,47%*
% Change	*(0,19)%*	*(0,71)%*	*0,52%*	*0,52%*	*n.a.*	*(1,61)%*
Net bad loans/Receivables due from customers						
Amounts at 30.06.2020	0,8%	1,3%	0,2%	0,0%	75,7%	2,7%
Amounts at 31.12.2019	*0,8%*	*1,2%*	*0,2%*	*0,1%*	*75,3%*	*4,4%*
% Change	*0,0%*	*0,1%*	*0,0%*	*(0,1)%*	*0,4%*	*(1,6)%*
Coverage ratio on gross bad loans						
Amounts at 30.06.2020	80,2%	80,0%	81,4%	87,3%	0,0%	19,1%
Amounts at 31.12.2019	*79,6%*	*79,8%*	*81,0%*	*51,5%*	*0,0%*	*15,0%*
% Change	*0,5%*	*0,2%*	*0,4%*	*35,8%*	*0,0%*	*4,2%*
Net non-performing exposures/Net receivables due from customers						
Amounts at 30.06.2020	4,5%	6,6%	1,5%	2,1%	99,1%	6,0%
Amounts at 31.12.2019	*4,2%*	*6,1%*	*1,2%*	*1,6%*	*99,3%*	*11,3%*
% Change	*0,3%*	*0,6%*	*0,3%*	*0,4%*	*(0,2)%*	*(5,3)%*
Gross non-performing exposures/Gross receivables due from customers						
Amounts at 30.06.2020	9,1%	13,3%	4,0%	3,1%	99,1%	9,4%
Amounts at 31.12.2019	*8,5%*	*12,1%*	*3,2%*	*2,2%*	*99,3%*	*15,4%*
% Change	*0,7%*	*1,2%*	*0,8%*	*0,9%*	*(0,2)%*	*(6,0)%*
RWA[2]						
Amounts at 30.06.2020	4.655.276	2.395.063	1.284.452	975.762	1.986.826	959.355
Amounts at 31.12.2019	*5.222.609*	*2.945.792*	*1.398.434*	*878.384*	*2.039.840*	*958.110*
% Change	*(10,9)%*	*(18,7)%.*	*(8,2)%*	*11,1%*	*(2,6)%*	*0,1%*

(1) In the Governance & Non-Core Services sector, as of 30 June 2020, are included government securities amounting to 894,2 million Euro (213,0 million Euro at 31 December 2019). These latter were not taken into account in the calculation of the cost of the credit quality related to the Governance & Services and Non-core sector
(2) Risk Weighted Assets; the amount only relates to the credit risk.

2.4 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 2020		YEAR 2019			
	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	102.347	103.743	112.785	147.935	182.094	174.508
Financial assets measured at fair value through other comprehensive income	1.146.701	1.215.355	1.173.808	996.048	693.533	432.901
Receivables due from banks measured at amortised cost	1.007.613	628.756	626.890	1.041.312	726.052	996.333
Receivables due from customers measured at amortised cost	8.034.032	7.600.742	7.651.226	7.118.150	7.343.892	7.322.130
Property, plant and equipment	108.976	109.632	106.301	128.827	128.809	145.869
Intangible assets	60.632	61.893	60.919	64.026	65.282	65.855
Tax assets	385.780	389.964	391.185	388.624	390.503	396.280
Other assets	406.240	382.531	402.910	364.209	357.877	329.756
Total assets	**11.252.321**	**10.492.616**	**10.526.024**	**10.249.131**	**9.888.042**	**9.863.632**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2020		YEAR 2019			
	30.06	31.03	31.12	30.09	30.06	31.03
LIABILITIES AND EQUITY						
Payables due to banks measured at amortised cost	2.270.742	1.014.365	959.477	913.855	781.199	844.790
Payables due to customers measured at amortised cost	4.863.949	4.894.280	5.286.239	5.257.047	5.069.334	5.021.481
Debt securities issued	2.036.348	2.559.834	2.217.529	2.061.600	2.102.076	1.955.400
Tax liabilities	47.367	68.066	69.018	70.806	65.913	63.066
Other liabilities	536.967	413.641	454.808	444.379	397.263	489.594
Group equity:	1.496.948	1.542.430	1.538.953	1.501.444	1.472.257	1.489.301
- Share capital, share premiums and reserves	*1.460.192*	*1.516.004*	*1.415.856*	*1.417.448*	*1.403.991*	*1.459.381*
- Net profit attributable to the Parent company	*36.756*	*26.426*	*123.097*	*83.996*	*68.266*	*29.920*
Total liabilities and equity	**11.252.321**	**10.492.616**	**10.526.024**	**10.249.131**	**9.888.042**	**9.863.632**

CONSOLIDATED INCOME STATEMENT: RECLASSIFIED QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2020		YEAR 2019			
	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	**78.263**	**91.416**	**134.230**	**91.081**	**118.293**	**115.264**
Net commission income	**18.710**	**21.097**	**25.349**	**22.190**	**22.711**	**23.828**
Other components of net banking income	9.866	(6.561)	7.511	(1.225)	8.084	(8.983)
Net banking income	**106.839**	**105.952**	**167.090**	**112.046**	**149.088**	**130.109**
Net credit risk losses/reversals	(14.828)	(18.512)	(38.169)	(13.968)	(21.958)	(13.088)
Net profit (loss) from financial activities	**92.011**	**87.440**	**128.921**	**98.078**	**127.130**	**117.021**
Personnel expenses	(28.651)	(32.029)	(34.262)	(31.534)	(32.716)	(31.447)
Other administrative expenses	(41.545)	(40.520)	(56.183)	(43.740)	(71.034)	(43.321)
Net allocations to provisions for risks and charges	(11.412)	(4.889)	(351)	(5.653)	(3.860)	(2.512)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(4.558)	(4.039)	(3.046)	(4.517)	(4.214)	(4.062)
Other operating income/expenses	4.207	7.978	12.161	11.454	46.938	6.978
Operating costs	**(81.959)**	**(73.499)**	**(81.681)**	**(73.990)**	**(64.886)**	**(74.364)**
Gains (Losses) on disposal of investments	-	24.161	-	-	(408)	-
Pre-tax profit from continuing operations	**10.052**	**38.102**	**47.240**	**24.088**	**61.836**	**42.657**
Income taxes for the period relating to continuing operations	328	(11.660)	(8.105)	(8.343)	(23.469)	(12.716)
Profit for the period	**10.380**	**26.442**	**39.135**	**15.745**	**38.367**	**29.941**
Profit (Loss) for the period attributable to non-controlling interests	50	16	34	15	21	21
Profit for the period attributable to the Parent company	**10.330**	**26.426**	**39.101**	**15.730**	**38.346**	**29.920**

2.5 Group historical data

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

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

HISTORICAL DATA (1) (in thousands of Euro)	30.06.2020	30.06.2019	30.06.2018	30.06.2017	30.06.2016
Financial assets measured at fair value through other comprehensive income (IFRS 9)	1.146.701	693.533	433.827	634.694	-
Available for sale (IAS 39) financial assets	-	-	-	-	1.027.770
Receivables due from customers measured at amortised cost	8.034.032	7.343.892	6.710.457	6.047.860	3.355.998
Payables due to banks measured at amortised cost	2.270.742	781.199	882.324	967.285	43.587
Payables due to customers measured at amortised cost	4.863.949	5.069.334	4.840.864	5.291.594	3.928.261
Debt securities issued	2.036.348	2.102.076	2.095.844	1.352.375	-
Equity	1.496.948	1.472.257	1.373.083	1.293.061	562.197
Net banking income	212.791	279.197	278.117	253.219	150.923
Net profit (loss) from financial activities	179.451	244.151	238.081	265.328	135.162
Profit (loss) for the period attributable to the Parent company	36.756	68.266	66.209	103.657	39.120
Cost/Income ratio	73,1%	49,6%	51,8%	49,0%	50,9%
Ratio - Total Own Funds (2)	15,33%	14,51%	15,43%	15,64%	14,20%
Ratio - Common Equity Tier 1 (2)	11,58%	10,81%	11,11%	14,79%	13,17%

(1) For comparison purposes, the data for the periods 2017, 2018 and 2019 has been re-aggregated to ensure accounting consistency with the amounts at 30 June 2020 in order to account for the changes introduced by IFRS 9; the data for prior periods are those originally published. Restatement has not been applied to the calculation of comparative ratios which remain in line with previously published figures.

(2) Common Equity Tier 1 and total Own Funds at 30 June 2020 do not include the profits generated by the Banking Group in the first half of 2020.

2.6 APM – Alternative Performance Measures

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

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

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

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

Cost/Income ratio (in thousands of Euro)	30.06.2020	30.06.2019
A. Operating costs	155.458	139.250
B. Net banking income	212.791	279.197
Reclassified cost/income ratio (A/B)	**73,1%**	**49,9%**

Book value per share	30.06.2020	31.12.2019
A. Number of shares outstanding	53.459.668	53.451.951
B. Group equity (in thousands of Euro)	1.496.948	1.538.953
Book value per share (B/A) Euro	**28,00**	**28,79**

2.7 Impact of regulatory changes

Starting 1 January 2020, the following changes have been made both in regard to banking and accounting regulations and to tax matters and, more specifically:

- Italian Decree Law no. 18 of 17/03/2020 (the "Cura Italia" Decree), passed by the Council of Ministers as an emergency measure following the spread of the Covid-19 pandemic and then converted into Law no. 27/2020, introduced the following:
  - Article 49 provided, with reference to the "SME guarantee fund" which grants free state guarantees to professionals or micro, small and medium-sized enterprises in cases of difficulty in accessing credit, the extension of this fund to loans granted by banks to pay off previous debt positions of the company;
  - Art. 54 has established the right for customers to request the suspension of the payment of the mortgage for the purchase of the first house without any negative consequences for the customer, through the support of the "Gasparrini" fund that will "compensate" the banks for the greater deferment granted to the customer;
  - At a tax level, article 55 has provided for the possibility of converting "DTA" (or "Deferred Tax Assets"), even if not recorded in the financial statements, relating to certain predetermined tax assets for an amount proportional to the nominal amount of the non-performing loans (Npls) that are sold to third parties;
  - Article 56 has introduced for micro, small and medium-sized enterprises that self-declare that they have suffered a partial or total reduction in business due to Covid-19 a series of facilities provided that the debt exposure is not already considered impaired, including the impossibility for banks to revoke overdraft facilities or advances on invoices on the amounts granted until 30 September 2020, the extension of the maturity of non-instalment loans and the suspension of instalments and fees of loans until 30 September 2020;
  - Art. 58 has provided, in favour of companies that have obtained financing for "globalisation" projects, the possibility to request the suspension for up to twelve months of the payment of the principal and the interest of the instalments due during the year 2020, with consequent translation of the amortisation plan for a corresponding period.
- The Liquidity Decree (Italian Decree Law no. 23 of 8 April 2020), converted into Italian Law no. 40 of 5 June 2020), strengthened the Guarantee Fund to meet the immediate liquidity needs of businesses and professionals facing the consequences of the Covid-19 epidemic, as summarised below:
  - The coverage of the guarantee has been increased: on small loans of up to 30 thousand Euro, the Fund's intervention covers 100% of loans with a maximum duration of 10 years without a creditworthiness assessment being carried out for the purpose of granting the guarantee. The guarantee covers all funding at 90% up to a maximum amount of 5 million Euro per individual beneficiary. For amounts up to 800.000 Euro, the guarantee of a loan consortium may be added, up to cover 100% of the loan.
  - The number of beneficiaries has been increased: SMEs and natural persons engaged in business, arts or professions have been joined by brokers, insurance agents and sub-agents, as well as Third Sector entities;
  - The access procedures have been simplified: the guarantee is granted automatically and the loan can be disbursed by the banks without waiting for a response from the Fund. The guarantee may also be issued on operations already disbursed (only if the disbursement has been made

no more than three months before the call to the Fund and, in any case, not before 31 January 2020). If banks suspend the instalments (or the principal portion only) of loans already guaranteed, the duration of the guarantees will be automatically extended.

2.8 Contribution of Segments to Group results – reclassified data

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

The organisational structure

In accordance with standard IFRS 8, a company must provide information that allows users of the financial statements to assess the nature and effects on such of the business it pursues and the economic contexts in which it operates. The contribution therefore needs to be highlighted as made by the various operating segments to forming the Group's economic result.

Identification of the operating segments is consistent with the methods adopted by the Management to take operative decisions and is based on internal reporting, used in order to allocate the resources to the various segments and analyse the relevant performance.

In order to fully implement the Group's business model, as envisaged by the 2020-2022 Industrial Plan, changes have been made to the operating segments as they were previously structured: the Enterprises Segment, now renamed Commercial & Corporate Banking groups together the commercial activities intended for enterprises and excludes the portfolios of loans disbursed by Interbanca before the acquisition and set to run-off (previously aggregated into the Enterprises Segment); the Npl Segment has been kept in line with the past, while the last Segment, now called Governance & Non-Core Services, has been integrated into the non-core section, which includes the portfolios excluded from Commercial & Corporate Banking.

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

- **Commercial & Corporate Banking** Segment, represents the commercial offer of the Group dedicated to companies and consists of the Business Factoring, Leasing and Corporate Banking & Lending Areas.
- **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 former Fbs Group's business, which is mainly specialised in servicing and the management of non-performing secured loans.
- **Governance & Non-Core 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 includes treasury and proprietary securities desk activities, the disbursement of salary- or pension-backed loans and some portfolios of personal loans, as well as some corporate loans portfolio assigned for run-off insofar as held to be non-strategic to the Group's growth.

The segments of the economic-equity numericals are attributed on the basis of homogeneous allocation criteria in order to take into account both the specificity of the various segments and the need to guarantee effective monitoring of business performance over time.

Moreover, considering the foregoing, the segment information has been extended in relation to the items of the income statement, revealing the results at the level of the net profit.

To this end, the operating costs needed to be attributed to the reference segments and this was done as follows:

- for direct costs, allocation was as per the use of the cost centre by reference segment;
- for indirect costs, which by nature are attributable to a specific Segment insofar as incurred to guarantee normal operation and the correct function of the entire structure ("central services"), direction to the individual segments was assured using different allocation instruments for the different cost categories, also based on internal surveys.

The comparative information in this document has been restated in line with the new segment reporting.

COMMERCIAL & CORPORATE BANKING SEGMENT

The Commercial & Corporate Banking Segment includes the following business areas:

- **Factoring**: Area dedicated to supporting the trade credit of SMEs operating on the domestic market, which develop towards export, or which from export, turn to Italian customers; it also includes an organisational unit dedicated to supporting trade credit of suppliers of the local health authorities and an organisational unit specialised in credit to pharmacies; these activities are also carried out through the subsidiary Credifarma, as well as a business unit specialised in the acquisition of tax receivables: transferred from bankruptcy proceedings, which operates under the Fast Finance brand. This unit acquires tax receivables, accrued and accruing, already requested for reimbursement, or future, arising from proceedings or in previous years.
- **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 & Lending:** A business area that aggregates multiple units: the Structured Finance area, which supports companies and private equity funds in arranging bilateral or syndicated loans; the Special Situations area, which supports the financial recovery of businesses that managed to overcome financial distress; the Equity Investment area, dedicated to investing in non-financial companies and intermediaries; and the Lending area, dedicated to 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.

INCOME STATEMENT DATA (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	**72.278**	**77.265**	**(4.987)**	**(6,5)%**
Net commission income	**36.839**	**43.178**	**(6.339)**	**(14,7)%**
Other components of net banking income	(3.043)	(948)	(2.095)	221,1%
Net banking income	**106.074**	**119.495**	**(13.421)**	**(11,2)%**
Net credit risk losses/reversals	(19.960)	(23.959)	3.999	(16,7)%
Net profit (loss) from financial activities	**86.114**	**95.536**	**(9.422)**	**(9,9)%**
Operating costs	**(57.227)**	**(60.315)**	**3.088**	**(5,1)%**
Pre-tax profit from continuing operations	**28.887**	**35.221**	**(6.334)**	**(18,0)%**
Income taxes for the period relating to continuing operations	(6.795)	(8.044)	1.249	(15,5)%
Profit (loss) for the period	**22.092**	**27.177**	**(5.085)**	**(18,7)%**

INCOME STATEMENT DATA (in thousands of Euro)	2nd QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	**36.220**	**40.513**	**(4.293)**	**(10,6)%**
Net commission income	**17.114**	**21.125**	**(4.011)**	**(19,0)%**
Other components of net banking income	(1.024)	(598)	(426)	71,2%
Net banking income	**52.310**	**61.040**	**(8.730)**	**(14,3)%**
Net credit risk losses/reversals	(8.912)	(15.314)	6.402	(41,8)%
Net profit (loss) from financial activities	**43.398**	**45.726**	**(2.328)**	**(5,1)%**
Operating costs	**(29.212)**	**(32.344)**	**3.132**	**(9,7)%**
Pre-tax profit from continuing operations	**14.186**	**13.382**	**804**	**6,0%**
Income taxes for the period relating to continuing operations	(2.975)	(2.670)	(305)	11,4%
Profit (loss) for the period	**11.211**	**10.712**	**499**	**4,7%**

Net profit of the Commercial & Corporate Banking Segment comes to 22,1 million Euro, down 18,7% as compared with the first half of last year. This negative change is due to the reduction of net banking income for 13,4 million Euro, partially offset by lesser value adjustments to credit risk for 4,0 million Euro. Overall, operating costs decreased by 3,1 million Euro compared with the first half of last year, with different trends in the various business areas, as discussed in greater detail below.

Similarly, the operating performance of the business areas making up the Segment is described and analysed further on.

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.

COMMERCIAL & CORPORATE BANKING (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGE 1 AND 2)	TOTAL LOANS
POSITION AT 30.06.2020						
Nominal amount	203.265	192.615	101.666	**497.546**	4.963.334	**5.460.879**
Impairment losses	(162.935)	(94.719)	(9.898)	**(267.552)**	(27.924)	**(295.476)**
Carrying amount	40.330	97.896	91.768	**229.994**	4.935.410	**5.165.404**
Coverage ratio	*80,2%*	*49,2%*	*9,7%*	***53,8%***	*0,6%*	***5,4%***
Gross ratio	*3,7%*	*3,5%*	*1,9%*	***9,1%***	*90,9%*	***100,0%***
Net ratio	*0,8%*	*1,9%*	*1,8%*	***4,5%***	*95,5%*	***100,0%***
POSITION AT 31.12.2019						
Nominal amount	205.115	173.116	104.862	**483.093**	5.228.197	**5.711.290**
Impairment losses	(163.304)	(84.536)	(8.852)	**(256.692)**	(29.328)	**(286.020)**
Carrying amount	41.811	88.580	96.010	**226.401**	5.198.869	**5.425.270**
Coverage ratio	*79,6%*	*48,8%*	*8,4%*	***53,1%***	*0,6%*	***5,0%***
Gross ratio	*3,6%*	*3,0%*	*1,8%*	***8,5%***	*91,5%*	***100,0%***
Net ratio	*0,8%*	*1,6%*	*1,8%*	***4,2%***	*95,8%*	***100,0%***

Net non-performing loans in Commercial & Corporate Banking totalled 230,0 million Euro at 30 June 2020, up 3,6 million Euro compared to 31 December 2019 (226,4 million Euro): the ratio of net bad loans to total loans (0,8%) remained stable while non-performing loans decreased (down 1,5 million Euro, -3,5%), while probable defaults rose 9,3 million Euro (+10,5%, 1,9% of total loans).

The coverage ratio of impaired assets went from 53,1% at 31 December 2019 to 53,8% at 30 June 2020 mainly driven by the increase in the relative weight of probable defaults on total non performing exposures.

Finally, it should be noted that within the Commercial & Corporate Banking Segment, there are receivables belonging to the POCI category, mainly referring to non-performing exposures resulting from the business combination: the net value of these assets, entirely classified as impaired (stage 3), is 0,8 million Euro at 30 June 2020 compared to 1,2 million Euro at 31December 2019.

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.

KPI	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Cost of credit quality	0,76%	0,95%	n.a.	(0,19)%
Net NPE ratio	4,45%	4,17%	n.a.	0,28%
Gross NPE ratio	9,11%	8,46%	n.a.	0,65%
Total RWAs	4.655.276	5.222.609	(567.333)	(10,9)%

To ensure a better understanding of the results for the period, below we comment on the contribution of the individual business areas to the Commercial & Corporate Banking segment.

Factoring Area

INCOME STATEMENT DATA (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	**44.274**	**46.613**	**(2.339)**	**(5,0)%**
Net commission income	**28.243**	**34.441**	**(6.198)**	**(18,0)%**
Net banking income	**72.517**	**81.054**	**(8.537)**	**(10,5)%**
Net credit risk losses/reversals	(5.937)	(19.221)	13.284	(69,1)%
Net profit (loss) from financial activities	**66.580**	**61.833**	**4.747**	**7,7%**
Operating costs	**(40.232)**	**(45.116)**	**4.884**	**(10,8)%**
Pre-tax profit from continuing operations	**26.348**	**16.717**	**9.631**	**57,6%**
Income taxes for the period relating to continuing operations	(6.198)	(4.837)	(1.361)	28,1%
Profit (loss) for the period	**20.150**	**11.880**	**8.270**	**69,6%**

INCOME STATEMENT DATA (in thousands of Euro)	2nd QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	**21.677**	**24.787**	**(3.110)**	**(12,5)%**
Net commission income	**12.871**	**16.951**	**(4.080)**	**(24,1)%**
Net banking income	**34.548**	**41.739**	**(7.191)**	**(17,2)%**
Net credit risk losses/reversals	(1.134)	(12.355)	11.221	(90,8)%
Net profit (loss) from financial activities	**33.414**	**29.384**	**4.030**	**13,7%**
Operating costs	**(19.361)**	**(23.997)**	**4.636**	**(19,3)%**
Pre-tax profit from continuing operations	**14.053**	**5.387**	**8.666**	**160,8%**
Income taxes for the period relating to continuing operations	(2.435)	(1.459)	(976)	66,9%
Profit (loss) for the period	**11.618**	**3.928**	**7.690**	**195,8%**

The contribution made by the Factoring Area towards net banking income booked by the Commercial & Corporate Banking Segment came to 72,5 million Euro during the half, down 10,5% on the same period of last year. This result was due to the lower contribution to net banking income from both net interest income (down by 2,3 million Euro) and net commissions (down by 6,2 million Euro). The quarterly performance shows that this negative effect is mainly concentrated in the second quarter of the current year, a period in which the net interest margin decreased by 7,2 million Euro (net interest income down by 3,1 million Euro and net commissions down by 4,1 million Euro).

The negative change in net interest income and net commissions was essentially due to a decrease in assets under management: turnover in the second quarter of 2020 amounted to 2,6 billion Euro, down by 873 million Euro compared to the same period of the previous year, while outstanding loans amounted to 3,0 billion Euro, down by 0,8 billion Euro. This trend is concomitant with the economic downturn that has been evident since the beginning of March, as a result of Covid-19 and compatible with the competitive pressure on the economic conditions applied to customers.

Net adjustments for credit risk amounted to 5,9 million Euro compared to 19,2 million Euro in the first half of 2019; the reduction in the cost of credit is attributable both to the absence of individually significant adjustments made during the year 2019 and to the strengthening of the public credit guarantee system adopted by the Italian government with the aim of alleviating liquidity tensions caused by the Covid-19 emergency and favouring new credit.

Therefore, net profit from financial activities amounted to 66,6 million Euro, up 4,7 million Euro on 30 June 2019.

Operating costs decreased by 4,9 million Euro compared to the same period of the previous year. Half of this decrease is due to lower payroll costs related to lower provisions for variables, and half to lower provisions for risks and charges - which in Factoring mainly concern provisions for unexpired positions and write-downs on commitments and guarantees.

At 30 June 2020, the Area's total net loans amounted to 2,9 billion Euro, down 11,4% compared to 31 December 2019. As indicated above, this change is mainly related to the negative economic situation that began early March, as a result of Covid-19.

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.

FACTORING AREA (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGE 1 AND 2)	TOTAL LOANS
POSITION AT 30.06.2020						
Nominal amount	186.624	141.582	83.118	**411.324**	2.682.755	**3.094.079**
Impairment losses	(149.264)	(68.898)	(3.102)	**(221.264)**	(10.441)	**(231.705)**
Carrying amount	37.360	72.684	80.017	**190.061**	2.672.314	**2.862.374**
Coverage ratio	*80,0%*	*48,7%*	*3,7%*	***53,8%***	*0,4%*	***7,5%***
POSITION AT 31.12.2019						
Nominal amount	189.854	138.209	90.490	**418.553**	3.045.611	**3.464.164**
Impairment losses	(151.481)	(67.861)	(3.065)	**(222.407)**	(12.410)	**(234.817)**
Carrying amount	38.373	70.348	87.425	**196.146**	3.033.201	**3.229.347**
Coverage ratio	*79,8%*	*49,1%*	*3,4%*	***53,1%***	*0,4%*	***6,8%***

KPI	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Cost of credit quality	0,40%	1,11%	n.a.	(0,71)%
Net NPE ratio	6,64%	6,07%	n.a.	0,57%
Gross NPE ratio	13,29%	12,08%	n.a.	1,21%
Total RWAs	2.395.063	2.945.792	(550.729)	(18,7)%

Leasing Area

INCOME STATEMENT DATA (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	**18.862**	**20.792**	**(1.930)**	**(9,3)%**
Net commission income	**5.947**	**6.424**	**(477)**	**(7,4)%**
Net banking income	**24.809**	**27.216**	**(2.407)**	**(8,8)%**
Net credit risk losses/reversals	(8.759)	(4.693)	(4.066)	86,6%
Net profit (loss) from financial activities	**16.050**	**22.523**	**(6.473)**	**(28,7)%**
Operating costs	**(12.644)**	**(12.585)**	**(58)**	**0,5%**
Pre-tax profit from continuing operations	**3.406**	**9.938**	**(6.532)**	**(65,7)%**
Income taxes for the period relating to continuing operations	(801)	(729)	(72)	9,9%
Profit (loss) for the period	**2.605**	**9.209**	**(6.604)**	**(71,7)%**

INCOME STATEMENT DATA (in thousands of Euro)	2nd QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	**9.867**	**10.792**	**(925)**	**(8,6)%**
Net commission income	**3.109**	**3.116**	**(7)**	**(0,2)%**
Net banking income	**12.976**	**13.908**	**(932)**	**(6,7)%**
Net credit risk losses/reversals	(4.422)	(3.184)	(1.238)	38,9%
Net profit (loss) from financial activities	**8.554**	**10.724**	**(2.170)**	**(20,2)%**
Operating costs	**(7.655)**	**(7.019)**	**(636)**	**9,1%**
Pre-tax profit from continuing operations	**898**	**3.705**	**(2.806)**	**(75,8)%**
Income taxes for the period relating to continuing operations	(712)	(7)	(705)	n.s.
Profit (loss) for the period	**187**	**3.697**	**(3.510)**	**(94,9)%**

Net banking income for Leasing come to 24,8 million Euro, down 8,8% on 30 June 2019; this negative change is due to the combined effect of a higher cost of funding of approximately 1,4 million Euro, due to an increase in figurative interest recognised to the Governance & Non-Core Services Segment and lesser margins of around 1,0 million Euro.

Net credit risk losses amounted to 8,8 million Euro, up 4,1 million Euro compared to the first half of 2019.

The increase in the first half of 2020 is attributable for Financial Leasing to the migration of non-impaired counterparties to more penalising risk conditions (probable defaults) and for Operating Leasing (Rental) to the increase in impaired positions (Past due).

The operating costs of the Leasing Area are substantially in line with the first half of 2019. The higher costs in the second quarter compared to 2019 are mainly related to the redetermination of the useful life of the application adopted for Leasing and for which disposal is planned in 2021 with a view to rationalising and standardising the Group's IT structure.

At 30 June 2020, total net loans in the Area amounted to 1.397 million Euro compared to 1.448 million Euro at 31 December 2019, with a negative change of 3,6%. The reduction is mainly due to the lesser volumes supplied during the first half of 2020, down 40% on the same period of last year.

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 (STAGE 1 AND 2)	TOTAL LOANS
POSITION AT 30.06.2020						
Nominal amount	14.483	27.333	15.660	**57.476**	1.383.690	**1.441.166**
Impairment losses	(11.787)	(17.784)	(6.641)	**(36.212)**	(7.939)	**(44.151)**
Carrying amount	2.696	9.549	9.018	**21.264**	1.375.751	**1.397.015**
Coverage ratio	*81,4%*	*65,1%*	*42,4%*	***63,0%***	*0,6%*	***3,1%***
POSITION 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%***

KPI	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Cost of credit quality	1,24%	0,72%	n.a.	0,52%
Net NPE ratio	1,52%	1,24%	n.a.	0,28%
Gross NPE ratio	3,99%	3,21%	n.a.	0,77%
Total RWAs	1.284.452	1.398.434	(113.982)	(8,2)%

Corporate Banking & Lending Area

INCOME STATEMENT DATA (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	**9.142**	**9.860**	**(718)**	**(7,3)%**
Net commission income	**2.649**	**2.313**	**336**	**14,5%**
Other components of net banking income	(3.043)	(948)	(2.095)	221,1%
Net banking income	**8.748**	**11.225**	**(2.477)**	**(22,1)%**
Net credit risk losses/reversals	(5.264)	(45)	(5.219)	n.s.
Net profit (loss) from financial activities	**3.484**	**11.180**	**(7.696)**	**(68,8)%**
Operating costs	**(4.351)**	**(2.614)**	**(1.737)**	**66,5%**
Pre-tax profit from continuing operations	**(867)**	**8.566**	**(9.433)**	**(110,1)%**
Income taxes for the period relating to continuing operations	204	(2.478)	2.682	(108,2)%
Profit (loss) for the period	**(663)**	**6.088**	**(6.751)**	**(110,9)%**

INCOME STATEMENT DATA (in thousands of Euro)	2nd QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	**4.676**	**4.933**	**(257)**	**(5,2)%**
Net commission income	**1.134**	**1.058**	**76**	**7,2%**
Other components of net banking income	(1.024)	(598)	(426)	71,3%
Net banking income	**4.786**	**5.393**	**(607)**	**(11,2)%**
Net credit risk losses/reversals	(3.356)	225	(3.581)	n.s.
Net profit (loss) from financial activities	**1.430**	**5.618**	**(4.188)**	**(74,5)%**
Operating costs	**(2.196)**	**(1.328)**	**(868)**	**65,4%**
Pre-tax profit from continuing operations	**(766)**	**4.290**	**(5.056)**	**(117,9)%**
Income taxes for the period relating to continuing operations	172	(1.204)	1.376	(114,3)%
Profit (loss) for the period	**(594)**	**3.086**	**(3.680)**	**(119,3)%**

Net banking income of the Corporate Banking & Lending Area, of 8,7 million Euro at 30 June 2020, shows a decline of 2,5 million Euro on the same period of last year. The negative change mainly refers to the “Other components of net banking income” and is due to the reduction in the fair value of the units of UCITSs held in the portfolio, which accounted for approximately 2 million Euro. This effect is due to the worsening of risk factors (liquidity and credit) during the half, negatively impacted by the instability of markets in the current context.

As regards the net interest income, the negative change is mainly due to the higher costs of funding of the Structured Finance business, up 0,9 million Euro and to the physiological reduction of the PPA contribution for 0,8 million Euro (for which the total residual amount of “PPA reversal” of the Business Area is 4,6 million Euro at 30 June 2020), only partially offset by the growth of 1,0 million Euro in interest income and connected with the lending business.

Commission has instead risen slightly, both in regard to Structured Finance and SME lending transactions.

Net credit risk losses amounted to 5,3 million Euro, up 5,2 million Euro compared to the same period of the previous year. The increase is attributable to Structured Finance both due to the deterioration of a specific transaction and to the increase in loans for 38 million Euro.

The increase in the operating costs of the Corporate Banking & Lending Area for 1,7 million Euro is mainly due to the greater personnel costs in support of the growth expected for Area commitments.

At 30 June 2020, total net receivables due from customers in the Area amounted to 906,0 million Euro compared to 747,5 million Euro at 31 December 2019, with a positive change of 21,2%. Growth is driven by new disbursements Lending for 136 million Euro and Corporate Banking for 110 million Euro.

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 & LENDING AREA (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGE 1 AND 2)	TOTAL LOANS
POSITION AT 30.06.2020						
Nominal amount	2.158	23.700	2.888	**28.746**	896.889	**925.634**
Impairment losses	(1.884)	(8.037)	(155)	**(10.076)**	(9.544)	**(19.620)**
Carrying amount	274	15.663	2.733	**18.670**	887.345	**906.015**
Coverage ratio	*87,3%*	*33,9%*	*5,4%*	***35,1%***	*1,1%*	***2,1%***
POSITION AT 31.12.2019						
Nominal amount	1.832	12.958	1.989	**16.779**	744.219	**760.998**
Impairment losses	(943)	(2.817)	(699)	**(4.459)**	(9.079)	**(13.538)**
Carrying amount	889	10.141	1.290	**12.320**	735.140	**747.460**
Coverage ratio	*51,5%*	*21,7%*	*35,1%*	***26,6%***	*1,2%*	***1,8%***

KPI	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Cost of credit quality	1,26%	0,74%	n.a.	0,52%
Net NPE ratio	2,06%	1,65%	n.a.	0,41%
Gross NPE ratio	3,11%	2,20%	n.a.	0,90%
Total RWAs	975.762	878.384	97.378	11,1%

NPL SEGMENT

This is the Banca Ifis Group's Segment dedicated to non-recourse acquisition and managing secured and unsecured distressed retail loans, as well as third party portfolio management.

The business is, by nature, 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 table below shows the loans portfolio of the Npl segment, by method of transformation and accounting criterion; the "impact through profit or loss" refers to the components of the net banking income deriving from the booking at amortised cost of the related loans portfolio; in particular, interest income is included from the amortised cost for 68,9 million Euro and other components of the net interest income from cash flow changes for 14,6 million Euro, as reported in the summary table of "Economic data" below in this paragraph.

Npl Segment Portfolio (in thousands of Euro)	Outstanding nominal amount	Carrying amount	Carr. amount / Out. nom. amnt	Interest on income statement	ERC	Main method of accounting
Cost	1.709.195	96.084	5,6%	-	215.159	Acquisition cost
Non-judicial	10.256.677	354.861	3,5%	26.683	620.276	
of which: Collective (curves)	*9.849.664*	*184.277*	*1,9%*	*(7.452)*	*297.978*	*Cost = NPV of flows from model*
of which: Plans	*407.013*	*170.584*	*41,9%*	*34.135*	*322.298*	*Cost = NPV of flows from model*
Judicial	6.278.066	853.799	13,6%	56.812	1.727.160	
of which: Other positions undergoing judicial processing	*2.626.623*	*304.360*	*11,6%*	*-*	*600.386*	*Acquisition cost*
of which: Writs, Property Attachments, Garnishment Orders	*1.267.587*	*396.583*	*31,3%*	*49.981*	*917.274*	*Cost = NPV of flows from model*
of which: Secured and Corporate	*2.383.856*	*152.856*	*6,4%*	*6.831*	*209.500*	*Cost = NPV of flows from model*
Total	**18.243.938**	**1.304.744**	**7,2%**	**83.495**	**2.562.595**	

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 (96 million Euro at 30 June 2020, compared to 109 million Euro at 31 December 2019) with no contribution to profit or loss.

After this phase, which usually lasts between 6-12 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 garnishment order for 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 (184,3 million Euro at 30 June 2020, compared to 189,9 million Euro at 31 December 2019), 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 three 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 (170,6 million Euro at 30 June 2020, compared to 166,2 million Euro at 31 December 2019), 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 issued by the court.

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 table above, these processes are included in “Other positions undergoing judicial processing”, which come to 304,4 million Euro at 30 June 2020, as compared with 274,1 million Euro at 31 December 2019.

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 the future cash inflows, 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. When the garnishment order is obtained, the positions are measured at amortised cost, calculated as the net present value of the expected cash flows from the individual position, considering the debtor’s age and the risk of loss of employment. The total amount of all positions in the writ, attachment of property and garnishment order phase was at 396,6 million Euro at 30 June 2020, compared to 387,1 million Euro at the end of 2019.

Finally, the "Secured and Corporate" category, amounting to 152,9 million Euro at 30 June 2020 compared to 151,8 million Euro at 31 December 2019, includes portfolios originating in corporate banking or real estate sectors, valued on a case-by-case basis or using a model for estimating expected cash flows for positions guaranteed by properties on which a mortgage is present.

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

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

INCOME STATEMENT DATA (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Interest income from amortised cost	68.873	63.000	5.873	9,3%
Interest income notes and other minority components	464	473	(9)	(1,9)%
Other components of net interest income from change in cash flow	14.559	62.662	(48.103)	(76,8)%
Funding costs	(13.742)	(11.154)	(2.588)	23,2%
Net interest income	**70.154**	**114.981**	**(44.827)**	**(39,0)%**
Net commission income	**2.478**	**2.796**	**(318)**	**(11,3)%**
Other components of net banking income	(840)	(228)	(612)	268,4%
Gain on sale of receivables	1.225	7.901	(6.676)	(84,5)%
Net banking income	**73.017**	**125.450**	**(52.433)**	**(41,8)%**
Net profit (loss) from financial activities	**73.017**	**125.450**	**(52.433)**	**(41,8)%**
Operating costs	**(65.631)**	**(73.294)**	**7.663**	**(10,5)%**
Pre-tax profit from continuing operations	**7.386**	**52.156**	**(44.770)**	**(85,8)%**
Income taxes for the period relating to continuing operations	(1.737)	(15.090)	13.353	(88,5)%
Profit (loss) for the period	**5.649**	**37.066**	**(31.417)**	**(84,8)%**

INCOME STATEMENT DATA (in thousands of Euro)	2nd QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Interest income from amortised cost	34.379	32.318	2.061	6,4%
Interest income notes and other minority components	27	473	(446)	(94,3)%
Other components of net interest income from change in cash flow	(533)	27.842	(28.375)	(101,9)%
Funding costs	(6.568)	(5.972)	(596)	10,0%
Net interest income	**27.305**	**54.661**	**(27.356)**	**(50,0)%**
Net commission income	**1.189**	**1.415**	**(226)**	**(16,0)%**
Other components of net banking income	64	(324)	388	(119,8)%
Gain on sale of receivables	1.225	7.901	(6.676)	(84,5)%
Net banking income	**29.783**	**63.653**	**(33.870)**	**(53,2)%**
Net profit (loss) from financial activities	**29.783**	**63.653**	**(33.870)**	**(53,2)%**
Operating costs	**(32.157)**	**(33.601)**	**1.444**	**(4,3)%**
Pre-tax profit from continuing operations	**(2.373)**	**30.052**	**(32.425)**	**(107,9)%**
Income taxes for the period relating to continuing operations	1.249	(8.501)	9.750	(114,7)%
Profit (loss) for the period	**(1.124)**	**21.551**	**(22.675)**	**(105,2)%**

"Interest income from amortised cost", referring to the interest accruing at the original effective interest rate, was up 9,3% from 63 million Euro to 68,9 million Euro, largely thanks to the increase in receivables measured at amortised cost, the greater contribution by which is related for 34,3 million Euro to writs, attachments of property, and garnishment orders, and for 13,4 million Euro to settlement plans.

The item "Other components of net interest income from change in cash flow" 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 went from 62,7 million Euro to 14,6 million Euro, a decrease of 76,8%; this item includes the contribution of non-judicial operations for approximately 0,3 million Euro and the contribution of writs, attachments of property and garnishment orders for approximately 15,7 million Euro and secured and corporate for approximately -1,5 million Euro. The reduction in this item suffers the March, April and May closure of the courts, which significantly reduced the obtaining of writs, attachments of property and garnishment orders in comparison with the previous year.

The increase in the funding costs is due to higher interest expense attributed by the Governance & Non-Core 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.

Net commission income is basically in line with the corresponding half of the previous year and is almost entirely due to the contribution made by commission income from servicing on third party portfolios.

The net profit from financial activities of the Npl Segment therefore amounted to 73,0 million Euro (125,5 million Euro at 30 June 2019, down 41,8%). The significant reduction of this result as compared with the same period of last year is almost entirely due to the economic-medical emergency that struck the country between March and

June and which resulted in the lock-down imposed by a series of Prime Ministerial Decrees. The closure of all production activities and, specifically, the courts, effectively prevented any legal action from being taken to obtain writs, attachments of property and garnishment orders, typically more profitable for the industry as a whole.

Operating costs decline by 10,5%, going from 73,2 million Euro in the first half of 2019 to 65,6 million Euro in 2020. The reduction is mainly due to the variable costs connected with debt collection and, in particular, those relating to legal collection impacted by the court closures due to the Covid-19 emergency. Operating costs include, in addition to the direct costs of the sector, also the allocation of indirect costs of the Group's centralized activities; in the presence of a decline in net banking income its capacity to reabsorb these later costs consequently diminishes. Taking into account the expectation of a progressive stabilization of the current environment in the second half together with a progressive improvement of the Npl sector, which should regain full operational capacity in the last quarter of the year, the net banking income should return to be able to reabsorb propertly the indirect costs.

Profit for the period is down by more than 84,8% or approximately 31,4 million Euro in absolute value, the determinant factors of which are mainly due, as specified previously, to external negative factors that have struck the whole of the national economic system.

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

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Net bad loans	989.550	964.611	24.939	2,6%
Net unlikely to pay	305.246	306.688	(1.442)	(0,5)%
Net non-performing past due exposures	53	29	24	82,8%
Total net non-performing exposures to customers (stage 3)	**1.294.849**	**1.271.328**	**23.521**	**1,9%**
Net performing exposures (stages 1 and 2)	11.998	9.004	2.994	33,3%
Total on-balance-sheet receivables due from customers (1)	**1.306.847**	**1.280.332**	**26.515**	**2,1%**

(1) Total on-balance-sheet receivables due from customers include receivables for intercompany invoices arising from the servicing activities of the subsidiaries Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.) and Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.) for 2.099 thousand Euro and for 2.112 thousand Euro, respectively at 30 June 2020 and at 31 December 2019.

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	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Nominal amount of receivables managed	18.243.938	17.840.822	403.116	2,3%
Total RWAs	1.986.826	2.039.840	(53.014)	(2,6)%

Total Estimated Remaining Collections (ERC) amounted to approximately 2,6 billion Euro.

NPL SEGMENT NON-PERFORMING LOAN PORTFOLIO PERFORMANCE	30.06.2020	31.12.2019
Opening loan portfolio	**1.278.220**	**1.092.799**
Business combinations	-	23.952
Purchases	60.725	182.297
Sales	(1.972)	(26.677)
Gains on sales	1.225	15.738
Interest income from amortised cost	68.871	128.442
Other components of interest from change in cash flow	14.624	119.862
Collections	(116.950)	(258.193)
Closing loan portfolio	**1.304.744**	**1.278.220**

Total purchases in 2020 came to 60,7 million Euro, slightly down on the 68 million Euro of the same reference period of the previous year (and 182,3 million Euro per year). In the first half of the 2020 year, sales transactions were completed for a total of about 2 million Euro, all of which generated profits of about 1,2 million Euro in the second quarter.

The item "Collections" equal to 117,0 includes the instalments collected during the period from re-entry plans, from garnishment orders and transactions carried out is about 5,6% lower than the collections of 124,0 million Euro of the previous half year. This reduction, accumulated mainly in the months of March and April, is explained by the traffic bans imposed by the health emergency and therefore by a forced stop to home collection and legal activities, partially replaced by out-of-court telephone recovery. The agreed repayment plans and the garnishment orders, on the other hand, have shown a stable cash flow performance

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 down from 2019, reaching 135 million Euro at 30 June 2020 compared to 156,8 million Euro at 30 June 2019.

At the end of the period, the portfolio managed by the Npl Segment included 1.881.608 positions, for a nominal amount of approximately 18,2 billion Euro.

GOVERNANCE & NON-CORE SERVICES SEGMENT

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 the Proprietary Finance business (proprietary desk securities) and the economic results of the subsidiary Cap.Ital.Fin. S.p.A., a company operative in salary- or pension-backed loans. The Segment also includes run-off portfolios originated from the former Interbanca as well as other personal loan portfolios.

INCOME STATEMENT DATA (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	**27.247**	**41.311**	**(14.064)**	**(34,0)%**
Net commission income	**490**	**565**	**(75)**	**(13,3)%**
Other components of net banking income	5.963	(7.624)	13.587	(178,2)%
Net banking income	**33.700**	**34.252**	**(552)**	**(1,6)%**
Net credit risk losses/reversals	(13.380)	(11.087)	(2.293)	20,7%
Net profit (loss) from financial activities	**20.320**	**23.165**	**(2.845)**	**(12,3)%**
Operating costs	**(32.600)**	**(5.640)**	**(26.960)**	**478,0%**
Gain on disposal of investments	24.161	(408)	24.569	n.s.
Pre-tax profit from continuing operations	**11.881**	**17.117**	**(5.236)**	**(30,6)%**
Income taxes for the period relating to continuing operations	**(2.800)**	(13.051)	**10.251**	**(78,6)%**
Profit (loss) for the period	**9.081**	**4.066**	**5.015**	**123,3%**

INCOME STATEMENT DATA (in thousands of Euro)	2nd QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	**14.738**	**23.119**	**(8.381)**	**(36,3)%**
Net commission income	**407**	**171**	**236**	**138,0%**
Other components of net banking income	9.601	1.105	8.496	n.s.
Net banking income	**24.746**	**24.395**	**351**	**1,4%**
Net credit risk losses/reversals	(5.916)	(6.644)	728	(10,9)%
Net profit (loss) from financial activities	**18.830**	**17.751**	**1.079**	**6,1%**
Operating costs	**(20.590)**	**1.059**	**(21.650)**	**n.s.**
Gain on disposal of investments	-	(408)	408	(100,0)%
Pre-tax profit from continuing operations	**(1.760)**	**18.402**	**(20.164)**	**(109,6)%**
Income taxes for the period relating to continuing operations	**2.053**	(12.298)	**14.351**	**(116,7)%**
Profit (loss) for the period	**292**	**6.104**	**(5.813)**	**(95,2)%**

The Segment's net banking income totalled 33,7 million Euro, down approximately 0,6 million Euro on 30 June 2019. The negative change can be broken down according to two main guidelines:

- Net interest income down 14,1 million Euro on the same period of the previous year. This item suffers the progressive reduction of the contribution made by "PPA reversal" (down approximately 17 million Euro), partially offset by an increase in interest income from the portfolio of government securities by approximately 1,0 million and the increase in net interest income on run-off retail portfolios (up 0,2 million Euro). In particular, as regards the contribution made by the "PPA reversal", the physiological reduction was hastened by both significant early repayments during the first half of 2019 and the sale of certain Workout & Recovery positions during the fourth quarter of 2019. The total residual amount of the PPA reversal for the Governance & Non-Core Services Segment was 108,5 million Euro at 30 June 2020.

- The net banking income grew by more than 13 million Euro mainly due to incomes generated by the proprietary portfolio.

In terms of funding, Rendimax and Contomax continue to constitute the Group's main source of finance, with a comprehensive cost of approximately 30 million Euro, lower than the same period of last year (32 million Euro) due to the decrease in average assets under management (4.461 million Euro, -3%) and expected following a reduction in the average rates offered, manoeuvred in particular on maturities of less than a year. At 30 June 2020, the comprehensive value of the amortised cost of bond issues came to 1.103 million Euro. It should be noted that during the first quarter, shortly before the outbreak of the health emergency, a further senior preferred bond was placed for a notional amount of 400 million Euro in addition to the four instruments already present in the Bank's liabilities at the end of 2019. The second quarter also saw the maturity of the senior bond issued in 2017 and redeemed in May. In economic terms, interest expense accrued on all issues grew by 3,6 million Euro, coming in at a total of 18,5 million Euro.

As regards the cost of credit, an increase is seen to net adjustments, which come to 13,4 million Euro, as compared with 11,1 million Euro for the first half of 2019. The change in value adjustments is mainly due to the collective value adjustments made to the portfolio of government securities, which suffer the increase in coverage following the expansion of the credit spreads.

Operating costs come to 32,6 million Euro, up 27,0 million Euro on the first half of 2019. In 2019, they benefited from the net effect of 7,6 million Euro related to the settlement of tax disputes. In actual fact, administrative expenses at 30 June 2019 included 30,9 million Euro in expense 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 38,5 million Euro (including the related tax effect) against the activation of outstanding guarantees. Net of this component, the increase in costs is approximately 19,3 million Euro and is mainly due to:

- a provision made for risks and charges for a total of 6,9 million Euro linked to provisions related to the procedure for recourse to the extraordinary benefits of the Solidarity Fund for the purpose of activating redundancies for early retirement, on an exclusively voluntary basis for those who already, in 2020, qualify for the Fund and who will qualify for the A.G.O. pension by 31 December 2024.
- higher provisions of 6,6 million Euro for credit risk associated with signature loans and guarantees issued;
- costs related to non-recurring activities, such as those incurred for projects related to rebranding initiatives (for approximately 2,1 million Euro), as well as costs related to bond issues for approximately 0,5 million Euro, the deconsolidation of the subsidiary Two Solar Park 2008 following its sale at the end of the second quarter of 2019. This company, operating in the renewable energy segment, contributed towards the reduction of net operating costs in the amount of 0,3 million Euro at 30 June 2019.

Gains on disposal of investments include the effects of the sale of the Milan property in Corso Venezia, net of the related costs of sale for an amout of 24,2 million Euro. The sale of this property, already classified as a non-current asset held for sale with a value of 25,6 million Euro at 31 December 2019, following the signing of a binding offer for the sale of the property, was closed and the full consideration collected in March 2020.

At 30 June 2020, total net receivables for the Segment amounted to 1.561,8 million Euro, up 65,2% on the figure at 31 December 2019 (945,6 million Euro). The increase is substantially related to the Proprietary Finance business (about 680 million Euro), which operates mainly through the purchase of government securities. At the same time, run-off portfolios in the sector decreased by about 64 million Euro.

It should be noted that within the Governance & Non-Core Services 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:

- Net non-performing loans: 57,5 million Euro at 30 June 2020 as compared with 71,8 million Euro at 31 December 2019;
- Net performing loans: 16,1 million Euro at 30 June 2020 as compared with 12,7 million Euro at 31 December 2019.

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 & NON-CORE SERVICES SEGMENT (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGE 1 AND 2)	TOTAL LOANS(1)
POSITION AT 30.06.2020						
Nominal amount	53.030	97.132	3.370	**153.533**	1.476.537	**1.630.070**
Impairment losses	(10.152)	(49.276)	(827)	**(60.255)**	(8.033)	**(68.288)**
Carrying amount	42.878	47.857	2.543	**93.278**	1.468.504	**1.561.782**
Coverage ratio	*19,1%*	*50,7%*	*24,5%*	***39,2%***	*0,5%*	***4,2%***
POSITION AT 31.12.2019						
Nominal amount	48.514	102.875	2.977	**154.366**	846.711	**1.001.077**
Impairment losses	(7.274)	(39.724)	(751)	**(47.749)**	(7.704)	**(55.453)**
Carrying amount	41.240	63.151	2.226	**106.617**	839.007	**945.624**
Coverage ratio	*15,0%*	*38,6%*	*25,2%*	***30,9%***	*0,9%*	***5,5%***

(1) In the Governance & Non-Core Services sector, as of 30 June 2020, there were government securities amounting to 894,2 million Euro (213,0 million Euro at 31 December 2019).

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

2.9 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 period. As from 18 June 2012, Banca Ifis joined the Ftse Italia Mid Cap index.

OFFICIAL SHARE PRICE	30.06.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Share price at period-end	8,55	14,00	15,44	40,77	26,00

Price/book value

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

Price/book value	30.06.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Share price at period-end	8,55	14,00	15,44	40,77	26,00
Consolidated Equity per share	28,00	28,79	27,30	25,62	22,99
Price/book value	**0,31**	**0,49**	**0,57**	**1,59**	**1,13**

Outstanding shares	30.06.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Number of shares outstanding at period-end (in thousands)(1)	53.460	53.452	53.441	53.433	53.431

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

Earning per share

Here below is the ratio of the consolidated profit for the period to the weighted average of the ordinary shares outstanding at period-end, net of treasury shares in portfolio.

Earnings per share (EPS) and diluted earnings per share	30.06.2020	30.06.2019
Net profit for the period attributable to the Parent company (in thousands of Euro)	36.756	68.266
Average number of outstanding shares	53.457.850	53.448.405
Average number of diluted shares	53.457.850	53.448.405
Consolidated earnings per share for the period (Units of Euro)	**0,69**	**1,28**
Consolidated diluted earnings per share for the period (Units of Euro)	**0,69**	**1,28**

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). It 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.

Communication regarding the dividend distribution policy for financial year 2019

Last 1 April, the Board of Directors of Banca Ifis has decided to act responsibly by following the guidance provided by the Supervisory Authorities, and therefore to propose that the distribution of dividends for financial year 2019 be postponed until at least 1 October 2020, and thus to proceed with payment after that date, provided that no regulations or recommendations from supervisory authorities to the contrary are issued before that date.

At today's meeting, the Board of Directors acknowledged the issue of the Bank of Italy provision of 28 July 2020, which recommends that all banks abstain until 1 January 2021 from paying dividends relative to FYs 2019 and 2020, clarifying that the limit refers to cash payments that effectively reduce the level and quality of the CET1.

2.10 Significant events occurred in the period

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

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

2.10.1 2020-2022 Business Plan presented

The Board of Directors of Banca Ifis approved the 2020-2022 Business Plan on 13 January 2020. The Plan was presented to the financial community on 14 January.

2.10.2 Banca Ifis: successful placement of the 400 million Euro Senior Preferred bond maturing on 25 June 2024

On 18 February 2020, Banca Ifis (Fitch rating BB+ with stable outlook) successfully concluded placement of a Senior Preferred bond issue intended for professional investors, for an amount of 400 million Euro. The bond, issued under the scope of the EMTN Programme, comes as part of the funding strategy envisaged by the 2020-2022 Business Plan, which looks to better diversify the sources of finance. The transaction was strongly in demand with final orders, more than 60% of which came from foreign investors, more than three times the allocated amount. The reoffer price was 99,692, for a return at maturity of 1,82% and a coupon that is payable annually in the amount of 1,75%.

2.10.3 Resignation from the Board of Director Alessandro Csillaghy De Pacser

On 31 March 2020, Alessandro Csillaghy De Pacser tendered his resignation from the position of member of the Parent Company's Board of Directors, in order to devote himself fully to the international development of the Group's business and his roles at its foreign subsidiaries. At the date of his resignation, the director did not hold any shares of the Company, and his termination from the position did not entail the payment of indemnities or other benefits, in accordance with the remuneration policy adopted by the Banca Ifis Group.

2.10.4 Acquisition of 70,77% of the capital of Farbanca S.p.A.

On 10 April 2020, Banca Ifis submitted a binding offer for the purchase of 70,77% of the share capital of Farbanca S.p.A. (company held by Banca Popolare di Vicenza), of which the remaining 29,23% is held by 450 small shareholders, mainly pharmacists. On 1 June 2020, Banca Ifis declared that it had successfully completed the competitive procedure for the purchase of 70,77% of the capital of Farbanca. The price to be paid at closing for 70,77% of the share capital is 32,5 million Euro, potentially reduced following the contractual price adjustment. Closing is subject to the issue of the necessary legal authorisations by the competent authorities. At the signing of the contract, a confirmation deposit will be paid of 15% of the price.

2.11 Significant subsequent events

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

2.12 Information on Covid-19

2.12.1 Information on the impact of Covid-19 on the income statement

This paragraph is intended to provide, as also suggested by Consob Note of attention no. 8/20: "Covid-19 - Financial Disclosure Note", a single note of the effects of Covid-19 on the income statement for the period.

The results for the first half were affected by Covid-19, although the first two months of the year were in line with the targets set in the Business Plan. Starting March, the spread of the pandemic has led to the closure of many economic activities and has severely limited the possibility of movement of the population, a situation that lasted until mid-May.

During the period of health emergency for the Npl sector, recovery activities through telephone collection have been strengthened as door to door activities of the agent network have been temporarily suspended. The restrictions imposed following the spread of Covid-19 have led, since March, to the closure of most production activities, including the closure of the courts, effectively preventing legal activities aimed at obtaining precepts, foreclosures and garnishment orders; in perspective, the short closure times of the courts are expected to have an impact mainly on longer payment times rather than lower payments. As a matter of fact, in April, while the number of precepts and foreclosures was substantially reduced to zero, their values in the months of May and June are about 16,0% less than those obtained in January and February 2020.

In order to incorporate this effect of the generic extension of collection times into the cash flow forecasts, various changes were made to recalibrate the figures, estimating, in connection with amicable management (positions measured using a statistical model where there is no form of funding), a limited reduction in forecast collections for 2020 and 2021, consistently with the general scenario macroeconomic projections used by the Group for its medium-term forecasts. With reference to judicial management, the interventions concerned instead only 2020, with a lengthening of the collection times due to the closure of the courts.

Consistently with legal management, due to the court closures, similar measures to lengthen collection times to a limited extent, have been taken to the models that deal with secured Npl positions for the suspension of the attachment of properties received as collateral and for positions for which bankruptcy proceedings are in progress.

In all, these interventions entailed lower net interest income due to changes in cash flow for about 11,4 milion Euro, connected with the postponement of the process for transforming positions from purely amicable (measurement in curves) to amicable with plans or court proceedings with seizures and garnishment orders.

Reference should be made to the section on Information on risks and related hedging policies in this document, with specific reference to the subsidiary Ifis Npl S.p.A.

The results of the Commercial & Corporate Banking segment also contracted, albeit by an amount that is as yet difficult to quantify, especially in the second quarter and in the Factoring and Leasing business areas, where there was a decrease in volumes brokered in conjunction with the economic downturn that began at the beginning of March, as a result of Covid-19.

More specifically, as regards Factoring, after a first quarter in which the business development was only marginally impacted, we saw a second quarter characterised by a major decline in flows of new receivables transferred. This is due to the more stricter provisions issued by the Government, which were followed by the blocking of much of production activities (approximately 50% of the customer portfolio was not included on the list of the essential services pursuant to the Decree of the President of the Council of Ministers of 25/03/2020) and the consequent limitation of traditional forms of commercial development.

The volumes of the Leasing Area, have seen a decrease of 40,0% compared to the first half of 2019. The Covid-19 effect was mainly seen on Transportation, the traditional core segment of the Leasing Area, where the incidence of small and medium enterprises and professionals is greater, and these were those most penalised by the lock-down and limits to mobility deriving from the health emergency.

Concerning the risk credit management, the Italian Government has introduced measures aimed at providing financial support to businesses and households, through moratoriums and strengthening the public credit guarantee system, in order to alleviate the liquidity tensions caused by the emergency and encourage new credit. These measures also mitigate any impact on the credit quality of banks. The Group has therefore taken steps to revise the estimate of expected losses and the valuation of the Group's portfolios, both in terms of collective reserves and specific reserves.

As commented in more detail in the following paragraph 4.3 "Information on Risks and Risk Management Policies", in 2019, the Banca Ifis Group had developed satellite models with the aim of inserting forward looking information in the risk parameters, as regulated by the IFRS 9 accounting framework. These models link historical deterioration rates to the behaviour of macroeconomic variables and are fed by scenarios (baseline, adverse and upside). In normal conditions, the macroeconomic projections to be considered in the various scenarios are found in the biennial EBA publications during the stress test exercise for significant banks. Following the evolution of the economic crisis linked to the spread of Covid-19, it was considered appropriate to update the macroeconomic scenarios also in view of the recommendations issued by the supervisory authorities. The information used by Banca Ifis to update the forward looking impacts in the estimates of risk parameters comes from several institutions, including the Bank of Italy and the ECB (and Deutsche Bundesbank for the outlook on Germany and the BUND long-term interest rate). The choice was also made to update the probability of occurrence of the scenarios by leaving to the baseline scenario the higher probability of occurrence (70%), reserving for the adverse scenario a probability of 25%, much higher than that associated with the improvement scenario (5%) due to the high uncertainty and considering the possible new wave of infection that could occur next autumn.

In addition, in line with what has been done for the secured portfolio of the Npl Segment, the collection times for receivables and portfolios of receivables secured by real estate for which bankruptcy proceedings are in progress have been reviewed to reflect the aforementioned suspension of real estate execution.

Please also note that during the half-year, analytical impairment was calculated on an individually significant position and operating in the retail segment, which, already restructured, has also further worsened following the closure of commercial activities as a consequence of the Covid-19 pandemic. Total provisions in the half-year on this position amounted to 11,1 million Euro for loans and 5,8 million Euro for unsecured and secured exposures.

Again with reference to the result of financial operations, excluding the negative effects resulting from the assessment of the values of the financial instruments that reflect the performance of individual initiatives, fair value decreased by 7.2 million Euro as a result of the update of the market parameters used to estimate the fair value of level 3 instruments; it is reasonable to assume that the market parameters used, as such, among the other, already incorporate the negative effects of the Covid-19 pandemic.

As far as the Group's operating costs are concerned, just as the slowdown in court activity has limited credit recovery activity and therefore a reduction in the Group's margins, it has also led to a reduction in legal recovery costs and registration taxes.

2.12.2 Public information

In line with the Bank of Italy Communication of 30 June 2020 - "Guidelines of the European Banking Authority on reporting and public disclosure requirements for exposures subject to measures applied in the light of the Covid-19 crisis", which implements the European Banking Authority (EBA) Guidelines on reporting and public disclosure requirements for exposures subject to measures applied in the light of the Covid-19 crisis (EBA/GL/2020/07), information is provided on:

- funding subject to 'moratoriums' falling within the scope of the EBA Guidelines on legislative and non-legislative moratoriums on loan payments applied in the light of the Covid-19 crisis (EBA/GL/2020/02);
- the funding subject to concession measures (so-called forbearance measures) applied as a result of the Covid-19;
- new funding guaranteed by the State or other public body.

The Banca IFIS Group is actively supporting its customers during this health emergency, to combat the effects on its business.

In this context, it offers various financial support measures, depending on the characteristics of the customer and their needs, on the basis of the following catalogue:

- legislative type moratoriums (the "Cura Italia" Decree), aimed at offering financial support to micro, small and medium enterprises (SMEs) through the suspension of loan payments until 30/09/2020. The measure is intended for subjects who are not classified as non-performing at the time of the request;
- other non-legislative moratoriums defined under the scope of trade agreements (2019 Credit Agreement - Recovering Enterprises 2.0) intended for micro, small and medium enterprises (SMEs) and larger enterprises than SMEs. The duration of the moratoriums is assessed on a case-by-case basis, according to the specific customers' needs, up to a maximum of 24 months (or 100% of the residual term in the case of mortgages, or 270 days in the case of short-term loans), with the corresponding postponement of the repayment plan for the duration of the suspension. As regards credit quality, the moratorium is intended for subjects that do not, at 31 January 2020, have exposures classified as non-performing in accordance with supervisory rules and, in any case, not classified as non-performing as at the date on which the application is submitted;
- concession of new liquidity or additional liquidity (the "Liquidity" Decree) through access to the guarantee of the Guarantee Fund (Italian Law no. 662/96), the application of which has been extended to support micro, small and medium enterprises and enterprises with no more than 499 employees (mid caps) registered with Companies House belonging to the different production segments and based throughout national territory.

The catalogue of measures available for customers is supplemented by additional support measures defined internally and assessed on a case-by-case basis, intended for customer enterprises not coming under the scope of application of the "Cura Italia" Decree and/or the "ABI Agreement".

Information on loans and advances subject to legislative and non-legislative moratoriums

		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing			Non-performing				Performing			Non-performing			
		Total	Total performing	"Of which: forborne exposures	"Of which: instruments with an SICR(1) after initial recognition but not impaired (Phase 2)"	Total non performing	"Of which: forborne exposures	"Of which: UTP not due or past due by no more than 90 days"	Total	Total performing	"Of which: forborne exposures	"Of which: instruments with an SICR(1) after initial recognition but not impaired (Phase 2)"	Total non performing	"Of which: forborne exposures	"Of which: UTP not due or past due by no more than 90 days"	"Inflows into non-performing exposures"
1	Loans and advances subject to moratorium	604.650	600.590	1.296	32.830	4.060	5	3.388	(4.921)	(4.067)	(40)	(1.158)	(854)	(1)	(636)	1.561
2	of which: to families	71.730	70.998	71	2.468	732	5	660	(696)	(544)	-	(76)	(152)	(1)	(142)	188
3	*of which: secured by residential real estate as collateral*	*2.182*	*1.677*	-	*871*	*505*	-	*505*	*(203)*	*(69)*	-	*(55)*	*(134)*	-	*(134)*	-
4	*of which: non-financial companies*	*529.913*	*526.585*	*1.226*	*30.360*	*3.328*	-	*2.728*	*(4.206)*	*(3.505)*	*(40)*	*(1.082)*	*(702)*	-	*(495)*	*1.374*
5	*of which: to small and medium-sized enterprises*	*411.940*	*408.892*	*1.032*	*22.760*	*3.048*	-	*2.666*	*(3.054)*	*(2.426)*	*(38)*	*(600)*	*(628)*	-	*(483)*	*1.220*
6	*of which: secured by non-residential real estate as collateral*	*6.378*	*6.378*	-	*3.371*	-	-	-	*(459)*	*(459)*	-	*(443)*	-	-	-	-

(1) Instruments with a significant increase in credit risk (SICR).

Breakdown of loans of advances subject to legislative and non-legislative moratoriums by residual duration of moratoriums

		Number of debtors	Gross carrying amount							
				"Of which: legislative moratoriums"	"Of which: past due"	Residual duration of moratoriums				
						<= 3 months	"> 3 months <= 6 months"	"> 6 months <= 9 months"	"> 9 months <= 12 months"	> 1 year
1	Loans and advances for which a moratorium has been offered	17.641	632.565	X	X	X	X	X	X	X
2	Loans and advances subject to moratorium (granted)	17.567	604.650	597.514	-	593.820	3.958	3.685	3.108	80
3	of which: to families	X	71.730	71.353	-	69.976	1.278	-	395	80
4	*of which: secured by residential real estate as collateral*	*X*	*2.182*	*2.182*	-	*1.004*	*935*	-	*163*	*80*
5	of which: non-financial companies	X	529.913	523.154	-	520.836	2.680	3.685	2.713	-
6	*of which: to small and medium-sized enterprises*	*X*	*411.940*	*406.422*	-	*403.678*	*2.623*	*3.685*	*1.954*	-
7	*of which: secured by non-residential real estate as collateral*	*X*	*6.378*	*6.378*	-	*6.378*	-	-	-	-

Information on new loans and advances subject to newly applied public guarantee schemes introduced in response to the Covid-19 crisis

		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		Total	of which: forborne	Public guarantees received	"Inflows into non-performing exposures"
1	New loans and advances subject to public guarantee schemes	46.899	-	40.420	250
2	of which: to families	300	X	X	50
3	*of which: secured by residential real estate as collateral*	-	*X*	*X*	-
4	of which: non-financial companies	46.573	-	40.140	200
5	*of which: to small and medium-sized enterprises*	-	*X*	*X*	-
6	*of which: secured by non-residential real estate as collateral*	-	*X*	*X*	-

2.13 Outlook

The macroeconomic context of the next few months will remain very uncertain and will be heavily impacted by the evolution of the Covid-19 and the time it takes for the global and Italian economy to recover; preparing forecasts as to the evolution of operations over the next few months is therefore particularly complex at present.

The outlook will therefore depend on the macroeconomic scenario chosen as reference. Hypothesising a progressive stabilisation of the macroeconomic context, the absence of additional lock-down periods involving the whole of Italy or certain regions, the proactive management of new cases of Covid-19, the full operation of courts starting September and the continuous support of the governments and central banks of the economy, in the second half of the year, we expect to see a progressive improvement of the Npl Segment, which should return to being fully operational in the latter months of 2020.

During the second half, the Commercial and Corporate Bank segment should record a slight downturn in terms of volumes and margins. The quality of credit in this segment will depend on the speed of the economic recovery and it is likely that it will be impacted from 30 September by the end of the moratoriums. Please note that the Trade receivables portfolio, of 5,2 billion Euro, including exposure to the public administration (0,8 billion Euro) is, for the remainder, well diversified in terms of segment, type and size of enterprises.

Moreover, during the second half of the year, the Group will continue to measure/acquire Npl portfolios, thereby consolidating its leadership position in the unsecured segment and progressively diversifying in the secured Npl segment, as well as offering financial support to SMEs with particular attention paid to credit quality and the specific characteristics of each individual enterprise.

2.14 Other information

Adoption of Opt-Out Option pursuant to Consob Regulation no. 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.

Privacy measures

The Banca Ifis Group has consolidated a project to comply with Regulation (EU) no. 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.

Finally, starting 1 January 2020, Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.) will opt to join the above tax consolidation.

Under this tax regime, the taxable profits and tax losses reported by each entity for the fiscal year 2020 are transferred to the consolidating company La Scogliera S.p.A.

Due mainly to the offsetting of the net result for the first half of 2020 with the previous tax losses and ACE surpluses, the net receivable from the parent company at 30 June 2020 decreased to 12,3 million Euro, compared to 21,9 million Euro at the end of the previous year.

Transactions on treasury shares

At 31 December 2019, Banca Ifis held 359.144 treasury shares recognised at a market value of 3,0 million Euro and a nominal amount of 359.114 Euro.

During the first half, Banca Ifis, as variable pay for the 2016 financial results, awarded the Top Management 7.717 treasury shares at an average price of 35,03 Euro, for a total of 270 thousand Euro and a nominal amount of 7.717 Euro, making profits of 206 thousand Euro that, in compliance with IAS/IFRS standards, were recognised under the premium reserve.

The remaining balance at the end of the period was 351.427 treasury shares with a market value of 2,9 million Euro and a nominal amount of 351.427 Euro.

Related-party transactions

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

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

During the first half of 2020, no significant related-party transactions were undertaken.

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

Atypical or unusual transactions

During the first half of 2020, the Banca Ifis Group did not carry out atypical or unusual transactions as defined by Consob Communication no. 6064293 of 28 July 2006.

Research and development activities

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

Venice - Mestre, 6 August 2020

For the Board of Directors

The C.E.O.

Luciano Colombini

Banca Ifis

3. Condensed consolidated half-year financial statements

Consolidated Financial Statements

3.1 Consolidated Statement of Financial Position

ASSETS (in thousands of Euro)		30.06.2020	31.12.2019
10.	Cash and cash equivalents	58	56
20.	Financial assets measured at fair value through profit or loss	126.647	137.098
	a) financial assets held for trading	24.300	24.313
	c) other financial assets mandatorily measured at fair value	102.347	112.785
30.	Financial assets measured at fair value through other comprehensive income	1.146.701	1.173.808
40.	Financial assets measured at amortised cost	9.041.645	8.278.116
	a) receivables due from banks	1.007.613	626.890
	b) receivables due from customers	8.034.032	7.651.226
70.	Equity investments	10	6
90.	Property, plant and equipment	108.976	106.301
100.	Intangible assets	60.632	60.919
	of which:		
	- goodwill	*39.513*	*39.542*
110.	Tax assets:	385.780	391.185
	a) current	53.476	56.869
	b) deferred	332.304	334.316
120.	Non-current assets and disposal groups	-	25.560
130.	Other assets	381.872	352.975
	Total assets	**11.252.321**	**10.526.024**

	LIABILITIES AND EQUITY (in thousands of Euro)	30.06.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	9.171.039	8.463.245
	a) payables due to banks	2.270.742	959.477
	b) payables due to customers	4.863.949	5.286.239
	c) debt securities issued	2.036.348	2.217.529
20.	Financial liabilities held for trading	22.130	21.844
60.	Tax liabilities:	47.367	69.018
	a) current	13.310	28.248
	b) deferred	34.057	40.770
80.	Other liabilities	457.324	390.022
90.	Post-employment benefits	10.088	9.977
100.	Provisions for risks and charges:	47.425	32.965
	a) commitments and guarantees granted	10.925	3.952
	c) other provisions for risks and charges	36.500	29.013
120.	Valuation reserves	(20.153)	(3.037)
150.	Reserves	1.321.361	1.260.238
160.	Share premiums	102.491	102.285
170.	Share capital	53.811	53.811
180.	Treasury shares (-)	(2.948)	(3.012)
190.	Equity attributable to non-controlling interests (+/-)	5.630	5.571
200.	Profit (loss) for the period (+/-)	36.756	123.097
	Total liabilities and equity	**11.252.321**	**10.526.024**

3.2 Consolidated Income Statement

	ITEMS (in thousands of Euro)	30.06.2020	30.06.2019
10.	Interest receivable and similar income	209.523	224.804
	of which: interest income calculated using the effective interest method	*208.948*	*224.114*
20.	Interest due and similar expenses	(54.405)	(53.908)
30.	**Net interest income**	**155.118**	**170.896**
40.	Commission income	43.480	52.020
50.	Commission expense	(3.673)	(5.481)
60.	**Net commission income**	**39.807**	**46.539**
70.	Dividends and similar income	2.408	81
80.	Net profit (loss) from trading	1.032	(3.050)
100.	Profit (loss) from sale or buyback of:	8.745	8.017
	a) financial assets measured at amortised cost	1.223	7.973
	b) financial assets measured at fair value through other comprehensive income	583	44
	c) financial liabilities	6.939	-
110.	Net result of other financial assets and liabilities measured at fair value through profit or loss	(8.880)	(5.947)
	b) other financial assets mandatorily measured at fair value	(8.880)	(5.947)
120.	**Net banking income**	**198.230**	**216.536**
130.	Net credit risk losses/reversals on:	(18.779)	27.615
	a) financial assets measured at amortised cost	(18.459)	27.590
	b) financial assets measured at fair value through other comprehensive income	(320)	25
150.	**Net profit (loss) from financial activities**	**179.451**	**244.151**
190.	Administrative expenses:	(142.745)	(178.518)
	a) personnel expenses	(60.680)	(64.163)
	b) other administrative expenses	(82.065)	(114.355)
200.	Net allocations to provisions for risks and charges	(16.301)	(6.372)
	a) commitments and guarantees granted	(7.025)	(148)
	b) other net allocations	(9.276)	(6.224)
210.	Net impairment losses/reversals on property, plant and equipment	(4.220)	(4.713)
220.	Net impairment losses/reversals on intangible assets	(4.377)	(3.563)
230.	Other operating income/expenses	12.185	53.916
240.	**Operating costs**	**(155.458)**	**(139.250)**
280.	Gains (Losses) on disposal of investments	24.161	(408)
290.	**Pre-tax profit (loss) from continuing operations**	**48.154**	**104.493**
300.	Income taxes for the period relating to continuing operations	(11.332)	(36.185)
330.	**Profit (loss) for the period**	**36.822**	**68.308**
340.	Profit (Loss) for the period attributable to non-controlling interests	66	42
350.	**Profit (loss) for the period attributable to the Parent company**	**36.756**	**68.266**

3.3 Consolidated Statement of Comprehensive Income

	ITEMS (in thousands of Euro)	30.06.2020	30.06.2019
10.	**Profit (loss) for the period**	**36.822**	**68.308**
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**(16.967)**	**(1.251)**
20.	Equity securities measured at fair value through other comprehensive income	(16.803)	(690)
70.	Defined benefit plans	(164)	(561)
	Other comprehensive income, net of taxes, to be reclassified to profit or loss	**(3.277)**	**2.124**
110.	Exchange differences	(1.663)	438
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(1.614)	1.686
170.	**Total other comprehensive income, net of taxes**	**(20.244)**	**873**
180.	**Total comprehensive income (Item 10 + 170)**	**16.578**	**69.181**
190.	Total consolidated comprehensive income attributable to non-controlling interests	63	46
200.	**Total consolidated comprehensive income attributable to the Parent company**	**16.515**	**69.135**

3.4 Statement of Changes in Consolidated Equity at 30 June 2020

	Balance at 31.12.2019	Change in opening	Balance at 01.01.2020	Allocation of profit from previous year		Changes in the period									Equity attributable to the Parent company at 30.06.2020	Equity attributable to non-controlling interest at 30.06.2020	Consolidated equity at 30.06.2020
							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	Stock Options	Changes in equity interests	Comprehensive income for the period			
Share capital:																	
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	102.285	X	102.285	-	X	206	-	X	X	X	X	X	-	X	**102.491**	-	**102.491**
Reserves:																	
a) retained earnings	1.254.846	-	1.254.846	95.751	X	(34.628)	-	-	-	X	X	X	-	X	**1.315.969**	1.069	**1.317.038**
b) other	5.392	-	5.392	-	X	-	-	X	-	X	-	-	-	X	**5.392**	-	**5.392**
Valuation reserves	(3.037)	-	(3.037)	X	X	3.125	X	X	X	X	X	X	-	(20.241)	**(20.153)**	65	**(20.088)**
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	-	X	**-**	-	**-**
Treasury shares	(3.012)	X	(3.012)	X	X	X	-	64	X	X	X	X	X	X	**(2.948)**	-	**(2.948)**
Profit (loss) for the period attributable to the Parent company	123.097	-	123.097	(95.751)	(27.346)	X	X	X	X	X	X	X	X	36.756	**36.756**	66	**36.822**
Equity attributable to the Parent company	**1.533.382**	**-**	**1.533.382**	**-**	**(27.346)**	**(31.297)**	**-**	**64**	**-**	**-**	**-**	**-**	**-**	**16.515**	**1.491.318**	X	**X**
Equity attributable to non-controlling interests	5.571	-	5.571	-	-	-	-	-	-	-	-	-	(4)	**63**	**X**	**5.630**	**X**
Consolidated Equity	**1.538.953**	**-**	**1.538.953**	**-**	**(27.346)**	**(31.297)**	**-**	**64**	**-**	**-**	**-**	**-**	**(4)**	**16.578**	**X**	X	**1.496.948**

3.5 Statement of Changes in Consolidated Equity at 30 June 2019

	Balance at 31.12.2018	Change in opening	Balance at 01.01.2019	Allocation of profit from previous year: Reserves	Allocation of profit from previous year: Dividends and other allocations	Changes in the period: Changes in reserves	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	Equity transactions: Stock Options	Equity transactions: Changes in equity interests	Comprehensive income for the period	Equity attributable to the Parent company at 30.06.2019	Equity attributable to non-controlling interest at 30.06.2019	Consolidated equity at 30.06.2019
Share capital:																	
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:																	
a) retained earnings	1.163.194	-	1.163.194	90.638	X	(95)	-	-	-	X	X	X	-	X	**1.253.737**	978	**1.254.715**
b) other	5.349	-	5.349	-	X	43	-	X	-	X	-	-	-	X	**5.392**		**5.392**
Valuation reserves	(14.606)	-	(14.606)	X	X	(15)	X	X	X	X	X	X	-	873	**(13.748)**	72	**(13.676)**
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 period attributable to the Parent company	146.763	-	146.763	(90.638)	(56.125)	X	X	X	X	X	X	X	X	68.308	**68.308**	42	**68.350**
Equity attributable to the Parent company	**1.453.524**	**-**	**1.453.524**	**-**	**(56.125)**	**102**	**-**	**91**	**-**	**-**	**-**	**-**	**-**	**69.181**	**1.466.773**	X	**X**
Equity attributable to non-controlling interests	5.476	-	5.476	-	-	-	-	-	-	-	-	-	4	46	**X**	5.526	**X**
Consolidated Equity	**1.459.000**	**-**	**1.459.000**	**-**	**(56.125)**	**102**	**-**	**91**	**-**	**-**	**-**	**-**	**4**	**69.227**	**X**	**X**	**1.472.299**

3.6 Consolidated Cash Flow Statement

ITEMS (in thousands of Euro)	30.06.2020	30.06.2019
A. OPERATING ACTIVITIES		
1. Operations	**96.774**	**96.937**
- profit (loss) for the period (+/-)	36.756	68.266
- profit/loss on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)	7.848	8.997
- net credit risk losses/reversals (+/-)	18.779	(27.615)
- net impairment losses/reversals on property, plant and equipment and intangible assets (+/-)	8.597	8.276
- net allocations to provisions for risks and charges and other expenses/income (+/-)	16.301	5.580
- unpaid taxes, duties and tax credits (+/-)	11.332	36.185
- other adjustments (+/-)	(2.839)	(2.752)
2. Cash flows generated/absorbed by financial assets	**(811.251)**	**(445.208)**
- financial assets held for trading	1.045	349
- other assets mandatorily measured at fair value	1.558	(14.880)
- financial assets measured at fair value through other comprehensive income	9.671	(260.556)
- financial assets measured at amortised cost	(781.988)	(110.401)
- other assets	(41.537)	(59.720)
3. Cash flows generated/absorbed by financial liabilities	**699.897**	**471.332**
- financial liabilities measured at amortised cost	707.783	507.247
- financial liabilities held for trading	286	(4.630)
- other liabilities	(8.172)	(31.285)
Net cash flows generated/absorbed by operating activities A (+/-)	**(14.580)**	**123.061**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**50.500**	**100**
- sale of property, plant and equipment	50.500	-
- sales of subsidiaries and business units	-	100
2. Cash flows absorbed by	**(35.918)**	**(67.311)**
- purchases of equity investments	(4)	-
- purchases of property, plant and equipment	(31.824)	(4.005)
- purchases of intangible assets	(4.090)	(4.820)
- purchases of subsidiaries and business units	-	(58.487)
Net cash flows generated/absorbed by investing activities B (+/-)	**14.582**	**(67.211)**
C. FINANCING ACTIVITIES		
- issues/buyback of treasury shares	-	260
- issues/buyback of equity instruments	-	24
- distribution of dividends and other	-	(56.124)
Net cash flows generated/absorbed by financing activities C (+/-)	**-**	**(55.840)**
NET CASH GENERATED/USED DURING THE PERIOD D=A+/-B+/-C	**2**	**9**

3.6.1 Reconciliation of Consolidated Cash Flow Statement

ITEMS (in thousands of Euro)	30.06.2020	30.06.2019
OPENING CASH AND CASH EQUIVALENTS E	56	48
TOTAL NET CASH GENERATED/USED DURING THE PERIOD D	2	9
CASH AND CASH EQUIVALENTS: EFFECT OF CHANGES IN EXCHANGE RATES F	-	-
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	58	57

4. Notes

4.1 Accounting Policies

4.1.1 Statement of compliance with IFRS

The Condensed Consolidated Half-Year Financial Statements at 30 June 2020 have been drawn up in accordance with IAS 34 (Interim Financial Reporing) in compliance with the IASs/IFRSs in force at said date issued by the International Accounting Standards Board (IASB), together with the relevant interpretations (IFRICs and SICs). These standards were endorsed by the European Commission in accordance with the provisions in article 6 of European Union Regulation no. 1606/2002. This regulation was implemented in Italy with Italian Legislative Decree no. 38 of 28 February 2005.

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

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

4.1.2 Basis of preparation

The Condensed Consolidated Half-Year 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;

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

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

The 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 recognition, measurement and derecognition criteria for assets and liabilities, and the procedures for recognising revenues and costs, adopted in the Condensed Consolidated Half-Year Financial Statements at 30 June 2020 have remained substantially unchanged from those adopted for the preparation of the 2019 financial statements of the Banca Ifis Group. The Group has not exercised the option to apply early any standards, interpretations or amendments issued but not yet effective. Several amendments and interpretations are applicable for the first time in 2020, but do not impact the Condensed consolidated half-year financial statements of the Group.

Information on the business as a going concern

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

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

In this regard, having examined the risks and uncertainties connected to the present macro-economic context, and considering the financial and economic forecasts drawn up by the parent company for 2020, and also taking into account the potential impacts connected with the Covid-19 pandemic, the Banca Ifis Group can indeed be considered as a going concern, in that it can be reasonably expected to continue operating in the foreseeable future. Therefore, the Condensed Consolidated Half-Year Financial Statements at 30 June 2020 have been prepared in accordance with this fact.

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

4.1.3 Consolidation scope and methods

The Condensed Consolidated Half-Year Financial Statements of the Banca Ifis Group have been drawn up on the basis of the accounts at 30 June 2020 prepared by the directors of the companies included in the scope of consolidation.

At 30 June 2020, the Group was composed of the parent company, Banca Ifis S.p.A., the 100% subsidiaries Ifis Finance Sp. Z.o. o., Ifis Rental Services S.r.l., Ifis Npl S.p.A., Cap.Ital.Fin. S.p.A., Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.) and Gemini S.p.A., the subsidiary held 70% Credifarma S.p.A. and the subsidiary Elipso Finance S.r.l., held jointly 50%. During the first half of 2020, the remaining 0,72% was acquired of the capital of Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.) and the company Gemini S.p.A. acquired, as part of the more extensive reorganisation of the Npl Segment.

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

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

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

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

- identification of the acquirer;
- determination of the acquisition date;
- recognition and measurement of the identifiable assets acquired, the liabilities assumed and any minority 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 interest in the acquiree. For each business combination, the Group decides whether to measure any minority interest in the acquiree at fair value or in proportion to the minority share of the acquiree's net identifiable assets. Acquisition costs are expensed in the period and classified as administrative expenses.

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

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

After its initial recognition, goodwill is 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 form Fbs Group, 793 thousand Euro at period end exchange rates for the subsidiary Ifis Finance Sp. Z o.o. and 700 thousand Euro for the subsidiary Cap.Ital.Fin S.p.A.

Equity investments in exclusively controlled companies

Company Name	Head office	Registered office	Type of relationship[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 (VE)	Mestre (VE)	1	Banca Ifis S.p.A.	100%	100%
Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.)	Milan	Milan	1	Banca Ifis S.p.A.	100%	100%
Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.)	Milan	Milan	1	Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.)	100%	100%
Cap. Ital. Fin. S.p.A.	Naples	Naples	1	Banca Ifis S.p.A.	100%	100%
Gemini S.p.A.	Mestre (VE)	Mestre (VE)	1	Ifis Npl 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 (TV)	Conegliano (TV)	4	Other	0%	0%
Indigo Lease S.r.l.	Conegliano (TV)	Conegliano (TV)	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.

Significant judgements and assumptions in determining the scope of consolidation

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

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

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

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

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

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

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

Banca Ifis

Equity investments in exclusively controlled companies with significant minority interests
Minority interests, availability of minority votes and dividends distributed to minorities

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

(1) Voting rights in the Annual Shareholders' Meeting

Equity investments with significant minority interests: accounting information

Company Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Equity	Net interest income	Net banking income	Operating costs	Pre-tax profit (loss) from continuing operations	Profit (loss) from continuing operations, net of taxes	Profit (loss) of disposal groups, net of taxes	Profit (Loss) for the period (1)	Other comprehensive income, net of taxes (2)	Comprehensive income (3) = (1) + (2)
Credifarma S.p.A.	104.280	3	96.240	1.809	82.212	18.561	4.001	6.443	(5.762)	479	302	-	302	3	305

4.1.4 Subsequent events

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

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

4.1.5 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, including any effects of the Covid-19.

Specifically, it made estimates on the carrying amounts of some items in the Condensed Consolidated Half-Year Financial Statements at 30 June 2020, 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.

Furthermore, the estimates and assumptions used in the preparation of this report are affected by the reasonably foreseeable impacts of the Covid-19. Consequently, it is not possible to exclude that additional negative impacts in the forthcoming quarters, whose timing and amount cannot presently be forecast, may impact the hypotheses and assumptions underlying the estimation processes with respect to those considered in the estimates prepared to draft the Condensed consolidated half-year financial statements at 30 June 2020, thereby requiring changes to be made to the values of the assets and liabilities booked, which cannot currently be estimated or foreseen.

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

- fair value of financial instruments not quoted in active markets;
- receivables of the Npl segment;
- receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable;
- 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 the contents of the valuation criteria described in paragraph A.2 - Part relating to the main items of the consolidated financial statements at 31 December 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 the section on Information on risks and related hedging policies in this document, with specific reference to the subsidiary Ifis Npl S.p.A.

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 the Consolidated financial statements at 31 December 2019.

Goodwill and other intangible assets

In accordance with IAS 36, goodwill must be impairment tested annually (or whenever a loss in value is seen), 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 section 4.2.1, paragraph on "Information about goodwill" of this document and in Part B - Information on the Consolidated Statement of Financial Position, Section 10 - Intangible assets - Item 100, Paragraph 10.3 Additional information of the Consolidated financial statements at 31 December 2019.

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

Coming into effect of new accounting standards

The Condensed Consolidated Half-Year Financial Statements at 30 June 2020 have been drawn in accordance with IAS 34 (Interim Financial Reporing) in compliance with IASs/IFRSs in force at the reporting date. See the paragraph "Statement of compliance with international accounting standards".

The accounting standards used in preparing these Condensed Consolidated Half-Year Financial Statements at 30 June 2020, as far as the classification, recognition, measurement, and derecognition of financial assets and liabilities as well as the methods for recognising revenues and costs are concerned, are substantively unchanged compared to the ones used in preparing the Consolidated Financial Statements at 31 December 2020.

The Group has also adopted for the first time some accounting standards and amendments effective for years beginning on or after 1 January 2020. Below are the new accounting standards and the amendments to existing accounting standards endorsed by the EU, which have not materially affected the amounts reported in the Group's Condensed Consolidated Half-Year Financial Statements at 30 June 2020:

- Regulation no. 2075/2019: with the regulation of 29 November 2019, some changes were incorporated as made to the IFRS in relation to the references to the conceptual framework. The changes aim to update, in various accounting standards and various interpretations, the references made to the previous framework, replacing them with the references to the conceptual framework revised in March 2018. It is recalled that the Conceptual Framework is not an Accounting Standard and is therefore not subject to approval, whilst the document in question, precisely insofar as it amends certain IASs/IFRSs, is subject to approval.
- Regulation no. 2104/2019: with the regulation of 29 November 2019, some changes were adopted to IAS 1 Presentation of the financial statements and IAS 8 Accounting standards, changes in the accounting estimates and errors with the aim of clarifying the definition of material information and improving its understanding. It should be pointed out that materiality depends on the nature and relevance of the information, or both. Moreover, the entity verifies if information, both considered individually or jointly with other information, is material in the comprehensive context of the financial statements.
- Regulation no. 34/2020 of 15 January 2020: this regulation has adopted the document issued by the IASB in September 2019 on the “Interest Rate Benchmark Reform” (amendments to IFRS 9 “Financial instruments”, to IAS 39 “Financial instruments: recognition and measurement” and IFRS 7 “Financial instruments: disclosures”)”. The regulation in question introduced certain changes in hedge accounting, with a view to avoiding the uncertainty surrounding the amount and timing of cash flows deriving from the reform of rates potentially entailing the interruption of hedges in place and difficulties in designating new hedges.
- Regulation no. 551/2020 of 21 April 2020: this regulation has adopted the amendments to IFRS 3 “Definition of a Business”, which clarify that, in order to be considered a business, an integrated set of activities must include at least one input and one process that together make a significant contribution to the ability to create outputs. Moreover, these amendments clarify that a business can exist without including all the inputs and processes necessary to create outputs.

It is also reported that, following the spread of the Covid-19 pandemic, on 10 April 2020, the IFRS Foundation issued the document “Accounting for Covid-19-related rent concessions applying IFRS 16 Leases”, through which it approved a change to IFRS 16 relative to the booking of leasing. The amendment was made to neutralise the changes to the payments of charges consequent to agreements between the parties in consideration of the negative effects of Covid-19. For lack of this intervention, IFRS 16 was to oblige lessees to recalculate the financial liability in regard to the granter and the asset consisting of the right of use, entered respectively under the liabilities and assets of the financial statements. The application of the exemption is in any case limited to only changes to the payments of charges until 30 June 2021, and where aimed at mitigating the effects of Covid-19. The amendment has no impact on the accounting method for the lessor insofar as IFRS 16 does not specify how the granter is to book a potential change to the lease payment terms.

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

Amendments issued to accounting standards but not yet effective

Below are listed the new international accounting standards or changes not yet approved by the European Commission whose mandatory application starts after December 31, 2020, with the exception of the amendments to IFRS 16. The Group considers not relevant the impacts deriving from the adoption of the following interpretations and modifications of the already existing international accounting standards:

- Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions (effective from 1 June 2020, early application is allowed);
- Amendments to IFRS 4 Insurance Contracts - deferral of IFRS19 (effective from 1 January 2021, early application is allowed);
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current IFRS19 (effective from 1 January 2022 , early application is allowed);
- Amendments to
  - IFRS 3 Business Combinations;
  - IAS 16 Property, Plant and Equipment;
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets
  - Annual Improvements 2018-2020 (effective from 1 January 2022, early application is allowed);
  - IFRS 17 Insurance contracts and Amendments to IFRS 17 (effective from 1 January 2023, early application is allowed);

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

Pursuant to article 154-ter of Italian Legislative Decree no. 59/98 (Consolidated Law on Finance), the Company must publish the Consolidated Half-Year Financial Report, including the Condensed Consolidated Half-Year Financial Statements, the interim directors' report, and the declaration as per article 154-bis, paragraph 5, as soon as possible, and in any case within three months of the end of the first half of the year. Banca Ifis's Consolidated Half-Year Financial Report at 30 June 2020 was submitted to the approval of the Parent company's Board of Directors on 6 August 2020.

4.1.6 Main items of the financial statements

The accounting standards used in preparing these Consolidated Half-Year Financial Report, 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, substantively unchanged compared to the ones used in preparing the 2019 Financial Statements of the Banca Ifis Group, to which reference is made for a complete description.

4.1.7 Disclosure of transfers of financial assets between portfolios

No transfers of financial assets between portfolios were made in the first half of 2020.

4.1.8 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.

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).

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

For the purposes of measuring performing exposures 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 Bank's portfolio. As for individual management (judicial operations), the projections of future cash flows are based on an internal algorithm or defined by the manager according to how the underlying receivable is being processed. As for acquired tax receivables, the Bank believes their amortised cost can be used as an approximation of fair value. The only element of uncertainty concerning these receivables due from tax authorities is the time required for collecting them; currently, there are no significant differences in the time it takes for the tax authorities to repay their debts. It should also be noted that Banca Ifis is one of the leading players in this operating segment, which makes it a price maker in the case of sales.

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

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

Measurement processes and sensitivity

In compliance with IFRS 13, for financial assets and liabilities measured at fair value 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.

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

Fair value hierarchy

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

Financial assets/liabilities measured at fair value (in thousands of Euro)	30.06.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	1.722	23.608	101.317	5.061	24.313	107.724
a) financial assets held for trading	692	23.608	-	-	24.313	-
b) financial assets measured at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	1.030	-	101.317	5.061	-	107.724
2. Financial assets measured at fair value through other comprehensive income	1.122.985	-	23.716	1.159.444	-	14.364
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**1.124.707**	**23.608**	**125.033**	**1.164.505**	**24.313**	**122.088**
1. Financial liabilities held for trading	-	22.130	-	-	21.844	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**22.130**	**-**	**-**	**21.844**	**-**

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 30 June 2020, the impact of the application of the Credit Value Adjustment on the assets of derivatives with a positive mark-to-market is 0,5 thousand Euro (relating to trading derivatives); with regard to instruments with a negative mark-to-market, there is no impact of the application of the Debt Value Adjustment on the assets of derivatives.

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis (in thousands of Euro)	30.06.2020				31.12.2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	9.041.645	952.210	-	8.187.512	8.278.116	241.048	-	8.115.038
2. Property, plant and equipment held for investment purpose	720	-	-	720	720	-	-	720
3. Non-current assets and disposal groups	-	-	-	-	25.560	-	-	50.500
Total	**9.042.365**	**952.210**	**-**	**8.188.232**	**8.304.396**	**241.048**	**-**	**8.166.258**
1. Financial liabilities measured at amortised cost	9.171.039	705.911	-	8.319.522	8.463.245	748.984	-	7.721.092
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**9.171.039**	**705.911**	**-**	**8.319.522**	**8.463.245**	**748.984**	**-**	**7.721.092**

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

4.1.9 Disclosure on day one profit/loss

With reference to the provisions of IFRS 7 par. 28, it is established that a financial instrument must initially be recognised at a value equal to its fair value which, unless there is evidence to the contrary, is equal to the price paid/collected in trading. The above standard 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.

As part of the Group's activities in the first half of 2020, there were no transactions attributable to this case.

4.2 Group financials and income results

4.2.1 Statement of financial positions items

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Other financial assets mandatorily measured at fair value through profit or loss	102.347	112.785	(10.438)	(9,3)%
Financial assets measured at fair value through other comprehensive income	1.146.701	1.173.808	(27.107)	(2,3)%
Receivables due from banks measured at amortised cost	1.007.613	626.890	380.723	60,7%
Receivables due from customers measured at amortised cost	8.034.032	7.651.226	382.806	5,0%
Property, plant and equipment and intangible assets	169.608	167.220	2.388	1,4%
Tax assets	385.780	391.185	(5.405)	(1,4)%
Other assets	406.240	402.910	3.330	0,8%
Total assets	**11.252.321**	**10.526.024**	**726.297**	**6,9%**
Payables due to banks	2.270.742	959.477	1.311.265	136,7%
Payables due to customers	4.863.949	5.286.239	(422.290)	(8,0)%
Debt securities issued	2.036.348	2.217.529	(181.181)	(8,2)%
Tax liabilities	47.367	69.018	(21.651)	(31,4)%
Provisions for risks and charges	47.425	32.965	14.460	43,9%
Other liabilities	489.542	421.843	67.699	16,0%
Group equity	1.496.948	1.538.953	(42.005)	(2,7)%
Total liabilities and equity	**11.252.321**	**10.526.024**	**726.297**	**6,9%**

Financial assets mandatorily measured at fair value through profit or loss

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

The item records a decrease of 10,4 million Euro (-9,3%) on December 2019, driven on the one hand by a decrease in the fair value of the units of UCITS funds (for -11,3 million Euro) impacted by changes in the main listed indexes used in the instrument measurement models for 7,2 million of Euro, and on the other by repayments of loans at fair value for approximately 7,7 million Euro, only partially offset by new subscriptions of loans for 3,7 million Euro. Finally, please note that in the second quarter of 2020, a capital security was purchased relating to a minority interest for 5,0 million Euro, for which the OCI option has not been exercised.

Below is the breakdown of this line item.

FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Debt securities	2.541	2.715	(174)	(6,4)%
Equity securities	5.000	-	5.000	-
UCITS units	76.510	87.763	(11.253)	(12,8)%
Loans	18.296	22.307	(4.011)	(18,0)%
Total	**102.347**	**112.785**	**(10.438)**	**(9,3)%**

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income total 1.146,7 million Euro at 30 June 2020, recording a slight decrease on December 2019 (-2,3%). The item includes debt securities that have passed the SPPI test and equity securities (shares) for which the Group has exercised the OCI Option envisaged by IFRS 9.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Debt securities	1.096.111	1.124.635	(28.524)	(2,5)%
Equity securities	50.590	49.173	1.417	2,9%
Total	**1.146.701**	**1.173.808**	**(27.107)**	**(2,3)%**

The debt securities held in the portfolio at 30 June 2020 total 1.096,1 million Euro, down 2,5% with respect to the balance at 31 December 2019.

In particular, the line item included 1.069,8 million government bonds equal to 9,5% as a proportion of total assets and 71,5% as a proportion of the Group's Equity. The related net negative fair value reserve comes to 1,5 million as compared with a net negative reserve of 0,4 million Euro at 31 December 2019.

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	415.885	380.315	-	168.403	105.193	1.069.796
% of total	37,9%	34,7%	-	15,4%	9,6%	97,6%
Banks	-	-	-	9.337	-	9.337
% of total	-	-	-	0,9%	-	0,9%
Other issuers	-	-	-	11.881	5.097	16.978
% of total	-	-	-	1,1%	0,5%	1,5%
Total	**415.885**	**380.315**	**-**	**189.621**	**110.290**	**1.096.111**
% of total	**37,9%**	**34,7%**	**-**	**17,3%**	**10,1%**	**100,0%**

This line item includes also equity securities relating to minority interests, amounting to 50,6 million Euro (+2,9% compared to 31 December 2019). The net negative fair value reserve for these securities comes to 10,5 million Euro, as compared with a net positive fair value reserve of 3,2 million Euro.

Receivables due from banks measured at amortised cost

Total receivables due from banks measured at amortised cost at 30 June 2020 amounted to 1.007,6 million Euro, compared to 626,9 million Euro at 31 December 2019. This item mainly refers to Receivables due from central banks (642,4 million Euro at 30 June 2020 compared to 373,7 million Euro at 31 December 2019), which constitute the supplies maintained in order to ensure the orderly performance of management activities.

Receivables due from customers measured at amortised cost

Total receivables due from customers measured at amortised cost amounted to 8.034 million Euro, up 5,0% on 31 December 2019 (7.651,2 million Euro). Growth is seen during the half-year in the Npl Segment (+2,1%) the Corporate Banking & Lending business area (+21,2%) and the Governance & Non-Core Services segment (+65,2% mainly as a result of the purchase of government securities); by contrast, a decrease is seen in the Factoring (-11,4%) and Leasing (-3,6%) business areas, which have been particularly severely struck by the economic lock-down following the Covid-19.

Please note that this line item includes exposures qualifying as "major exposures", i.e. individual exposures amounting to more than 10% of own funds, for 159 million Euro.

RECEIVABLES DUE FROM CUSTOMERS BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Commercial & Corporate Banking Segment	5.165.404	5.425.270	(259.866)	(4,8)%
- of which non-performing	*229.994*	*226.401*	*3.593*	*1,6%*
Factoring Area	2.862.374	3.229.347	(366.973)	(11,4)%
- of which non-performing	*190.061*	*196.146*	*(6.085)*	*(3,1)%*
Leasing Area	1.397.015	1.448.463	(51.448)	(3,6)%
- of which non-performing	*21.264*	*17.935*	*3.329*	*18,6%*
Corporate Banking & Lending Area	906.015	747.460	158.555	21,2%
- of which non-performing	*18.670*	*12.320*	*6.350*	*51,5%*
Npl Segment	1.306.847	1.280.332	26.515	2,1%
- of which non-performing	*1.294.849*	*1.271.328*	*23.521*	*1,9%*
Governance & Non-Core Services Segment(1)	1.561.782	945.624	616.158	65,2%
- of which non-performing	*93.278*	*106.617*	*(13.339)*	*(12,5)%*
Total receivables due from customers	**8.034.032**	**7.651.226**	**382.806**	**5,0%**
- of which non-performing	***1.618.121***	***1.604.346***	***13.775***	***0,9%***

(1) In the Governance & Non-Core Services sector, as of 30 June 2020, there were government securities amounting to 894,2 million Euro (213,0 million Euro at 31 December 2019).

Total net non-performing exposures, which are significantly affected by the receivables of the Npl Segment, amounted to 1.618,1 million Euro at 30 June 2020, compared to 1.604,3 million Euro at 31 December 2019 (+0,9%).

Please refer to the section "2.8 For a detailed analysis of receivables due from customers, please see the section "Contribution of operating segments to Group results - reclassified data".

Intangible assets and property, plant and equipment

Intangible assets came to 60,6 million Euro, in line with those at 31 December 2019 of 60,9 million Euro (-0,5%).

The item also included 21,1 million Euro worth of software, 0,8 million Euro in goodwill arising from the consolidation of the equity investment in Ifis Finance Sp.Z o.o., 0,7 million Euro in the estimated goodwill arising from the acquisition of the subsidiary Cap.Ital.Fin. S.p.A and 38,0 million Euro from the goodwill determined as a consequence of the acquisition of the subsidiary Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.). With regard to the Group's assessment of the impairment test of such goodwill, please refer to the following section "Information on goodwill".

Property, plant and equipment comes to 109,0 million Euro, as compared with the 106,3 million Euro booked at 31 December 2019, up 2,5%.

At the end of the half-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.

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 Sp. Z. o. o., Cap.Ital.Fin. S.p.A. and the former Fbs Group) resulted in the recording of total goodwill of 39,5 million Euro.

The prospectus below summarises the goodwill values entered into the Consolidated Half-Year Financial Report at 30 June 2020 with the related dynamics during the period, divided up by cash generating unit (CGU), which represent the aggregations of assets at which level any impairment testing must be performed on goodwill, to verify the recoverable value. These CGUs are the same as those adopted for the impairment test of the Group's goodwill at 31 December 2019.

GOODWILL: CHANGES IN THE PERIOD (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Goodwill for the former Fbs Group (CGU: "Npl Segment")	38.020	38.020	-	-
Goodwill Ifis Finance Sp. Z. o. o. ("Enterprise Sector" CGU)	793	822	(29)	(3,5)%
Goodwill Cap Ital.Fin. (CGU: "Cap. Ital. Fin. S.p.A. legal entity")	700	700	-	-
Total goodwill	**39.513**	**39.542**	**(29)**	**(0,1)%**

The reduction of 29 thousand Euro in Ifis Finance's goodwill in the first half of 2020 is entirely due to the adjustment of the Euro/Zloty exchange rate.

Impairment testing of the CGUs and goodwill

In the current market context, significantly influenced by the worldwide expansion of Covid-19 contagion, even the value of intangible assets such as goodwill are particularly sensitive.

The IAS 36 requires that, at least once a year, goodwill and other intangible assets with an indefinite useful life be subjected to an impairment test in order to ascertain the recoverability of their carrying amount. The same standard (in paragraphs 12, 13 and 14) requires, moreover, at each balance sheet date, including, therefore, the interim financial statements, an analysis aimed at identifying the presence of any loss indicators (termed "Trigger Events") when the impairment test of the goodwill/intangible assets subject to analysis is carried out. Trigger Events can be external or internal. IAS 36 provides some examples of external or internal indicators that may require impairment testing.

Below are the external indicators:

- Stock market price trend:
- Significant changes (with negative effect) in the technological, market, economic or regulatory environment;
- Discount rate performance;
- Carrying amount of the company's net assets higher than the market capitalisation

Internal indicators are represented by:

- Evident obsolescence or deterioration of the asset;
- Significant changes that have occurred or are likely to occur, such as divestment/renovation plans, plans to dispose of the asset before the previously scheduled date;
- Economic performance of the activity (actual results compared with budget/forecast and provisional data).

Declining these indicators in the current context characterised by the effects of the Covid-19 pandemic, it is noted that, with particular reference to indicators of an external nature:

- Stock market price trend: as summarised in the table below, Banca Ifis's share price fell significantly in the first half of 2020 due to the current international (and Italian in particular) macroeconomic context, as did almost all Italian banks;

- Significant changes (with a negative effect) in the technological, market, economic or regulatory environment: starting in February 2020, the health emergency linked to the Covid-19 pandemic became more acute in Italy and, subsequently, worldwide. However, the impact of the health emergency on the Group's business cannot be accurately determined to date, also in view of the countercyclical nature of the Group's debt purchasing and debt servicing activities;
- Trend of the discount rate: the discount rate (Ke) is calculated in continuity with the methods adopted at 31 December 2019, i.e. using the "Capital Asset Pricing Model" (CAPM) and determining it as the sum of the return on risk-free investments and a risk premium, the latter depending on the CRP (Country Risk Premium) of Italy and the Beta coefficient of the Banca Ifis share;
- The book value of the company's net assets is higher than the stock market capitalisation: this element is in continuity with 31 December 2019 when the Bank's stock market capitalisation was lower than its booked equity.

On the other hand, with reference to the internal indicators, although the economic and financial result in the first half of 2020 is lower than expected in the plan, it is believed that, also in view of the countercyclical nature of some of the Group's businesses and in particular of the Npl Segment to which the Group's most significant goodwill is allocated, the current health emergency will not have a significant impact on the consolidated results expected in the long term. It should be noted that the impairment test of the goodwill of the Banca Ifis Group, in line with the provisions of IAS 36, generally refers to the concept of Value in Use, which presupposes an estimate of the prospective cash flows that may be generated over the long term through the continuous use of the asset being measured; the projections underlying the estimates of prospective cash flows are based on the general macro-economic or sector-specific framework.

While the evolution of the parameters underlying the model in the first half 2020 is consistent with the assumptions underlying the impairment test carried out in December 2019, the actual results in June 2020 were lower than expected due to the negative impact of the Covid-19. In this context, the analysis at 30 June 2020 was combined with a sensitivity analysis in order to assess the impact of a deterioration in the profitability of the CGUs to which goodwill has been allocated in 2020 and any subsequent years.

In this market context, it seems appropriate to take extreme caution, at least in the immediate future, in changing the assessment scenarios, in the light of the extreme uncertainty both about the development of the Covid-19 epidemic and the extent and effects of government measures to support the economy. Moreover, it is deemed appropriate to use caution when using estimates based on assumptions and assumptions at this highly uncertain stage and to consider, as soon as possible, any long-term effects, which, as mentioned above, represent the time reference underlying the impairment test logic.

For the purposes of the Consolidated Half-Yearly Financial Report at 30 June 2020, the general trends of a scenario for the context following the Covid-19 epidemic have been outlined, although subject to unforeseeable developments in view of the significant profiles of uncertainty that characterize the extraordinary nature of the event.

The determination of the recoverable amount is hinged on the discounting forecast cash flow as resulting from the forecast 2020-2021 used to prepared the ICAAP 2020, approved in June 2020. This forecast considers the negative impacts caused by the Covid-19 epidemic.

Results of the impairment testing

The results of the sensitivity exercise led to the emergence of a positive margin with respect to the carrying amount for the Npl Segment CGU, which makes it possible to state that the update of the macroeconomic scenario following the Covid-19 epidemic is not to be considered as an impairment indicator for the purposes of the goodwill of the former Fbs Group allocated for 38,0 million Euro to the Npl Segment CGU. With reference to the other CGUs on which goodwill is allocated relative to the companies Ifis Finance and Cap.Ital.Fin., the analyses carried out did not identify any significant impairment indicators, also in consideration of the results that are still substantively in line with the hypotheses underlying the plans used for impairment testing at 31 December 2019.

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.

Tax assets amounted to 385,8 million Euro, slightly down on the figure at 31 December 2019 (-1,4%).

Current tax assets amounted to 53,5 million Euro compared with 56,9 million Euro at 31 December 2019. Deferred tax assets amounted to 332,3 million Euro, compared with 334,3 million Euro at 31 December 2019, of which 69,4 million Euro for previous tax losses and ACE benefits (81,2 million Euro at 31 December 2019).

Tax liabilities amounted to 47,4 million Euro, down 31,4% from 31 December 2019.

Current tax liabilities, amounting to 13,3 million Euro, represent the tax burden for the period (28,2 million Euro at 31 December 2019).

Deferred tax liabilities, amounting to 34,1 million Euro, mainly include 27,3 million Euro on receivables recognised for interest on arrears that will be taxed upon collection and 3,0 million Euro on misalignments of trade receivables.

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

Here below is the breakdown of the different treatments by type and the relevant impact on CET1 and risk-weighted assets at 30 June 2020:

- the "deferred tax assets that rely on future profitability and do not arise from temporary differences" are deducted from CET1; at 30 June 2020, the 100% deduction amounted to 82,0 million Euro, including that pertaining to the Holding Company of the Banking Group: in this regard, please note that this deduction will be gradually absorbed by the future use of such deferred tax assets;
- the "deferred tax assets that rely on future profitability and arise from temporary differences" are not deducted from CET1 and receive instead a 250% risk weight: at 30 June 2020, these assets, including those pertaining to the Holding Company of the Banking Group, amounted to 48,0 million Euro and are offset by 33,9 million Euro from 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 30 June 2020, the corresponding weight totalled 218,4 million Euro;

- "current tax assets" receive a 0% weight as they are exposures to the Central Government.

Overall, the Tax Assets recognised at 30 June 2020 and 100% deducted from Own Funds resulted in an expense amounting to 0,96% as a proportion of CET1, which will decline in the future as said assets are utilised against taxable income.

Other assets and liabilities

Other assets, amounting to 406,2 million Euro, compared to 402,9 million Euro at 31 December 2019 included 24,3 million Euro in financial assets held for trading (substantively in line with the balance at 31 December 2019), and 381,9 million Euro in other assets (353,0 million Euro at 31 December 2019). The total balance at 31 December 2019 also included assets held for disposal for 25,6 million Euro, which were sold in the first half of 2020.

Other assets included 107,2 million Euro in receivables due from the parent company La Scogliera S.p.A., of which 52,1 million Euro as a result of the tax consolidation regime and 55 million in tax credits claimed by the latter for excess tax payments from prior years; 11 million Euro in net receivables due from tax authorities for payments on account (stamp duty); and 44,4 million Euro in VAT credits claimed (in particular from the Leasing Area). Finally, the item included 31,3 million Euro in deferred costs associated with the Npl Segment's positions undergoing judicial operations until said positions initiate valuation at amortised cost (26,2 million Euro at 31 December 2019).

The other items of liabilities come to 489,5 million Euro as compared with 421,8 million Euro at 31 December 2019 and consist of 22,1 million Euro referring to trading derivatives (21,8 million Euro at 31 December 2019), the liability for severance indemnity 10,1 million Euro (9,98 million Euro at 31 December 2019) and other liabilities for 457,3 million Euro (390,0 million Euro at 31 December 2019). The latter largely referred to amounts due to customers that have not yet been credited (31,2 million Euro) as well as a payable to the parent company La Scogliera for 37,3 million Euro deriving from the tax consolidation regime.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Payables due to banks	**2.270.742**	**959.477**	**1.311.265**	**136,7%**
- Eurosystem	*1.999.833*	*792.168*	*1.207.665*	*152,5%*
- Other payables	*270.909*	*167.309*	*103.600*	*61,9%*
Payables due to customers	**4.863.949**	**5.286.239**	**(422.290)**	**(8,0)%**
- Repurchase agreements	*70.019*	*150.280*	*(80.261)*	*(53,4)%*
- Rendimax and Contomax	*4.383.535*	*4.790.954*	*(407.419)*	*(8,5)%*
- Other term deposits	*101.003*	*72.475*	*28.528*	*39,4%*
- Lease payables	*15.733*	*15.909*	*(176)*	*(1,1)%*
- Other payables	*293.659*	*256.621*	*37.038*	*14,4%*
Debt securities issued	**2.036.348**	**2.217.529**	**(181.181)**	**(8,2)%**
Total funding	**9.171.039**	**8.463.245**	**707.794**	**8,4%**

Total funding, which at 30 June 2020 is 9.171,0 million Euro (+8,4% as compared with 31 December 2019), consists for 53% of Payables due to customers (62,5% at 31 December 2019), for 24,8% of Payables due to banks (11,3% at 31 December 2019), and for 22,2% Debt securities issued (26,2% at 31 December 2019).

Payables due to customers at 30 June 2020 come to 4.863,9 million Euro (-8,0% on 31 December 2019), essentially due to the decline in retail funding (Rendimax and Contomax), which goes from 4.791,0 million Euro at 31 December 2019 to 4.383,5 million Euro at 30 June 2020. Below are details of the Contomax and Rendimax Funding.

CONTOMAX + RENDIMAX FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Short-term funding (within 18 months)	3.237.587	3.762.031	(524.444)	(13,9)%
of which: DEREGULATED	*780.999*	*798.019*	*(17.020)*	*(2,1)%*
of which: LIKE/ONE	*1.185.312*	*1.361.563*	*(176.251)*	*(12,9)%*
of which: CONSTRAINTS	*1.271.276*	*1.602.449*	*(331.173)*	*(20,7)%*
Long-term funding (beyond 18 months)	1.145.948	1.028.923	117.025	11,4%
Total funding	**4.383.535**	**4.790.954**	**(407.419)**	**(8,5)%**

Payables due to banks amounted to 2.270,7 million Euro, up 136,7% compared to 31 December 2019. This increase is substantively due to the June 2020 subscription of a TLTRO III tranche worth a nominal 1.900 million Euro maturing in June 2023 and the simultaneous early repayment of the TLTRO II tranche subscribed in 2017 for a nominal 700 million Euro. This subscription is in addition to the tranche with a nominal value of 100 million subscribed in December 2019 and to time deposits with other banks for 270,9 million Euro.

Debt securities issued amounted to 2.036,3 million Euro. The item included 932,8 million Euro (-18,9% compared to 31 December 2019) 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 630,9 million Euro (including interest) in senior bonds issued by Banca Ifis, as well as the 410,9 million Euro (including interest) Tier 2 bond. The rest of debt securities issued at 30 June 2020 included 61,3 million Euro in a bond loan issued at the time by the merged entity Interbanca.

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	10.925	3.952	6.973	176,4%
Legal and tax disputes	23.113	22.894	219	1,0%
Personnel expenses	7.333	614	6.719	n.s.
Other provisions	6.054	5.505	549	10,0%
Total provisions for risks and charges	**47.425**	**32.965**	**14.460**	**43,9%**

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 30 June 2020, this item amounted to 10,9 million Euro and reflected the impairment losses on commitments and financial guarantees granted by the Group; due to the deterioration of a position individually significant.

Legal and tax disputes

At 30 June 2020, the Bank had set aside 23,1 million Euro in provisions. This amount breaks down as follows:

- 11,0 million Euro for 31 disputes concerning the Factoring Area (the plaintiffs seek 28,8 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;
- 6,5 million Euro (the plaintiffs seek 67,0 million Euro in damages) for 25 disputes concerning the Corporate Banking & Lending Areas and linked for 6,1 million Euro to positions deriving from the former Interbanca;
- 2,2 million Euro (the plaintiffs seek 2,2 million Euro in damages) for 59 disputes concerning the Leasing Area;
- 1,3 million Euro (the plaintiffs seek 3,7 million Euro in damages) for 39 disputes concerning receivables of the subsidiary Ifis Npl;
- 862 thousand Euro for various disputes concerning Credifarma;
- 842 thousand Euro (the plaintiffs seek the same amount in damages) for disputes concerning the investee Ifis Rental;
- 392 thousand Euro (the plaintiffs seek 4,0 million Euro) for 29 disputes with customers and agents relating to Cap.Ital.Fin.;
- 81 thousand Euro for 4 disputes concerning Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), for which the plaintiffs seek a total of 352 thousand Euro in damages.

Personnel expenses

At 30 June 2020, provisions are entered for personnel for 7,3 million Euro (0,6 million Euro at 31 December 2019). In order to implement the cost rationalisation programme envisaged in the 2020-2022 Business Plan unveiled on 14 January 2020, the Group has activated the procedure relative to the use of the extraordinary provisions of the Solidarity Fund in order to activate incentives to take early redundancy, on a purely voluntary basis for those who, already in 2020, meet the requirements to access the Fund and will accrue the requirements to access the A.G.O. pension treatment by 31 December 2024. The provision made to the Solidarity fund at 30 June 2020 is 6,9 million Euro.

Other provisions for risks and charges

At 30 June 2020, there were "Other provisions" of 6,1 million Euro (5,5 million Euro in 31 December 2019) and they are essentially made up of 5,0 million Euro for supplementary customers severance indemnity linked to the Leasing Area operations, substantially in line with 31 December 2019.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 30 June 2020. Based on the opinion of the legal advisers assisting the subsidiaries, they are considered possible, and therefore they are only disclosed.

Tax dispute

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

The Italian Revenue Agency has reclassified the write-off of receivables made by the Company in 2004, 2005, 2006 and 2007 and added in the years between 2005 and 2014 to losses on receivables - without any actual evidence. Overall, the Agency assessed 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 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 relative to the withholdings applied to interest expense paid in Hungary. Company involved Banca Ifis as the incorporating company of the former Interbanca S.p.A. (former GE Capital Interbanca Group)

The Italian Revenue Agency disputes the failure to apply withholdings to the interest paid to the Hungarian country for 2013. Overall, it has assessed 264,8 thousand Euro in additional taxes and administrative penalties amounting to 165%.

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. Z o.o., 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).

Overall, the Agency assessed 756 thousand Euro in additional taxes and administrative penalties amounting to 100%.

In holding the Financial Administration’s claim to be unfounded, the Group 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 all 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.

Consolidated equity

At 30 June 2020, consolidated equity totalled 1.496,9 million Euro, as compared with 1.539,0 million Euro at 31 December 2019 (-2,7%).

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

EQUITY: BREAKDOWN (in thousands of Euro)	AMOUNTS AT		CHANGE	
	30.06.2020	31.12.2019	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	102.491	102.285	206	0,2%
Valuation reserves:	(20.153)	(3.037)	(17.116)	n.s.
- Securities	*(12.552)*	*2.737*	*(15.289)*	*n.s.*
- Post-employment benefits	*(288)*	*(124)*	*(164)*	*132,3%*
- Exchange differences	*(7.313)*	*(5.650)*	*(1.663)*	*29,4%*
Reserves	1.321.361	1.260.238	61.123	4,9%
Treasury shares	(2.948)	(3.012)	64	(2,1)%
Equity attributable to non-controlling interests	5.630	5.571	59	1,1%
Net profit attributable to the Parent company	36.756	123.097	(86.341)	(70,1)%
Group equity	**1.496.948**	**1.538.953**	**(42.005)**	**(2,7)%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2019	**1.583.953**
Change in opening balances	-
Increases:	**37.085**
Profit for the period attributable to the Parent company	36.756
Other changes	270
Equity attributable to non-controlling interests	59
Decreases:	**79.090**
Dividends resolved and suspended:	58.806
- of which profit 2019	27.346
- of which profit reserves	31.460
Change in valuation reserve:	17.116
- Securities	15.289
- Post-employment benefits	164
- Exchange differences	1.663
Other changes	3.168
Equity at 30.06.2020	**1.496.948**

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

Last 1 April, the Board of Directors of Banca Ifis has decided to act responsibly by following the guidance provided by the Supervisory Authorities, and therefore to propose that the distribution of dividends for financial year 2019 be postponed until at least 1 October 2020, and thus to proceed with payment after that date, provided that no regulations or recommendations from supervisory authorities to the contrary are issued before that date. Recently, the European Central Bank and the Bank of Italy have extended to 1 January 2021 the provisions of the 27 March 2020 Recommendation not to pay dividends for the years 2019 and 2020 (including distributions of reserves) and not to make any irrevocable commitment to pay dividends for the same years and not to repurchase shares to remunerate shareholders.

The dividends resolved and not distributed applicable to 2019 were therefore used to reduce the Group's equity and booked amongst other liabilities.

Own funds and capital adequacy ratios

OWN FUNDS AND CAPITAL ADEQUACY RATIOS (in thousands of Euro)	AMOUNTS AT	
	30.06.2020	31.12.2019
Common equity Tier 1 Capital (CET1)	992.288	1.008.865
Tier 1 capital (T1)	1.042.975	1.064.524
Total own funds	**1.314.316**	**1.342.069**
Total RWAs	**8.571.680**	**9.206.155**
Common Equity Tier 1 Ratio	11,58%	10,96%
Tier 1 Capital Ratio	12,17%	11,56%
Ratio - Total Own Funds	**15,33%**	**14,58%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds at 30 June 2020 do not include the profits generated by the Banking Group in the first half of 2020.

Consolidated own funds, risk-weighted assets and prudential ratios at 30 June 2020 were calculated based on the regulatory principles set out in Directive no. 2013/36/EU (CRD IV) and Regulation (EU) no. 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 Holding of the Banking Group in prudential consolidation, which is not consolidated in the booked equity.

Please note that the 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 approved, suspended dividend. In this regard, it is reported, in fact, that in accordance with the Bank of Italy's recommendation of 27 March 2020 on dividend policy during the Covid-19 pandemic, the Board of Directors of Banca Ifis has decided to act responsibly by following the guidance provided by the Supervisory Authorities, and therefore to propose that the distribution of dividends for financial year 2019 be postponed until at least 1 October 2020.

Recently, the European Central Bank and the Bank of Italy have extended to 1 January 2021 on the basis of the provisions of the 27 March 2020 Recommendation not to pay dividends for the years 2019 and 2020 (including distributions of reserves) and not to make any irrevocable commitment to pay dividends for the same years and not to repurchase shares to remunerate shareholders.

It is also pointed out that the EU Regulation 873 published on 26 June 2020, in amending EU Regulation 575 in response to the Covid-19 pandemic, has defined that until 31 December 2021, the competent authorities shall have additional binding powers to set limits to distribution by Entities.

Therefore, in light of that notified by the various European Authorities, Banca Ifis has decided not to include the profits generated by the Banking Group in the first half of 2020 in the common equity tier 1, in the tier 1 capital and in all own funds at 30 June 2020, insofar as it is not presently possible to formulate any hypothesis for the distribution of dividends deriving from profits being formed during the year.

Again Regulation EU 873, relative to the transitional provisions aimed at attenuating the impact of the introduction of IFRS 9 on Own funds - defines for entities the possibility of including in their common equity tier 1 a portion of the accruals gained for expected credit losses, in application of IFRS 9, through different operating methods of the transitional period of reference (1 January 2018-31 December 2019 and 1 January 2020-31 December 2024).

Please note that at the time, Banca Ifis had already informed the Bank of Italy of its decision to apply the transitional provisions for the entire period.

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

TEMPORARY TREATMENT IFRS 9 2018/2019	TEMPORARY TREATMENT IFRS 9 2020/2024
0,70 from 1 January 2020 to 31 December 2020;	1,00 from 1 January 2020 to 31 December 2020;
0,50 from 1 January 2021 to 31 December 2021;	1,00 from 1 January 2021 to 31 December 2021;
0,25 from 1 January 2022 to 31 December 2022	0,75 from 1 January 2022 to 31 December 2022
0,00 from 1 January 2023 to 31 December 2023	0,50 from 1 January 2023 to 31 December 2023
0,00 from 1 January 2024 to 31 December 2024	0,25 from 1 January 2024 to 31 December 2024

At 30 June 2020, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 2,8 million Euro, net of the tax effect.

Therefore, in accordance with the transitional arrangements - "dynamic approach" - 1,2 million Euro were included in the Common Equity Tier 1 (CET1) capital attributable to the Group.

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

OWN FUNDS AND CAPITAL ADEQUACY RATIOS WITHOUT IFRS 9 TRANSITIONAL ARRANGEMENTS (in thousands of Euro)	AMOUNTS AT	
	30.06.2020	31.12.2019
Common equity Tier 1 Capital (CET1)	991.092	1.007.416
Tier 1 capital (T1)	1.041.779	1.063.075
Total own funds	**1.313.120**	**1.340.620**
Total RWA	**8.570.106**	**9.204.243**
Common Equity Tier 1 Ratio	11,56%	10,95%
Tier 1 Capital Ratio	12,16%	11,55%
Ratio - Total Own Funds	**15,32%**	**14,57%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds at 30 June 2020 do not include the profits generated by the Banking Group in the first half of 2020.

Other legislative news introduced by EU Regulation no. 873 with a potential impact on CET1 regard:

- Temporary treatment of profits and losses not realised due to changes in the fair value of debt instruments issued by the central, regional and local administrations: please note that the Group has, at present, decided not to petition the Bank of Italy as required by the relevant regulation;
- The exemption from the deduction from CET1 of intangible assets in the form of software measured prudently: please note that in defining its Own Funds at 30 June 2020, the Group did not, prudently, apply said deduction. The Group is, however, currently conducting an in-depth analysis to define the types and amount referring to this exemption.

Some legislative news introduced by EU Regulation no. 873 was instead brought forward by a year with respect to the date of application defined by Regulation no. 876 of 2019, in order to encourage entities to grant credit to production and consumer segments, which are those worst struck by the Covid-19 pandemic; these news regard:

- the more favourable treatment (from 75% to 35%) to be applied to the calculation of the credit risk in relation to the loans granted by entities to pensioners and workers;
- the more favourable treatment of the Support factor to be applied to the calculation of the credit risk in relation to SMEs;
  - 76,19% for exposure of up to 2,5 million Euro, with respect to the previous threshold set at 1,5 million Euro;
  - Introduction of the support factor of 85% for exposure in excess of 2,5 million Euro.

The 27,8 million Euro decrease in Own Funds compared to 31 December 2019 was largely attributable to:

- the lesser accounting of the minority interests (Art. 84 CRR) for an amount of 46,4 million Euro according to the decline in risk-weighted assets and the correlated surplus capital;
- the lower 100% deduction from CET1 of "deferred tax assets that rely on future profitability and do not arise from temporary differences" totalling 82,0 million Euro - compared to 103,8 million Euro deducted at 31 December 2019; in this regard, please note that this deduction will be further absorbed by the future use of such deferred tax assets;
- the negative change of the valuation reserves for 8,7 million Euro for the portion pertaining to the Group.

The lesser absorption of capital deriving from the decline in risk-weighted assets, due partly to the decline in risk assets and partly the benefit deriving from the new legislation mentioned above, in relation to the reduction of Own funds, means that at 30 June 2020, the total capital ratio comes to 15,33%, up on the results achieved at 31 December 2019, of 14,58%; this trend is also seen for the CET1 ratio, now equal to 11,58% as compared with the previous figure of 10,96%.

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

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Total RWA per Segment	**4.655.276**	**2.395.063**	**1.284.452**	**975.762**	**1.986.826**	**959.355**	**7.601.457**
Market risk	X	X	X	X	X	X	72.921
Operational risk (basic indicator approach)	X	X	X	X	X	X	889.318
Credit valuation adjustment risk	X	X	X	X	X	X	7.984
Total RWAs	**X**	**X**	**X**	**X**	**X**	**X**	**8.571.680**

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, notified the Banca Ifis Banking Group, telling it, in continuity with 2019, in 2020 to meet the following consolidated capital requirements, including a 2,5% capital conservation buffer:

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

At 30 June 2020, the Banca Ifis Group met the above prudential requirements.

As previously mentioned, article 19 of the CRR requires to include the Holding of the Banking Group not consolidated in the booked equity, in prudential consolidation. The capital adequacy ratios of the Banca Ifis Group alone, presented exclusively for information purposes, would be as showed in the following table.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS: BANCA IFIS BANKING GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	30.06.2020	31.12.2019
Common equity Tier 1 Capital (CET1)	1.318.319	1.312.821
Tier 1 capital (T1)	1.318.319	1.312.821
Total own funds	**1.718.722**	**1.713.198**
Total RWAs	**8.531.325**	**9.190.900**
Common Equity Tier 1 Ratio	15,45%	14,28%
Tier 1 Capital Ratio	15,45%	14,28%
Ratio - Total Own Funds	**20,15%**	**18,64%**

Common Equity Tier 1, Tier 1 Capital, and total Own Funds at 30 June 2020 do not include the profits generated by the Banking Group in the first half of 2020.

4.2.2 Income statements items

Formation of net banking income

Net banking income totalled 198,2 million Euro, down 8,5% from 216,5 million Euro in the prior-year period.

The Covid-19 health emergency led to a lock-down of economic-production activities in March and April 2020. This in turn resulted in a reduction in margins in all segments and, in particular, those in which operations are connected with the legal system, which suffered the closure of courts, making it impossible to proceed with legal debt collection measures. In addition to this, there was a physiologically lesser contribution towards the release of PPA, the effects of which in the first half of 2020, equal to 19,6 million Euro were substantively halved as compared with the same period of last year (37,5 million Euro); this lesser contribution is also highlighted by the early repayments that took place in the first half of 2019.

NET BANKING INCOME (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	155.118	170.896	(15.778)	(9,2)%
Net commission income	39.807	46.539	(6.732)	(14,5)%
Other components of net banking income	3.305	(899)	4.204	(467,6)%
Net banking income	**198.230**	**216.536**	**(18.306)**	**(8,5)%**

Net interest income went from 170,9 million Euro at 30 June 2019 to 155,1 million Euro at 30 June 2020 (-9,2%) because of the reasons previously discussed with reference to net banking income.

Net commission comes to 39,8 million Euro, down 14,5% on the figure booked at 30 June 2019: this performance was driven by the effects of the health emergency nationwide, on the economic fabric, causing a reduction in commission revenues both during new disbursements, for the lesser volumes intermediated and during the collection phase, following the effects of the moratoriums (the “Cura Italia” Decree-Law no. 18 of 17 March 2020).

Commission income, totalling 43,5 million Euro compared to 52,0 million Euro at 30 June 2019, came primarily from factoring commissions on the turnover generated by individual customers (with or without recourse, in a flat or monthly scheme), arrangement fees for structured finance transactions, leases, third-party servicing, as well as from other fees usually charged to customers for services.

Commission expense, totalling 3,7 million Euro compared to 5,5 million Euro in the previous 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:

- 2,4 million Euro for dividends generated by shares held in the Group-owned portfolio;
- 1,0 million Euro the positive result of trading (loss of 3,1 million Euro during the first half of 2019)
- 8,7 million Euro gains on sales or buy-backs connected mainly with the buy-back of own liabilities (8,0 million during the first half of 2019);

* 8,9 million Euro in the negative net result of other financial assets and liabilities measured at fair value through profit or loss (5,9 million positive in the first half of 2019) that includes the negative change in the fair value of UCITS units for 10,0 million Euro, the positive change in the fair value of loans for 1,3 million Euro and the negative change in the fair value of other financial assets for 0,2 million Euro.

Formation of net profit (loss) from financial activities

The Group's net profit from financial activities totalled 179,5 million Euro, compared to 244,2 million Euro at 30 June 2019 (-26,5%).

FORMATION OF NET PROFIT (LOSS) FROM FINANCIAL ACTIVITIES (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Net banking income	**198.230**	**216.536**	**(18.306)**	**(8,5)%**
Net credit risk losses/reversals	(18.779)	27.615	(46.394)	(168,0)%
Net profit (loss) from financial activities	**179.451**	**244.151**	**(64.700)**	**(26,5)%**

Net credit risk adjustments totalled 18,8 million Euro, compared to 27,6 million Euro, at 30 June 2019. This item includes the impact of the changes in estimated cash flows from the Npl Segment's receivables, which, pursuant to IFRS 9, are included within POCI (Purchased or originated credit-impaired) loans. These effects are detailed in paragraph "2.8 Contribution of Segments to Group results – reclassified data" and come to 14,6 million Euro at 30 June 2020, as compared with 62,7 million Euro for the same period of the previous year).

Net of the component relating to the Npl Segment, net credit risk losses amounted to 33,3 million Euro at 30 June 2020 compared to net losses of 35,0 million Euro at 30 June 2019 (-4,9%). Against the increase in the Leasing Area, connected with the migration of performing counterparties to a higher risk status, which led to a growth of approximately 4,1 million Euro in Factoring Area adjustments, we have lesser provisions made in the factoring area, which during the first half of 2019 had been negatively impacted by adjustments made to certain counterparties that were individually significant.

Formation of net profit for the period

FORMATION OF NET PROFIT (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Net profit (loss) from financial activities	**179.451**	**244.151**	**(64.700)**	**(26,5)%**
Operating costs	**(155.458)**	**(139.250)**	**(16.208)**	**11,6%**
Gains (Losses) on disposal of investments	24.161	(408)	24.569	n.s.
Pre-tax profit (loss) from continuing operations	**48.154**	**104.493**	**(56.339)**	**(53,9)%**
Income taxes for the period relating to continuing operations	(11.332)	(36.185)	24.853	(68,7)%
Profit (Loss) for the period	**36.822**	**68.308**	**(31.486)**	**(46,1)%**
Profit (Loss) for the period attributable to non-controlling interests	66	42	24	57,1%
Profit (loss) for the period attributable to the Parent company	**36.756**	**68.266**	**(31.510)**	**(46,2)%**

Operating costs totalled 155,5 million Euro (139,2 million Euro at 30 June 2019 +11,6%).

OPERATING COSTS (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Administrative expenses:	142.745	178.518	(35.773)	(20,0)%
a) personnel expenses	*60.680*	*64.163*	*(3.483)*	*(5,4)%*
b) other administrative expenses	*82.065*	*114.355*	*(32.290)*	*(28,2)%*
Net allocations to provisions for risks and charges	16.301	6.372	9.929	155,8%
Net impairment losses/reversals on property, plant and equipment and intangible assets	8.597	8.276	321	3,9%
Other operating income/expenses	(12.185)	(53.916)	41.731	(77,4)%
Operating costs	**155.458**	**139.250**	**16.208**	**11,6%**

Personnel expenses, amounted to 60,7 million Euro dropped by 5,4% (64,2 million Euro at 30 June 2019), mainly due to lower accruals on variable compensations. The number of Group employees, at 30 June 2020 is 1.745, down -2,7% on the corresponding number at 30 June 2019 (1.793 resources).

Other administrative expenses at 30 June 2019 included 30,9 million Euro in expenses relating to the settlement of certain tax disputes regarding the former subsidiary Interbanca, the economic impact of which was fully offset in the item "other net operating income" for 38,5 million Euro (including the related tax effect) against the activation of outstanding guarantees.

Net of this effect, the other administrative expenses at 30 June 2020, which come to 82,1 million Euro drop by 1,7% on 30 June 2019. The change is mainly due to the lesser costs for the purchase of goods and services and lesser indirect taxes and duties, only partially offset by higher costs for professional services.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	1st HALF		CHANGE	
	2020	2019	ABSOLUTE	%
Expenses for professional services	**34.832**	**30.990**	**3.842**	**12,4%**
Legal and consulting services	24.777	20.664	4.113	19,9%
Auditing	425	438	(13)	(3,0)%
Outsourced services	9.630	9.888	(258)	(2,6)%
Direct and indirect taxes	**15.743**	**50.900**	**(35.157)**	**(69,1)%**
Expenses for purchasing goods and other services	**31.490**	**32.465**	**(975)**	**(3,0)%**
Customer information	7.897	9.450	(1.553)	(16,4)%
Software assistance and hire	7.106	6.579	527	8,0%
FITD and Resolution fund	3.062	2.624	438	16,7%
Property expenses	2.822	3.042	(220)	(7,2)%
Advertising and inserts	2.397	1.533	864	56,4%
Postage and archiving of documents	2.279	2.998	(719)	(24,0)%
Telephone and data transmission expenses	1.754	1.161	593	51,1%
Car fleet management and maintenance	1.008	1.137	(129)	(11,3)%
Securitisation costs	917	638	279	43,7%
Business trips and transfers	873	1.261	(388)	(30,7)%
Other sundry expenses	1.375	2.042	(667)	(32,7)%
Total other administrative expenses	**82.065**	**114.355**	**(32.291)**	**(28,2)%**

The sub-item “Legal and consultancy” comes to 24,8 million during the first half 2020, up 19,9% on the 20,7 million in the first half of 2019. The increase in the item is due to consultancy connected with initiatives featured in the business plan unveiled in January 2020, as Group reorganisation and rebranding, as well as interventions to integrate the Group information systems. The cost of the legal collection of receivables belonging to the Npl Segment, which at 30 June 2020, amounts to 7,7 million Euro, down on the 10,6 million Euro of the first half of 2019, in line with the period of court closure as described previously.

"Outsourced services”, amounting to 9,6 million Euro in the first half of 2020, basically in line with the 9,9 million Euro of the same period of the previous year, mainly refers to the non-judicial collections made in the Npl Segment.

Net of the charges relating to the settlement of tax disputes during the first half of 2019, which amounted to 30,9 million Euro, the item "Indirect taxes and duties”, amounting to 15,7 million Euro compared to 20 million Euro at 30 June 2019, is down by 21,3%. The item mainly consists of the registration tax incurred for the judicial recovery of receivables belonging to the Npl Segment, amounting to 9,3 million Euro at 30 June 2020, shows a decrease of 27,3% due to the closure of the courts during the Covid-19 health emergency (12,8 million Euro at 30 June 2019). The item also includes stamp duty of 5,7 million Euro, the charge-back of which to customers is included in the item Other operating income.

Expenses for the purchase of goods and services amounted to 31,5 million Euro, down 3,0% from 32,5 million Euro in the first half of 2019. The change in this item is due to the contrasting effect in some of the most significant items, in particular:

- Expenses for customer information, which come to 7,9 million Euro, down 16,4% as a result of the slow-down to actual during the lock-down period. These expenses are connected with the measurement of assets as a guarantee of the portfolios under management, focussed in particular on the Npl Segment, which, as mentioned, suffered the limits set as a result of the Covid-19 health emergency;
- Software assistance and hire, which rises by 8,0%, going from 6,6 million Euro at 30 June 2019, to 7,1 million Euro at 30 June 2020. As defined in the business plan unveiled in January 2020, the item is impacted by the launch of strategic technological projects;
- Expenses relating to the properties and motor vehicle management, which drop by a total of 0,3 million Euro, also due to smart working implemented with the start of the Covid-19 health emergency;
- Costs for the postage and archiving of documents go from 3,0 million Euro to 2,3 million Euro, -24,0%. The item, which is closely linked to the initial processing of the portfolios acquired in the Npl Segment, was impacted by the economic lock-down that followed the Covid-19;
- Trips and transfers came to 873 thousand Euro, recording a decline of 30,7%, due to the limits to travel imposed by the Covid-19 health emergency.

Net allocations to provisions for risks and charges amounted to 16,3 million Euro compared with 6,4 million Euro at 30 June 2019. Net period provisions refer mainly for 1,3 million Euro to the Corporate Banking & Lending Area, for 0,3 million Euro to the Leasing Area and for 0,2 million Euro to litigation connected with the Factoring Business Area. Finally, provisions are made for 6,9 million Euro in relation to the solidarity provision and 7,0 million Euro to commitments to disburse funds and guarantees.

Net of the indemnity related to the settlement of the tax dispute in the first half of 2019, amounting to 38,5 million Euro, other net operating income, amounting to 12,2 million Euro, decreased by 20,8% compared to the same period of the previous year. This item 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.

Gains on disposal of investments of 24,2 million Euro include the effects of the sale of the Milan property in Corso Venezia, net of the related costs of sale.

Pre-tax profit from continuing operations amounted to 48,2 million Euro (-53,9% compared to 30 June 2019).

Income taxes amounted to 11,3 million Euro (-68,7% compared to the first half of 2019). The tax rate for the first half of 2020 was 23,53%, compared with 34,63% in the same period of the previous year. The reduction is essentially due to the lesser pre-tax profit than the half-year 2019, on which, therefore, the main tax benefits (ACE and super-amortisation) have a greater impact.

Excluding 66 thousand Euro in profit attributable to non-controlling interests, the net profit attributable to the Parent company amounted to 36,8 million Euro (-46,2% compared to the prior-year period).

4.3 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 process accompanied the preparation and sending to the Supervisory Body in June 2020 of the Annual ICAAP and ILAAP Report with reference to the position at 31 December 2019 and the forecasts envisaged for 2020, including the estimated impact of the current health emergency.

Again with reference to 31 December 2019 and in compliance with the obligations in the Pillar 3 provisions, Banca Ifis published, along with the 2019 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 the website www.bancaifis.it in the 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 of the 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.

Risks of accounting consolidation

Quantitative information

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

Credit quality

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

Portfolio/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Financial assets measured at amortised cost	1.072.758	450.999	94.365	367.955	7.055.568	**9.041.645**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	1.096.111	**1.096.111**
3. Financial assets measured at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	8.706	4.926	-	-	7.205	**20.837**
5. Financial assets under disposal	-	-	-	-	-	-
Total 30.06.2020	**1.081.464**	**455.925**	**94.365**	**367.955**	**8.158.884**	**10.158.593**
Total 31.12.2019	**1.053.329**	**471.287**	**98.266**	**405.405**	**7.399.486**	**9.427.773**

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

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

Portfolio/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall impairment losses/reversals	Net exposure	Overall partial write-offs	Gross exposure	Overall impairment losses/reversal	Net exposure	
1. Financial assets measured at amortised cost	1.940.392	322.271	1.618.121	9.729	7.460.720	37.196	7.423.524	**9.041.645**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	1.097.257	1.146	1.096.111	**1.096.111**
3. Financial assets measured at fair value	-	-	-	-	X	X	-	**-**
4. Other financial assets mandatorily measured at fair value	13.632	-	13.632	-	X	X	7.205	**20.837**
5. Financial assets under disposal	-	-	-	-	-	-	-	**-**
Total 30.06.2020	**1.954.024**	**322.271**	**1.631.753**	**9.729**	**8.557.977**	**38.342**	**8.526.840**	**10.158.593**
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**

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	421	31	23.577
2. Hedging derivatives	-	-	-
Total 30.06.2020	**421**	**31**	**23.577**
Total 31.12.2019	**540**	**28**	**24.285**

Unconsolidated structured entities

Qualitative information

There were no unconsolidated structured entities at 30 June 2020.

Risks of prudential consolidation

Credit risk

Qualitative information

General aspects

In accordance with the guidelines approved by the Parent company's Governing Body and the changes in the supervisory regulatory framework, the Group seeks to strengthen its competitive position in the market offered to small and medium businesses. 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. The Private segment is also a complementary reference market for the Banking Group's credit business, in respect of the strategic guidelines defined over time by the Business Plan and the related implementing initiatives.

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 company Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.);
- 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).

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".

Organisational aspects

The standards and guidelines that the Banca Ifis Group intends to give in respect of the concession of credit are set out in the "Group Credit Policy" applied and given out, insofar as competent, to all the organisational units of the Bank and Group companies involved in the assumption and management of credit.

Inside, we find:

- the roles and responsibilities of the corporate bodies and organisational structures involved in the loan process;
- the definition of the credit strategies and rules with reference to segments of customers, counterparties and types of comparable transactions, the limits of reliance assigned to non-banking counterparties, the limits to exposure assigned to the various types of economic businesses, the identification of the Most Significant Transactions (MSTs) for the preventive verification that they are indeed consistent with the risk limits and objectives defined in the Group Risk Appetite Framework (RAF), the limits to the risk assigned to transactions with related parties and/or company representatives, pursuant to 136 Consolidated Law on Banking. The monitoring, review and update of the credit rules and strategies involve: i) the Parent Company's Monitoring and Major Risks Department, in coordinating the process of formulating proposed reviews and updates to the credit policies to be submitted for the approval of the Parent Company's Board of Directors; ii) the Parent Company's Risk Management Department in monitoring the results achieved by the Group in terms of volumes and overall effective positioning on the credit market in line with the defined credit strategies;
- the most qualifying elements in the credit process, with specific reference:
  - to the definition of risk categories to be assigned to customers, according to the different risk profile that can be attributed to the technical loan forms involved, closely linked to the operative processes connected with the "Group System of delegated powers" on the assumption of the credit risk;
  - to the examination of all useful information, both internal and external, functional to the determination of the customer's credit rating and future solvency of the debtor, measuring the credit risk firstly using normal sources for the repayment of exposure and, thereafter, considering the use of the accessory guarantees connected with the credit intervention;
- the monitoring and review of the model used to define credit faculties or the matrix of faculties for granting credit and the related limits;

- the structuring of the credit process, in its comprehensive cycle, into two macro processes of "investigation and disbursement of credit" and "monitoring and collection of debt".

On an operative level, the various Group companies structure the specific operating procedures for the application of credit rules into Organised Procedures or Operative Notes.

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, centralised in the Affairs Department:

- Commercial Italy, the organisational unit that provides both short- and medium/long-term financing services for Italian firms;
- Corporate Finance, the organisational unit dedicated to structured finance transactions or investments in performing non-financial companies and intermediaries;
- Pharmacies, the organisational unit that provides financing services for Italian pharmacies that are either developed internally or referred by the sales network of the subsidiary Credifarma;
- International, the organisational unit that provides financing services for Italian exporters as well as foreign companies;
- Tax Receivables, the organisational unit dedicated to purchasing tax receivables, mainly from companies in insolvency proceedings or liquidation;
- Leasing and Rental, the organisational unit dedicated to offering and managing leasing and renting products;
- Insurance Development, the organisational unit dedicated to the supply of insurance products.

Within the Affairs Management Area, there is a specific organisational unit dedicated to the acquisition and management of credit in respect of local health authorities and hospitals, called Pharma Management.

In addition, under the Problem Loans Management, the Special Situations Service intervenes in the loan process; this is the organisational unit responsible for identifying and assessing new opportunities for lending to Italian companies that, despite reporting positive operating profits, have gone through or are recovering from financial distress.

Finally, 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 transfer of non-performing loans, mainly originated by financial institutions and banks;
- Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), company specialising in the management of mortgage and corporate Npls and servicing and recovery activities on behalf of third parties;
- Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.), company dedicated to the real estate business at the service of the subsidiaries Ifis Npl S.p.A. and Ifis Npl Servicing S.p.A.;
- Cap.Ital.Fin. S.p.A., which provides salary- or pension-backed loans as well as salary or pension deductions and distributes financial products such as mortgages and personal loans;
- Credifarma S.p.A., the reference for pharmacies when it comes to advances, medium- and long-term loans, equipment leases, and financial services;
- Ifis Finance Sp. Zo.o., a factoring company operating in Poland;
- Ifis Rental Service S.r.l., an unregulated entity specialising in operating leases.

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

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

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

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

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

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

The operational management of receivables, carried out for performing customers, mainly consists in the ordinary management and monitoring 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 in managing and recovering non-performing exposures.

The process for the acquisition of non-performing loan portfolios adopted by the structures of the Npl Segment consists of similar stages that can be summarised as follows:

- origination: the Bank identifies the counterparties from which it plans to purchase the portfolios and assesses 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.

The operational management of the recovery of receivables arising from the purchase of receivables that are difficult to collect is carried out both by internal resources of the subsidiary Ifis Npl S.p.A. and Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), and by a widespread and proven network of collection companies and agents in financial activities operating throughout national territory.

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 by the Risk Management function on the basis of historical internal data, referred to as "curve model"; this model projects collection expectations onto clusters of homogeneous receivables based on the recovery profile historically observed (macro region, amount of credit, natural person/legal person, seniority of the file with respect to the DBT date, type of purchase market), in addition to prudential adjustments, such as, by way of example, the cap of simulated cash flows for debtors who are older than the life expectancy present in the mortality tables provided by Istat. This method of valuing 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 10th year from the date of purchase by Ifis Npl S.p.A.

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, which as a whole usually last 18-24 months (the durations and the relative volatility depend on the court in which the case is handled) and are thus as follows:

- obtaining a court order,
- 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 Group 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 the receivables of Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.)

The operative management of debt collection is carried out through the different channels, through which Ifis Npl Servicing 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 Ifis Npl Servicing is, with the specificity of its portfolio, basically in line with that already described in reference to the related managements of Ifis Npl S.p.A., 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 Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.), in order to define both the collection value and its timing.

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 units that are responsible for constantly and proactively reviewing borrowers (first line of defence); a specific organisational unit conducts additional monitoring at a centralised level, using mainly performance analysis models -- including models developed by the Parent’s Risk Management function -- to identify any potential issues through specific early warning indicators.

Credit risk exposures to Italian companies are assigned an internal rating based on a model developed in-house for the trade receivables portfolio. A project is currently 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).; differentiated models have been developed for different types of business, in particular, models are currently being produced for corporate counterparties (capital companies); in the second quarter of 2020, development was launched of models for the small business segment (simple companies, partnerships, sole traders). During the second half of 2020, development will include the definition of the risk parameters associated with the new models, also in accordance with the new definition of default that will come into force starting 1 January 2021 and 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 Bank constantly monitors their credit quality, and Banca Ifis's Board of Directors and Top Management receive regular reports on this matter.

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

In order to assess its vulnerabilities in terms of capital and liquidity management, the Parent company Banca Ifis has developed quantitative and qualitative techniques with which it assesses its exposure to exceptional but plausible events. These analyses, 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.

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.

For the purposes of estimating impairment losses on performing loans, the Group has adopted a method to determine the "significant" increase in credit risk since initial recognition: this requires classifying instruments within Stage 1 and Stage 2 by combining quantitative and qualitative information.

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 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;
- calculation of the expected credit losses including forward-looking elements.

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

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

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

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

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 bad loans).

With reference to the macro economic scenarios offering the inputs to the IFRS 9 provisioning process, through the use of the satellite models reported previously, the Risk Management Department has updated the macro economic scenarios following the evolution of the economic crisis linked to the spread of the Covid-19, also in consideration of the recommendations given by the Supervisory Authorities. The information used by Banca Ifis to update the forward looking impacts in the estimates of risk parameters comes from several institutions, including the Bank of Italy and the ECB. The choice was also made to update the probability of occurrence of the scenarios by leaving to the baseline scenario the higher probability of occurrence (70%), reserving for the adverse scenario a probability of 25%, higher than that associated with the improvement scenario (5%) due to the high uncertainty and considering the possible new wave of infection that could occur next autumn.

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 non-performing past due and unlikely-to-pay), the Group made certain adjustments to ensure consistency with the measures used for performing loans. In addition, if the Group's operating plan for the management of non-performing loans envisages a scenario for the sale of non-performing positions, the models for assessing expected losses will also include the relative probability of occurrence in the ECL estimation process.

Credit risk mitigation techniques

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

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

In particular:

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

In line with that established by the Liquidity Decree (Italian Decree Law no. 23 of 8 April 2020), the Group has benefited from the guarantees offered by the state Guarantee Fund for the type of customer and loans envisaged by the Decree, with cover that can reach 100%. This guarantee enables a reduction in the RWAs relative to the credit risk, proportionally to the share of exposure covered by the Fund.

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 continuously verifies the quality and adequacy of the guarantees acquired on the loan portfolio, with second level monitoring carried out by the Bank's Risk Management Department and carried out under the scope of the Single File Review.

Non-performing credit exposures

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 Group 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", consisting of the ratio of "non-performing exposures net of related adjustments" to "total receivables due from customers".

With reference to credit exposures for cash to customers in place at 30 June 2020, excluding the positions stemming from the acquisition and management of non-performing exposures of third party originators managed by the subsidiaries Ifis Npl S.p.A. and Ifis Npl Servicing S.p.A. and the portfolios of retail loans, in consideration of the Covid-19 emergency situation currently in progress and its impacts on the economy, the levels of Npe ratio have risen, for the period under review, with respect to the reduction objectives set when defining the strategic guidelines contained in the 2020-2022 Business Plan. Regardless of the current outlook, the pursuit of the objective of a general reduction in the stock of medium/long-term non-performing loans remains and 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;
- reducing the stock of non-performing loans by considering selective sales of individual significant positions as well as applying existing write-off policies.

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

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

Write off

As specified by IFRS 9, write-off is an event that results in derecognition when there is no longer a reasonable expectation that the financial asset will be recovered. It may occur before the 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 Bank forfeits the legal right to collect it. For instance, this occurs when insolvency proceedings are settled, the borrower dies without heirs, a court issues a final ruling that the debt does not exist, etc.

As for total or partial derecognition without a forfeiture of the right to collect the receivable, to avoid continuing to recognise receivables that, even though they are still managed by debt collection structures, are highly unlikely to be recovered, at least every 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 the first six months of 2020, 53,7 million Euro (nominal amount) worth of exposures were derecognised and consequently entirely written off without forfeiting the right to collect the receivable.

Purchased or originated credit impaired financial assets

Organisational aspects

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

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

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

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

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

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

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

Impaired assets include the receivables acquired by the subsidiaries Ifis Npl S.p.A. and Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.) at a significant discount to their nominal amount, as well as the non-performing assets that largely arose from the business combination with the former GE Capital Interbanca Group at the time of the acquisition, in accordance with the standard IFRS 9.

Quantitative information

To date, the outstanding nominal amount of IFIS Npl S.p.A.'s proprietary portfolio was approximately 18.244 million Euro. At the time of purchase, the nominal amount of these receivables was approximately 18.851 million Euro, and they were acquired for approximately 1.052 million Euro, i.e. an average price equal to approximately 5,58% of the historical book value. In the fist half 2020, approximately 0,6 billion Euro were acquired. The POCI outstanding portfolio has a weighted average ageing of 35 months compared to their original acquisition date.

As regards the individual phases of processing of Npl receivables, as described in paragraph "Organisational aspects" above in relation to credit risk, the carrying amount at 30 June 2020 of the positions in out-of-court management comes to 368,6 million Euro, whilst the carrying amount of the positions under legal management comes to 855,4 million Euro.

Finally, Ifis Npl S.p.A. seizes market opportunities in accordance with its business model by selling portfolios of positions yet to be processed to third parties. Overall, during the first half of 2020, Ifis Npl completed 2 sales of portfolios to leading players whose business is purchasing Npls. Overall, receivables were sold with an outstanding value sold of approximately 51 million Euro, consisting of approximately 5 thousand positions, for an overall consideration of about 1,7 million Euro.

During the first half of 2020, the proprietary portfolio was acquired of Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), the company the currently performs servicing (master and special services), management of Npl portfolios, backed and otherwise, consultancy on due diligence and authorised investor in Npl transactions.

Ifis Npl Servicing S.p.A. acts as master servicer in the Elipso Finance portfolio transaction: 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.

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.

Prudential consolidation - Distribution of financial assets by past due buckets

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	151.654	2.908	1.762	5.649	66.529	222.623	7.957	17.405	1.482.659
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 30.06.2020	**151.654**	**2.908**	**1.762**	**5.649**	**66.529**	**222.623**	**7.957**	**17.405**	**1.482.659**
Total 31.12.2019	**281.137**	**5.751**	**122.183**	**10.509**	**49.059**	**204.306**	**5.004**	**21.818**	**1.445.246**

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

Portfolios/risk stages	Gross exposure		Overall impairment losses/reversals and overall allocations	Net exposure	Overall partial write-offs
	Non-performing	Performing			
A. On-balance-sheet credit exposures					
a) Bad loans	1.250.597	X	169.305	1.081.292	9.265
- of which forborne exposures	*131.538*	X	*14.750*	*116.788*	*7.598*
b) Unlikely to pay	589.887	X	134.403	455.484	-
- of which forborne exposures	*98.530*	X	*11.321*	*87.209*	-
c) Non-performing past due exposures	98.237	X	6.255	91.982	-
- of which forborne exposures	*4.577*	X	*946*	*3.631*	-
d) Performing past due exposures	X	360.345	2.237	358.108	-
- of which forborne exposures	*X*	*6.476*	*327*	*6.149*	-
e) Other performing exposures	X	7.035.017	34.222	7.000.795	44.736
- of which forborne exposures	*X*	*25.337*	*490*	*24.847*	-
Total (A)	**1.938.721**	**7.395.362**	**346.422**	**8.987.661**	**54.001**
B. Off-balance-sheet credit exposures					
a) Non-performing	65.134	X	9.501	55.633	-
b) Performing	X	992.613	1.425	991.188	-
Total (B)	**65.134**	**992.613**	**10.926**	**1.046.821**	**-**
Total (A+B)	**2.003.855**	**8.387.975**	**357.348**	**10.034.482**	**54.001**

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).

Banca Ifis

Concentration and distribution of credit exposures

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

Exposures/Counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	3.243	8.024	1.665	9.272	-	-	196.107	134.445	880.277	17.564
- of which forborne exposures	-	-	*860*	*9.141*	-	-	*8.979*	*4.751*	*106.949*	*858*
A.2 Unlikely to pay	381	99	1.518	4.060	-	-	158.481	121.128	295.104	9.116
- of which forborne exposures	-	-	*33*	*15*	-	-	*19.703*	*7.723*	*67.473*	*3.583*
A.3 Non-performing past due exposures	32.435	571	2	5	-	-	52.617	4.513	6.928	1.166
- of which forborne exposures	-	-	-	-	-	-	*2.015*	*458*	*1.616*	*488*
A.4 Performing exposures	2.700.907	2.880	224.447	1.785	255	3	3.895.845	26.221	537.704	5.573
- of which forborne exposures	*1.220*	*25*	*4.380*	-	-	-	*13.292*	*150*	*12.104*	*642*
Total (A)	**2.736.966**	**11.574**	**227.632**	**15.122**	**255**	**3**	**4.303.050**	**286.307**	**1.720.013**	**33.419**
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	40.249	9.378	15.384	123
B.2 Performing exposures	260	-	146.416	98	-	-	598.310	1.221	246.202	106
Total (B)	**260**	**-**	**146.416**	**98**	**-**	**-**	**638.559**	**10.599**	**261.586**	**229**
Total at 30.06.2020 (A+B)	**2.737.226**	**11.574**	**374.048**	**15.220**	**255**	**3**	**4.941.609**	**296.906**	**1.981.599**	**33.648**
Total at 31.12.2019 (A+B)	**2.048.761**	**9.075**	**240.990**	**14.311**	**35**	**-**	**5.482.078**	**275.944**	**1.969.165**	**35.611**

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

Exposures/Counterparties	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	1.081.082	169.103	184	202	18	-	1	-	7	-
A.2 Unlikely to pay	454.413	133.249	1.064	1.152	3	-	-	2	4	-
A.3 Non-performing past due exposures	87.129	5.978	4.853	277	-	-	-	-	-	-
A.4 Performing exposures	7.010.539	34.458	238.870	1.330	86.358	557	22.516	110	620	4
Total (A)	**8.633.163**	**342.788**	**244.971**	**2.961**	**86.379**	**557**	**22.517**	**112**	**631**	**4**
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	55.543	9.501	90	-	-	-	-	-	-	-
B.2 Performing exposures	876.768	1.158	114.420	267	-	-	-	-	-	-
Total (B)	**932.311**	**10.659**	**114.510**	**267**	**-**	**-**	**-**	**-**	**-**	**-**
Total at 30.06.2020 (A+B)	**9.565.474**	**353.447**	**359.481**	**3.228**	**86.379**	**557**	**22.517**	**112**	**631**	**4**
Total at 31.12.2019 (A+B)	**9.251.437**	**329.982**	**337.296**	**4.082**	**108.423**	**682**	**43.195**	**192**	**643**	**3**

Major exposures

		30.06.2020	31.12.2019
a)	Carrying amount	3.716.588	2.565.298
b)	Weighted amount	594.354	573.734
c)	Number	5	4

The overall weighted amount of major exposures at 30 June 2020 consisted of 233 million Euro in tax assets and 202 million Euro in exposures to equity investments not included in the prudential scope of consolidation and 159 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 30 June 2020 the exposures to sovereign debt entirely consisted of Italian government bonds; their carrying amount totalled 1.965 million Euro, net of the negative 2,0 million Euro valuation reserve.

These securities, with a nominal amount of approximately 1.938 million Euro have a weighted residual average life of approximately 35 months.

The fair values used to measure the exposures to sovereign debt securities at 30 June 2020 are considered to be Level 1.

Pursuant to the Consob Communication, besides the exposure to sovereign debt, it is also necessary to consider receivables disbursed in regard to the Italian National Administration, which at 30 June 2020 totalled 769 million, including 140 million Euro relating to tax receivables.

Securitisation transactions

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

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

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

Ifis ABCP Programme securitisation

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

Banca Ifis acts as servicer, performing the following tasks:

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

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

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

In compliance with 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 30 June 2020, the interest expense on the senior notes recognised in profit or loss amounted to 3,9 million Euro.

Third-party securitisation transactions

At 30 June 2020, the Group held 53,1 million Euro in notes deriving from third-party securitisation transactions: specifically, it held 50,5 million Euro worth of senior notes, 2,5 million Euro in mezzanine notes and 0,1 million Euro worth of junior notes.

These derive from five 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, of which one 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. The Parent company participates as Senior Noteholder and Sponsor; 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 the transaction as underwriter only. The value of the securities entered is, at 30 June 2020, 5,8 million Euro;
- "FINO 1" Securitisation: the Bank invested as Senior Noteholder in this securitisation transaction, which issued tranches backed by the Italian government's state-guarantee scheme for NPL-backed securities ("GACS", Garanzia sulla Cartolarizzazione di Sofferenze in Italian) with underlying non-performing positions worth an original total nominal amount of 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 since initial subscription, at 30 June 2020, the carrying amount of the portion subscribed for was 41,6 million Euro.
- Futura securitisation: this is an investment as senior noteholder in a transaction and with underlying non-performing positions worth a total original nominal amount of approximately 1,26 billion Euro. The tranche subscribed for 3,1 million Euro by Banca Ifis (out of a total nominal amount of 158 million Euro) is secured by a maturity at 29 July 2044 and a rating of Baa2. At 30 June 2020, the subscribed portion of tranches had a carrying amount of 3,1 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, in which the Banca Ifis Group, through its subsidiary Ifis Npl S.p.A. (formerly Fbs S.p.A.), acts as master servicer. At 30 June 2020, the subscribed portion of tranches had a carrying amount of 2,5 million Euro.

For the sake of completeness, please note that, as a result of the actions taken in 2017 by the Italian Interbank Deposit Protection Fund's Voluntary Scheme, the Group owns mezzanine and junior notes issued by the "Berenice" securitisation transaction, totalling a combined 0,1 million Euro.

Disclosure on structured entities (other than securitisation vehicles)

There were no unconsolidated structured entities at 30 June 2020.

Disposals

Financial assets sold and not fully derecognised

Financial assets sold but not derecognised refer to securitised receivables.

Financial assets sold and fully derecognised

During the first half of 2020, there were no assignments of receivables to mutual funds with allocation of the relative shares.

Two such divestments were made in 2019. 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 carrying amount at 30 June 2020 is 11,6 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 an initial fair value of 7,6 million Euro; the carrying amount at 30 June 2020 is 6,9 million Euro.

Market risks

Interest rate risk and price risk – supervisory trading book

Qualitative information

General aspects

In 2020, the investment strategy continued, as regulated in the "Banca Ifis Proprietary Portfolio Management Policy" is structured to coincide with the risk appetite formulated in 2020 by the Board of Directors under the scope of the Risk Appetite Framework and laid out in the "Group Market Risk Management Policy", as well as with the system of objectives and limits.

Within this process, the comprehensive investment strategy continued 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.

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.

Interest rate risk and price risk – banking book

Qualitative information

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. The main funding source is still the online savings account "Rendimax". Customer deposits on the "Rendimax" and "Contomax" products are at a fixed rate for the fixed-term part, while on-demand and call deposits are at a non-indexed floating rate the Bank can unilaterally revise without prejudice to legal and contractual provisions. The other main components of funding concern mainly fixed-rate bond funding, a variable-rate self-securitisation operation and loans with the Eurosystem (TLTRO).

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

As for the operations concerning distressed retail loans (carried out by the subsidiaries Ifis Npl S.p.A. and Ifis Npl Servicing S.p.A.), 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 30 June 2020, the comprehensive bond portfolio mainly comprised government securities with an average duration of approximately 2,4 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 and potential impact on net interest income. Monitoring is performed at 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 Group's Proprietary Portfolio, are specifically monitored as regulated in the "Group Market Risk Management Policy".

Currency risk

Qualitative information

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

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

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.

Operations on the Polish market, through the subsidiary Ifis Finance Sp. Z o.o., 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 took over the exchange rate risk represented by the initial investment in the capital of Ifis Finance Sp. Z. o. o. for 21,2 million Zloty and the subsequent capital increase in the 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 adjusted through equity, bringing the value of the equity interest to 399 thousand Euro.

Currency risk hedging

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

Derivative instruments and hedging policies

Derivative instruments held for trading

Financial derivatives

Please see the paragraph on Market risks.

Liquidity risk

Qualitative information

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.

During the first half of 2020, in line with the strategy adopted, a reduction was seen in the retail funding component, in particular in reference to the on demand and on call components, and a significant increase in access to the form of financing, via the Eurosystem, relative to the TLTRO III transaction.

At 30 June 2020, 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, corporate banking, structured finance, and work-out and recovery operations.

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

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

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

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

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

With reference to the Polish subsidiary, treasury operations are coordinated by the Parent company.

Self-securitisation transactions

In December 2016, the Banca Ifis Group, through the merged company, the former Ifis Leasing S.p.A. (originator) finalised a securitisation that involved selling a portfolio of performing exposures 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. The vehicle also issued junior securities purchased by the former Ifis Leasing S.p.A. (now merged into Banca Ifis S.p.A.), which has not been assigned a rating, for a value of 138 million Euro. 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 2018 merger of former Ifis Leasing S.p.A., Banca Ifis also became the subscriber of the junior notes.

At 30 June 2020, 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 30 June 2020 and their purpose, see the comments in the section on credit risks.

Operational risks

Qualitative information

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

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

The main sources of operational risk are operational errors, inefficient or inadequate operational processes and controls, internal and external frauds, the 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 first half of 2020, the periodic Risk Self Assessment campaign launched in the final quarter of 2019 was completed, which included the scope at the end of the year, with the exception of the subsidiary Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.). Following this campaign, the main operational issues were identified and specific mitigation measures to bolster operational risk controls were subsequently defined and launched.

In addition, according to its operational risk management framework, the Group defines a set of risk measures that can promptly identify the presence of vulnerabilities in the exposure of the Bank and its subsidiaries to operational risks. These 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 Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.). 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.

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 first half of 2020, the periodic Risk Self Assessment campaign was completed. It had been launched in the final quarter of 2019. Following the campaign, together with the work carried out in the area of operational risk, the areas most exposed to reputational risk were identified and, as a result, specific mitigation measures were defined and started in order to further strengthen the existing controls.

Risks of the other entities

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.

4.4 Business Combinations

Transactions carried out during the period

The Banca Ifis Group did not perform any business combinations during the first half of 2020.

Please note that, as indicated in paragraph 2.10, Significant events, on 1 June 2020, Banca Ifis declared that it had successfully completed the competitive procedure for the purchase of 70,77% of the capital of Farbanca. The price to be paid at closing for 70,77% of the share capital is 32,5 million Euro, potentially reduced following the contractual price adjustment. Closing is subject to the issue of the necessary legal authorisations by the competent authorities. At the signing of the contract, a confirmation deposit will be paid of 15% of the price.

Transactions carried out after the end of the period

The Banca Ifis Group did not carry out any business combination between the end of the period and the date of preparation of this Consolidated Half-Year Financial Report.

Retrospective adjustments

In the first half of 2020, the Group did not make any retrospective adjustment to business combinations carried out in previous periods.

4.5 Related-party transactions

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

During the first half of 2020, no significant related-party transactions were undertaken.

At 30 June 2020, the Banca Ifis Group was owned by La Scogliera S.p.A. and consisted of the Parent company Banca Ifis S.p.A., the 100% owned Ifis Finance Sp. Z. o. o., Ifis Rental Services S.r.l., Ifis Npl S.p.A., Cap.Ital.Fin. S.p.A., Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.) and Gemini S.p.A., the subsidiary held 70% Credifarma S.p.A. and the subsidiary Elipso Finance S.r.l., held jointly 50%. During the first half of 2020, the remaining 0,72% was acquired of the capital of Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.) and the company Gemini S.p.A. acquired, as part of the more extensive reorganisation of the Npl Segment.

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

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

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

Information on the remuneration of key management personnel

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

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

Key management personnel

Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
4.053	-	50	116	134

The above information includes fees paid to Directors (1,7 million Euro, gross amount) and Statutory Auditors (178 thousand Euro, gross amount).

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	-	-	2.500	**2.500**	0,2%
Loans to customers measured at amortised cost	-	652	5.312	**5.965**	0,1%
Other assets	107.167	-	-	**107.167**	28,1%
Total assets	**107.167**	**652**	**7.812**	**115.631**	**1,0%**
Payables due to customers measured at amortised cost	-	62	368	**430**	0,0%
Other liabilities	37.329	-	-	**37.329**	8,2%
Reserves	-	-	(2.833)	**(2.833)**	(0,2)%
Total liabilities	**37.329**	**62**	**368**	**37.759**	**0,3%**

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	-	634	**634**	0,3%
Interest expense	-	(1)	-	**(1)**	0,0%

The transactions with the parent company concern the application of Group taxation (tax consolidation) in accordance with arts. 117 and following of Italian Presidential Decree no. 917/86. Relations between these companies are regulated by private agreements signed between the parties. All adhering entities have an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company. Under this tax regime, the taxable income and tax losses are transferred to the consolidating company La Scogliera S.p.A., which is responsible for calculating the overall Group income. Following the exercise of the option at 30 June 2020, Banca Ifis recorded a net receivable from the parent company of 101,2 million Euro (of which 55 million Euro requested as reimbursement), Ifis Rental Services of 5,1 million Euro and Cap.Ital.Fin. of 0,8 million Euro, while Ifis Npl recorded a net payable of 36,1 million Euro and Ifis Npl Servicing a net payable of 1,2 million Euro.

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

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

There was also a transaction in which Banca Ifis owns an equity interest of more than 20% and recognised as financial assets at fair value through other comprehensive income, amounting to 2,5 million Euro.

This transaction is related to 4,7 million Euro worth of loans.

Venice - Mestre, 6 August 2020

For the Board of Directors

The C.E.O.

Luciano Colombini

4.6 Declaration of the Corporate Accounting Reporting Officer

Certification of the consolidated half year simplified financial statements at June 30th, 2020 pursuant to the provisions of art. 154-bis, paragraph 5, of the legislative decree 58 of February 24, 1998 and art. 81 ter of Consob Regulation no. 11971 of 14 May 1999 as amended

1. We, the undersigned, Luciano Colombini – CEO and Mariacristina Taormina – in her capacity as Manager charged with preparing the financial reports of Banca Ifis S.p.A., having also taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree no.58 dated 24 February 1998, hereby certify:
   i. the adequacy in relation to the characteristics of the Company;
   ii. the effective implementation of the administrative and accounting procedures for the preparation of Banca Ifis's consolidated half year simplified financial statements, over the course of the period from January 1st, 2020 to June 30th, 2020.
2. The adequacy of the administrative and accounting procedures in place for preparing the consolidated half year simplified financial statements at June 30th, 2020 has been assessed through a process established by Banca Ifis S.p.A. on the basis of the guidelines set out in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (CoSO), an internationally accepted reference framework.
3. The undersigned further confirm that:
   3.1 the consolidated half year simplified financial statements as at June 30th, 2020:
      a) are prepared in compliance with International Accounting Standards, endorsed by the European Commission as for European regulation no. 1606/2002 of the European Parliament and Council of July 19th, 2002;
      b) correspond to the related books and accounting records;
      c) provide a true and correct representation of the financial position of the issuer and the group of companies included in the scope of consolidation.

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

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

Venice - August 6th, 2020

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

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

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

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Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

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

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet as of June 30, 2020, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows for the period then ended and the related explanatory notes of Banca IFIS S.p.A. and its subsidiaries (the "Banca IFIS Group"). The Directors of Banca IFIS S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca IFIS Group as of June 30, 2020 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Verona, August 6, 2020

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

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

www.bancaifis.it